



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2006  
or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-15749

ALLIANCE DATA SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

17655 Waterview Parkway,  
Dallas, Texas  
(Address of Registrant's Principal Executive Offices)

31-1429215  
(I.R.S. Employer  
Identification No.)

75252  
(Zip Code)

(972) 348-5100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, 71,589,410 shares of common stock were outstanding and the aggregate market value of the common stock held by non-affiliates of the registrant on that date was approximately \$4.2 billion (based upon the closing price on the New York Stock Exchange on June 30, 2006 of \$58.82 per share). Aggregate market value is estimated solely for the purposes of this report. This shall not be construed as an admission for the purposes of determining affiliate status.

As of February 22, 2007, 79,576,227 shares of common stock were outstanding.

Documents Incorporated By Reference

Certain information called for by Part III is incorporated by reference to certain sections of the Proxy Statement for the 2007 Annual Meeting of our stockholders which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2006.

ALLIANCE DATA SYSTEMS CORPORATION

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### Caution Regarding Forward-Looking Statements

This Form 10-K and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may use words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “predict,” “project”, and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management’s beliefs and assumptions, using information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in the “Risk Factors” section in Item 1A of this Form 10-K and elsewhere in this Form 10-K and the documents incorporated by reference in this Form 10-K.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements contained in this annual report or in the documents incorporated herein by reference reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We have no intention, and disclaim any obligation, to update or revise any forward-looking statements, whether as a result of new information, future results or otherwise.

### PART I

#### Item 1. Business

##### Our Company

We are a leading provider of loyalty and marketing solutions derived from transaction rich data. We partner with our clients to develop unique insight into consumer behavior. We use that insight to create and manage customized solutions that we believe enhance consumer experiences and enable our clients to build stronger, mutually-beneficial relationships with their customers. We focus on facilitating and managing interactions between our clients and their customers through multiple distribution channels including in-store, catalog and on-line. Our services assist our clients in identifying and acquiring new customers, as well as in increasing the loyalty and profitability of their existing customers. We have a client base in excess of 600 companies, consisting mostly of specialty retailers, petroleum retailers, utilities, supermarkets and financial services companies. We generally have long-term relationships with our clients, with contracts typically ranging from three to five years in duration.

We are the result of the 1996 merger of two entities acquired by Welsh, Carson, Anderson & Stowe: J.C. Penney’s transaction services business, BSI Business Services, Inc., and Limited Brands, Inc.’s credit card bank operation, World Financial Network National Bank. In June 2001, we concluded the initial public offering of our common stock, which is listed on the New York Stock Exchange. During 2003, we completed two secondary public offerings whereby Limited Commerce Corp., which is a wholly owned subsidiary of Limited Brands and was our second largest stockholder, sold all of our shares of common stock it beneficially owned. During 2003, Welsh, Carson, Anderson & Stowe began reducing its holdings of our common stock through a series of pro rata distributions to its partners. In October 2006, Welsh Carson completed the distribution of its remaining shares.

We continue to execute on our growth strategy through internal growth and acquisitions. In 2006, we expanded our co-branded credit card services to New York & Company, Goody’s and Cruise Management International LLC. We also entered into new arrangements for private label credit card services with Bealls and Burke’s Outlet, Friedman’s Jewelers, The Dunlap Group and Pamida Stores Operating Co. LLC. We added 20 new retailers to our online shopping mall, [www.airmilesshops.ca](http://www.airmilesshops.ca), and signed Budget Rent A Car System as a new sponsor and reward supplier in the AIR MILES® Reward Program. We signed new contracts with Citicorp Credit Services, Circuit City, and My Family.com to provide integrated email and marketing solutions. We also signed contracts with Green Mountain Energy Company, WPS Resources Corporation, and Southern

Union Company to provide customer care solutions as well as providing bill print and payment solutions to the Sacramento Municipal Utilities District.

In addition, we continued our track record of client retention by completing long-term renewals with New York & Company, United Retail Group, Goody's, Abercrombie & Fitch, The Room Place at Harlem Furniture, and American Signature for private label credit services. We also completed significant AIR MILES Reward Program sponsor renewals in 2006 with Hudson's Bay Company, The Jean Coutu Group, and A&P Canada.

We continued to expand our marketing services offering with the acquisition of DoubleClick Email Solutions, a permission-based email marketing service provider with operations across North America, Europe and Asia/Pacific. The DoubleClick Email Solutions acquisition expanded our geographic reach and strengthened our retail vertical presence in our interactive delivery service offering. We also acquired iCom Information & Communications, Inc., or ICOM, and CPC Associates, Inc., premier providers of targeted lists, data products and services used to increase effectiveness of direct-response marketing programs for a variety of business sectors. In the first quarter of 2007, we completed the acquisition of Abacus, a leading provider of data and multi-channel direct marketing services. With the ICOM, CPC and Abacus acquisitions, we have significantly increased the breadth of our data product and services offerings.

Our corporate headquarters is located at 17655 Waterview Parkway, Dallas, Texas 75252, and our telephone number is 972-348-5100.

#### **Our Market Opportunity and Growth Strategy**

Our services are applicable to the full spectrum of interactions between companies that sell products and services and individual consumers. We are well positioned to benefit from trends favoring outsourcing of electronic transactions and the development and management of companies' marketing programs. Unlike many companies, we believe that we possess the economies of scale, core competencies, and transaction processing infrastructure to capture, analyze and leverage detailed transactional data to support targeted marketing, loyalty, and credit card programs.

Our growth strategy is to pursue initiatives that capitalize on these market trends, our market position and our core competencies. Key elements of our strategy are:

- *Expanding relationships with our base of over 600 clients by offering them integrated transaction and marketing services.* We offer our clients products and services that will help them more effectively understand and service their customers' needs and allow them to build and maintain long-term relationships with their customers. By providing services directly to our clients' customers, we become an integral part of our clients' businesses.
- *Expanding our client base in our existing market sectors.* We continue to focus on particular markets that are experiencing rapid growth, such as: marketing services related to the AIR MILES Reward Program in Canada and targeted marketing in the United States; transaction and credit services for retailers; and billing and customer care services for the utility industry.
- *Continuing to establish long-term relationships with our clients that result in a stable and recurring revenue base.* We seek to maintain a stable and recurring revenue base by building and maintaining long-term relationships with our clients and entering into contracts that typically extend for three to five years. Most of our services require the payment of monthly fees based on the number of customer interactions we process, allowing us to generate recurring revenues.
- *Continuing to pursue focused, strategic acquisitions and alliances to enhance our core capabilities, increase our scale and expand our range of services.* Since our inception, we have grown in part through selective acquisitions. We intend to continue to acquire other companies with complementary products, services or relationships to enhance and expand our service offerings and increase our market share. We also intend to continue to enter into strategic relationships that extend our client reach, further expand our service offerings and generate additional revenue.

**Products and Services**

Our products and services are reported under three segments — Marketing Services, Credit Services, and Transaction Services. We have traditionally marketed and sold our products and services on a stand-alone basis but increasingly market and sell them as integrated solutions. Our products and services and target markets are listed below. Financial information about our segments and geographic areas appears in Note 19 of our consolidated financial statements.

Segment	Products and Services	Target Markets
Marketing Services	<ul style="list-style-type: none"> <li>• Loyalty Programs                             <ul style="list-style-type: none"> <li>— Coalition Loyalty</li> <li>— Stand Alone Loyalty</li> </ul> </li> <li>• Marketing Services                             <ul style="list-style-type: none"> <li>— Strategic Consulting and Creative Services</li> <li>— Data Services</li> <li>— Database Services</li> <li>— Analytical Services</li> <li>— Interactive Delivery Services</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Financial Services</li> <li>• Supermarkets</li> <li>• Petroleum Retail</li> <li>• Specialty Retail</li> <li>• Utility</li> <li>• Pharmaceuticals</li> <li>• Travel</li> <li>• Telecommunications</li> <li>• Not-for Profit</li> <li>• Insurance</li> </ul>
Credit Services	<ul style="list-style-type: none"> <li>• Private Label Receivables Financing                             <ul style="list-style-type: none"> <li>— Underwriting and Risk Management</li> <li>— Merchant Processing</li> <li>— Receivables Funding</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Specialty Retail</li> <li>• Jewelry</li> <li>• Hardware</li> </ul>
Transaction Services	<ul style="list-style-type: none"> <li>• Processing Services                             <ul style="list-style-type: none"> <li>— Card Processing</li> <li>— Billing and Payment Processing</li> <li>— Customer Care</li> </ul> </li> <li>• Utility Services                             <ul style="list-style-type: none"> <li>— Customer Information System Hosting</li> <li>— Customer Care</li> <li>— Billing and Payment Processing</li> </ul> </li> <li>• Merchant Services                             <ul style="list-style-type: none"> <li>— Point-of-Sale Services</li> <li>— Merchant Bankcard Services</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Specialty Retail</li> <li>• Jewelry</li> <li>• Hardware</li> <li>• Utility</li> <li>• Petroleum Retail</li> </ul>

**Marketing Services**

Our clients are focused on targeting, acquiring and retaining loyal and profitable customers. We create and manage targeted marketing programs that result in securing more frequent and sustained customer behavior. We utilize the information gathered through our loyalty and targeted marketing programs to help our clients design and implement effective marketing programs. Our clients within this segment include financial services providers, supermarkets, petroleum retailers, specialty retailers and pharmaceutical companies. BMO Bank of Montreal, the largest Marketing Services client in 2006, represented approximately 22.2% of this segment's 2006 revenue.

**Loyalty Programs.** We operate what we believe to be the largest coalition loyalty program in Canada, with over 9 million active collector accounts representing approximately two-thirds of all Canadian households. The AIR MILES Reward Program enables consumers to earn AIR MILES reward miles as they shop across a range of retailers and other sponsors participating in the AIR MILES Reward Program. The AIR

MILES Reward Program has enabled sponsors to use this tool to increase their revenues by attracting new customers, retaining existing customers and increasing the amount spent by customers.

We deal with three primary parties in connection with our AIR MILES Reward Program: sponsors, collectors and suppliers.

*Sponsors*

A sponsor enters into an agreement with us to secure exclusive rights for its particular region and product or service category, to reward customers for changing their shopping behavior and to increase purchases by collectors. AIR MILES reward miles are available to collectors at over 12,000 retail and service locations operated by more than 100 brand name sponsors in every province across Canada, including BMO Bank of Montreal, Canada Safeway, Amex Bank of Canada, Shell Canada, A&P Canada and Sobeys.

*Collectors*

Consumers participating in the AIR MILES Reward Program, known as collectors, accumulate AIR MILES reward miles based on their purchasing behavior at sponsor locations. The AIR MILES Reward Program offers a reward structure that provides a quick, easy and free way for collectors to earn a broad selection of travel, entertainment and other lifestyle rewards by shopping at participating sponsors.

*Suppliers*

We enter into supply agreements with suppliers of rewards to the program such as airlines, movie theaters and manufacturers of consumer electronics. We make more than 800 different reward opportunities available through over 300 suppliers.

*Stand-Alone Loyalty*

We design, build and manage advanced stand-alone loyalty platforms and programs. The systems are capable of delivering real-time information that we can then use to develop targeted messages that create a personalized experience for the consumer across all touchpoints.

**Marketing Services.** Our Epsilon business is a leader in providing integrated direct marketing solutions that combine strategic consulting and creative services, data services, database services, analytical services, and interactive delivery services. Epsilon leverages its deep technology, analytic and direct marketing capabilities to develop integrated marketing solutions for clients in a targeted group of industries including travel, financial services, pharmaceuticals, telecommunications, not-for-profit and insurance. We have enhanced our service offering through a series of acquisitions over the last two years, including Epsilon Interactive and DoubleClick Email Solutions, leading providers of targeted, permission-based email solutions, and ICOM and CPC, now known as Epsilon Data Services. In addition, in the first quarter of 2007, we acquired Abacus which increases our data service offering and significantly increases our presence in the retail and catalog vertical.

Our integrated marketing services include the following:

*Strategic Consulting and Creative Services*

We provide consulting services that analyze our client's business, brand and/or product strategy to create customer, campaign, and channel strategies and tactics designed to further optimize our clients' customer relationships and marketing return on investment. We also provide direct marketing program design, development and management; campaign design and execution; value proposition and business case development; concept development and creative media consulting; print, imaging and personalization services; data processing services; fulfillment services; and mailing services.

*Data Services*

We provide various data services that are essential to making smart marketing decisions. Together with our clients, we utilize this data to develop highly targeted, individualized marketing programs that build stronger customer relationships and increase response rates in marketing programs. We have strengthened our capabilities in this area with the acquisition of CPC, a leading provider of new mover data; ICOM, a leading provider of consumer surveys; and Abacus, a leading provider of data, data management and analytical services.

*Database Services*

We provide design and management of integrated marketing databases; customer and prospect data integration and data hygiene; campaign management and marketing application integration; loyalty management; web design and development; and email marketing.

*Analytical Services*

We provide behavior-based, demographic and attitudinal segmentation; acquisition, attrition, cross-sell and upsell, retention, loyalty and value predictive modeling; and program evaluation, testing and measurement.

*Interactive Delivery Services*

We provide strategic, permission-based email communication solutions and marketing technologies. Our end-to-end suite of industry specific products and services includes scalable email campaign technology, delivery optimization, marketing automation tools, turnkey integration solutions, strategic consulting and creative expertise to produce email programs that generate measurable results throughout the customer lifecycle.

**Credit Services**

Through our Credit Services segment we finance and operate private label and co-branded credit card programs more effectively than a typical retailer can operate a stand alone program. We are able to use our expertise in loyalty and one-to-one marketing to help our retail clients develop deeper relationships with their customers and our cardholders. In addition, we are able to fund receivables through our securitization program to achieve lower borrowing costs while having the infrastructure to support and leverage a variety of portfolio types and a large number of account holders. Through our subsidiaries, World Financial Network National Bank and World Financial Capital Bank, we underwrite the accounts and fund purchases for over 85 private label credit card and commercial credit clients, representing over 107 million cardholders and over \$4.1 billion of managed receivables as of December 31, 2006. Our clients are predominately specialty retailers, and the largest within this segment include Limited Brands and its retail affiliates, representing 33.6% of this segment's 2006 revenue, and Redcats, representing 11.8% of this segment's 2006 revenue.

We believe that an effective risk management process is important in both account underwriting and servicing. We use a risk analysis in establishing initial credit limits with cardholders. Because we process a large number of credit applications each year, we use automated proprietary scoring technology and verification procedures to process these applications. Our underwriting process involves the purchase of credit bureau information for each credit applicant. We continuously validate, monitor and maintain the scorecards, and we use the resulting data to ensure optimal risk performance. These models help segment prospects into narrower ranges within each risk score provided by credit bureau services, allowing us to better evaluate individual credit risk and to tailor our risk-based pricing accordingly. We generally receive a merchant fee for processing sales transactions charged to a private label credit card program for which we provide receivables funding. Processing includes authorization and settlement of the funds to the retailer, net of our merchant fee.

We utilize a securitization program as our primary funding vehicle for private label credit card receivables. Securitizations involve the packaging and selling of both current and future receivable balances of credit card accounts to a special purpose entity that then sells them to a master trust. Our Transaction Services



segment retains rights to service the managed accounts. Our securitizations are treated as sales for accounting purposes and, accordingly, the receivables are removed from our balance sheet. We retain an ownership interest in the receivables, which is commonly referred to as a seller's interest, and a residual interest in the trust, which is commonly referred to as an interest-only strip. The fair value of the interest-only strip is based on assumptions regarding future payments and credit losses and is subject to volatility that could materially affect our operating results. Both the amount and timing of estimated cash flows are dependent on the performance of the underlying credit card receivables, and actual cash flows may vary significantly from expectations. If principal payments from cardholders or defaults by cardholders exceed our estimates, we may be required to decrease the carrying value of the interest-only strips through a charge against earnings. Limited Brands and its retail affiliates and Redcats accounted for approximately 26.3% and 10.0%, respectively, of the receivables in the trust portfolio as of December 31, 2006.

#### **Transaction Services**

We facilitate and manage transactions between our clients and their customers through our scalable processing systems. Our largest clients within this segment include Limited Brands and its retail affiliates, representing approximately 15.5% of this segment's 2006 revenue.

*Processing Services.* We assist clients in extending their brand with a private label or co-branded credit card that can be used by customers at the clients' store locations, catalogs or on-line. We provide service and maintenance to our clients' private label credit and co-branded card programs and assist our clients in acquiring, retaining and managing valuable repeat customers. Our Transaction Services segment performs processing services for our Credit Services segment in connection with that segment's private label credit card programs. These inter-segment services accounted for 46.1% of Transaction Services revenue in 2006.

We have developed a proprietary private label credit card system designed specifically for retailers which has the flexibility to be customized to accommodate our clients' specific needs. We have also built into the system marketing tools to assist our clients in increasing sales. We utilize our Quick Credit and On-Line Prescreen products to originate new private label credit card accounts. We believe that these products provide an effective marketing advantage over competing services.

We use automated technology for bill preparation, printing and mailing, as well as offer consumers the ability to view, print and pay their bills on-line. By doing so, we improve the funds availability for both our clients and for those private label credit card receivables that we own or securitize.

Our customer care operations are influenced by our retail heritage. We focus our training programs in all areas to achieve the highest possible standards. We monitor our performance by conducting surveys with our clients and their customers. Our call centers are equipped to handle phone, mail, fax and on-line inquiries. We also provide collection activities on delinquent accounts to support our retail private label credit card programs.

*Utility Services.* We believe that we are one of the largest independent service providers of customer information systems for utilities in North America. We provide a comprehensive single source business solution for customer care and billing solutions. We have solutions for the regulated, de-regulated and municipal marketplace. These solutions provide not only hosting of the customer information system, but also customer care, statement generation and payment processing. We focus on the successful acquisition, value enhancement and retention of our clients' customers.

In both a regulated and de-regulated environment, providers will need more sophisticated and complex billing and customer information systems to effectively compete in the marketplace. We believe that our ability to integrate transaction and marketing services effectively provides a competitive advantage for us.

*Merchant Services.* We are a provider of transaction processing services with an emphasis on the U.S. petroleum retail industry. We have built a network that enables us to process virtually all electronic payment types including credit card, debit card, prepaid card, gift card, electronic benefits and check transactions.

### **Safeguards to Our Business; Disaster and Contingency Planning**

We have a number of safeguards to protect our company from the risks we face as a business. Given the significant amount of data that we manage, much of which is real-time data to support our clients' commerce initiatives, we have established redundant capabilities for our data centers. We operate multiple data processing centers. In the event of a disaster we can restore our data centers' systems at a third party-provided disaster recovery center for the majority of our clients' data, and recover internally for the remaining critical systems. Our approach to disaster recovery is consistent with best practices in our industry and our clients' needs.

### **Protection of Intellectual Property and Other Proprietary Rights**

We rely on a combination of copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions and other similar measures to protect our proprietary information and technology used in each segment of our business. We currently have five patent applications pending with the U.S. Patent and Trademark Office and two international applications, both of which have entered the national phase in one other country. We generally enter into confidentiality or license agreements with our employees, consultants and corporate partners, and generally control access to and distribution of our technology, documentation and other proprietary information. Despite the efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain the use of our products or technology that we consider proprietary and third parties may attempt to develop similar technology independently. We pursue registration and protection of our trademarks primarily in the United States and Canada, although we do have applications pending in Mexico, South America and Europe. Effective protection of intellectual property rights may be unavailable or limited in some countries. The laws of some countries do not protect our proprietary rights to the same extent as in the United States and Canada. We are the exclusive Canadian licensee of the AIR MILES family of trademarks pursuant to a license agreement with Air Miles International Trading B.V. We believe that the AIR MILES family of trademarks and our other trademarks are important for our branding and corporate identification and marketing of our services in each segment.

### **Competition**

The markets for our products and services are highly competitive. We compete with marketing services companies, credit card issuers, and data processing companies, as well as with the in-house staffs of our current and potential clients.

**Marketing Services.** As a provider of marketing services, we generally compete with advertising and other promotional and loyalty programs, both traditional and on-line, for a portion of a client's total marketing budget. In addition, we compete against internally developed products and services created by our existing and potential clients. For each of our marketing services, we expect competition to intensify as more competitors enter our market. In addition, new competitors with our AIR MILES Reward Program may target our sponsors and collectors as well as draw rewards from our rewards suppliers. Our ability to generate significant revenue from clients and loyalty partners will depend on our ability to differentiate ourselves through the products and services we provide and the attractiveness of our loyalty and rewards programs to consumers. The continued attractiveness of our loyalty and rewards programs will depend in large part on our ability to remain affiliated with sponsors that are desirable to consumers and to offer rewards that are both attainable and attractive to consumers. Intensifying competition may make it more difficult for us to do this. For our targeted marketing services offerings, our ability to continue to capture detailed transaction data on consumers is critical in providing effective customer relationship management strategies for our clients. Our ability to differentiate the mix of products and services that we offer, together with the effective delivery of those products and services, are also important factors in meeting our clients' objective to continually improve their return on marketing investment.

**Credit Services.** Our credit services business competes primarily with financial institutions whose marketing focus has been on developing credit card programs with large revolving balances. These competitors further drive their businesses by cross selling their other financial products to their cardholders. Our focus has been on targeting retailers that understand the competitive advantage of developing loyal customers. Typically

these retailers have customers that make more frequent and smaller transactions. This results in the effective capture of detail-rich data within our marketing services, allowing us to mine and analyze this data to develop successful customer relationship management strategies for our clients. As an issuer of private label credit cards, we compete with other payment methods, primarily general purpose credit cards like Visa and MasterCard, which we also issue primarily as co-branded private label credit cards, American Express, and Discover Card, as well as cash, checks and debit cards.

**Transaction Services.** As a provider of transaction services, our focus has been on industry segments characterized by companies with large customer bases, detail-rich data and high transaction volumes. Targeting these specific market sectors allows us to develop and deliver solutions that meet the needs of these sectors. This focus is consistent with our marketing strategy for all products and services. Additionally, we believe we effectively distinguish ourselves from other transaction processors by providing solutions that help our clients leverage investments they have made in payment systems by using these systems for electronic marketing programs. Competition in the area of utility services comes primarily from larger, more well-funded and well-established competitors and from companies developing in-house solutions and capabilities.

## Regulation

Federal and state laws and regulations extensively regulate the operations of our credit card services bank subsidiary, World Financial Network National Bank, as well as our industrial bank, World Financial Capital Bank. Many of these laws and regulations are intended to maintain the safety and soundness of World Financial Network National Bank and World Financial Capital Bank, and they impose significant restraints on them to which other non-regulated companies are not subject. Because World Financial Network National Bank is deemed a credit card bank and World Financial Capital Bank is an industrial bank within the meaning of the Bank Holding Company Act, we are not subject to regulation as a bank holding company. If we were subject to regulation as a bank holding company, we would be constrained in our operations to a limited number of activities that are closely related to banking or financial services in nature. Nevertheless, as a national bank, World Financial Network National Bank is still subject to overlapping supervision by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation; and, as an industrial bank, World Financial Capital Bank is still subject to overlapping supervision by the Federal Deposit Insurance Corporation and the State of Utah.

World Financial Network National Bank and World Financial Capital Bank must maintain minimum amounts of regulatory capital. If World Financial Network National Bank or World Financial Capital Bank do not meet these capital requirements, their respective regulators have broad discretion to institute a number of corrective actions that could have a direct material effect on our financial statements. World Financial Capital Bank, as an institution insured by the Federal Deposit Insurance Corporation, must maintain certain capital ratios, paid-in capital minimums and adequate allowances for loan losses. World Financial Network National Bank must meet specific guidelines that involve measures and ratios of its assets, liabilities, regulatory capital, interest rate exposure and certain off-balance sheet items under regulatory accounting standards, among other factors. Under the National Bank Act, if the capital stock of World Financial Network National Bank is impaired by losses or otherwise, we, as the sole shareholder, may be assessed the deficiency. To the extent necessary, if a deficiency in capital still exists, the Federal Deposit Insurance Corporation may be appointed as a receiver to wind up World Financial Network National Bank's affairs.

Before World Financial Network National Bank can pay dividends to us, it must obtain prior regulatory approval if all dividends declared in any calendar year would exceed its net profits for that year plus its retained net profits for the preceding two calendar years, less any transfers to surplus. In addition, World Financial Network National Bank may only pay dividends to the extent that retained net profits, including the portion transferred to surplus, exceed bad debts. Moreover, to pay any dividend, World Financial Network National Bank must maintain adequate capital above regulatory guidelines. Further, if a regulatory authority believes that World Financial Network National Bank is engaged in or is about to engage in an unsafe or unsound banking practice, which, depending on its financial condition, could include the payment of dividends, that regulatory authority may require, after notice and hearing, that World Financial Network

National Bank cease and desist from the unsafe practice. Before World Financial Capital Bank can pay dividends to us, it must obtain prior written regulatory approval.

As part of an acquisition in 2003 by World Financial Network National Bank, which required approval by the Office of the Comptroller of the Currency, the Office of the Comptroller of the Currency required World Financial Network National Bank to enter into an operating agreement with it and a capital adequacy and liquidity maintenance agreement with us. The operating agreement requires World Financial Network National Bank to continue to operate in a manner consistent with its current practices, regulatory guidelines, and applicable law, including those related to affiliate transactions, maintenance of capital and corporate governance. This operating agreement has not required any changes in World Financial Network National Bank's operations. The capital adequacy and liquidity maintenance agreement memorializes our current obligations to World Financial Network National Bank.

We are limited under Sections 23A and 23B of the Federal Reserve Act in the extent to which we can borrow or otherwise obtain credit from or engage in other "covered transactions" with World Financial Network National Bank or World Financial Capital Bank, which may have the effect of limiting the extent to which World Financial Network National Bank or World Financial Capital Bank can finance or otherwise supply funds to us. "Covered transactions" include loans or extensions of credit, purchases of or investments in securities, purchases of assets, including assets subject to an agreement to repurchase, acceptance of securities as collateral for a loan or extension of credit, or the issuance of a guarantee, acceptance, or letter of credit. Although the applicable rules do not serve as an outright bar on engaging in "covered transactions," they do require that we engage in "covered transactions" with World Financial Network National Bank or World Financial Capital Bank only on terms and under circumstances that are substantially the same, or at least as favorable to World Financial Network National Bank or World Financial Capital Bank, as those prevailing at the time for comparable transactions with nonaffiliated companies. Furthermore, with certain exceptions, each loan or extension of credit by World Financial Network National Bank or World Financial Capital Bank to us or our other affiliates must be secured by collateral with a market value ranging from 100% to 130% of the amount of the loan or extension of credit, depending on the type of collateral.

We are required to monitor and report unusual or suspicious account activity as well as transactions involving amounts in excess of prescribed limits under the Bank Secrecy Act, Internal Revenue Service, or IRS, rules, and other regulations. Congress, the IRS and the bank regulators have focused their attention on banks' monitoring and reporting of suspicious activities. Additionally, Congress and the bank regulators have proposed, adopted or passed a number of new laws and regulations that may increase reporting obligations of banks.

We are also subject to numerous laws and regulations that are intended to protect consumers, including state law, the Truth in Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act. These laws and regulations mandate various disclosure requirements and regulate the manner in which we may interact with consumers. These and other laws also limit finance charges or other fees or charges earned in our activities. We conduct our operations in a manner that we believe excludes us from regulation as a consumer reporting agency under the Fair Credit Reporting Act. If we were deemed a consumer reporting agency, however, we would be subject to a number of additional complex regulatory requirements and restrictions.

A number of privacy regulations have been implemented in the United States, Canada, the European Union and China in recent years. These regulations place many new restrictions on our ability to collect and disseminate customer information. In addition, the enactment of new or amended legislation around the world could place additional restrictions on our ability to utilize customer information.

Under the Gramm Leach Bliley Act, we are required to maintain a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information. We also were required to develop an initial privacy notice and we are required to provide annual privacy notices to customers that describe in general terms our information sharing practices. If we intend to share nonpublic personal information about customers with nonaffiliated third parties, we must provide our customers with a notice and a reasonable period of time for each customer to "opt out" of any such disclosure.

In addition to the federal privacy laws with which we must comply, states also have adopted statutes, regulations or other measures governing the collection and distribution of personal information about customers. In some cases these state measures are preempted by federal law, but if not, we make efforts to monitor and comply with individual state privacy laws in the conduct of our business.

We also have systems and processes to comply with the USA PATRIOT ACT of 2001, which is designed to deter and punish terrorist acts in the United States and around the world, to enhance law enforcement investigatory tools, and for other purposes.

Canada has likewise enacted privacy legislation known as the Personal Information Protection and Electronic Documents Act. This act requires organizations to obtain a consumer's consent to collect, use or disclose personal information. Under this act, which took effect on January 1, 2001, the nature of the required consent depends on the sensitivity of the personal information, and the act permits personal information to be used only for the purposes for which it was collected. Some provinces have enacted substantially similar privacy legislation. We believe we have taken appropriate steps with our AIR MILES Reward Program to comply with the law.

#### **Employees**

As of December 31, 2006 we had approximately 9,300 employees. We believe our relations with our employees are good. We have no collective bargaining agreements with our employees.

#### **Available Information**

We file or furnish annual, quarterly, current and special reports, proxy statements and other information with the SEC. You may read and copy, for a fee, any document we file or furnish at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our SEC filings are also available to the public at the SEC's web site at [www.sec.gov](http://www.sec.gov). Our web site is [www.AllianceData.com](http://www.AllianceData.com). No information from this web site is incorporated by reference herein. You may also obtain copies of our annual, quarterly and current reports, proxy statements and certain other information filed or furnished with the SEC, as well as amendments thereto, free of charge from our web site. These documents are posted to our web site as soon as reasonably practicable after we have filed or furnished these documents with the SEC. We post our audit committee, compensation committee, nominating and corporate governance committee, and executive committee charters, our corporate governance guidelines, and our code of ethics, code of ethics for Senior Financial Executives and Chief Executive Officer, and code of ethics for Board Members on our web site. These documents are available free of charge to any stockholder upon request.

We submitted the certification of the Chief Executive Officer required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, relating to our compliance with the NYSE's corporate governance listing standards, to the NYSE on June 19, 2006 with no qualification. In addition, we included the certifications of our Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 and related rules, relating to the quality of our public disclosure, in this Annual Report on Form 10-K as Exhibits 31.1 and 31.2.

Item 1A. Risk Factors

Risk Factors

Risks Related to General Business Operations

***Our 10 largest clients represented 43.7% of our consolidated revenue in 2006, and the loss of any of these clients could cause a significant drop in our revenue.***

We depend on a limited number of large clients for a significant portion of our consolidated revenue. Our 10 largest clients represented approximately 43.7% of our consolidated revenue during the year ended December 31, 2006, with Limited Brands and its retail affiliates representing approximately 12.3% of our 2006 consolidated revenue. Our contracts with Limited Brands and its retail affiliates expire in 2012. A decrease in revenue from any of our significant clients for any reason, including a decrease in pricing or activity, or a decision to either utilize another service provider or to no longer outsource some or all of the services we provide, could have a material adverse effect on our consolidated revenue.

***Marketing Services.*** Our 10 largest clients in this segment represented approximately 53.2% of our Marketing Services revenue in 2006. BMO Bank of Montreal represented approximately 22.2% of this segment's 2006 revenue. Our contract with BMO Bank of Montreal expires in 2009.

***Credit Services.*** Our 10 largest clients in this segment represented approximately 84.9% of our Credit Services revenue in 2006. Limited Brands and its retail affiliates represented approximately 33.6%, and Redcats represented approximately 11.8% of our Credit Services revenue in 2006. Our contracts with Limited Brands and its retail affiliates expire in 2012, and our contract with Redcats expires in 2016.

***Transaction Services.*** Our 10 largest clients in this segment represented approximately 48.2% of our Transaction Services revenue in 2006. Limited Brands and its retail affiliates were the largest Transaction Services client in 2006, representing approximately 15.5% of this segment's 2006 revenue. Our contracts with Limited Brands and its retail affiliates expire in 2012.

***Competition in our industries is intense and we expect it to intensify.***

The markets for our products and services are highly competitive and we expect competition to intensify in each of those markets. Many of our current competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than we do. We cannot assure you that we will be able to compete successfully against our current and potential competitors.

***The markets for the services that we offer may fail to expand or may contract and this could negatively impact our growth and profitability.***

Our growth and continued profitability depend on acceptance of the services that we offer. If demand for marketing, credit or transaction services decreases, the price of our common stock could fall and you could lose value in your investment. We cannot guarantee that retailers will continue to use loyalty and targeted marketing strategies. Changes in technology may enable merchants and retail companies to directly process transactions in a cost-efficient manner without the use of our services. Additionally, downturns in the economy or the performance of retailers may result in a decrease in the demand for our marketing strategies. Further, if customers make fewer purchases of their products and services, we will have fewer transactions to process, resulting in lower revenue. Any decrease in the demand for our services for the reasons discussed above or any other reasons could have a materially adverse effect on our growth and revenue.

***We cannot assure you that we will effectively integrate acquisitions or realize their full benefits, and future acquisitions may result in dilutive equity issuances or increases in debt.***

Historically, we have completed several acquisitions in each year. We expect to continue to seek selective acquisitions as an element of our growth strategy. If we are unable to successfully integrate completed or any future acquisitions, we may incur substantial costs and delays or other operational, technical or financial

problems, any of which could harm our business and impact the trading price of our common stock. In addition, the failure to successfully integrate any future acquisition may divert management's attention from our core operations or could harm our ability to meet the needs of our customers. To finance future acquisitions, we may need to raise funds either by issuing equity securities or incurring debt. If we issue additional equity securities, such sales could reduce the current value of our stock by diluting the ownership interest of our stockholders.

***Failure to safeguard our databases and consumer privacy could affect our reputation among our clients and their customers, and may expose us to legal claims.***

An important feature of our marketing and credit services is our ability to develop and maintain individual consumer profiles. As part of our AIR MILES Reward Program, targeted marketing services programs and credit card programs, we maintain marketing databases containing information on consumers' account transactions. Although we have extensive security procedures, our databases may be subject to unauthorized access. If we experience a security breach, the integrity of our marketing databases could be affected. Security and privacy concerns may cause consumers to resist providing the personal data necessary to support our profiling capability. The use of our loyalty, marketing services or credit card programs could decline if any compromise of security occurred. Any public perception that we released consumer information without authorization could subject us to legal claims from consumers or regulatory enforcement actions and adversely affect our client relationships.

***As a result of our significant Canadian operations, our reported financial information will be affected by fluctuations in the exchange rate between the U.S. and Canadian dollars.***

A significant portion of our Marketing Services revenue is derived from our operations in Canada, which transacts business in Canadian dollars. Therefore, our reported financial information from quarter-to-quarter will be affected by changes in the exchange rate between the U.S. and Canadian dollars over the relevant periods. We do not hedge any of our net investment exposure in our Canadian subsidiary.

***The hedging activity related to our securitization trusts subjects us to off-balance sheet counterparty risks relating to the creditworthiness of the commercial banks with whom we enter into hedging transactions.***

In order to execute hedging strategies, the securitization trusts have entered into interest rate derivative contracts with commercial banks. These banks are otherwise known as counterparties. It is our policy to enter into such contracts with counterparties that are deemed to be creditworthy. However, if macro- or micro-economic events were to negatively impact these banks, the banks might not be able to honor their obligations to the securitization trusts and we might suffer a loss related to our residual interest in the securitization trusts.

***Our failure to protect our intellectual property rights may harm our competitive position, and litigation to protect our intellectual property rights or defend against third party allegations of infringement may be costly.***

Third parties may infringe or misappropriate our trademarks or other intellectual property rights, which could have a materially adverse effect on our business, financial condition or operating results. The actions we take to protect our trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. We cannot assure you that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information. Any infringement or misappropriation could harm any competitive advantage we currently derive or may derive from our proprietary rights. Third parties may assert infringement claims against us. Any claims and any resulting litigation could subject us to significant liability for damages. An adverse determination in any litigation of this type could require us to design around a third party's patent or to license alternative technology from another party. In addition, litigation is time-consuming and expensive to defend and could result in the diversion of our time and

resources. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims.

***Loss of data center capacity, interruption of telecommunication links, or inability to utilize proprietary software of third party vendors could affect our ability to timely meet the needs of our clients and their customers.***

Our ability to protect our data centers against damage or inoperability from fire, power loss, telecommunications failure and other disasters is critical. In order to provide many of our services, we must be able to store, retrieve, process and manage large databases and periodically expand and upgrade our capabilities. Any damage to our data centers, any failure of our telecommunication links that interrupts our operations or any impairment of our ability to use software could adversely affect our ability to meet our clients' needs and their confidence in utilizing us for future services.

***If we are required to pay state taxes on transaction processing, it could negatively impact our profitability.***

Transaction processing companies may be subject to state taxation of certain portions of their fees charged to merchants for their services. If we are required to pay such taxes and are unable to pass this tax expense through to our merchant clients, these taxes would negatively impact our profitability.

#### **Risks Particular to Marketing Services**

***If actual redemptions by AIR MILES Reward Program collectors are greater than expected, our profitability could be adversely affected.***

A portion of our revenue is based on our estimate of the number of AIR MILES reward miles that will go unused by the collector base. The percentage of unredeemed reward miles is known as "breakage" in the loyalty industry. AIR MILES reward miles currently do not expire. We experience breakage when reward miles are not redeemed by collectors for a number of reasons, including:

- loss of interest in the program or sponsors;
- collectors moving out of the program area; and
- death of a collector.

If actual redemptions are greater than our estimates, our profitability could be adversely affected due to the cost of the excess redemptions.

***We could face increased competition from other loyalty programs, including Aeroplan, Air Canada's frequent flyer program.***

As a result of increasing competitors in the loyalty market, including from Aeroplan, Air Canada's frequent flyer program, we may experience greater competition in attracting and retaining sponsors in our AIR MILES Reward Program.

***The loss of our most active AIR MILES Reward Program collectors could negatively affect our growth and profitability.***

Our most active AIR MILES Reward Program collectors drive a disproportionately large percentage of our AIR MILES Reward Program revenue. We estimate that over half of the AIR MILES Reward Program revenues for 2007 will be associated with our AIR MILES Reward Program collectors who participate most actively. The loss of a significant portion of these collectors, for any reason, could impact our ability to generate significant revenue from sponsors and loyalty partners. The continued attractiveness of our loyalty and rewards programs will depend in large part on our ability to remain affiliated with sponsors that are desirable to consumers and to offer rewards that are both attainable and attractive.



***Airline or travel industry disruptions, such as an airline insolvency, could negatively affect the AIR MILES Reward Program, our revenues and profitability.***

Air travel is one of the appeals of the AIR MILES Reward Program to collectors. As a result of airline insolvencies and restructurings, we may experience service disruptions that prevent us from fulfilling collectors' flight redemption requests. If one of our existing airline suppliers sharply reduces its fleet capacity and route network, we may not be able to satisfy our collectors' demands for airline tickets. Tickets from other airlines, if available, could be more expensive than a comparable ticket under our current supply agreements with existing suppliers, and the routes offered by the other airlines may be inadequate, inconvenient or undesirable to the redeeming collectors. As a result, we may experience higher air travel redemption costs and collector satisfaction with the AIR MILES Reward Program might be adversely affected.

As a result of airline or travel industry disruptions, political instability, terrorist acts, or war, some collectors could determine that air travel is too dangerous or burdensome. Consequently, collectors might forego redeeming reward miles for air travel and therefore might not participate in the AIR MILES Reward Program to the extent they previously did, which could adversely affect our revenue from the program.

***Legislation relating to consumer privacy may affect our ability to collect data that we use in providing our marketing services, which could negatively affect our ability to satisfy our clients' needs.***

The enactment of new or amended legislation or industry regulations arising from public concern over consumer privacy issues could have a materially adverse impact on our marketing services. Any such legislation or industry regulations could place restrictions upon the collection and use of information that is currently legally available, which could materially increase our cost of collecting some data. Legislation or industry regulation could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our clients' requirements and our profitability and our cash flow. In addition to the United States and Canadian regulations discussed in detail below, we have recently expanded our marketing services through the acquisition of companies formed and operating in foreign jurisdictions that may be subject to additional legislation and regulations regarding consumer privacy.

In the United States, federal and state laws such as the federal Gramm-Leach-Bliley Act make it more difficult to collect and use information that has been legally available and may increase our costs of collecting some data. Regulations under this act give cardholders the ability to "opt out" of having information generated by their credit card purchases shared with other parties or the public. Our ability to gather and utilize this data will be adversely affected if a significant percentage of the consumers whose purchasing behavior we track elect to "opt out," thereby precluding us from using their data. Under the regulations, we generally are required to refrain from sharing data generated by our new cardholders until such cardholders are provided the opportunity to "opt out."

In the United States, the federal Do-Not-Call Implementation Act makes it more difficult to telephonically communicate with customers. Regulations under this act give consumers the ability to "opt out," through a national do-not-call list, a state do-not-call list or an internal do-not-call list which is required by the regulation, of having telephone calls placed to them by telemarketers who do not have an existing business relationship with the consumer. This act could limit our ability to provide services and information to our clients. Failure to comply with the terms of this act could have a negative impact to our reputation and subject us to significant penalties.

In the United States, the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act restricts our ability to send commercial electronic mail messages to customers. The act requires that a customer provide consent prior to a commercial electronic mail message being sent to the customer and further restricts the transmission information (header/subject line) and content of the electronic mail message. Under the regulation, we generally are prohibited from issuing electronic mail or obtaining a benefit from an electronic mail message until such time as the customer has affirmatively granted permission for us to do so. Failure to comply with the terms of this act could have a negative impact to our reputation and subject us to significant penalties.

In Canada, the Personal Information Protection and Electronic Documents Act requires an organization to obtain a consumer's consent to collect, use or disclose personal information. Under this act, consumer personal information may be used only for the purposes for which it was collected. We allow our customers to voluntarily "opt out" from receiving either one or both promotional and marketing mail or promotional and marketing electronic mail. Heightened consumer awareness of, and concern about, privacy may result in customers "opting out" at higher rates than they have historically. This would mean that a reduced number of customers would receive bonus and promotional offers and therefore those customers would collect fewer AIR MILES reward miles.

#### **Risks Particular to Credit Services**

***If we are unable to securitize our credit card receivables due to changes in the market, the unavailability of credit enhancements, an early amortization event or for other reasons, we would not be able to fund new credit card receivables, which would have a negative impact on our operations and earnings.***

Since January 1996, we have sold substantially all of the credit card receivables originated by World Financial Network National Bank to WFN Credit Company, LLC and WFN Funding Company II, LLC, which in turn sold them to World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust and World Financial Network Credit Card Master Trust III, which we refer to as the WFN Trusts, as part of our securitization program. This securitization program is the primary vehicle through which we finance World Financial Network National Bank's credit card receivables. We have approximately \$600.0 million of asset-backed notes that will come due in 2007. If World Financial Network National Bank was not able to regularly securitize the receivables it originates, our ability to grow or even maintain our credit services business would be materially impaired. World Financial Network National Bank's ability to effect securitization transactions is impacted by the following factors, some of which are beyond our control:

- conditions in the securities markets in general and the asset-backed securitization market in particular;
- conformity in the quality of credit card receivables to rating agency requirements and changes in those requirements; and
- our ability to fund required overcollateralizations or credit enhancements, which we routinely utilize in order to achieve better credit ratings, which lowers our borrowing costs.

Once World Financial Network National Bank securitizes receivables, the agreement governing the transaction contains covenants that address the receivables' performance and the continued solvency of the retailer where the underlying sales were generated. In the event such a covenant or other similar covenant is breached, an early amortization event could be declared, whereby, the trustee for the securitization trust would retain World Financial Network National Bank's interest in the related receivables, along with the excess interest income that would normally be paid to World Financial Network National Bank, until the securitization investors are fully repaid. The occurrence of an early amortization event would significantly limit, or even negate, our ability to securitize additional receivables.

***Increases in net charge-offs beyond our current estimates could have a negative impact on our operating income and profitability.***

The primary risk associated with unsecured consumer lending is the risk of default or bankruptcy of the borrower, resulting in the borrower's balance being charged-off as uncollectible. We rely principally on the customer's creditworthiness for repayment of the loan and therefore have no other recourse for collection. We may not be able to successfully identify and evaluate the creditworthiness of cardholders to minimize delinquencies and losses. An increase in defaults or net charge-offs beyond historical levels will reduce the net spread available to us from the securitization master trust and could result in a reduction in finance charge income or a write-down of the interest-only strip. General economic factors, such as the rate of inflation, unemployment levels and interest rates, may result in greater delinquencies that lead to greater credit losses. In addition to being affected by general economic conditions and the success of our collection and recovery

efforts, our delinquency and net credit card receivable charge-off rates are affected by the credit risk of our credit card receivables and the average age of our various credit card account portfolios. The average age of our credit card receivables affects the stability of delinquency and loss rates of the portfolio. An older credit card portfolio generally drives a more stable performance in the portfolio. At December 31, 2006, 58.3% of the total number of our securitized accounts with outstanding balances and 61.4% of the amount of our outstanding securitized receivables were for accounts with origination dates greater than 24 months old. For 2006, our managed receivables net charge-off ratio was 5.0% compared to 6.5% for 2005 and 6.8% for 2004. We cannot assure you that our pricing strategy can offset the negative impact on profitability caused by increases in delinquencies and losses. Any material increases in delinquencies and losses beyond our current estimates could have a materially adverse impact on us and the value of our net retained interests in loans that we sell through securitizations.

***Changes in the amount of payments and defaults by cardholders on credit card balances may cause a decrease in the estimated value of interest-only strips.***

The estimated fair value of interest-only strips depends upon the anticipated cash flows of the related credit card receivables. A significant factor affecting the anticipated cash flows is the rate at which the underlying principal of the securitized credit card receivables is reduced. Other assumptions used in estimating the value of the interest-only strips include estimated future credit losses and a discount rate commensurate with the risks involved. The rate of cardholder payments or defaults on credit card balances may be affected by a variety of economic factors, including interest rates and the availability of alternative financing, most of which are not within our control. A decrease in interest rates could cause cardholder payments to increase, thereby requiring a write down of the interest-only strips. If payments from cardholders or defaults by cardholders exceed our estimates, we may be required to decrease the estimated value of the interest-only strips through a charge against earnings.

***Increases in our interest rates could have a negative impact on our operating income and profitability.***

An increase in market interest rates may increase interest expense on variable interest debt or short-term borrowings, which could have an adverse impact on our operating results. Specifically, an increase in the cost of funds related to our off-balance sheet debt could reduce the amount we realize from the excess spread between the yield on our assets and the cost of funding on our debt. A rise in market interest rates may indirectly impact the payment performance of consumers or the value of, or the amount we could realize from, the sale of interest-only strips.

	As of December 31, 2006		
	Fixed rate	Variable rate (In millions)	Total
Off-balance sheet	\$ 2,650.0	\$ 929.2	\$ 3,579.2
On-balance sheet	694.3	350.1	1,044.4
	<u>\$ 3,344.3</u>	<u>\$ 1,279.3</u>	<u>\$ 4,623.6</u>

- At December 31, 2006, our fixed rate off-balance sheet debt was locked at a current effective interest rate of 4.7% through interest rate swap agreements. Additionally, our variable rate off-balance sheet debt has variable rate credit cards that are at least equal to that amount.
- At December 31, 2006, our fixed rate on-balance sheet debt was subject to fixed rates with a weighted average interest rate of 5.7%.

A 1.0% increase in interest rates would result in an estimated decrease to pretax income of approximately \$8.5 million related to our on-balance sheet debt. The foregoing sensitivity analysis is limited to the potential impact of an interest rate increase of 1.0% on cash flows and fair values, and does not address default or credit risk.

***We expect growth in our credit services segment to result from new and acquired credit card programs whose credit card receivable performance could result in increased portfolio losses and negatively impact our net retained interests in loans securitized.***

We expect an important source of growth in our credit card operations to come from the acquisition of existing credit card programs and initiating credit card programs with retailers who do not currently offer a private label or co-brand credit card. Although we believe our pricing and models for determining credit risk are designed to evaluate the credit risk of existing programs and the credit risk we are willing to assume for acquired and start-up programs, we cannot assure you that the loss experience on acquired and start-up programs will be consistent with our more established programs. The failure to successfully underwrite these credit card programs may result in defaults greater than our expectations and could have a materially adverse impact on us and the value of our net retained interests in receivables securitized.

***Current and proposed regulation and legislation relating to our credit services could limit our business activities, product offerings and fees charged.***

Various Federal and state laws and regulations significantly limit the credit services activities in which we are permitted to engage. Such laws and regulations, among other things, limit the fees and other charges that we can impose on consumers, limit or prescribe certain other terms of our products and services, require specified disclosures to consumers, or require that we maintain certain licenses, qualifications and minimum capital levels. In some cases, the precise application of these statutes and regulations is not clear. In addition, numerous legislative and regulatory proposals are advanced each year which, if adopted, could have a materially adverse effect on our profitability or further restrict the manner in which we conduct our activities. The failure to comply with, or adverse changes in, the laws or regulations to which our business is subject, or adverse changes in their interpretation, could have a materially adverse effect on our ability to collect our receivables and generate fees on the receivables, thereby adversely affecting our profitability.

***If our bank subsidiaries fail to meet certain bank criteria, we may become subject to regulation under the Bank Holding Company Act, which would force us to cease all of our non-banking activities and thus cause a drastic reduction in our profits and revenue.***

If either of our depository institution subsidiaries failed to meet the criteria for the exemption from the definition of “bank” in the Bank Holding Company Act under which it operates (which exemptions are described below), and if we did not divest such depository institution upon such an occurrence, we would become subject to regulation under the Bank Holding Company Act. This would require us to cease certain of our activities that are not permissible for companies that are subject to regulation under the Bank Holding Company Act.

One of our depository institution subsidiaries, World Financial Network National Bank, is a limited-purpose national credit card bank located in Ohio. World Financial Network National Bank is not a “bank” as defined under the Bank Holding Company Act because it is in compliance with the following requirements:

- it engages only in credit card operations;
- it does not accept demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties;
- it does not accept any savings or time deposits of less than \$100,000, except for deposits pledged as collateral for its extensions of credit;
- it maintains only one office that accepts deposits; and
- it does not engage in the business of making commercial loans.

Our other depository institution subsidiary, World Financial Capital Bank, is a Utah industrial bank that is authorized to do business by the State of Utah and the Federal Deposit Insurance Corporation. World Financial

Capital Bank is not a “bank” as defined under the Bank Holding Company Act because it is an industrial bank in compliance with the following requirements:

- it is an institution organized under the laws of a state which, on March 5, 1987, had in effect or had under consideration in such state’s legislature a statute which required or would require such institution to obtain insurance under the Federal Deposit Insurance Act; and
- it does not accept demand deposits that the depositor may withdraw by check or similar means for payment to third parties.

***If our industrial bank fails to meet the requirements of the Federal Deposit Insurance Corporation or State of Utah, we may be subject to termination of our industrial bank.***

Our industrial bank, World Financial Capital Bank, is authorized to do business by the State of Utah and the Federal Deposit Insurance Corporation. World Financial Capital Bank is subject to capital ratios and paid-in capital minimums and must maintain adequate allowances for loan losses. If World Financial Capital Bank fails to meet the requirements of the Federal Deposit Insurance Corporation or the State of Utah, it may be subject to termination as an industrial bank.

#### **Risks Particular to Transaction Services**

***In 2006, our Transaction Services segment derived approximately 46.1% of its revenue from servicing cardholder accounts for the Credit Services segment. If the Credit Services segment suffered a significant client loss, our revenue and profitability attributable to the Transaction Services segment could be materially and adversely affected.***

Our Transaction Services segment performs card processing and servicing activities for cardholder accounts generated by our Credit Services segment. During 2006, our Transaction Services segment derived \$357.8 million, or 46.1% of its revenues, from these services for our Credit Services segment. The financial performance of our Transaction Services segment, therefore, is linked to the activities of our Credit Services segment. If the Credit Services segment were to lose a significant client, our revenue and profitability attributable to the Transaction Services segment could be materially and adversely affected.

#### **Risks Related to Our Company**

***Delaware law and our charter documents could prevent a change of control that might be beneficial to you.***

Delaware law, as well as provisions of our certificate of incorporation and bylaws, could discourage unsolicited proposals to acquire us, even though such proposals may be beneficial to you. These include:

- a board of directors classified into three classes of directors with the directors of each class having staggered, three-year terms;
- our board’s authority to issue shares of preferred stock without further stockholder approval; and
- provisions of Delaware law that restrict many business combinations and provide that directors serving on staggered boards of directors, such as ours, may be removed only for cause.

These provisions of our certificate of incorporation, bylaws and Delaware law could discourage tender offers or other transactions that might otherwise result in our stockholders receiving a premium over the market price for our common stock.

**Future sales of our common stock, or the perception that future sales could occur, may adversely affect our common stock price.**

As of February 22, 2007, we had an aggregate of 99,950,429 shares of our common stock authorized but unissued and not reserved for specific purposes. Except with respect to issuances pursuant to new equity compensation plans, to certain related parties, or that would result in a change of control, in general, we may issue all of these shares without any action or approval by our stockholders. We have reserved 21,003,000 shares of our common stock for issuance under our employee stock purchase plan and our long-term incentive plans, of which 6,319,366 shares are issuable upon vesting of restricted stock awards, restricted stock units, and upon exercise of options granted as of February 22, 2007, including options to purchase approximately 2,639,696 shares exercisable as of February 22, 2007 or that will become exercisable within 60 days after February 22, 2007. We have reserved for issuance 1,500,000 shares of our common stock, all of which remain issuable, under our 401(k) and Retirement Savings Plan. In addition, we may pursue acquisitions of competitors and related businesses and may issue shares of our common stock in connection with these acquisitions. Sales or issuances of a substantial number of shares of common stock, or the perception that such sales could occur, could adversely affect prevailing market prices of our common stock, and any sale or issuance of our common stock will dilute the percentage ownership held by our stockholders.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As of December 31, 2006, we leased approximately 65 general office properties worldwide, comprising over 2.5 million square feet. These facilities are used to carry out our operational, sales and administrative functions. Our principal facilities are as follows:

<u>Location</u>	<u>Segment</u>	<u>Approximate Square Footage</u>	<u>Lease Expiration Date</u>
Dallas, Texas	Corporate, Transaction Services	230,061	October 31, 2010
Dallas, Texas	Corporate	61,750	July 31, 2017
Dallas, Texas	Transaction Services	247,618	July 31, 2009
Columbus, Ohio	Corporate, Credit Services	86,870	August 31, 2007
Columbus, Ohio	Transaction Services	103,161	January 31, 2008
Westerville, Ohio	Transaction Services	100,800	May 31, 2011
Toronto, Ontario, Canada	Marketing Services	142,997	September 16, 2007
Toronto, Ontario, Canada	Marketing Services	16,124	October 31, 2014
New York, New York	Marketing Services	12,000	August 31, 2008
New York, New York	Marketing Services	14,875	May 31, 2009
Wakefield, Massachusetts	Marketing Services	96,726	April 30, 2013
Irving, Texas	Marketing Services	75,000	June 30, 2018
Earth City, Missouri	Marketing Services	116,783	September 30, 2012

We believe our current and proposed facilities are suitable to our businesses and that we will be able to lease, purchase or newly construct additional facilities as needed.

**Item 3. Legal Proceedings**

From time to time, we are involved in various claims and lawsuits arising in the ordinary course of our business that we believe will not have a materially adverse effect on our business or financial condition, including claims and lawsuits alleging breaches of contractual obligations.

**Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of the security holders during the fourth quarter of 2006.

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Market Information

Our common stock is listed on the New York Stock Exchange and trades under the symbol "ADS." The following table sets forth for the periods indicated the high and low composite per share prices as reported by the New York Stock Exchange.

	<u>High</u>	<u>Low</u>
<b>Fiscal Year Ended December 31, 2005</b>		
First quarter	\$ 47.25	\$ 37.49
Second quarter	44.20	33.01
Third quarter	44.26	38.81
Fourth quarter	42.00	31.90
<b>Fiscal Year Ended December 31, 2006</b>		
First quarter	\$ 47.21	\$ 35.98
Second quarter	59.75	45.34
Third quarter	61.40	47.45
Fourth quarter	66.07	54.34

## Holders

As of February 22, 2007, the closing price of our common stock was \$63.50 per share, there were 79,576,227 shares of our common stock outstanding, and there were approximately 125 holders of record of our common stock.

## Dividends

We have never declared or paid any dividends on our common stock, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business. Any future determination to pay cash dividends on our common stock will be at the discretion of our board of directors and will be dependent upon our financial condition, operating results, capital requirements and other factors that our board deems relevant. In addition, under the terms of our credit facilities, we cannot declare or pay dividends or return capital to our common stockholders, and we are restricted in the amount of any other distribution, payment or delivery of property or cash to our common stockholders.

**Issuer Purchases of Equity Securities**

During 2005 and 2006 our Board of Directors authorized three stock repurchase programs to acquire up to an aggregate of \$900.0 million of our outstanding common stock through December 2008, as more fully described in the footnote to the table below. As of December 31, 2006, we had repurchased 6,799,752 shares of our common stock for approximately \$294.8 million under these programs. The following table presents information with respect to those purchases of our common stock made during the three months ended December 31, 2006:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)(3)</sup> (In millions)
<b>During 2006:</b>				
October	101,733	\$59.73	99,600	\$625.5
November	336,084	60.92	333,900	605.2
December	2,077	63.30	—	605.2
<b>Total</b>	<b>439,894</b>	<b>\$60.65</b>	<b>433,500</b>	<b>\$605.2</b>

- (1) During the period represented by the table, 6,394 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Saving Plan for the benefit of the employees who participated in that portion of the plan.
- (2) On June 9, 2005, we announced that our Board of Directors authorized a stock repurchase program to acquire up to \$80.0 million of our outstanding common stock through June 2006. As of the expiration of the program, we acquired the full amount available under this program. On October 27, 2005, we announced that our Board of Directors authorized a second stock repurchase program to acquire up to an additional \$220.0 million of our outstanding common stock through October 2006. On October 3, 2006, we announced that our Board of Directors authorized a third stock repurchase program to acquire up to an additional \$600.0 million of our outstanding common stock through December 2008, in addition to any amount remaining available at the expiration of the second stock repurchase program. As of December 31, 2006, we had repurchased 6,799,752 shares of our common stock for approximately \$294.8 million under these programs.
- (3) Debt covenants in our credit facilities restrict the amount of funds that we have available for repurchases of our common stock in any calendar year. The limitation for each calendar year was \$200.0 million beginning with 2006, increasing to \$250.0 million in 2007 and \$300.0 million in 2008, conditioned on certain increases in our Consolidated Operating EBITDA as defined in the credit facilities.



**Equity Compensation Plan Information**

The following table provides information as of December 31, 2006 with respect to shares of our common stock that may be issued under the Amended and Restated Stock Option Plan, the 2003 Long Term Incentive Plan, or the 2005 Long Term Incentive Plan, or that may be purchased under the Amended and Restated Employee Stock Purchase Plan:

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)</u>
Equity compensation plans approved by security holders	4,871,899	\$ 30.98	5,222,103 <sup>(1)</sup>
Equity compensation plans not approved by security holders	None	N/A	None
<b>Total</b>	<b>4,871,899</b>	<b>\$ 30.98</b>	<b>5,222,103</b>

(1) Includes 853,571 shares available for future issuance under the Amended and Restated Employee Stock Purchase Plan.

**Performance Graph**

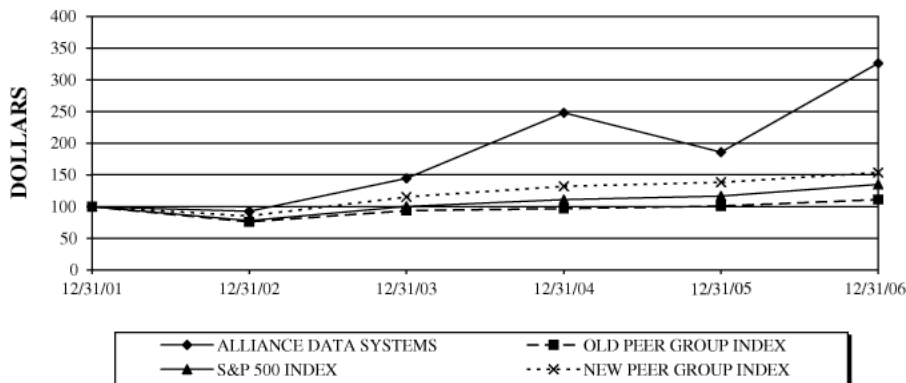
The following graph compares the yearly percentage change in cumulative total stockholder return on our common stock since December 31, 2001, with the cumulative total return over the same period of (1) the S&P 500 Index, (2) an old peer group selected by us and (3) a new peer group selected by us. We have elected to modify our peer group because we believe the new peer group is more reflective of our business, provides a broader comparison group and is more similar to our market capitalization.

The companies in the old peer group are Affiliated Computer Services, Inc., The BISYS Group, Inc., Certegy, Inc., Convergys Corporation, DST Systems, Inc., First Data Corporation, Fiserv, Inc., Global Payments Inc., Jack Henry and Associates, Inc., and Total System Services, Inc. Subsequent to a merger in 2006, Certegy, Inc. changed its name to Fidelity National Information Services, Inc.

The companies in the new peer group are Affiliated Computer Services, Inc., American Express Company, Acxiom Corporation, Capital One Financial Corporation, Fidelity National Information Services, Inc., Convergys Corporation, DST Systems, Inc., First Data Corporation, Fiserv, Inc., Global Payments Inc., Harte-Hanks, Inc., MasterCard Incorporated, The Western Union Company, and Total System Services, Inc.

Pursuant to rules of the SEC, the comparison assumes \$100 was invested on December 31, 2001 in our common stock and in each of the indices and assumes reinvestment of dividends, if any. Also pursuant to SEC rules, the returns of each of the companies in the peer group are weighted according to the respective company's stock market capitalization at the beginning of each period for which a return is indicated. Historical stock prices are not indicative of future stock price performance.

**COMPARISON OF CUMULATIVE TOTAL RETURN  
AMONG ALLIANCE DATA SYSTEMS CORPORATION  
S&P 500 INDEX AND PEER GROUP INDICES**



	Alliance Data Systems Corporation	S&P 500	Old Peer Group	New Peer Group
December 31, 2001	\$ 100	\$ 100	\$ 100	\$ 100
December 31, 2002	92.53	77.90	75.74	84.94
December 31, 2003	144.54	100.25	93.62	115.34
December 31, 2004	247.94	111.15	96.73	132.05
December 31, 2005	185.90	116.61	100.96	138.26
December 31, 2006	326.21	135.03	111.01	153.64

Our future filings with the SEC may “incorporate information by reference”, including this Form 10-K. Unless we specifically state otherwise, this Performance Graph shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

**Item 6. Selected Financial Data**

**SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION**

The following table sets forth our summary historical financial information for the periods ended and as of the dates indicated. You should read the following historical financial information along with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes contained in this Form 10-K. The fiscal year financial information included in the table below is derived from audited financial statements.

	Year Ended December 31,				
	2002	2003	2004	2005	2006
	(In thousands, except per share amounts)				
<b>Income statement data</b>					
Total revenue	\$ 865,297	\$ 1,046,544	\$ 1,257,438	\$ 1,552,437	\$ 1,998,742
Cost of operations (exclusive of amortization and depreciation disclosed separately below) <sup>(1)</sup>	670,544	788,874	916,201	1,124,590	1,434,620
General and administrative <sup>(1)</sup>	53,784	52,320	77,740	91,532	91,815
Depreciation and other amortization	41,768	53,948	62,586	58,565	65,443
Amortization of purchased intangibles	24,707	20,613	28,812	41,142	59,597
Total operating expenses	790,803	915,755	1,085,339	1,315,829	1,651,475
Operating income	74,494	130,789	172,099	236,608	347,267
Other expenses	834	4,275	—	—	—
Fair value loss on interest rate derivative	12,017	2,851	808	—	—
Interest expense, net	19,924	14,681	6,972	14,482	40,998
Income from continuing operations before income taxes	41,719	108,982	164,319	222,126	306,269
Provision for income taxes	18,060	41,684	61,948	83,381	116,664
Net income	\$ 23,659	\$ 67,298	\$ 102,371	\$ 138,745	\$ 189,605
Net income per share — basic	\$ 0.32	\$ 0.86	\$ 1.27	\$ 1.69	\$ 2.38
Net income per share — diluted	\$ 0.31	\$ 0.84	\$ 1.22	\$ 1.64	\$ 2.32
Weighted average shares used in computing per share amounts — basic	74,422	78,003	80,614	82,208	79,735
Weighted average shares used in computing per share amounts — diluted	76,696	80,313	84,040	84,637	81,686

<sup>(1)</sup> Included in general and administrative is stock compensation expense of \$2.9 million, \$5.9 million, \$13.4 million, \$14.1 million, and \$16.1 million for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, respectively. Included in cost of operations is stock compensation expense of \$0, \$0, \$2.3 million, \$0, and \$27.0 million for the years ended December 31, 2002, 2003, 2004, 2005, and 2006, respectively.

	Year Ended December 31,				
	2002	2003	2004	2005	2006
	(In thousands, except per share amounts)				
<b>Adjusted EBITDA and Operating EBITDA<sup>(2)</sup></b>					
Adjusted EBITDA	\$ 143,917	\$ 211,239	\$ 279,264	\$ 350,458	\$ 515,360
Operating EBITDA	\$ 162,781	\$ 276,138	\$ 321,779	\$ 396,397	\$ 556,339
<b>Other financial data</b>					
Cash flows from operating activities	\$ 122,569	\$ 116,876	\$ 348,629	\$ 109,081	\$ 468,780
Cash flows from investing activities	\$ (192,603)	\$ (247,729)	\$ (399,859)	\$ (330,951)	\$ (542,972)
Cash flows from financing activities	\$ (15,670)	\$ 165,003	\$ 66,369	\$ 278,579	\$ 112,270
<b>Segment Operating data</b>					
Statements generated	138,669	167,118	190,976	190,910	211,663
Credit sales	\$ 4,924,952	\$ 5,604,233	\$ 6,227,421	\$ 6,582,800	\$ 7,444,298
Average managed receivables	\$ 2,344,334	\$ 2,654,087	\$ 3,021,800	\$ 3,170,485	\$ 3,640,057
AIR MILES reward miles issued	2,348,133	2,571,501	2,834,125	3,246,553	3,741,834
AIR MILES reward miles redeemed	1,259,951	1,512,788	1,782,185	2,023,218	2,456,932

(2) See "Use of Non-GAAP Financial Measures" set forth in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation" for a discussion of our use of adjusted EBITDA and operating EBITDA and a reconciliation to net income, the most directly comparable GAAP financial measure.

	As of December 31,				
	2002	2003	2004	2005	2006
	(In thousands)				
<b>Balance sheet data</b>					
Cash and cash equivalents	\$ 30,439	\$ 67,745	\$ 84,409	\$ 143,213	\$ 180,075
Seller's interest and credit card receivables, net	147,899	271,396	248,074	479,108	569,389
Redemption settlement assets, restricted	166,293	215,271	243,492	260,963	260,957
Intangible assets, net	75,399	143,733	233,779	265,000	263,934
Goodwill	429,720	484,415	709,146	858,470	969,971
Total assets	1,447,462	1,867,424	2,239,080	2,926,082	3,404,015
Deferred revenue	362,510	476,387	547,123	610,533	651,506
Certificates of deposit	96,200	200,400	94,700	379,100	299,000
Credit facilities, subordinated debt and other debt	196,711	189,751	342,823	457,844	745,377
Total liabilities	904,904	1,165,093	1,368,560	2,004,975	2,332,482
Total stockholders' equity	542,558	702,331	870,520	921,107	1,071,533

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation**

**Overview**

We are a leading provider of loyalty and marketing solutions derived from transaction rich data. We partner with our clients to develop unique insight into consumer behavior. We use that insight to create and manage customized solutions that we believe enhance consumer experiences and enable our clients to build stronger, mutually-beneficial relationships with their customers. We focus on facilitating and managing interactions between our clients and their customers. We operate in three business segments: Marketing Services, Credit Services and Transaction Services.

*Marketing Services.* The Marketing Service segment generates revenue from our coalition loyalty program, the AIR MILES Reward Program, and from our targeted marketing services programs run by Epsilon. In our AIR MILES Reward Program, we primarily collect fees from our clients based on the number of AIR MILES reward miles issued and in limited circumstances the number of AIR MILES reward miles redeemed. All of the fees collected for AIR MILES reward miles issued are deferred and recognized over time. AIR MILES reward miles issued and AIR MILES reward miles redeemed are the two primary drivers of revenue for this segment, and as a result they are both indicators of the success of the program. These two drivers are also important in the revenue recognition process.

- **AIR MILES Reward Miles Issued:** The number of AIR MILES reward miles issued depends upon the buying activity of the collectors at our participating sponsors. The fees collected from sponsors for the issuance of AIR MILES reward miles represents future revenue and earnings for us. The revenue related to the service element of the AIR MILES reward miles is initially deferred and amortized over the period of time beginning with the issuance of the AIR MILES reward miles and ending upon their expected redemption which is the estimated life of an AIR MILES reward mile, or 42 months.
- **AIR MILES Reward Miles Redeemed:** A majority of the revenue we recognize in this segment is derived from the redemptions of AIR MILES reward miles by collectors. Redemptions also show that collectors are attaining the rewards that are offered through our programs. The revenue related to the redemption element is deferred until the collector redeems the AIR MILES reward miles or over the estimated life of an AIR MILES reward mile in the case of AIR MILES reward miles that we estimate will go unused by the collector base or "breakage". We currently estimate breakage to be one-third of AIR MILES reward miles issued. There have been no changes to management's estimate of the life of a mile or breakage in the periods presented.

Our AIR MILES Reward Program tends not to be significantly impacted by economic swings as the majority of the sponsors are in non-discretionary categories such as grocery, petroleum and financial institutions. Additionally, we target the sponsors' most loyal customers, who are unlikely to change their spending patterns. We are impacted by changes in the exchange rate between the U.S. dollar and the Canadian dollar. The Canadian dollar appreciated in 2006, which benefited our operating results by approximately \$5.7 million.

Beginning in late 2004, with the acquisition of Epsilon, we began an expansion of our marketing services in the United States. In 2006, we continued our expansion of the services we provide with the acquisition of DoubleClick Email Solutions, which strengthens our presence in email communication solutions. Additionally, with the recent acquisitions of ICOM and CPC, Epsilon has also begun to expand its data product and services offerings. Epsilon generates revenue in a number of ways that range from transaction counts for interactive services to hourly rates for our strategic consulting services. We believe that working with our client's customer data and strategy gives us an advantage through our opportunity to develop long-term relationships with our clients.

*Credit Services.* The Credit Services segment primarily generates revenue from securitization income, servicing fees from our securitization trusts, and merchant discount fees. Private label credit sales and average managed receivables are the two primary drivers of revenue for this segment.

- **Private Label Credit Sales:** This represents the dollar value of private label credit card sales that occur at our clients' point of sale terminals or through catalogs or web sites. Generally, we are paid a percentage of these sales, referred to as merchant discount, from the retailers that utilize our private label credit card program. Private label credit sales typically lead to higher portfolio balances as cardholders finance their purchases through our credit card banks.
- **Average Managed Receivables:** This represents the average balance of outstanding receivables from our cardholders. Customers are assessed a finance charge based on their outstanding balance at the end of a billing cycle. There are many factors that drive the outstanding balances such as payment rates, charge-offs, recoveries and delinquencies. Management actively monitors all of these factors. Generally we securitize our receivables, which results in a sale for accounting purposes and effectively removes them from our balance sheet to one of the securitization trusts.

Credit Services is affected by increased outsourcing in targeted industry verticals. The growing trend of outsourcing of private label credit card programs leads to increased accounts and balances to finance. We focus our sales efforts on prime borrowers and do not target sub-prime borrowers. Additionally, economic trends can impact this segment. Interest expense is a significant component of operating costs for the securitized trusts. Over the last three years we have experienced a historically low interest rate environment. We have refinanced our recent bond maturities with instruments that lock in our effective interest rate for up to five year terms and in some cases entered into declining interest rate swaps. Interest rates in 2006 were slightly higher than rates in 2005. During the fourth quarter of 2005, Congress enacted bankruptcy legislation with a two-fold impact. First, an acceleration of bankruptcies occurred in late 2005 as the result of cardholders filing for protection under the previous bankruptcy legislation, which was more lenient. Second, under the new legislation it is more difficult for cardholders filing bankruptcy to dispose of their obligations. The enactment of the bankruptcy laws had a positive impact in 2006 to our net charge-off rate, which was approximately 5.0% for 2006 as compared to 6.5% for 2005. For 2007, we expect that the net charge-off rate will stabilize to approximately 6%, with costs of funds to remain consistent with 2006.

*Transaction Services.* The Transaction Services segment primarily generates revenue based on the number of statements generated, customer calls handled and transactions processed. Statements generated are the primary driver of revenue for this segment and represents the majority of revenue.

- **Statements Generated:** This represents the number of statements generated for our credit card and utility clients. The number of statements generated in any given period is a fairly reliable indicator of the number of active account holders during that period. In addition to receiving payment for each statement generated, we also are paid for other services such as remittance processing, customer care and various marketing services.

Transaction Services primarily is affected by industry trends similar to Credit Services. Companies are increasingly outsourcing their non-core processes such as customer information systems, billing and customer care. We are impacted by this trend with our clients in utility services and processing services.

#### **Year in Review Highlights**

Our results for the year ended 2006 included the following significant agreements and continued selective execution of our acquisition strategy:

- In January 2006, we announced a long-term agreement to provide customer care and comprehensive billing and marketing management services to Green Mountain Energy Company, one of the nation's leading retail providers of cleaner electricity products.

- In January 2006, we announced a multi-year renewal agreement with Canada Safeway to continue our partnership in our Canadian AIR MILES Reward Program. One of our top-ten clients, Canada Safeway has been a partner in our loyalty and marketing program since its inception in 1992.
- In February 2006, we signed a multi-year agreement to provide billing and customer care services to WPS Resources Corporation, an energy holding company whose subsidiaries provide electric and natural gas utility service primarily to Michigan and Minnesota consumers.
- In February 2006, we acquired iCom Information & Communications, Inc., a leading provider of targeted list, marketing data and communication solutions for the pharmaceutical, tobacco and fast moving consumer good industries in North America.
- In February 2006, we signed a long-term agreement to provide a co-brand credit card program and database marketing services to New York & Company, a leading specialty retailer of women's fashions and accessories.
- In February 2006, we signed a long-term contract renewal to continue to provide a comprehensive private-label credit card solution to Goody's, a retailer of moderately priced apparel for women, men and children. Under the expanded terms of the agreement, we will also provide an integrated co-brand credit card program and corresponding program servicing.
- In March 2006, we announced a multi-year agreement with Citibank, Inc. to provide a comprehensive loyalty solution to support Citi's points-based customer rewards program, the Thank You Network<sup>SM</sup>.
- In March 2006, we signed a contract renewal to continue to provide a comprehensive private-label credit card solution to the United Retail Group, Inc., a leading high-growth specialty retailer of plus-size women's fashion apparel.
- In April 2006, we signed a multi-year contract renewal to continue to provide a comprehensive private-label credit card solution for Abercrombie & Fitch, a leading men's and women's specialty clothing retailer.
- In April 2006, we completed an issuance of \$500.0 million of asset-backed notes. The notes were issued through the World Financial Network Credit Card Master Note Trust as part of the securitization program for our credit card banking subsidiary, World Financial Network National Bank.
- In April 2006, we acquired DoubleClick Email Solutions, a division of DoubleClick, Inc., a permission-based email marketing service provider, with operations across North America, Europe and Asia/Pacific.
- In May 2006, we announced a multi-year agreement to provide bill print and mail services, electronic bill presentment and payment processing for Sacramento Municipal Utility District, the sixth-largest publicly owned utility in the United States with approximately 560,000 residential and commercial accounts in California's Sacramento and Placer counties.
- In May 2006, we signed a multi-year agreement to provide permission-based email marketing services and strategic consulting services to Citicorp Credit Services, Inc., which has more than 120 million credit and charge accounts in North America.
- In May 2006, we completed a private placement of \$500.0 million of senior notes to lock interest rates and provide additional liquidity.
- In May 2006, we signed a multi-year contract renewal to continue to provide database, consulting, and infrastructure services for AARP, one of the nation's largest non-profit organizations.
- In May 2006, we signed a contract renewal to continue to provide a comprehensive private-label credit card solution to The Room Place at Harlem Furniture, a multi-channel retailer of high-quality home furniture in the Chicago area.

- In June 2006, we announced a long-term contract renewal to continue to provide customer information system services, application management and online bill presentment to Union Gas, a Duke Energy Company.
- In June 2006, we announced a multi-year renewal agreement with The Great Atlantic & Pacific Company of Canada, or A&P Canada, to continue our partnership in our Canadian AIR MILES Reward Program. One of the program's top-ten sponsors, A&P Canada is the second largest food retailer in Ontario.
- In June 2006, we announced a multi-year agreement to provide comprehensive private-label credit card services for Bealls Outlet Stores, Inc. and Burke's Outlet Stores, Inc., leading retailers of value-priced apparel, accessories and home furnishings with more than 500 stores across 14 states.
- In July 2006, we announced a multi-year agreement to provide comprehensive private-label credit card services for Friedman's Jewelers, the third-largest jewelry retailer in the United States, with approximately 422 locations.
- In July 2006, we announced an agreement to provide permission-based email marketing services for Circuit City Stores, Inc. Circuit City is one of the nation's leading multi-channel consumer electronics retailers.
- In August 2006, we announced a long-term renewal agreement with The Jean Coutu Group to continue our partnership in our Canadian AIR MILES Reward Program. One of the program's top-ten sponsors, Jean Coutu is the fourth largest drugstore chain in North America.
- In August 2006, we announced a renewal agreement with Hudson's Bay Company, or Hbc, to continue our partnership in our Canadian AIR MILES Reward Program. Additionally, through this agreement, Hbc will become a rewards supplier in the AIR MILES Reward Program. As one of the program's top-fifteen sponsors, Hbc operates more than 570 stores across Canada.
- In August 2006, we announced that our Canadian AIR MILES Reward Program added 20 new retail partners to its online shopping mall, [www.airmilesshops.ca](http://www.airmilesshops.ca). The virtual mall features advanced product search capabilities and allows consumers to purchase merchandise from a total of 75 lifestyle, home décor, electronics, entertainment and fashion retailers.
- In August 2006, we acquired Big Designs, Inc., a premier print, web and email marketing design firm. The acquisition of Big Designs complements Epsilon Interactive's existing creative services offerings.
- In August 2006, we signed a multi-year contract renewal to continue to provide a comprehensive private-label credit card solution for American Signature, a leading designer, manufacturer and retailer of high-quality furniture.
- In September 2006, we sold our credit card receivables portfolio of Shop NBC accounts for approximately \$77.2 million, which comprised receivables of \$75.3 million plus a small premium.
- In September 2006, we announced a multi-year agreement to provide customer information system and billing services to customers of the New England Gas distribution division of the Southern Union Company, one of the nation's leading diversified natural gas companies.
- In October 2006, we announced the signing of a long-term agreement with Cruise Management International LLC, North America's largest retailer of cruise vacations, to provide co-brand credit card services for cruise industry customers.
- In October 2006, we acquired CPC Associates, Inc., a premier provider of data products and services used to increase effectiveness of direct-response marketing programs for a variety of business sectors.
- In November 2006, we announced the signing of a multi-year agreement to provide integrated email and marketing solutions to MyFamily.com, Inc., the leading online network for connecting families.



- In November 2006, we announced the signing of a six year agreement with The Dunlap Company, a specialty retailer, to provide private label credit card programs for its department store brands.
- In November 2006, we announced the signing of a six year agreement with Pamida Stores Operating Co., LLC, one of the nation's top rural general merchandise retailers, to provide an integrated private label credit card program.
- In December 2006, we announced that Budget Rent A Car System, Inc., one of the world's leading car rental brands, signed a multi-year agreement to participate as a sponsor and reward supplier in the Canadian AIR MILES Reward Program.
- In December 2006, we entered into an agreement to acquire Abacus, a division of DoubleClick Inc. Abacus is a leading provider of data, data management and analytical services for the retail and catalog industry.

#### **Discussion of Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting policies that are described in the Notes to the Consolidated Financial Statements. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our judgments and estimates in determination of our financial condition and operating results. Estimates are based on information available as of the date of the financial statements and, accordingly, actual results could differ from these estimates, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and operating results and require management's most subjective judgments. The most critical accounting policies and estimates are described below.

*Securitization of credit card receivables.* We utilize a securitization program to finance substantially all of the credit card receivables that we underwrite. We use our off-balance sheet securitization program to lower our cost of funds and more efficiently use capital. In a securitization transaction, we sell credit card receivables originated by our Credit Services segment to a trust and retain servicing rights to those receivables, an equity interest in the trust, and an interest in the receivables. Our securitization trusts allow us to sell credit card receivables to the trusts on a daily basis. The securitization trusts are deemed to be qualifying special purpose entities under accounting principles generally accepted in the United States, or GAAP, and are appropriately not included in our Consolidated Financial Statements. Our interest in the trusts is represented on our consolidated balance sheets as seller's interest (our interest in the receivables) and due from securitizations (our retained interests and credit enhancement components).

The trusts issue bonds in the capital markets and notes in private transactions. The proceeds from the debt are used to fund the receivables, while cash collected from cardholders is used to finance new receivables and repay borrowings and related borrowing costs. The excess spread is remitted to us as securitization income.

Our retained interest, often referred to as an interest-only strip, is recorded at fair value. The fair value of our interest-only strip represents the present value of the anticipated cash flows we will receive over the estimated life of the receivables, or 7.25 months. This anticipated excess cash flow consists of the excess of finance charges and past-due fees net of the sum of the return paid to bond holders, estimated contractual servicing fees and credit losses. Because there is not a highly liquid market for these assets, we estimated the fair value of the interest-only strip primarily based upon discount, payment and default rates, which is the method we assume that another market participant would use to purchase the interest-only strip. The fair value of the interest-only strip, and the corresponding gain or loss, will be impacted by the estimated excess spread over the next two or three quarters. The excess spread is impacted primarily by finance and late fees collected, net charge-offs and interest rates.

Changes in the fair value of the interest-only strip are reflected in our consolidated financial statements as additional gains related to new receivables originated and securitized or other comprehensive income related to mark-to-market changes.

In recording and accounting for interest-only strips, we make assumptions about rates of payments and defaults that we believe reasonably reflect economic and other relevant conditions that affect fair value. Due to subsequent changes in economic and other relevant conditions, the actual rates of principal payments and defaults generally differ from our initial estimates, and these differences could sometimes be material. If actual payment and default rates are higher than previously assumed, the value of the interest-only strip could be impaired and the decline in the fair value recorded in earnings. Further sensitivity information is provided in Note 6 to the Consolidated Financial Statements.

We recognize the implicit forward contract to sell new receivables during a revolving period at its fair value at the time of sale. The implicit forward contract is entered into at the market rate and thus, its initial measure is zero at inception. In addition, we do not mark the forward contract to fair value in accounting periods following the securitization as management has concluded that the fair value of the implicit forward contract in subsequent periods is not material.

*AIR MILES Reward Program.* Because management has determined that the earnings process is not complete at the time an AIR MILES reward mile is issued, the recognition of revenue on all fees received based on issuance is deferred. We allocate the proceeds from issuances of AIR MILES reward miles into two components based on the relative fair value of the related element:

- *Redemption element.* The redemption element is the larger of the two components. For this component, we recognize revenue at the time an AIR MILES reward mile is redeemed, or, for those AIR MILES reward miles that we estimate will go unredeemed by the collector base, known as “breakage,” over the estimated life of an AIR MILES reward mile.
- *Service element.* For this component, which consists of marketing and administrative services provided to sponsors, we recognize revenue pro rata over the estimated life of an AIR MILES reward mile.

Under certain of our contracts, a portion of the proceeds is paid to us at the issuance of AIR MILES reward miles and a portion is paid at the time of redemption. Under such contracts the proceeds received at issuance are initially deferred as service revenue and the revenue and earnings are recognized pro rata over the estimated life of an AIR MILES reward mile.

The amount of revenue recognized in a period is subject to the estimated life of an AIR MILES reward mile. Based on our historical analysis, we make a determination as to average life of an AIR MILES reward mile. The estimated life of an AIR MILES reward mile of 42 months and breakage of one-third has remained constant for all periods presented. Breakage and the life of an AIR MILES reward mile is based on management’s estimate after viewing and analyzing various historical trends including vintage analysis, current run rates and other pertinent analysis. During 2005 and 2006, we engaged a nationally recognized accounting firm to perform an independent analysis of our breakage assumptions. Their conclusion supports management’s breakage estimate of one-third. The estimated life of an AIR MILES reward mile and breakage is actively monitored by management and subject to external influences that may cause actual performance to differ from estimates.

We believe that the issuance and redemption of AIR MILES reward miles is influenced by the nature and volume of sponsors, the type of rewards offered, the overall health of the Canadian economy, the nature and extent of AIR MILES promotional activity in the marketplace and the extent of competing loyalty programs. These influences will primarily affect the average life of an AIR MILES reward mile. We do not believe that the estimated life will vary significantly over time, consistent with historical trends. The shortening of the life of an AIR MILES reward mile would accelerate the recognition of revenue and may affect the breakage rate. As of December 31, 2006, we had \$651.5 million in deferred revenue related to the AIR MILES Reward Program that will be recognized in the future. Further information is provided in Note 9 to the Consolidated Financial Statements.

*Stock-based compensation.* On January 1, 2006, we adopted the provisions of, and account for stock-based compensation in accordance with, Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). We elected the modified-prospective method, under which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of SFAS No. 123(R), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized ratably over the requisite service period.

We currently use a binomial lattice option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

We estimate the expected term of options granted by calculating the average term from our historical stock option exercise experience. We estimate the volatility of our common stock by using an implied volatility. We base the risk-free interest rate that we use in the option pricing model on a forward curve of risk free interest rates based on constant maturity rates provided by the U.S. Treasury. We have not paid and do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. All share-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

If factors change and we employ different assumptions for estimating stock-based compensation expense, the future periods may differ from what we have recorded in the current period and could affect our operating income, net income and net income per share.

See Note 13 of our Consolidated Financial Statements for further information regarding the SFAS No. 123(R) disclosures.

#### **Inter-Segment Sales**

Our Transaction Services segment performs card processing and servicing activities for cardholder accounts generated by our Credit Services segment. For this, our Transaction Services segment receives a fee equal to its direct costs before corporate overhead plus a margin. The margin is based on current estimated market rates for similar services. This fee represents an operating cost to the Credit Services segment and corresponding revenue for our Transaction Services segment. Inter-segment sales are eliminated upon consolidation. Revenues earned by our Transaction Services segment from servicing our Credit Services segment, and consequently paid by our Credit Services segment to our Transaction Services segment, are set forth opposite "Other/eliminations" in the tables presented in the annual comparisons in our "Results of Operations."

### Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, fair value loss on interest rate derivative, other expenses, depreciation and other amortization and amortization of purchased intangibles. Operating EBITDA is a non-GAAP financial measure equal to adjusted EBITDA plus the change in deferred revenue plus the change in redemption settlement assets. We have presented operating EBITDA because we use the financial measure to monitor compliance with financial covenants in our credit facilities and our senior note agreements. For the year ended December 31, 2006, senior debt-to-operating EBITDA was 1.3x compared to a maximum ratio of 2.75x permitted in our credit facilities and in our senior note agreements. Operating EBITDA to interest expense was 11.9x compared to a minimum ratio of 3.5x permitted in our credit facility and 3.0x permitted in our senior note agreements. As discussed in more detail in the liquidity section of "Management's Discussion and Analysis of Financial Condition and Results of Operations," our credit facility and cash flows from operations are the two main sources of funding for our acquisition strategy and for our future working capital needs and capital expenditures. As of December 31, 2006, we had borrowings of \$225.0 million outstanding under our 2006 credit facility, \$500.0 million of aggregate principal amount outstanding under our senior notes and had \$313.0 million in unused borrowing capacity. We were in compliance with our covenants at December 31, 2006, and we expect to be in compliance with these covenants during the year ending December 31, 2007.

We use adjusted EBITDA as an integral part of our internal reporting to measure the performance of our reportable segments and to evaluate the performance of our senior management. Adjusted EBITDA is considered an important indicator of the operational strength of our businesses. Adjusted EBITDA eliminates the uneven effect across all business segments of considerable amounts of non-cash depreciation of tangible assets and amortization of certain intangible assets that were recognized in business combinations. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Management evaluates the costs of such tangible and intangible assets, the impact of related impairments, as well as asset sales through other financial measures, such as capital expenditures, investment spending and return on capital. Adjusted EBITDA also eliminates the non-cash effect of stock compensation expense. Stock compensation expense is not included in the measurement of segment adjusted EBITDA provided to the chief operating decision maker for purposes of assessing segment performance and decision making with respect to resource allocations. Therefore, we believe that adjusted EBITDA provides useful information to our investors regarding our performance and overall results of operations. Adjusted EBITDA and operating EBITDA are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, adjusted EBITDA and operating EBITDA are not intended to represent funds available for dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The adjusted EBITDA and operating EBITDA measures presented in this Annual Report on Form 10-K may not be comparable to

similarly titled measures presented by other companies, and may not be identical to corresponding measures used in our various agreements.

	Year Ended December 31,				
	2002	2003	2004 (In thousands)	2005	2006
Net income	\$ 23,659	\$ 67,298	\$ 102,371	\$ 138,745	\$ 189,605
Stock compensation expense	2,948	5,889	15,767	14,143	43,053
Provision for income taxes	18,060	41,684	61,948	83,381	116,664
Interest expense, net	19,924	14,681	6,972	14,482	40,998
Fair value loss on interest rate derivative	12,017	2,851	808	—	—
Other expenses <sup>(1)</sup>	834	4,275	—	—	—
Depreciation and other amortization	41,768	53,948	62,586	58,565	65,443
Amortization of purchased intangibles	24,707	20,613	28,812	41,142	59,597
Adjusted EBITDA	143,917	211,239	279,264	350,458	515,360
Change in deferred revenue	34,827	113,877	70,736	63,410	40,973
Change in redemption settlement assets	(15,963)	(48,978)	(28,221)	(17,471)	6
Operating EBITDA	\$ 162,781	\$ 276,138	\$ 321,779	\$ 396,397	\$ 556,339

Note: An increase in deferred revenue has a positive impact to operating EBITDA, while an increase in redemption settlement assets has a negative impact to operating EBITDA. Changes in deferred revenue and redemption settlement assets are affected by fluctuations in foreign exchange rates. Changes in redemption settlement assets is also affected by the timing of receipts and transfers of cash.

(1) For the years ended December 31, 2002 and 2003, other expenses are debt related.

**Results of Operations**

*Year ended December 31, 2005 compared to the year ended December 31, 2006*

	Year Ended December 31,		Growth	
	2005	2006	\$	%
(In thousands, except percentages)				
<b>Revenue:</b>				
Marketing Services	\$ 604,145	\$ 849,158	\$ 245,013	40.6%
Credit Services	561,413	731,338	169,925	30.3
Transaction Services	699,884	776,036	76,152	10.9
Other/Eliminations	(313,005)	(357,790)	(44,785)	14.3
Total	\$ 1,552,437	\$ 1,998,742	\$ 446,305	28.7%
<b>Adjusted EBITDA:</b>				
Marketing Services	\$ 97,903	\$ 159,186	\$ 61,283	62.6%
Credit Services	162,481	248,204	85,723	52.8
Transaction Services	90,074	107,970	17,896	19.9
Total	\$ 350,458	\$ 515,360	\$ 164,902	47.1%
<b>Stock compensation expense:</b>				
Marketing Services	\$ 4,714	\$ 18,162	\$ 13,448	285.3%
Credit Services	4,714	8,451	3,737	79.3
Transaction Services	4,715	16,440	11,725	248.7
Total	\$ 14,143	\$ 43,053	\$ 28,910	204.4%
<b>Depreciation and amortization:</b>				
Marketing Services	\$ 36,477	\$ 58,681	\$ 22,204	60.9%
Credit Services	6,647	13,690	7,043	106.0
Transaction Services	56,583	52,669	(3,914)	(6.9)
Total	\$ 99,707	\$ 125,040	\$ 25,333	25.4%
<b>Operating expenses(1):</b>				
Marketing Services	\$ 506,242	\$ 689,972	\$ 183,730	36.3%
Credit Services	398,932	483,134	84,202	21.1
Transaction Services	609,810	668,066	58,256	9.6
Other/Eliminations	(313,005)	(357,790)	(44,785)	14.3
Total	\$ 1,201,979	\$ 1,483,382	\$ 281,403	23.4%
<b>Operating income:</b>				
Marketing Services	\$ 56,712	\$ 82,343	\$ 25,631	45.2%
Credit Services	151,120	226,063	74,943	49.6
Transaction Services	28,776	38,861	10,085	35.0
Total	\$ 236,608	\$ 347,267	\$ 110,659	46.8%
<b>Adjusted EBITDA margin(2):</b>				
Marketing Services	16.2%	18.7%	2.5%	
Credit Services	28.9	33.9	5.0	
Transaction Services	12.9	13.9	1.0	
Total	22.6%	25.8%	3.2%	
<b>Segment Operating data:</b>				
Statements generated	190,910	211,663	20,753	10.9%
Credit Sales	\$ 6,582,800	\$ 7,444,298	\$ 861,498	13.1%
Average managed receivables	\$ 3,170,485	\$ 3,640,057	\$ 469,572	14.8%
AIR MILES reward miles issued	3,246,553	3,741,834	495,281	15.3%
AIR MILES reward miles redeemed	2,023,218	2,456,932	433,714	21.4%

(1) Operating expenses excludes depreciation, amortization and stock compensation expense.

(2) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Management uses adjusted EBITDA margin to analyze the operating performance of the segments and the impact revenue growth has on operating expenses.

*Revenue.* Total revenue increased \$446.3 million, or 28.7%, to \$1,998.7 million for 2006 from \$1,552.4 million for 2005. The increase was due to a 40.6% increase in Marketing Services revenue, a 30.3% increase in Credit Services revenue, and a 10.9% increase in Transaction Services revenue, as follows:

- *Marketing Services.* Marketing Services revenue increased \$245.0 million, or 40.6%, due primarily to growth in the AIR MILES Reward Program and both organic growth and acquisition growth at Epsilon. AIR MILES Reward Program growth was driven primarily by an increase in redemption revenue of \$77.2 million related to a 21.4% increase in the redemption of AIR MILES reward miles. Issuance revenue increased \$16.7 million primarily due to growth in issuances of AIR MILES reward miles in recent years from the roll out of major national programs and increased AIR MILES Reward Program promotional spending by certain sponsors for major national programs and campaigns. Changes in the exchange rate of the Canadian dollar accounted for approximately \$31.2 million of the AIR MILES Reward Program revenue increase. Database and direct marketing fees revenue increased approximately \$125.6 million primarily related to the acquisition of Epsilon businesses, Epsilon Interactive, ICOM, DoubleClick Email Solutions, and CPC.
- *Credit Services.* Credit Services revenue increased \$169.9 million, or 30.3%, primarily due to a 42.8% increase in securitization income and finance charges, net offset by a decrease in merchant discount fees. Securitization income and finance charges, net increased \$173.5 million primarily as a result of a 14.8% increase in our average managed receivables, an increase in collected yield and lower charge-offs. Cost of funds remained flat. The improvement in charge-off rates is a continuation of the benefit that we have received this year as a result of the bankruptcy reform legislation which was enacted during the fourth quarter of 2005, as well as overall higher credit quality. In addition, we had a shift in the mix of fees charged for certain portfolios which resulted in a decrease in merchant discount fees offset by increases in securitization income.
- *Transaction Services.* Transaction Services revenue increased \$76.2 million, or 10.9%, primarily due to a 10.9% increase in statements generated from our private label and utility services businesses. The private label business increase was the result of a ramp up of clients signed along with solid growth in mature clients. Revenue for utility services was also positively impacted by both an increase in statements generated and additional service offerings to our existing clients.

*Operating Expenses.* Total operating expenses, excluding depreciation, amortization and stock compensation expense, increased \$281.4 million, or 23.4%, to \$1,483.4 million for 2006 from \$1,202.0 million for 2005. Total adjusted EBITDA margin increased to 25.8% for 2006 from 22.6% for 2005. The increase in adjusted EBITDA margin is due to increases in all of our segments. The EBITDA margin across our segments was positively impacted by corporate overhead as general and administrative costs remained flat between years. We were able to leverage our corporate infrastructure as revenues increased.

- *Marketing Services.* Marketing Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased \$183.7 million, or 36.3%, to \$690.0 million for 2006 from \$506.2 million for 2005 and adjusted EBITDA margin increased to 18.7% for 2006 from 16.2% for 2005. The increase in adjusted EBITDA margin was due to margin expansion in our Epsilon and AIR MILES businesses, and margin contribution from relative decreases in allocated corporate overhead.
- *Credit Services.* Credit Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased \$84.2 million, or 21.1%, to \$483.1 million for 2006 from \$398.9 million for 2005, and adjusted EBITDA margin increased to 33.9% for 2006 from 28.9% for 2005. The increased margin is the result of favorable revenue trends including an increase in our average managed receivables, an increase in collected yield and lower charge-offs, and margin contribution from relative decreases in allocated corporate overhead.
- *Transaction Services.* Transaction Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased \$58.3 million, or 9.6%, to \$668.1 million for 2006 from \$609.8 million for 2005, and adjusted EBITDA margin increased to 13.9% for 2006 from 12.9% for 2005. The increase in adjusted EBITDA margin was the result of increases in revenue driven by a

10.9% increase in statements generated and margin contribution from relative decreases in allocated corporate overhead, offset by margin decrease in our utility services business. The utility services margin was impacted by conversion expenses for our clients.

- *Stock compensation expense.* Stock compensation expense increased \$28.9 million, or 204.4%, to \$43.1 million for 2006 from \$14.1 million for 2005. The increase was primarily attributable to our adoption of SFAS No. 123(R) under the modified prospective method. For the year ended December 31, 2005, we would have recorded a total of \$36.6 million of stock compensation expense under SFAS No. 123.
- *Depreciation and Amortization.* Depreciation and amortization increased \$25.3 million, or 25.4%, to \$125.0 million for 2006 from \$99.7 million for 2005. Amortization of purchased intangibles increased \$18.5 million, of which \$13.5 million relates to recent business acquisitions and \$4.1 million relates to the amortization of premiums associated with the Blair portfolio acquisition completed in November 2005. The increase in depreciation and other amortization of \$6.8 million is a result of relatively higher capital expenditures compared to prior years.

*Operating Income.* Operating income increased \$110.7 million, or 46.8%, to \$347.3 million for 2006 from \$236.6 million for 2005. Operating income increased primarily from revenue gains and an increase in adjusted EBITDA margins partially offset by an increase in depreciation and amortization and stock compensation expense.

*Interest Income.* Interest income increased \$2.6 million, or 64.2%, to \$6.6 million for 2006 from \$4.0 million for 2005 due to higher average balances of our short term cash investments, as well as an increase of the yield earned.

*Interest Expense.* Interest expense increased \$29.1 million, or 157.3%, to \$47.6 million for 2006 from \$18.5 million for 2005 due to higher average balances under our credit facilities and certificates of deposit. Interest expense on core debt, which includes the credit facility and senior notes, increased \$20.0 million as a result of additional borrowings to fund our stock repurchase program and the acquisitions of ICOM, DoubleClick Email Solutions and CPC and an increase in interest rates from the comparable period in 2005. Interest on certificates of deposit increased \$7.3 million due to growth in on-balance sheet receivables which was primarily associated with financing of the Blair portfolio acquisition completed in November 2005.

*Provision for Income Taxes.* The provision for income taxes increased \$33.3 million to \$116.7 million in 2006 from \$83.4 million in 2005 primarily due to an increase in taxable income. Our effective tax rate increased to 38.1% in 2006 compared to 37.5% in 2005 primarily as a result of changes in tax legislation in Canada and an increase in certain non-deductible expenses.



Year ended December 31, 2004 compared to the year ended December 31, 2005

	Year Ended December 31,		Growth	
	2004	2005	\$	%
(In thousands, except percentages)				
<b>Revenue:</b>				
Marketing Services	\$ 375,630	\$ 604,145	\$ 228,515	60.8%
Credit Services	513,988	561,413	47,425	9.2
Transaction Services	681,736	699,884	18,148	2.7
Other/Eliminations	(313,916)	(313,005)	911	(0.3)
Total	<u>\$ 1,257,438</u>	<u>\$ 1,552,437</u>	<u>\$ 294,999</u>	<u>23.5%</u>
<b>Adjusted EBITDA:</b>				
Marketing Services	\$ 56,081	\$ 97,903	\$ 41,822	74.6%
Credit Services	125,718	162,481	36,763	29.2
Transaction Services	97,465	90,074	(7,391)	(7.6)
Total	<u>\$ 279,264</u>	<u>\$ 350,458</u>	<u>\$ 71,194</u>	<u>25.5%</u>
<b>Stock compensation expense:</b>				
Marketing Services	\$ 5,256	\$ 4,714	\$ (542)	(10.3)%
Credit Services	5,256	4,714	(542)	(10.3)
Transaction Services	5,255	4,715	(540)	(10.3)
Total	<u>\$ 15,767</u>	<u>\$ 14,143</u>	<u>\$ (1,624)</u>	<u>(10.3)%</u>
<b>Depreciation and amortization:</b>				
Marketing Services	\$ 21,674	\$ 36,477	\$ 14,803	68.3%
Credit Services	7,938	6,647	(1,291)	(16.3)
Transaction Services	61,786	56,583	(5,203)	(8.4)
Total	<u>\$ 91,398</u>	<u>\$ 99,707</u>	<u>\$ 8,309</u>	<u>9.1%</u>
<b>Operating expenses(1):</b>				
Marketing Services	\$ 319,549	\$ 506,242	\$ 186,693	58.4%
Credit Services	388,270	398,932	10,662	2.7
Transaction Services	584,271	609,810	25,539	4.4
Other/Eliminations	(313,916)	(313,005)	911	(0.3)
Total	<u>\$ 978,174</u>	<u>\$ 1,201,979</u>	<u>\$ 223,805</u>	<u>22.9%</u>
<b>Operating income:</b>				
Marketing Services	\$ 29,151	\$ 56,712	\$ 27,561	94.5%
Credit Services	112,524	151,120	38,596	34.3
Transaction Services	30,424	28,776	(1,648)	(5.4)
Total	<u>\$ 172,099</u>	<u>\$ 236,608</u>	<u>\$ 64,509</u>	<u>37.5%</u>
<b>Adjusted EBITDA margin(2):</b>				
Marketing Services	14.9%	16.2%	1.3%	
Credit Services	24.5	28.9	4.4	
Transaction Services	14.3	12.9	(1.4)	
Total	<u>22.2%</u>	<u>22.6%</u>	<u>0.4%</u>	
<b>Segment Operating data:</b>				
Statements generated	190,976	190,910	(66)	—
Credit Sales	\$ 6,227,421	\$ 6,582,800	\$ 355,379	5.7%
Average managed receivables	\$ 3,021,800	\$ 3,170,485	\$ 148,685	4.9%
AIR MILES reward miles issued	2,834,125	3,246,553	412,428	14.6%
AIR MILES reward miles redeemed	1,782,185	2,023,218	241,033	13.5%

(1) Operating expenses excludes depreciation, amortization and stock compensation expense.

(2) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Management uses adjusted EBITDA margin to analyze the operating performance of the segments and the impact revenue growth has on operating expenses.

*Revenue.* Total revenue increased \$295.0 million, or 23.5%, to \$1,552.4 million for 2005 from \$1,257.4 million for 2004. The increase was due to a 60.8% increase in Marketing Services revenue, a 9.2% increase in Credit Services revenue and a 2.7% increase in Transaction Services revenue as follows:

- *Marketing Services.* Marketing Services revenue increased \$228.5 million, or 60.8%, primarily due to an increase in database marketing fees attributable to the acquisition of Epsilon in the fourth quarter of 2004 and the subsequent acquisition of Epsilon Interactive in the fourth quarter of 2005, an increase in redemption revenue related to a 13.5% increase in the redemption of AIR MILES reward miles and an increase in the amortization of deferred services revenue. Changes in the exchange rate of the Canadian dollar accounted for approximately \$21.8 million of the \$228.5 million increase in our Marketing Services revenue, or 9.5% of the change.
- *Credit Services.* Credit Services revenue increased \$47.4 million, or 9.2%, primarily due to a 14.3% increase in securitization income, offset in part by decreases in merchant discount and servicing fees. Securitization income increased \$53.9 million primarily as a result of an increase in the net yield from the securitization trusts in addition to a 4.9% increase in our average managed receivables. The net yield increased principally as a result of an approximate 100 basis point increase in the excess spread in addition to a 20 basis point decrease in cost of funds. Excess spread, which represents interest and late fees collected from cardholders, other trust-related fees, fair value changes related to the interest-only strips and charge-offs, increased due to lower charge-offs and higher collected fees from cardholders. The decrease in merchant discount is primarily the result of a change in mix of fees received from merchants compared to fees received from cardholders.
- *Transaction Services.* Transaction Services revenue increased \$18.1 million, or 2.7%, primarily due to new customers in utility services such as Cobb Energy. In addition, merchant services and private label had small increases in revenue. The slight decrease in the number of statements generated is primarily attributable to one private label client that experienced a significant reduction in private label credit sales, which resulted in a corresponding reduction in statements generated for private label clients and the loss of a client that ceased operations in the fourth quarter of 2004 due to bankruptcy.

*Operating Expenses.* Total operating expenses, excluding depreciation, amortization and stock compensation expense increased \$223.8 million, or 22.9%, to \$1,202.0 million for 2005 from \$978.2 million for 2004. Total adjusted EBITDA margin increased to 22.6% for 2005 from 22.2% for 2004. The increase in adjusted EBITDA margin is due to increases in Marketing Services and Credit Services margins, partially offset by a decrease in Transaction Services.

- *Marketing Services.* Marketing Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased \$186.6 million, or 58.4%, to \$506.2 million for 2005 from \$319.6 million for 2004. The increase in operating expenses is primarily attributable to the acquisition of Epsilon in the fourth quarter of 2004 and the subsequent acquisition of Epsilon Interactive in the fourth quarter of 2005. Adjusted EBITDA margin increased to 16.2% for 2005 from 14.9% for 2004. The increase in adjusted EBITDA margin is the result of increased higher-margin revenue from both the AIR MILES Reward Program and database marketing fees from Epsilon and Epsilon Interactive, partially offset by additional corporate overhead expense.
- *Credit Services.* Credit Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased \$10.6 million, or 2.7%, to \$398.9 million for 2005 from \$388.3 million for 2004, and adjusted EBITDA margin increased to 28.9% for 2005 from 24.5% for 2004. The increased adjusted EBITDA margin is the result of favorable revenue trends from increases in both our average managed receivables and net yield.
- *Transaction Services.* Transaction Services operating expenses, excluding depreciation, amortization and stock compensation expense, increased \$25.5 million, or 4.4%, to \$609.8 million for 2005 from \$584.3 million for 2004, and adjusted EBITDA margin decreased to 12.9% for 2005 from 14.3% for 2004. Operating expenses in the first half of 2005 included streamlining efforts in utility services. The

decrease in adjusted EBITDA margin was primarily the result of higher expenses associated with corporate overhead, private label credit card clients and lower than expected volume growth.

- *Stock compensation expense.* Stock compensation expense decreased \$1.6 million, or 10.3%, to \$14.1 million for 2005 from \$15.8 million for 2004. The decrease is primarily related to a decline in the fair value of the restricted stock awards issued in 2005.
- *Depreciation and Amortization.* Depreciation and amortization increased \$8.3 million, or 9.1%, to \$99.7 million for 2005 from \$91.4 million for 2004. The increase is primarily due to an increase of \$12.3 million in amortization of purchased intangibles related to recent acquisitions and new depreciation on 2005 capital expenditures, offset by a decrease of \$4.0 million as a result of certain assets completing their depreciable lives in late 2004 and early 2005.

*Operating Income.* Operating income increased \$64.5 million, or 37.5%, to \$236.6 million for 2005 from \$172.1 million for 2004. Operating income increased primarily from revenue gains and an increase in adjusted EBITDA margins partially offset by an increase in depreciation and amortization expense.

*Interest Income.* Interest income increased \$1.4 million, or 57.3%, to \$4.0 million for 2005 from \$2.6 million for 2004 due to higher average balances of our investments, as well as an increase of the yield earned on the investments.

*Interest Expense.* Interest expense increased \$9.0 million, or 94.2%, to \$18.5 million for 2005 from \$9.5 million for 2004 due to higher average balances under our credit facilities and certificates of deposit.

*Provision for Income Taxes.* The provision for income taxes increased \$21.5 million to \$83.4 million in 2005 from \$61.9 million in 2004 primarily due to an increase in taxable income. The effective rate remained relatively flat, decreasing to 37.5% in 2005 from 37.7% in 2004.

#### **Asset Quality**

Our delinquency and net charge-off rates reflect, among other factors, the credit risk of our private label credit card receivables, the average age of our various private label credit card account portfolios, the success of our collection and recovery efforts, and general economic conditions. The average age of our private label credit card portfolio affects the stability of delinquency and loss rates of the portfolio. We continue to focus resources on refining our credit underwriting standards for new accounts and on collections and post charge-off recovery efforts to minimize net losses.

An older private label credit card portfolio generally drives a more stable performance in the portfolio. At December 31, 2006, 58.3% of securitized accounts with balances and 61.4% of securitized receivables were for accounts with origination dates greater than 24 months old. As of December 31, 2006, our allowance for doubtful accounts related to on-balance sheet private label credit card receivables was \$45.9 million compared to \$38.4 million as of December 31, 2005.

*Delinquencies.* A credit card account is contractually delinquent if we do not receive the minimum payment by the specified due date on the cardholder's statement. It is our policy to continue to accrue interest and fee income on all credit card accounts, except in limited circumstances, until the account balance and all related interest and other fees are charged off or paid, beyond 90 days delinquent. When an account becomes delinquent, we print a message on the cardholder's billing statement requesting payment. After an account becomes 30 days past due, a proprietary collection scoring algorithm automatically scores the risk of the account rolling to a more delinquent status. The collection system then recommends a collection strategy for the past due account based on the collection score and account balance and dictates the contact schedule and collections priority for the account. Our proprietary system will zero out a customer's credit limit when charging privileges are removed from the account. If we are unable to make a collection after exhausting all in-house efforts, we engage collection agencies and outside attorneys to continue those efforts.

The following table presents the delinquency trends of our managed credit card portfolio:

	December 31, 2005	% of Total (In thousands, except percentages)	December 31, 2006	% of Total
Receivables outstanding	\$ 3,714,548	100%	\$ 4,171,262	100%
Receivables balances contractually delinquent:				
31 to 60 days	59,018	1.6%	62,221	1.5%
61 to 90 days	35,342	1.0	40,929	1.0
91 or more days	69,343	1.9	88,078	2.1
Total	<u>\$ 163,703</u>	<u>4.4%</u>	<u>\$ 191,228</u>	<u>4.6%</u>

*Net Charge-Offs.* Net charge-offs comprise the principal amount of losses from cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased cardholders, less current period recoveries. The following table presents our net charge-offs for the periods indicated on a managed basis. Average managed receivables represents the average balance of the cardholder receivables, excluding those for which we do not bear the risk of loss, at the beginning of each month in the year indicated.

	Year Ended December 31,		
	2004	2005	2006
	(In thousands, except percentages)		
Average managed receivables	\$ 3,021,800	\$ 3,170,485	\$ 3,640,057
Net charge-offs	205,454	207,397	180,449
Net charge-offs as a percentage of average managed receivables	6.8%	6.5%	5.0%

We believe, consistent with our statistical models and other credit analyses, that our net charge-off ratio will continue to fluctuate.

*Age of Portfolio.* The median age of the portfolio is approximately 36 months. The following table sets forth, as of December 31, 2006, the number of securitized accounts with balances and the related balances outstanding, based upon the age of the securitized accounts:

Age Since Origination	Number of Accounts	Percentage of Accounts (In thousands, except percentages)	Balances Outstanding	
				Percentage of Balances Outstanding
0-12 Months	3,317	27.4%	\$ 962,541	25.1%
13-24 Months	1,727	14.3	518,201	13.5
25-36 Months	1,324	10.9	409,487	10.7
37-48 Months	1,128	9.3	356,178	9.3
49-60 Months	900	7.4	295,222	7.7
Over 60 Months	3,717	30.7	1,290,770	33.7
Total	<u>12,113</u>	<u>100.0%</u>	<u>\$ 3,832,399</u>	<u>100.0%</u>

#### Liquidity and Capital Resources

*Operating Activities.* We have historically generated cash flows from operations, although that amount may vary based on fluctuations in working capital and the timing of merchant settlement activity. Our operating cash flow is seasonal, with cash utilization peaking at the end of December due to increased activity in our Credit Services segment related to holiday retail sales.

	Year Ended December 31,		
	2004	2005	2006
	(In thousands)		
Cash provided by operating activities before changes in credit card portfolio activity and merchant settlement activity	\$ 259,572	\$ 293,863	\$ 376,847
Net change in credit card portfolio activity	71,121	(186,419)	80,890
Net change in merchant settlement activity	17,936	1,637	11,043
Cash provided by operating activities	<u>\$ 348,629</u>	<u>\$ 109,081</u>	<u>\$ 468,780</u>

Net change in credit card portfolio activity represents the difference in portfolios purchased from new clients and their subsequent sale to our securitization trusts. There is typically a several month lag between the purchase and sale of credit card portfolios. Merchant settlement activity is driven by the number of days of float at the end of the period. For these purposes, "float" means the difference between the number of days we hold cash before remitting the cash to our merchants and the number of days the card associations hold cash before remitting the cash to us. Merchant settlement activity fluctuates significantly depending on the day in which the period ends.

We generated cash flow from operating activities before changes in credit card portfolio activity and merchant settlement activity of \$376.8 million for the year ended December 31, 2006 compared to \$293.9 million for the comparable period in 2005 or a 28.2% increase. The increase in operating cash flows before changes in credit card portfolio activity and merchant settlement activity is primarily related to our increased earnings. We utilize our cash flow from operations for ongoing business operations, acquisitions and capital expenditures.

*Investing Activities.* We utilized cash flow from investing activities of \$543.0 million for the year ended December 31, 2006 compared to \$331.0 million for the comparable period in 2005. Significant components of investing activities are as follows:

- *Acquisitions.* During the year ended December 31, 2006, cash used in investing activities included payments for acquired businesses totaling \$205.6 million compared to \$140.9 million in 2005, net of cash acquired. In 2006 we acquired four businesses, which included DoubleClick Email Solutions, ICOM, Big Designs, and CPC Associates, all of which complemented and expanded our Marketing Services business. In 2005 we acquired Atrana and Epsilon Interactive.
- *Securitizations and Receivables Funding.* We generally fund all private label credit card receivables through a securitization program that provides us with both liquidity and lower borrowing costs. As of December 31, 2006, we had over \$3.8 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread accounts and additional receivables. The credit enhancement is funded through the use of certificates of deposit issued through our subsidiary, World Financial Network National Bank. Net securitization and credit card receivable activity utilized \$236.5 million for the year ended December 31, 2006 compared to \$107.8 million in 2005. We intend to utilize our securitization program for the foreseeable future.
- *Capital Expenditures.* Our capital expenditures for the year ended December 31, 2006 were \$100.4 million compared to \$65.9 million for the prior year. Capital expenditures for 2006 increased in support of systems development work for new client implementations and contracts added during the year along with information technology infrastructure enhancements. We anticipate that capital expenditures will continue to remain at approximately 5% of annual revenues for the foreseeable future.

*Financing Activities.* Our cash flows provided by financing activities were \$112.3 million in 2006 compared to \$278.6 million provided by financing activities in 2005. Our financing activities for 2006 relate to borrowings and repayments of debt in the normal course of business and related business acquisitions, an increase in the repayment of certificates of deposit as we utilized proceeds from our credit card portfolio activity to reduce the balance of our certificates of deposit and \$146.0 million for the repurchase of our common stock on the open market, and proceeds from the exercise of stock options.

*Liquidity Sources.* In addition to cash generated by operating activities, we have four main sources of liquidity: our securitization program; certificates of deposit issued by World Financial Network National Bank; our credit facilities and senior notes; and issuances of equity securities. We believe that internally generated funds and existing sources of liquidity are sufficient to meet current and anticipated financing requirements during the next 12 months.

*Securitization Program and Off-Balance Sheet Transactions.* Since January 1996, we have sold, sometimes through WFN Credit Company, LLC and WFN Funding Company II, LLC, substantially all of the credit card receivables owned by our credit card bank, World Financial Network National Bank, to the WFN Trusts as part of our securitization program. This securitization program is the primary vehicle through which we finance our private label credit card receivables. The following table shows expected maturities for borrowing commitments of the WFN Trusts under our securitization program by year:

	2007	2008	2009	2010	2011 & Thereafter	Total
	(In thousands)					
Public notes	\$ 600,000	\$ 600,000	\$ 500,000	\$ —	\$ 950,000	\$ 2,650,000
Private conduits <sup>(1)</sup>	1,085,714	—	—	—	—	1,085,714
<b>Total</b>	<b>\$ 1,685,714</b>	<b>\$ 600,000</b>	<b>\$ 500,000</b>	<b>\$ —</b>	<b>\$ 950,000</b>	<b>\$ 3,735,714</b>

(1) Represents borrowing capacity, not outstanding borrowings.

As of December 31, 2006, the WFN Trusts had over \$3.8 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits and additional receivables. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and by the performance of the private label credit cards in the securitization trust. During the period from November to January, the WFN Trusts are required to maintain a credit enhancement level of between 6% and 10% of securitized credit card receivables. Certain of the WFN Trusts are required to maintain a level of between 4% and 9% for the remainder of the year. Accordingly, at December 31, 2006 the WFN Trusts typically have their highest balance of credit enhancement assets as a result of the increased balances during the holiday season. We intend to utilize our securitization program for the foreseeable future.

If World Financial Network National Bank were not able to regularly securitize the receivables it originates, our ability to grow or even maintain our credit services business would be materially impaired as we would be severely limited in our financing ability. World Financial Network National Bank's ability to effect securitization transactions is impacted by the following factors, some of which are beyond our control:

- conditions in the securities markets in general and the asset-backed securitization market in particular;
- conformity in the quality of credit card receivables to rating agency requirements and changes in those requirements; and
- our ability to fund required overcollateralizations or credit enhancements, which we routinely utilize in order to achieve better credit ratings to lower our borrowing costs.

We believe that the conditions to securitize private label credit card receivables are favorable for us. We plan to continue using our securitization program as our primary financing vehicle.

Once World Financial Network National Bank securitizes receivables, the agreement governing the transaction contains covenants that address the receivables' performance and the continued solvency of the retailer where the underlying sales were generated. In the event one of those or other similar covenants is breached, an early amortization event could be declared, in which case the trustee for the securitization trust would retain World Financial Network National Bank's interest in the related receivables, along with the excess interest income that would normally be paid to World Financial Network National Bank, until such time as the securitization investors are fully repaid. The occurrence of an early amortization event would significantly limit, or even negate, our ability to securitize additional receivables.

*Certificates of Deposit.* We utilize certificates of deposit to finance the operating activities and fund the securitization enhancement requirements of our credit card bank subsidiaries, World Financial Network National Bank and World Financial Capital Bank. World Financial Network National Bank and World Financial Capital Bank issue certificates of deposit in denominations of \$100,000 in various maturities ranging between three months and two years and with effective annual fixed rates ranging from 4.3% to 6.0%. As of December 31, 2006, we had \$299.0 million of certificates of deposit outstanding. Certificate of deposit borrowings are subject to regulatory capital requirements.

*Credit Facilities.* At the beginning of 2006, we maintained three credit agreements with aggregate revolving lending commitments of \$515.0 million with the capability to increase such commitments up to \$550.0 million as follows:

- *3-year credit agreement* — revolving lending commitments of \$250.0 million and a maturity date of April 3, 2008;
- *364-day credit agreement* — revolving lending commitments of \$230.0 million and a maturity date of April 6, 2006; and
- *Canadian credit agreement* — revolving lending commitments of \$35.0 million and a maturity date of April 3, 2008.

During January 2006, we entered into an additional credit facility to increase our borrowing capacity by \$300.0 million. This credit facility included usual and customary negative covenants for credit facilities of this type. On January 5, 2006, we borrowed \$300.0 million under this credit facility, which we used for general corporate purposes, including other debt repayment, repurchases of our common stock in connection with our stock repurchase program, mergers and acquisitions, and capital expenditures. We paid in full the \$300.0 million credit facility on May 16, 2006 with a portion of the proceeds from the senior notes and permitted such credit facility to terminate pursuant to its terms on its scheduled maturity date, June 30, 2006.

On April 6, 2006, we amended our 364-day credit agreement to extend the maturity date from April 6, 2006 to April 5, 2007.

Advances under these four credit facilities were in the form of either base rate loans or eurodollar loans. The interest rate on base rate loans fluctuated based upon the higher of (1) the interest rate announced by the administrative agent as its “prime rate” and (2) the Federal funds rate plus 0.5%, in each case with no additional margin. The interest rate on eurodollar loans fluctuated based upon the rate at which eurodollar deposits in the London interbank market are quoted plus a margin of 0.5% to 1.0% based upon the ratio of total debt under these credit facilities to consolidated Operating EBITDA, as each term is defined in the credit facilities. The credit facilities were secured by guarantees, pledges of ownership interests of certain of our subsidiaries and pledges of certain intercompany promissory notes.

On September 29, 2006, we entered into a credit agreement to provide for a \$540.0 million revolving credit facility with a U.S. \$50.0 million sublimit for Canadian dollar borrowings and a \$50.0 million sublimit for swing line loans (the “2006 credit facility”). Additionally, the 2006 credit facility includes an uncommitted accordion feature of up to \$210.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions. The lending commitments under the 2006 credit facility are scheduled to terminate September 29, 2011. The 2006 credit facility is unsecured. Each of ADS Alliance Data Systems, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC and Epsilon Data Management, LLC are guarantors under the 2006 facility.

We borrowed approximately \$79.0 million under the 2006 credit facility at closing for general corporate purposes and to pay off and terminate the 3-year credit agreement, the 364-day credit agreement and the Canadian credit agreement.

Advances under the 2006 credit facility are in the form of either base rate loans or eurodollar loans and may be denominated in U.S. dollars or Canadian dollars. The interest rate for base rate loans denominated in U.S. dollars fluctuates and is equal to the higher of (1) the Bank of Montreal’s prime rate and (2) the Federal funds rate plus 0.5%, in either case with no additional margin. The interest rate for base rate loans

denominated in Canadian dollars fluctuates and is equal to the higher of (1) the Bank of Montreal's prime rate for Canadian dollar loans and (2) the CDOR rate plus 1%, in either case with no additional margin. The interest rate for eurodollar loans denominated in U.S. or Canadian dollars fluctuates based on the rate at which deposits of U.S. dollars or Canadian dollars, respectively, in the London interbank market are quoted plus a margin of 0.5% to 1.0% based upon the our Senior Leverage Ratio as defined in the 2006 credit facility.

Among other fees, we pay a facility fee of 0.1% to 0.2% per annum (due quarterly) on the aggregate commitments under the 2006 credit facility, whether used or unused, based upon the our Senior Leverage Ratio as defined in the 2006 credit facility. We will also pay fees with respect to any letters of credit issued under the 2006 credit facility.

The 2006 credit facility includes usual and customary negative covenants for credit agreements of this type, including, but not limited to, restrictions on our ability, and in certain instances, our subsidiaries' ability, to consolidate or merge; substantially change the nature of our business; sell, transfer or dispose of assets; create or incur indebtedness; create liens; pay dividends and repurchase stock; and make investments. The negative covenants are subject to certain exceptions, as specified in the 2006 credit facility. The 2006 credit facility also requires us to satisfy certain financial covenants, including maximum ratios of Total Capitalization and Senior Leverage as determined in accordance with the 2006 credit facility and a minimum ratio of Consolidated Operating EBITDA to Consolidated Interest Expense as determined in accordance with the 2006 credit facility.

The 2006 credit facility also includes customary events of default, including, among other things, payment default, covenant default, breach of representation or warranty, bankruptcy, cross-default, material ERISA events, change of control, material money judgments and failure to maintain subsidiary guarantees.

We utilize our 2006 credit facility, senior notes and excess cash flows from operations to support our acquisition strategy and to fund working capital, our stock repurchase program and capital expenditures. We were in compliance with our covenants under our 2006 credit facility and senior notes at December 31, 2006.

On January 24, 2007, we entered into a credit facility which provides for loans in a maximum amount of \$400.0 million, or the bridge loan. At the closing of the bridge loan, we borrowed \$300.0 million for general corporate purposes including the repayment of debt and the financing of permitted acquisitions. The bridge loan includes an uncommitted accordion feature of up to \$100.0 million allowing for future borrowings, subject to certain conditions. The bridge loan is scheduled to mature July 24, 2007. The bridge loan is unsecured. Each of ADS Alliance Data Systems, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC and Epsilon Data Management, LLC are guarantors under the bridge loan.

Advances under the bridge loan are in the form of either base rate loans or eurodollar loans. The interest rate for base rate loans fluctuates and is equal to the higher of (1) the Bank of Montreal's prime rate and (2) the Federal funds rate plus 0.5%, in either case with no additional margin. The interest rate for eurodollar loans fluctuates based on the London interbank offered rate plus a margin of 0.6% to 1.2% based upon our Senior Leverage Ratio as defined in the bridge loan. On January 24, 2007, we paid an arrangement fee of \$250,000 for the bridge loan.

The bridge loan contains usual and customary negative covenants for transactions of this type, including, but not limited to, restrictions on our ability, and in certain instances, our subsidiaries' ability, to consolidate or merge; substantially change the nature of our business; sell, transfer or dispose of assets; create or incur indebtedness; create liens; pay dividends and repurchase stock; and make investments. The negative covenants are subject to certain exceptions, as specified in the bridge loan. The bridge loan also requires us to satisfy certain financial covenants, including maximum ratios of Total Capitalization and Senior Leverage as determined in accordance with the bridge loan and a minimum ratio of Consolidated Operating EBITDA to Consolidated Interest Expense as determined in accordance with the bridge loan.

The bridge loan must be prepaid prior to the scheduled maturity date if we or any of our subsidiaries issues any debt or equity securities, subject to certain exceptions.



The bridge loan also includes customary events of default, including, among other things, payment default, covenant default, breach of representation or warranty, bankruptcy, cross-default, material ERISA events, a change of control, material money judgments and failure to maintain subsidiary guarantees.

*Senior Notes.* On May 16, 2006, we entered into a senior note purchase agreement and issued and sold \$250.0 million aggregate principal amount of 6.00% Series A Notes due May 16, 2009 and \$250.0 million aggregate principal amount of 6.14% Series B Notes due May 16, 2011. The proceeds were used to retire the \$300.0 million credit agreement, to repay other debt and for general corporate purposes.

The Series A and Series B Notes accrue interest on the outstanding balance thereof at the rate of 6.00% and 6.14% per annum, respectively payable semiannually, on May 16 and November 16 of each year, commencing with November 16, 2006, until the principal has become due and payable. The note purchase agreement includes usual and customary negative covenants and events of default for transactions of this type. The senior notes are unsecured. The payment obligations under the senior notes are guaranteed by certain of our existing and future subsidiaries. Each of ADS Alliance Data Systems, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC and Epsilon Data Management, LLC are guarantors under the senior notes.

At December 31, 2006, we had borrowings of \$225.0 million outstanding under our 2006 credit facility (with a weighted average interest rate of 6.4%), \$500.0 million aggregate principal amount outstanding under our senior notes, \$2.0 million of standby letters of credit outstanding, and we had available unused borrowing capacity of approximately \$313.0 million. The 2006 credit facility limits our aggregate outstanding letters of credit to \$50.0 million.

*Repurchase of Equity Securities.* During 2005, we repurchased approximately 3.9 million shares of our common stock for an aggregate amount of \$148.8 million and during 2006, we repurchased approximately 2.9 million shares of our common stock for an aggregate amount of \$146.0 million. We have authorization from our Board of Directors to purchase an additional \$605.2 million of our common stock through 2008 and expect to finance the repurchase program with borrowings under our 2006 credit facility. Debt covenants in the 2006 credit facility restrict the amount of funds that we have available for repurchases of our common stock in any calendar year. The limitation for each calendar year was \$200.0 million beginning with 2006, increasing to \$250.0 million in 2007 and \$300.0 million in 2008, conditioned on certain increases in our Consolidated Operating EBITDA as defined in the credit facilities.

*Contractual Obligations.* The following table highlights, as of December 31, 2006, our contractual obligations and commitments to make future payments by type and period:

	2007	2008 & 2009	2010 & 2011 (In thousands)	2012 & Thereafter	Total(1)
Certificates of deposit(2)	\$ 299,417	\$ 4,320	\$ —	\$ —	\$ 303,737
Credit facilities(2)	14,564	29,128	250,402	—	294,094
Senior Notes(2)	30,350	301,325	271,106	—	602,781
Operating leases	42,536	60,333	33,793	63,527	200,189
Capital leases	9,149	10,820	2,683	—	22,652
Software licenses	10,393	389	—	—	10,782
Purchase obligations(3)	93,856	56,055	12,779	—	162,690
	<u>\$ 500,265</u>	<u>\$ 462,370</u>	<u>\$ 570,763</u>	<u>\$ 63,527</u>	<u>\$ 1,596,925</u>

(1) The table does not include an estimate for income taxes that we are required to pay, but are not required to include above.

(2) The certificates of deposit and credit facilities represent our estimated debt service obligations, including both principle and interest. Interest was based on the interest rates in effect as of December 31, 2006, applied to the contractual repayment period.

- (3) Purchase obligations include purchase commitments under our AIR MILES Reward Program, minimum payments under support and maintenance contracts and agreements to purchase other goods and services.

We believe that we will have access to sufficient resources to meet these commitments.

#### **Economic Fluctuations**

Although we cannot precisely determine the impact of inflation on our operations, we do not believe that we have been significantly affected by inflation. For the most part, we have relied on operating efficiencies from scale and technology, as well as decreases in technology and communication costs, to offset increased costs of employee compensation and other operating expenses.

*Portions of our business are seasonal.* Our revenues and earnings are favorably affected by increased consumer spending patterns leading up to and including holiday shopping period in the fourth quarter and, to a lesser extent, during the first quarter as credit card balances are paid down.

#### **Regulatory Matters**

World Financial Network National Bank is subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency, or OCC. World Financial Capital Bank is subject to regulatory capital requirements administered by both the Federal Deposit Insurance Corporation, or FDIC, and the State of Utah. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material adverse effect on our financial statements. Under the FDIC's order approving World Financial Capital Bank's application for deposit insurance, World Financial Capital Bank must meet specific capital ratios and paid-in capital minimums and must maintain adequate allowances for loan losses. If World Financial Capital Bank fails to meet the terms of the FDIC's order, the FDIC may withdraw insurance coverage from World Financial Capital Bank, and the State of Utah may withdraw its approval of World Financial Capital Bank. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, World Financial Network National Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. World Financial Network National Bank is limited in the amounts that it can dividend to us.

Quantitative measures established by regulations to ensure capital adequacy require World Financial Network National Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets and of Tier 1 capital to average assets. Under the regulations, a "well capitalized" institution must have a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, but 3% is allowed in some cases. Under these guidelines, World Financial Network National Bank is considered well capitalized. As of December 31, 2006, World Financial Network National Bank's Tier 1 capital ratio was 37.3%, total capital ratio was 39.1% and leverage ratio was 59.1%, and World Financial Network National Bank was not subject to a capital directive order. On April 22, 2005, World Financial Capital Bank received non-disapproval notification for a modification of the original three-year business plan. The letter of non-disapproval was issued jointly by the State of Utah and the FDIC. World Financial Capital Bank, under the terms of the letter, must maintain Total Risk-Based Capital equal to or exceeding 10% of total risk-based assets and must maintain Tier 1 capital to total assets ratio of not less than 16%. Both capital ratios were maintained at or above the indicated levels until the end of the bank's de novo period on November 30, 2006.

As part of an acquisition in 2003 by World Financial Network National Bank, which required approval by the OCC, the OCC required World Financial Network National Bank to enter into an operating agreement with the OCC and a capital adequacy and liquidity maintenance agreement with us. The operating agreement requires World Financial Network National Bank to continue to operate in a manner consistent with its current practices, regulatory guidelines and applicable law, including those related to affiliate transactions, maintenance of capital and corporate governance. This operating agreement has not required any changes in World

Financial Network National Bank's operations. The capital adequacy and liquidity maintenance agreement memorializes our current obligations to World Financial Network National Bank.

#### **Recent Accounting Pronouncements**

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS No. 155"), which amends Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") and SFAS No. 140. SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Earlier adoption is permitted, provided we have not yet issued financial statements, including for interim periods, for that fiscal year. We do not expect the adoption of SFAS No. 155 to have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets" ("SFAS No. 156"). SFAS No. 156 amends SFAS No. 140 with respect to the accounting for separately-recognized servicing assets and liabilities. SFAS No. 156 addresses the recognition and measurement of separately-recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. The standard is effective for fiscal years beginning after September 15, 2006. Earlier adoption is permitted, provided we have not yet issued financial statements, including for interim periods, for that fiscal year. We do not expect the adoption of SFAS No. 156 to have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". FIN No. 48 prescribes a financial statement recognition threshold and measurement attribute of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006. We will adopt FIN 48 on January 1, 2007, as required. The cumulative effect of adopting FIN 48 will be a reduction to retained earnings of approximately \$6.0 million to \$10.0 million.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 establishes a new definition of fair value as well as a fair value hierarchy that prioritizes the information used to develop the assumptions, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. The standard is effective for fiscal years beginning after November 15, 2007. We are currently in the process of evaluating the effect that the adoption of SFAS No. 157 will have on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post-retirement plans" ("SFAS No. 158"). Among other items, SFAS No. 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. The standard is effective for the Company as of December 31, 2006. The adoption of SFAS No. 158 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 addresses quantifying the financial statement effects of misstatements, specifically, how the

effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. SAB No. 108 does not amend or change the SEC Staff's previous positions in Staff Accounting Bulletin No. 99, "Materiality," regarding qualitative considerations in assessing the materiality of misstatements. SAB No. 108 is effective for fiscal years beginning after November 15, 2006. We do not expect the adoption of SAB No. 108 to have a material impact on our consolidated financial position, results of operations or cash flows.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

##### Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our primary market risks include off-balance sheet risk, interest rate risk, credit risk, foreign currency exchange rate risk and redemption reward risk.

**Off-Balance Sheet Risk.** We are subject to off-balance sheet risk in the normal course of business, including commitments to extend credit and through our securitization program. We sell substantially all of our credit card receivables to the WFN Trusts, qualifying special purpose entities. The trusts enter into interest rate swaps to reduce the interest rate sensitivity of the securitization transactions. The securitization program involves elements of credit, market, interest rate, legal and operational risks in excess of the amount recognized on the balance sheet through our retained interests in the securitization and the interest-only strips.

**Interest Rate Risk.** Interest rate risk affects us directly in our lending and borrowing activities. Our total interest incurred was approximately \$202.8 million for 2006, which includes both on-and off-balance sheet transactions. Of this total, \$47.6 million of the interest expense for 2006 was attributable to on-balance sheet indebtedness and the remainder to our securitized credit card receivables, which are financed off-balance sheet. To manage our risk from market interest rates, we actively monitor the interest rates and the interest sensitive components both on- and off-balance sheet to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. To achieve this objective, we manage our exposure to fluctuations in market interest rates by matching asset and liability repricings and through the use of fixed-rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. In addition, we enter into derivative financial instruments such as interest rate swaps and treasury locks to mitigate our interest rate risk on a related financial instrument or to lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes. At December 31, 2006, we had \$4.6 billion of debt, including \$3.6 billion of off-balance sheet debt from our securitization program.

	As of December 31, 2006		
	Fixed rate	Variable rate (In millions)	Total
Off-balance sheet	\$ 2,650.0	\$ 929.2	\$ 3,579.2
On-balance sheet	694.3	350.1	1,044.4
	<u>\$ 3,344.3</u>	<u>\$ 1,279.3</u>	<u>\$ 4,623.6</u>

- At December 31, 2006, our fixed rate off-balance sheet debt was locked at a current effective interest rate of 4.7% through interest rate swap agreements. Additionally, our variable rate off-balance sheet debt has variable rate credit cards that are at least equal to that amount.
- At December 31, 2006, our fixed rate on-balance sheet debt was subject to fixed rates with a weighted average interest rate of 5.7%.

The approach we use to quantify interest rate risk is a sensitivity analysis which we believe best reflects the risk inherent in our business. This approach calculates the impact on pretax income from an instantaneous and sustained increase in interest rates of 1.0%. In 2006, a 1.0% increase in interest rates would have resulted in an annual decrease to pretax income of approximately \$8.5 million. Conversely, a corresponding decrease in interest rates would result in a comparable increase to pretax income. Our use of this methodology to quantify the market risk of financial instruments should not be construed as an endorsement of its accuracy or the accuracy of the related assumptions.

**Credit Risk.** We are exposed to credit risk relating to the credit card loans we make to our clients' customers. Our credit risk relates to the risk that consumers using the private label credit cards that we issue will not repay their revolving credit card loan balances. We have developed credit risk models designed to identify qualified consumers who fit our risk parameters. To minimize our risk of loan write-offs, we control approval rates of new accounts and related credit limits and follow strict collection practices. We monitor the buying limits, as well as set pricing regarding fees and interest rates charged.

**Foreign Currency Exchange Rate Risk.** We are exposed to fluctuations in the exchange rate between the U.S. and the Canadian dollar through our significant Canadian operations. We do not hedge any of our net investment exposure in our Canadian subsidiary. A 1% increase in the Canadian exchange rate would have resulted in an increase in pretax income of \$0.8 million. Conversely, a corresponding decrease in the exchange rate would result in a comparable decrease to pretax income.

**Redemption Reward Risk.** Through our AIR MILES Reward Program, we are exposed to potentially increasing reward costs associated primarily with travel rewards. To minimize the risk of rising travel reward costs, we:

- have multi-year supply agreements with several Canadian, U.S. and international airlines;
- are seeking new supply agreements with additional airlines;
- periodically alter the total mix of rewards available to collectors with the introduction of new merchandise rewards, which are typically lower cost per AIR MILES reward mile than air travel;
- allow collectors to obtain certain travel rewards using a combination of reward miles and cash or cash alone in addition to using AIR MILES reward miles alone; and
- periodically adjust the number of AIR MILES reward miles required to be redeemed to obtain a reward.

A 1% increase in the cost of redemptions would have resulted in a decrease in pretax income of \$2.6 million. Conversely, a corresponding decrease in the cost of redemptions would result in a comparable increase to pretax income.

**Item 8. Financial Statements and Supplementary Data**

Our consolidated financial statements begin on page F-1 of this Form 10-K.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

As of December 31, 2006, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2006, our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Our evaluation of and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2006 did not include the internal controls of ICOM, DoubleClick Email Solutions, or CPC because of the timing of these acquisitions, which were completed in February 2006, April 2006 and October 2006, respectively. As of December 31, 2006, these entities constituted \$254.5 million of total assets, \$96.4 million of revenues and \$6.5 million of net income for the year then ended.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our evaluation and those criteria, our internal control over financial reporting was effective as of December 31, 2006.

During the fourth quarter of 2006, we completed the process of converting ICOM'S and CPC's legacy general ledger platform to the platform utilized by our business units. There have been no other changes in our internal control over financial reporting during the fourth quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, has been audited by Deloitte & Touche LLP, the independent registered public accounting firm who also audited our consolidated financial statements. Deloitte & Touche's attestation report on management's assessment of our internal control over financial reporting appears on page F-3.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

Incorporated by reference to the Proxy Statement for the 2007 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2006.

**Item 11. Executive Compensation**

Incorporated by reference to the Proxy Statement for the 2007 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2006.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Incorporated by reference to the Proxy Statement for the 2007 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2006.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Incorporated by reference to the Proxy Statement for the 2007 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2006.

**Item 14. Principal Accounting Fees and Services**

Incorporated by reference to the Proxy Statement for the 2007 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2006.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

(a) The following documents are filed as part of this report:

- (1) Financial Statements
- (2) Financial Statement Schedule

(3) The following exhibits are filed as part of this Annual Report on Form 10-K or, where indicated, were previously filed and are hereby incorporated by reference.

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of October 8, 2004, by and among Alliance Data Systems Corporation, ADS Alliance Data Systems, Inc., Everest Nivole, Inc., The Relizon e-CRM Company and Relizon Holdings LLC (incorporated by reference to Exhibit No. 2.1 to our Current Report on Form 8-K filed with the SEC on October 29, 2004, File No. 0001-15749).
2.2	First Amendment to Agreement and Plan of Merger, dated as of October 8, 2004, by and among Alliance Data Systems Corporation, ADS Alliance Data Systems, Inc., Everest Nivole, Inc., The Relizon e-CRM Company and Relizon Holdings, LLC (incorporated by reference to Exhibit No. 2.2 to our Current Report on Form 8-K filed with the SEC on October 29, 2004, File No. 0001-15749).

<u>Exhibit No.</u>	<u>Description</u>
2.3	Purchase Agreement, dated as of December 22, 2006, by and among DoubleClick Inc., Alliance Data Systems Corporation and Alliance Data FHC, Inc. (incorporated by reference to Exhibit No. 2.1 to our Current Report on Form 8-K filed with the SEC on December 28, 2006, File No. 0001-15749).
3.1	Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit No. 3.1 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.2	Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.2 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.3	First Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.3 to our Registration Statement on Form S-1 filed with the SEC on May 4, 2001, File No. 333-94623).
3.4	Second Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.4 to our Annual Report on Form 10-K, filed with the SEC on April 1, 2002, File No. 001-15749).
4	Specimen Certificate for shares of Common Stock of the Registrant (incorporated by reference to Exhibit No. 4 to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2003, File No. 001-15749).
10.1	Build-to-Suit Net Lease between Opus South Corporation and ADS Alliance Data Systems, Inc., dated January 29, 1998, as amended (incorporated by reference to Exhibit No. 10.10 to our Annual Report on Form 10-K, filed with the SEC on April 1, 2002, File No. 001-15749).
10.2	Commercial Lease Agreement by and between Waterview Parkway L.P. and ADS Alliance Data Systems, Inc., dated July 16, 1997 (incorporated by reference to Exhibit No. 10.22 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.3	Lease between YCC Limited and London Life Insurance Company and Loyalty Management Group Canada Inc. dated May 28, 1997 and amended June 19, 1997 and January 15, 1998 (incorporated by reference to Exhibit No. 10.15 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.4	Amendments of April 14, 2000, January 17, 2001, and June 12, 2002 to lease between YCC Limited and London Life Insurance Company and Loyalty Management Group Canada Inc. dated May 28, 1997, as amended (incorporated by reference to Exhibit No. 10.12 to our Annual Report on Form 10-K filed with the SEC on March 12, 2003, File No. 001-15749).
10.5	Amendment, dated September 27, 2002, to Lease between YCC Limited and London Life Insurance Company and Loyalty Management Group Canada, Inc., dated May 28, 1997, as amended (incorporated by reference to Exhibit No. 10.5 to our Annual Report on Form 10-K, filed with the SEC on March 3, 2006).
10.6	Amendment, dated February 18, 2005, to Lease between YCC Limited and London Life Insurance Company and Loyalty Management Group Canada, Inc., dated May 28, 1997, as amended (incorporated by reference to Exhibit No. 10.6 to our Annual Report on Form 10-K, filed with the SEC on March 3, 2006, File No. 001-15749).
10.7	Office Lease between Office City, Inc. and World Financial Network National Bank, dated December 24, 1986, and amended January 19, 1987, May 11, 1988, August 4, 1989 and August 18, 1999 (incorporated by reference to Exhibit No. 10.17 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.8	Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated July 2, 1990, and amended September 11, 1990, November 16, 1990 and February 18, 1991 (incorporated by reference to Exhibit No. 10.18 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.9	Fourth Amendment to Lease Agreement by and between Partners at Brookside and ADS Alliance Data Systems, Inc., dated June 1, 2000 (incorporated by reference to Exhibit No. 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).



<u>Exhibit No.</u>	<u>Description</u>
10.10	Fifth Amendment to Lease Agreement by and between Partners at Brookside and ADS Alliance Data Systems, Inc., dated June 30, 2001 (incorporated by reference to Exhibit No. 10.10 to our Annual Report on Form 10-K filed with the SEC on March 3, 2006, File No. 001-15749).
10.11	Indenture of Lease by and between OTR and ADS Alliance Data Systems, Inc., dated as of February 1, 2002, as amended (incorporated by reference to Exhibit No. 10.2 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).
10.12	Lease Agreement by and between Petula Associates, Ltd. and Compass International Services, dated August 28, 1998, as amended (incorporated by reference to Exhibit No. 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2003, File No. 001-15749).
10.13	Lease Agreement by and between 601 Edgewater LLC and Epsilon Data Management, Inc., dated July 30, 2002 (incorporated by reference to Exhibit No. 10.17 to our Annual Report on Form 10-K filed with the SEC on March 4, 2005, File No. 001-15749).
10.14	Lease Agreement by and between Sterling Direct, Inc. and Sterling Properties, L.L.C., dated September 22, 1997, as subsequently assigned (incorporated by reference to Exhibit No. 10.18 to our Annual Report on Form 10-K filed with the SEC on March 4, 2005, File No. 001-15749).
10.15	Sublease by and between SonicNet, Inc. and Bigfoot Interactive, Inc., dated as of March 2003 (incorporated by reference to Exhibit No. 10.15 to our Annual Report on Form 10-K filed with the SEC on March 3, 2006, File No. 001-15749).
10.16	Lease Agreement by and between TM Park Avenue, LLC and Epsilon Interactive, LLC, dated February 10, 2006 (incorporated by reference to Exhibit No. 10.16 to our Annual Report on Form 10-K filed with the SEC on March 3, 2006, File No. 001-15749).
10.17	Lease Agreement by and between KDC-Regent I Investments, LP and Epsilon Data Management, Inc., dated May 31, 2005 (incorporated by reference to Exhibit No. 10.17 to our Annual Report on Form 10-K filed with the SEC on March 3, 2006, File No. 001-15749).
*10.18	Lease between 592423 Ontario Inc. and Loyalty Management Group Canada, Inc., dated November 14, 2005, to commence on September 17, 2007.
10.19	Lease Agreement by and between Morrison Taylor, Ltd. and ADS Alliance Data Systems, Inc. dated July 1, 1997, and amended June 18, 1998 (incorporated by reference to Exhibit No. 10.21 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
*10.20	Lease Agreement by and between ADS Place Phase I, LLC and ADS Alliance Data Systems, Inc. dated August 25, 2006.
10.21	Capital Assurance and Liquidity Maintenance Agreement, dated August 28, 2003, by and between Alliance Data Systems Corporation and World Financial Network National Bank (incorporated by reference to Exhibit No. 10.3 to our Registration Statement on Form S-3 filed with the SEC on October 15, 2003, File No. 333-109713).
+10.22	Alliance Data Systems Corporation Executive Deferred Compensation Plan (incorporated by reference to Exhibit No. 10.23 to our Annual Report on Form 10-K filed with the SEC on March 4, 2005, File No. 001-15749).
+10.23	Alliance Data Systems Corporation Executive Annual Incentive Plan (incorporated by reference to Exhibit B to our Definitive Proxy Statement filed with the SEC on April 29, 2005, File No. 001-15749).
+10.24	Alliance Data Systems Corporation 2005 Incentive Compensation Plan (incorporated by reference to Exhibit No. 10.1 to our Quarterly Report on Form 10-Q, filed with the SEC on May 6, 2005, File No. 001-15749).
+10.25	Alliance Data Systems Corporation 2006 Incentive Compensation Plan (incorporated by reference to Exhibit No. 10.28 to our Annual Report on Form 10-K filed with the SEC on March 3, 2006, File No. 001-15749).
*+10.26	Alliance Data Systems Corporation 2007 Incentive Compensation Plan.

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<u>Exhibit No.</u>	<u>Description</u>
+10.27	Amended and Restated Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Plan (incorporated by reference to Exhibit No. 10.34 to our Registration Statement on Form S-1 filed with the SEC on May 4, 2001, File No. 333-94623).
+10.28	Form of Alliance Data Systems Corporation Incentive Stock Option Agreement under the Amended and Restated Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Plan (incorporated by reference to Exhibit No. 10.35 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
+10.29	Form of Alliance Data Systems Corporation Non-Qualified Stock Option Agreement under the Amended and Restated Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Plan (incorporated by reference to Exhibit No. 10.36 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
+10.30	Alliance Data Systems Corporation Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit C to our Definitive Proxy Statement filed with the SEC on April 29, 2005, File No. 001-15749).
+10.31	Alliance Data Systems Corporation 2003 Long-Term Incentive Plan (incorporated by reference to Exhibit No. 4.6 to our Registration Statement on Form S-8 filed with the SEC on June 18, 2003, File No. 333-106246).
+10.32	Alliance Data Systems Corporation 2005 Long-Term Incentive Plan (incorporated by reference to Exhibit A to our Definitive Proxy Statement filed with the SEC on April 29, 2005, File No. 001-15749).
+10.33	Form of Nonqualified Stock Option Agreement for awards under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan (incorporated by reference to Exhibit No. 10.4 to our Current Report on Form 8-K filed with the SEC on August 4, 2005, File No. 001-15749).
+10.34	Form of Restricted Stock Award Agreement for awards under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan (incorporated by reference to Exhibit No. 10.5 to our Current Report on Form 8-K filed with the SEC on August 4, 2005, File No. 001-15749).
+10.35	Form of Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan (2006 grant), as amended (incorporated by reference to Exhibit No. 99.1 to our Current Report on Form 8-K filed with the SEC on April 4, 2006, File No. 001-15749).
+10.36	Form of Non-Employee Director Nonqualified Stock Option Agreement (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on June 13, 2005, File No. 001-15749).
+10.37	Form of Non-Employee Director Share Award Letter (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on June 13, 2005, File No. 001-15749).
+10.38	Alliance Data Systems Corporation Non-Employee Director Deferred Compensation Plan (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K, filed with the SEC on June 9, 2006, File No. 001-15749).
+10.39	Form of Alliance Data Systems Associate Confidentiality Agreement (incorporated by reference to Exhibit No. 10.24 to our Annual Report on Form 10-K filed with the SEC on March 12, 2003, File No. 001-15749).
+10.40	Form of Alliance Data Systems Corporation Indemnification Agreement for Officers and Directors (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on February 1, 2005, File No. 001-15749).
+10.41	Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 99.1 to our Registration Statement on Form S-8 filed with the SEC on July 20, 2001, File No. 333-65556).
+10.42	Amendment, dated February 4, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.7 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).

<u>Exhibit No.</u>	<u>Description</u>
+10.43	Amendment No. 2, dated April 7, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.8 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).
+10.44	Amendment No. 3, dated May 8, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.9 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).
+10.45	Amendment No. 4, dated June 9, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.32 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.46	Amendment No. 5, dated September 29, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.33 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.47	Amendment No. 6, dated December 12, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.34 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.48	Amendment No. 7, dated December 12, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.35 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.49	Amendment No. 8, dated December 12, 2003, to Alliance Data Systems 401(k) Retirement and Savings Plan (incorporated by reference to Exhibit No. 10.36 to our Annual Report on Form 10-K filed with the SEC on March 5, 2004, File No. 001-15749).
+10.50	Letter employment agreement with J. Michael Parks, dated February 19, 1997 (incorporated by reference to Exhibit 10.39 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
+10.51	Letter employment agreement with Ivan Szeftel, dated May 4, 1998 (incorporated by reference to Exhibit 10.40 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.52	Amended and Restated License to Use the Air Miles Trade Marks in Canada, dated as of July 24, 1998, by and between Air Miles International Holdings N.V. and Loyalty Management Group Canada Inc. (incorporated by reference to Exhibit No. 10.43 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623) (assigned by Air Miles International Holdings N.V. to Air Miles International Trading B.V. by a novation agreement dated as of July 18, 2001).
10.53	Amended and Restated License to Use and Exploit the Air Miles Scheme in Canada, dated July 24, 1998, by and between Air Miles International Trading B.V. and Loyalty Management Group Canada Inc. (incorporated by reference to Exhibit No. 10.44 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.54	Second Amended and Restated Pooling and Servicing Agreement, dated as of January 17, 1996 amended and restated as of September 17, 1999 and August 2001 by and among WFN Credit Company, LLC, World Financial Network National Bank, and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.6 to the Registration Statement on Form S-3 of world financial network credit card master trust filed with the SEC on July 5, 2001, File No. 333-60418).
10.55	Second Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of May 19, 2004, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on August 4, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).

<u>Exhibit No.</u>	<u>Description</u>
10.56	Third Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of March 30, 2005, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed by World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on April 4, 2005, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.57	Omnibus Amendment, dated as of March 31, 2003, among WFN Credit Company, LLC, World Financial Network Credit Card Master Trust, World Financial Network National Bank and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4 to the Current Report on Form 8-K filed by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on April 22, 2003, File Nos. 333-60418 and 333-60418-01).
10.58	Transfer and Servicing Agreement, dated as of August 1, 2001, between WFN Credit Company, LLC, World Financial Network National Bank, and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.3 to the Registration Statement on Form S-3 of World Financial Network Credit Card Master Trust filed with the SEC on July 5, 2001, File No. 333-60418).
10.59	First Amendment to the Transfer and Servicing Agreement, dated as of November 7, 2002, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on November 20, 2002, File Nos. 333-60418 and 333-60418-01).
10.60	Third Amendment to the Transfer and Servicing Agreement, dated as of May 19, 2004, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.2 of the Current Report on Form 8-K filed by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on August 4, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.61	Fourth Amendment to the Transfer and Servicing Agreement, dated as of March 30, 2005, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed by World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on April 4, 2005, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.62	Receivables Purchase Agreement, dated as of August 1, 2001, between World Financial Network National Bank and WFN Credit Company, LLC (incorporated by reference to Exhibit No. 4.8 to the Registration Statement on Form S-3 of World Financial Network Credit Card Master Trust filed with the SEC on July 5, 2001, File No. 333-60418).
10.63	Master Indenture, dated as of August 1, 2001, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company, as supplemented by the Series 2001-A Indenture Supplement, the Series 2002-A Indenture Supplement, the Series 2002-VFN Supplement (incorporated by reference to Exhibit No. 4.1 to the Registration Statement on Form S-3 filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on July 5, 2001, File Nos. 333-60418 and 333-60418-01).
10.64	Series 2003-A Indenture Supplement, dated as of June 19, 2003 (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed by World Financial Network Credit Card Master Trust filed with the SEC on August 28, 2003, File No. 333-60418-01).
10.65	Series 2004-A Indenture Supplement, dated as of May 19, 2004 (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on May 27, 2004, File Nos. 333-60418, 333-60418-01 and 333- 113669).

<u>Exhibit No.</u>	<u>Description</u>
10.66	Series 2004-B Indenture Supplement, dated as of September 22, 2004 (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on September 28, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.67	Series 2004-C Indenture Supplement, dated as of September 22, 2004 (incorporated by reference to Exhibit No. 4.2 of the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on September 28, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.68	Supplemental Indenture No. 1, dated as of August 13, 2003, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.2 of the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on August 28, 2003, File Nos. 333-60418 and 333-60418-01).
10.69	Issuance Supplement to Series 2003-A Indenture Supplement, dated as of August 14, 2003, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.3 of the Current Report on Form 8-K filed with the SEC by World Financial Network Credit Card Master Trust on August 28, 2003, File No. 333-60418-01).
10.70	Credit Agreement (3-Year), dated as of April 10, 2003, by and among Alliance Data Systems Corporation, the guarantors from time to time party thereto, the lenders from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit No. 10.2 to Amendment No. 1 to our Registration Statement on Form S-3 filed with the SEC on April 16, 2003, File No. 333-104314).
10.71	First Amendment to Credit Agreement (3-Year), dated as of October 21, 2004, by and among Alliance Data Systems Corporation, the Guarantor party thereto, the Banks party thereto, and Harris Trust and Savings Bank, as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit No. 10.3 to our Quarterly Report on Form 10-Q filed with the SEC on November 5, 2004, File No. 001-15749).
10.72	Second Amendment to Credit Agreement (3-Year), dated as of April 7, 2005, by and among Alliance Data Systems Corporation, the Guarantor party thereto, the Banks party thereto, and Harris Trust and Savings Bank, as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit No. 99.1 to our Current Report on Form 8-K filed with the SEC on April 13, 2005, File No. 001-15749).
10.73	Third Amendment to Credit Agreement (3-Year), dated as of October 28, 2005, by and among Alliance Data Systems Corporation, the Guarantor party thereto, the Banks party thereto, and Harris N.A., as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit No. 99.1 to our Current Report on Form 8-K filed with the SEC on October 31, 2005, File No. 001-15749).
10.74	Fourth Amendment to Credit Agreement (3-Year), dated as of December 21, 2005, by and among Alliance Data Systems Corporation, the Guarantor party thereto, the Banks party thereto, and Harris N.A., as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit No. 99.1 to our Current Report on Form 8-K filed with the SEC on December 27, 2005, File No. 001-15749).
10.75	Credit Agreement (364-Day), dated as of April 10, 2003, by and among Alliance Data Systems Corporation, the guarantors from time to time party thereto, the lenders from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit No. 10.3 to Amendment No. 1 to our Registration Statement on Form S-3 filed with the SEC on April 16, 2003, File No. 333-104314).

<u>Exhibit No.</u>	<u>Description</u>
10.76	First Amendment to Credit Agreement (364-Day) dated as of April 8, 2004, by and among Alliance Data Systems Corporation, the guarantors from time to time party thereto, the lenders from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit No. 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on May 7, 2004, File No. 001-15749).
10.77	Second Amendment to Credit Agreement (364-Day), dated as of October 21, 2004, by and among Alliance Data Systems Corporation, the Guarantor party thereto, the Banks party thereto, and Harris Trust and Savings Bank, as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit No. 10.4 to our Quarterly Report on Form 10-Q filed with the SEC on November 5, 2004, File No. 001-15749).
10.78	Third Amendment to Credit Agreement (364-Day), dated as of April 7, 2005, by and among Alliance Data Systems Corporation, the Guarantor party thereto, the Banks party thereto, and Harris Trust and Savings Bank, as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit No. 99.2 to our Current Report on Form 8-K filed with the SEC on April 13, 2005, File No. 001-15749).
10.79	Fourth Amendment to Credit Agreement (364-Day), dated as of October 28, 2005, by and among Alliance Data Systems Corporation, the Guarantor party thereto, the Banks party thereto, and Harris N.A., as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit No. 99.2 to our Current Report on Form 8-K filed with the SEC on October 31, 2005, File No. 001-15749).
10.80	Fifth Amendment to Credit Agreement (364-Day), dated as of December 21, 2005, by and among Alliance Data Systems Corporation, the Guarantor party thereto, the Banks party thereto, and Harris N.A., as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit No. 99.2 to our Current Report on Form 8-K filed with the SEC on December 27, 2005, File No. 001-15749).
10.81	Sixth Amendment to Credit Agreement (364-Day), dated as of April 6, 2006, by and among Alliance Data Systems Corporation, the Guarantors party thereto, the Banks party thereto, and Harris N.A., as Administrative Agent and Letter of Credit Issuer (incorporated by reference to Exhibit No. 10.2 to our Quarterly Report on Form 10-Q filed with the SEC on May 5, 2006, File No. 001-15749).
10.82	Credit Agreement (Canadian), dated as of April 10, 2003, by and among Loyalty Management Group Canada Inc., the guarantors from time to time party thereto, the lenders from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit No. 10.4 to Amendment No. 1 to our Registration Statement on Form S-3 filed with the SEC on April 16, 2003, File No. 333-104314).
10.83	First Amendment to Credit Agreement (Canadian), dated as of October 21, 2004, by and among Loyalty Management Group Canada Inc., the Guarantors party thereto, the Banks party thereto, Bank of Montreal, as Letter of Credit Issuer, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit No. 10.5 to our Quarterly Report on Form 10-Q filed with the SEC on November 5, 2004, File No. 001-15749).
10.84	Second Amendment to Credit Agreement (Canadian), dated as of April 7, 2005, by and among Loyalty Management Group Canada Inc., the Guarantors party thereto, the Banks party thereto, Bank of Montreal, as Letter of Credit Issuer, and Harris Trust and Savings Bank, as Administrative Agent (incorporated by reference to Exhibit No. 99.3 to our Current Report on Form 8-K filed with the SEC on April 13, 2005, File No. 001-15749).
10.85	Third Amendment to Credit Agreement (Canadian), dated as of October 28, 2005, by and among Loyalty Management Group Canada Inc., the Guarantors party thereto, the Banks party thereto, Bank of Montreal, as Letter of Credit Issuer, and Harris N.A., as Administrative Agent (incorporated by reference to Exhibit No. 99.3 to our Current Report on Form 8-K filed with the SEC on October 31, 2005, File No. 001-15749).

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<u>Exhibit No.</u>	<u>Description</u>
10.86	Fourth Amendment to Credit Agreement (Canadian), dated as of December 21, 2005, by and among Loyalty Management Group Canada Inc., the Guarantors party thereto, the Banks party thereto, Bank of Montreal, as Letter of Credit Issuer, and Harris N.A., as Administrative Agent (incorporated by reference to Exhibit No. 99.3 to our Current Report on Form 8-K filed with the SEC on December 27, 2005, File No. 001-15749).
10.87	Credit Agreement, dated as of January 3, 2006, by and among Alliance Data Systems Corporation, ADS Alliance Data Systems, Inc., as Guarantor, the Banks party thereto, and Harris N.A., as Administrative Agent and Lead Arranger (incorporated by reference to Exhibit No. 99.1 to our Current Report on Form 8-K filed with the SEC on January 9, 2006, File No. 001-15749).
10.88	First Amendment to Pledge Agreement, dated as of January 3, 2006, by and among Alliance Data Systems Corporation, ADS Alliance Data Systems, Inc. and Harris N.A. (incorporated by reference to Exhibit No. 99.2 to our Current Report on Form 8-K filed with the SEC on January 9, 2006, File No. 001-15749).
10.89	First Amendment to Intercreditor and Collateral Agency Agreement, dated as of January 3, 2006, by and among Alliance Data Systems Corporation, ADS Alliance Data Systems, Inc., Harris N.A. and the other parties thereto (incorporated by reference to Exhibit No. 99.3 to our Current Report on Form 8-K filed with the SEC on January 9, 2006, File No. 001-15749).
10.90	Note Purchase Agreement, dated as of May 1, 2006, by and among Alliance Data Systems Corporation and the Purchasers party thereto (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K, filed with the SEC on May 18, 2006, File No. 001-15749).
10.91	Subsidiary Guaranty, dated as of May 1, 2006, by ADS Alliance Data Systems, Inc. in favor of the holders from time to time of the Notes (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K, filed with the SEC on May 18, 2006, File No. 001-15749).
10.92	Credit Agreement, dated as of September 29, 2006, by and among Alliance Data Systems Corporation and certain subsidiaries parties thereto, as Guarantors, Bank of Montreal, as Administrative Agent, Co-Lead Arranger and Sole Book Runner, and various other agents and banks (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on October 2, 2006, File No. 001-15749).
10.93	Joinder to Subsidiary Guaranty, dated as of September 29, 2006, by each of Epsilon Marketing Services, LLC, Epsilon Data Marketing, LLC and Alliance Data Foreign Holdings, Inc. in favor of the holders from time to time of the Senior Notes issued under the Note Purchase Agreement (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on October 2, 2006, File No. 001-15749).
10.94	Credit Agreement, dated as of January 24, 2007, by and among Alliance Data Systems Corporation, certain subsidiaries parties thereto as Guarantors, the Banks from time to time parties thereto, and Bank of Montreal, as Administrative Agent (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on January 25, 2007, File No. 001-15749).
+10.95	Form of Change in Control Agreement, dated as of September 25, 2003, by and between ADS Alliance Data Systems, Inc. and each of Daniel P. Finkelman, Edward J. Heffernan, John W. Scullion, Ivan M. Szeftel, Transient C. Taylor, Dwayne H. Tucker and Alan M. Utay (incorporated by reference to Exhibit No. 10.1 to our Registration Statement on Form S-3 filed with the SEC on October 15, 2003, File No. 333-109713).
+10.96	Change in Control Agreement, dated as of September 25, 2003, by and between ADS Alliance Data Systems, Inc. and J. Michael Parks (incorporated by reference to Exhibit No. 10.2 to our Registration Statement on Form S-3 filed with the SEC on October 15, 2003, File No. 333-109713).

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<u>Exhibit No.</u>	<u>Description</u>
10.97	Stockholders Agreement, dated as of June 12, 2001, among Alliance Data Systems Corporation, Limited Commerce Corp., Welsh, Carson, Anderson, and Stowe VI, L.P., Welsh, Carson, Anderson & Stowe VII, L.P., Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Information Partners, L.P., WCAS Capital Partners II, L.P., and WCAS Capital Partners III, L.P. (incorporated by reference to Exhibit No. 10.14 to our Annual Report on Form 10-K, filed with the SEC on April 1, 2002, File No. 001-15749).
10.98	First Amendment, dated as of April 9, 2003, to Stockholders Agreement, dated as of June 12, 2001, among Alliance Data Systems Corporation, Limited Commerce Corp., Welsh, Carson, Anderson, and Stowe VI, L.P., Welsh, Carson, Anderson & Stowe VII, L.P., Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Information Partners, L.P., WCAS Capital Partners II, L.P., and WCAS Capital Partners III, L.P. (incorporated by reference to Exhibit No. 10.1 to Amendment No. 1 to our Registration Statement on Form S-3 filed with the SEC on April 16, 2003, File No. 333-104314).
*+10.99	Form of Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan (2007 grant).
*+10.100	Form of Agreement for 2007 Special Award under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan.
*+10.101	Form of Canadian Nonqualified Stock Option Agreement for awards under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan.
*+10.102	Form of Canadian Restricted Stock Award Agreement for awards under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan.
*+10.103	Form of Canadian Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan (2007 grant).
*+10.104	Form of Canadian Agreement for 2007 Special Award under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan.
*21	Subsidiaries of the Registrant.
*23.1	Consent of Deloitte & Touche LLP.
*31.1	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
*31.2	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
*32.1	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
*32.2	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.

\* Filed herewith.

+ Management contract, compensatory plan or arrangement.



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ALLIANCE DATA SYSTEMS CORPORATION

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders of  
Alliance Data Systems Corporation

We have audited the accompanying consolidated balance sheets of Alliance Data Systems Corporation and subsidiaries (the "Company") as of December 31, 2005 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Alliance Data Systems Corporation and subsidiaries as of December 31, 2005 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, as of January 1, 2006, the Company changed its method of accounting for employee stock-based compensation.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting. As described in our report dated February 26, 2007, management excluded from their assessment the internal control over financial reporting of iCom Information & Communications, Inc. ("ICOM"), DoubleClick Email Solutions and CPC Associates, Inc. ("CPC") which were acquired in February, April and October, 2006, respectively; accordingly, our audit of the Company's internal control over financial reporting did not include the internal control over financial reporting at ICOM, DoubleClick Email Solutions, or CPC.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas  
February 26, 2007

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders of  
Alliance Data Systems Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Alliance Data Systems Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from their assessment the internal control over financial reporting at iCom Information & Communication, Inc. ("ICOM"), DoubleClick Email Solutions and CPC Associates, Inc. ("CPC") which were acquired in February, April and October, 2006, respectively, and whose collective financial statements reflect total assets and revenues constituting seven and five percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006. Accordingly, our audit did not include the internal control over financial reporting at ICOM, DoubleClick Email Solutions or CPC. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal*

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Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2006 of the Company and our report dated February 26, 2007, expressed an unqualified opinion and includes an explanatory paragraph regarding the Company's change in its method of accounting for employee stock-based compensation; on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas  
February 26, 2007

**ALLIANCE DATA SYSTEMS CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31,		
	2004	2005	2006
(In thousands, except per share amounts)			
<b>Revenues</b>			
Transaction	\$ 592,019	\$ 616,589	\$ 660,305
Redemption	226,726	275,840	352,801
Securitization income and finance charges, net	355,912	405,868	579,742
Database marketing fees and direct marketing services	52,830	194,775	319,704
Other revenue	29,951	59,365	86,190
<b>Total revenue</b>	<b>1,257,438</b>	<b>1,552,437</b>	<b>1,998,742</b>
<b>Operating expenses</b>			
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	916,201	1,124,590	1,434,620
General and administrative	77,740	91,532	91,815
Depreciation and other amortization	62,586	58,565	65,443
Amortization of purchased intangibles	28,812	41,142	59,597
<b>Total operating expenses</b>	<b>1,085,339</b>	<b>1,315,829</b>	<b>1,651,475</b>
Operating income	172,099	236,608	347,267
Fair value loss on interest rate derivative	808	—	—
Interest income	(2,554)	(4,017)	(6,595)
Interest expense	9,526	18,499	47,593
Income before income taxes	164,319	222,126	306,269
Provision for income taxes	61,948	83,381	116,664
<b>Net income</b>	<b>\$ 102,371</b>	<b>\$ 138,745</b>	<b>\$ 189,605</b>
<b>Net income per share:</b>			
Basic	\$ 1.27	\$ 1.69	\$ 2.38
Diluted	\$ 1.22	\$ 1.64	\$ 2.32
<b>Weighted average shares:</b>			
Basic	80,614	82,208	79,735
Diluted	84,040	84,637	81,686

See accompanying notes to consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2005	2006
	(In thousands, except per share amounts)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 143,213	\$ 180,075
Due from card associations	58,416	108,671
Trade receivables, less allowance for doubtful accounts (\$2,079 and \$5,325 at December 31, 2005 and 2006, respectively)	203,883	271,563
Seller's interest and credit card receivables, less allowance for doubtful accounts (\$38,415 and \$45,919 at December 31, 2005 and 2006, respectively)	479,108	569,389
Deferred tax asset, net	70,221	88,722
Other current assets	87,612	91,555
Total current assets	1,042,453	1,309,975
Redemption settlement assets, restricted	260,963	260,957
Property and equipment, net	162,972	208,327
Due from securitizations	271,256	325,457
Intangible assets, net	265,000	263,934
Goodwill	858,470	969,971
Other non-current assets	64,968	65,394
Total assets	<u>\$ 2,926,082</u>	<u>\$ 3,404,015</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 67,384	\$ 112,582
Accrued expenses	198,707	201,904
Merchant settlement obligations	127,038	188,336
Certificates of deposit	342,600	294,800
Credit facilities and other debt, current	235,843	7,902
Other current liabilities	76,999	72,196
Total current liabilities	1,048,571	877,720
Deferred tax liability, net	62,847	44,234
Deferred revenue (Note 9)	610,533	651,506
Certificates of deposit	36,500	4,200
Long-term and other debt	222,001	737,475
Other liabilities	24,523	17,347
Total liabilities	2,004,975	2,332,482
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock, \$0.01 par value; authorized, 200,000 shares; issued, 84,765 shares and 86,872 shares at December 31, 2005 and 2006, respectively	848	869
Unearned compensation	(14,504)	—
Additional paid-in capital	743,545	834,680
Treasury stock, at cost, 4,360 shares and 7,218 shares at December 31, 2005 and 2006, respectively)	(154,952)	(300,950)
Retained earnings	338,081	527,686
Accumulated other comprehensive income	8,089	9,248
Total stockholders' equity	921,107	1,071,533
Total liabilities and stockholders' equity	<u>\$ 2,926,082</u>	<u>\$ 3,404,015</u>

See accompanying notes to consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Unearned Compensation	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount						
<b>January 1, 2004</b>	80,043	800	—	611,550	(6,151)	96,965	(833)	702,331
Net income						102,371		102,371
Other comprehensive income, net of tax:								
Reclassifications into earnings							482	482
Net unrealized loss on securities available-for-sale							(144)	(144)
Foreign currency translation adjustments							4,965	4,965
Other comprehensive income							5,303	5,303
Total comprehensive income								
Issuance of restricted stock	491	5	(7,739)	22,461				14,727
Other common stock issued, including income tax benefits	2,231	23		45,765				45,788
<b>December 31, 2004</b>	82,765	828	(7,739)	679,776	(6,151)	199,336	4,470	870,520
Net income						138,745		138,745
Other comprehensive income, net of tax:								
Net unrealized gain on securities available-for-sale							414	414
Foreign currency translation adjustments							3,205	3,205
Other comprehensive income							3,619	3,619
Total comprehensive income								
Amortization of unearned compensation			6,546					6,546
Purchase of treasury shares					(148,801)			(148,801)
Issuance of restricted stock	471	5	(13,311)	20,903				7,597
Other common stock issued, including income tax benefits	1,529	15		42,866				42,881
<b>December 31, 2005</b>	84,765	848	(14,504)	743,545	(154,952)	338,081	8,089	921,107
Net income						189,605		189,605
Other comprehensive income, net of tax:								
Net unrealized gain on securities available-for-sale							1,880	1,880
Foreign currency translation adjustments							(721)	(721)
Other comprehensive income							1,159	1,159
Reversal of unearned compensation upon adoption of SFAS No. 123(R)			14,504	(14,504)				—
Stock compensation expense				43,053				43,053
Purchase of treasury shares					(145,998)			(145,998)
Other common stock issued, including income tax benefits	2,107	21		62,586				62,607
<b>December 31, 2006</b>	86,872	\$ 869	\$ —	\$ 834,680	\$ (300,950)	\$ 527,686	\$ 9,248	\$ 1,071,533

See accompanying notes to consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2004	2005 (In thousands)	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 102,371	\$ 138,745	\$ 189,605
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	91,398	99,707	125,040
Deferred income taxes	31,154	(13,475)	(27,772)
Provision for doubtful accounts	2,487	22,055	38,141
Non-cash stock compensation	15,767	14,143	43,053
Fair value gain on interest-only strip	(6,553)	(23,300)	(19,470)
Change in operating assets and liabilities, net of acquisitions:			
Change in trade accounts receivable	(602)	(37,592)	(50,947)
Change in merchant settlement activity	17,936	1,637	11,043
Change in other assets	(3,240)	(8,619)	(3,282)
Change in accounts payable and accrued expenses	(7,394)	42,757	57,084
Change in deferred revenue	30,827	43,288	43,353
Change in other liabilities	(17,831)	743	(8,728)
Purchase of credit card receivables	(34,417)	(186,419)	(73,555)
Proceeds from sale of credit card receivable portfolios	105,538	—	154,445
Tax benefit of stock option exercises	11,209	13,648	—
Excess tax benefits from stock-based compensation	—	—	(17,521)
Other	9,979	1,763	8,291
Net cash provided by operating activities	<u>348,629</u>	<u>109,081</u>	<u>468,780</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Change in redemption settlement assets	(10,464)	(10,983)	(396)
Payments for acquired businesses, net of cash acquired	(329,493)	(140,901)	(205,567)
Net increase in seller's interest and credit card receivables	(48,441)	(106,785)	(203,764)
Change in due from securitizations	40,181	(1,005)	(32,698)
Capital expenditures	(48,329)	(65,900)	(100,352)
Other	(3,313)	(5,377)	(195)
Net cash used in investing activities	<u>(399,859)</u>	<u>(330,951)</u>	<u>(542,972)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings under debt agreements	770,388	1,272,260	3,629,869
Repayment of borrowings	(627,037)	(1,155,735)	(3,345,869)
Certificates of deposit issuances	90,600	379,100	336,300
Repayments of certificates of deposit	(196,300)	(94,700)	(416,400)
Payment of capital lease obligations	(5,810)	(6,409)	(7,935)
Excess tax benefits from stock-based compensation	—	—	17,521
Proceeds from issuance of common stock	34,528	29,106	48,831
Purchase of treasury shares	—	(145,043)	(145,998)
Other	—	—	(4,049)
Net cash provided by financing activities	<u>66,369</u>	<u>278,579</u>	<u>112,270</u>
Effect of exchange rate changes on cash and cash equivalents	1,525	2,095	(1,216)
Change in cash and cash equivalents	16,664	58,804	36,862
Cash and cash equivalents at beginning of year	67,745	84,409	143,213
Cash and cash equivalents at end of year	<u>\$ 84,409</u>	<u>\$ 143,213</u>	<u>\$ 180,075</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Interest paid	<u>\$ 9,274</u>	<u>\$ 16,423</u>	<u>\$ 40,628</u>
Income taxes paid, net of refunds	<u>\$ 21,094</u>	<u>\$ 58,237</u>	<u>\$ 141,935</u>

See accompanying notes to consolidated financial statements.



**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

*Description of the Business* — Alliance Data Systems Corporation (“ADSC” or, including its wholly owned subsidiaries, the “Company”) is a leading provider of loyalty and marketing solutions derived from transaction rich data. The Company partners with its clients to develop unique insight into consumer behavior. The Company uses that insight to create and manage customized solutions that the Company believes enhances consumer experiences and enable its clients to build stronger, mutually-beneficial relationships with their customers. The Company focuses on facilitating and managing interactions between its clients and their customers through multiple distribution channels including in-store, catalog and on-line. Through the Credit Services and Marketing Services segments, the Company assists its clients in identifying and acquiring new customers and helps to increase the loyalty and profitability of its clients’ existing customers.

The Company operates in three reportable segments: Marketing Services, Credit Services and Transaction Services. Marketing Services provides loyalty programs, such as the AIR MILES® Reward Program, and integrated direct marketing solutions that combine database marketing technology and analytics with a broad range of direct marketing services, that includes email marketing campaigns. Credit Services provides private label credit card receivables financing. Credit Services generally securitizes the credit card receivables that it underwrites from its private label credit card programs. Transaction Services encompasses card processing, billing and payment processing and customer care for specialty and petroleum retailers (processing services), customer information system hosting, customer care and billing and payment processing for regulated and de-regulated utilities (utility services) and other processing-oriented businesses.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation* — The accompanying consolidated financial statements include the accounts of ADSC and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated.

*Cash and Cash Equivalents* — The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

*Due from Card Associations and Merchant Settlement Obligations* — Due from card associations and merchant settlement obligations result from the Company’s merchant services and associated settlement activities. Due from card associations is generated from credit card transactions, such as MasterCard, Visa, American Express, and Discover Card at merchant locations. The Company records corresponding settlement obligations for amounts payable to merchants. These accounts are settled with the respective card association or merchant on different days.

*Seller’s Interest and Credit Card Receivables* — Credit card receivables are generally securitized immediately or shortly after origination. As part of its securitization agreements, the Company is required to retain an interest in the credit card receivables, which is referred to as seller’s interest. Seller’s interest is carried at fair value and credit card receivables are carried at lower of cost or market less an allowance for doubtful accounts. In its capacity as a servicer of the credit card receivables, the Company receives a servicing fee from the World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust and World Financial Network Credit Card Master Trust III (“WFN Trusts”). The Company believes that serving fees received represent adequate compensation based on the amount currently demanded by the market place. Additionally, these fees are the same as would fairly compensate a substitute servicer should one be required and, thus, the Company records neither a servicing asset nor servicing liability.

*Allowance for Doubtful Accounts* — The Company specifically analyzes accounts receivable and historical bad debts, customer credit-worthiness, current economic trends, and changes in its customer payment terms and collection trends when evaluating the adequacy of its allowance for doubtful accounts. Any change in the assumptions used in analyzing a specific account receivable may result in an additional allowance for doubtful accounts being recognized in the period in which the change occurs.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)**

*Redemption Settlement Assets, Restricted* — These securities relate to the redemption fund for the AIR MILES Reward Program and are held in trust for the benefit of funding redemptions by collectors. These assets are restricted to funding rewards for the collectors by certain of our sponsor contracts. These securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income. Debt securities that the Company does not have the positive intent and ability to hold to maturity are classified as securities available-for-sale.

*Property and Equipment* — Furniture, fixtures, computer equipment and software, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization, including capital leases are computed on a straight-line basis, using estimated lives ranging from three to 15 years. Leasehold improvements are amortized over the remaining lives of the respective leases or the remaining useful lives of the improvements, whichever is shorter. Software development (costs to create new platforms for certain of the Company's information systems) and conversion costs (systems, programming and other related costs to allow conversion of new client accounts to the Company's processing systems) are capitalized in accordance with Statement of Position ("SOP") 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and are amortized on a straight-line basis over the length of the associated contract or benefit period, which generally ranges from three to five years.

**Revenue Recognition**

The Company's policy follows the guidance from SEC Staff Accounting Bulletin ("SAB") No. 104 "Revenue Recognition". SAB No. 104 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. The Company recognizes revenues when persuasive evidence of an arrangement exists, the services have been provided to the client, the sales price is fixed or determinable, and collectibility is reasonably assured.

*Transaction* — The Company earns transaction fees, which are principally based on the number of transactions processed or statements generated and are recognized as such services are performed. Included are reimbursements received for "out-of-pocket" expenses.

*Database marketing fees and direct marketing services* — For maintenance and service programs, revenue is recognized as services are provided. Revenue associated with a new database build is deferred until client acceptance. Upon acceptance, it is then recognized over the term of the related agreement as the services are provided.

*AIR MILES Reward Program* — The Company allocates the proceeds received from sponsors for the issuance of AIR MILES reward miles based on relative fair values between the redemption element of the award ultimately provided to the collector (the "Redemption element") and the service element (the "Service element"). The Service element consists of direct marketing and support services provided to sponsors.

The fair value of the Service element is based on the estimated fair value of providing the services on a third-party basis. The revenue related to the Service element of the AIR MILES reward miles is initially deferred and amortized over the period of time beginning with the issuance of the AIR MILES reward miles and ending upon their expected redemption (the estimated life of an AIR MILES reward mile, or 42 months). Revenue associated with the Service element is recorded as part of transaction revenue.

The fair value of the Redemption element of the AIR MILES reward miles issued is determined based on separate pricing offered by the Company as well as other objective evidence. The revenue related to the Redemption element is deferred until the collector redeems the AIR MILES reward miles or over the estimated life of an AIR MILES reward mile in the case of AIR MILES reward miles that the Company estimates will go unused by the collector base ("breakage"). The Company currently estimates breakage to be

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)**

one-third of AIR MILES reward miles issued. There have been no changes to management's estimate of the life of a mile or breakage in the periods presented.

*Securitization income* — Securitization income represents gains and losses on securitization of credit card receivables and interest income on seller's interest and credit card receivables held on the balance sheet less a provision for doubtful accounts of \$1.8 million, \$20.9 million and \$33.8 million for the years ended December 31, 2004, 2005, and 2006, respectively. For the years ended December 31, 2004, 2005 and 2006, the Company recognized \$2.0 million, zero and \$2.7 million, respectively, in gains, related to the securitization of new credit card receivables accounted for as sales. The Company records gains or losses on the securitization of credit card receivables on the date of sale based on cash received, the estimated fair value of assets sold and retained, and liabilities incurred in the sale. The anticipated excess cash flow essentially represents an interest-only ("I/O") strip, consisting of the excess of finance charges and certain other fees over the sum of the return paid to certificate holders and credit losses over the estimated outstanding period of the receivables. The amount initially allocated to the I/O strip at the date of a securitization reflects the allocated original basis of the relative fair values of those interests. The amount recorded for the I/O strip is reduced for distributions on the I/O strip, which the Company receives from the related trust, and is adjusted for changes in the fair value of the I/O strip, which are reflected in other comprehensive income. Because there is not a highly liquid market for these assets, management estimates the fair value of the I/O strip primarily based upon discount, payment and default rates, which is the method we assume that another market participant would use to purchase the I/O strip.

In recording and accounting for the I/O strip, management makes assumptions about rates of payments and defaults, which reflect economic and other relevant conditions that affect fair value. Due to subsequent changes in economic and other relevant conditions, the actual rates of payments and defaults would generally differ from our initial estimates, and these differences could sometimes be material. If actual payment and default rates are higher than previously assumed, the value of the I/O strip could be permanently impaired and the decline in the fair value would be recorded in earnings.

The Company recognizes the implicit forward contract to sell new receivables during a revolving period at its fair value at the time of sale. The implicit forward contract is entered into at the market rate and thus, its initial measure is zero at inception. In addition, the Company does not mark the forward contract to fair value in accounting periods following the securitization as management has concluded that the fair value of the implicit forward contract in subsequent periods is not material.

*Finance charges, net* — Finance charges, net of credit losses, represents revenue earned on customer accounts serviced by the Company, and is recognized in the period in which it is earned.

*Securitization Sales* — The Company's securitization of its credit card receivables involves the sale to a trust and is accomplished primarily through the public and private issuance of asset-backed securities by the special purpose entities. The Company removes credit card receivables from its Consolidated Balance Sheets for those asset securitizations that qualify as sales in accordance with Statement of Financial Accounting Standard ("SFAS") No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a replacement of FASB Statement No. 125". The Company has determined that the WFN Trusts are qualifying special purpose entities as defined by SFAS No. 140, and that all current securitizations qualify as sales.

*Goodwill and Other Intangible Assets* — Goodwill and indefinite lived intangible assets are not amortized, but are reviewed at least annually for impairment or more frequently if circumstances indicate that an impairment may have occurred, using the market comparable and discounted cash flow methods. Separable intangible assets that have finite useful lives are amortized over those useful lives.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)**

**Earnings Per Share** — Basic earnings per share is based only on the weighted average number of common shares outstanding, excluding any dilutive effects of options or other dilutive securities. Diluted earnings per share is based on the weighted average number of common and potentially dilutive common shares (dilutive stock options, unvested restricted stock and other dilutive securities outstanding during the year).

The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

	Year Ended December 31,		
	2004	2005	2006
	(In thousands, except per share amounts)		
<b>Numerator</b>			
Net income available to common stockholders	\$ 102,371	\$ 138,745	\$ 189,605
<b>Denominator</b>			
Weighted average shares, basic	80,614	82,208	79,735
Weighted average effect of dilutive securities:			
Net effect of dilutive stock options and unvested restricted stock	3,426	2,429	1,951
Denominator for diluted calculation	<u>84,040</u>	<u>84,637</u>	<u>81,686</u>
<b>Basic</b>			
Net income per share	<u>\$ 1.27</u>	<u>\$ 1.69</u>	<u>\$ 2.38</u>
<b>Diluted</b>			
Net income per share	<u>\$ 1.22</u>	<u>\$ 1.64</u>	<u>\$ 2.32</u>

**Management Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Currency Translation** — The assets and liabilities of the Company's subsidiaries outside the U.S., primarily Canada, are translated into U.S. dollars at the rates of exchange in effect at the balance sheet dates. Income and expense items are translated at the average exchange rates prevailing during the period. Gains and losses resulting from currency transactions are recognized currently in income, and those resulting from translation of financial statements are included in accumulated other comprehensive income.

**Advertising Costs** — The Company participates in various advertising and marketing programs. The cost of advertising and marketing programs are expensed in the period incurred. The Company has recognized advertising expenses of \$30.2 million, \$39.7 million and \$76.7 million for the years ended 2004, 2005 and 2006.

**Stock Compensation Expense** — Effective January 1, 2006, the Company adopted the provisions of, and accounted for stock-based compensation in accordance with, Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)") which supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized ratably over the requisite service period. The Company elected the modified prospective method, under which prior periods are

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)**

not revised for comparative purposes. The valuation provisions of SFAS No. 123(R) apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation expense estimated for the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") pro forma disclosures, adjusted for forfeitures.

The following table sets forth the pro forma amounts of net income and net income per share, for years ended December 31, 2004 and 2005 that would have resulted if the Company had accounted for the stock-based awards under the fair value recognition provisions of SFAS No. 123:

	Year Ended December 31,	
	2004	2005
	(In thousands, except per share amounts)	
Net income, as reported	\$ 102,371	\$ 138,745
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	10,249	8,839
Deduct: Total stock-based employee compensation expense determined under fair value based method for all stock option awards, net of related tax effects	(19,756)	(22,849)
	<u>\$ 92,864</u>	<u>\$ 124,735</u>
Net income per share:		
Basic-as reported	\$ 1.27	\$ 1.69
Basic-pro forma	\$ 1.15	\$ 1.52
Diluted-as reported	\$ 1.22	\$ 1.64
Diluted-pro forma	\$ 1.11	\$ 1.47

**Income Taxes** — Deferred income taxes are provided for differences arising in the timing of income and expenses for financial reporting and for income tax purposes using the asset/liability method of accounting. Under this method, deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statements' carrying amounts of existing assets and liabilities and their respective tax bases, using enacted tax rates.

**Long-Lived Assets** — Long-lived assets and other intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

**Recently Issued Accounting Standards** — In February 2006, FASB issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS No. 155"), which amends SFAS No. 133 and SFAS No. 140. SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Earlier adoption is permitted, provided we have not yet issued financial statements, including for interim periods, for that fiscal year. The Company does not expect the adoption of SFAS No. 155 to have a material impact on our consolidated financial position, results of operations or cash flows.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)**

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets" ("SFAS No. 156"). SFAS No. 156 amends SFAS No. 140 with respect to the accounting for separately-recognized servicing assets and liabilities. SFAS No. 156 addresses the recognition and measurement of separately-recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. The standard is effective for fiscal years beginning after September 15, 2006. Earlier adoption is permitted, provided we have not yet issued financial statements, including for interim periods, for that fiscal year. The Company does not expect the adoption of SFAS No. 156 to have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". FIN No. 48 prescribes a financial statement recognition threshold and measurement attribute of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 on January 1, 2007, as required. The cumulative effect of adopting FIN 48 primarily will be a reduction to retained earnings of approximately \$6.0 million to \$10.0 million.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 establishes a new definition of fair value as well as a fair value hierarchy that prioritizes the information used to develop the assumptions, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. The standard is effective for fiscal years beginning after November 15, 2007. The Company is currently in process of evaluating the effect of the adoption of SFAS No. 157 on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post-retirement plans" ("SFAS No. 158"). Among other items, SFAS No. 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. The standard is effective for the Company as of December 31, 2006. The adoption of SFAS No. 158 did not have a material impact on our consolidated financial position, results of operations and cash flows.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 addresses quantifying the financial statement effects of misstatements, specifically, how the effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. SAB No. 108 does not amend or change the SEC Staff's previous positions in Staff Accounting Bulletin No. 99, "Materiality," regarding qualitative considerations in assessing the materiality of misstatements. SAB No. 108 is effective for fiscal years beginning after November 15, 2006. The Company does expect the adoption of SAB No. 108 to have a material impact on our consolidated financial position, results of operations or cash flows.

**Reclassifications** — For purposes of comparability, certain prior period amounts have been reclassified to conform with the current year presentation.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**3. BUSINESS ACQUISITIONS**

During the past three years the Company completed the following acquisitions:

<u>Business</u>	<u>Month Acquired</u>	<u>Consideration</u>	<u>Segment</u>
2006:			
iCom Information & Communications, Inc.	February 2006	Cash for Assets and Common Stock	Marketing Services
DoubleClick Email Solutions	April 2006	Cash for Assets and Common Stock	Marketing Services
Big Designs, Inc.	August 2006	Cash for Assets	Marketing Services
CPC Associates, Inc.	October 2006	Cash for Common Stock	Marketing Services
2005:			
Atrana Solutions, Inc.	May 2005	Cash for Common Stock	Transaction Services
Bigfoot Interactive, Inc.	September 2005	Cash for Equity	Marketing Services
2004:			
Epsilon Data Management, Inc.	October 2004	Cash for Common Stock	Marketing Services
Capstone Consulting Partners, Inc.	November 2004	Cash for Common Stock	Transaction Services

*2006 Acquisitions:*

In February 2006, the Company acquired Toronto-based iCom Information & Communications, Inc. ("ICOM"), a leading provider of targeted list, marketing data and communications solutions for the pharmaceutical, tobacco and fast moving consumer goods industries in North America. Total consideration paid was approximately \$36.1 million as of the closing date, including acquisition costs. As a result of this acquisition, the Company acquired \$10.8 million of customer contracts, \$2.3 million of capitalized software, \$13.2 of net assets and \$9.8 million of goodwill. The results of operations for ICOM have been included since the date of acquisition and are reflected in our Marketing Services segment.

In April 2006, the Company acquired DoubleClick Email Solutions, a permission-based email marketing service provider, with operations across North America, Europe and Asia/Pacific. Total consideration paid was approximately \$91.1 million, including acquisition costs. As a result of this acquisition, the Company acquired approximately \$26.8 million of customer contracts, \$2.3 million of capitalized software, \$0.4 million associated with a non-compete agreement, \$6.0 million in net assets and \$55.6 million of goodwill. An independent valuation was conducted to assign a fair market value to the intangible assets identified as part of the acquisition. The results of operations for DoubleClick Email Solutions have been included since the date of acquisition and are reflected in our Marketing Services segment.

In August 2006, the Company acquired Big Designs, a design agency that specializes in creative development for both print and on-line media. Total consideration paid was approximately \$5.0 million. As a result of this acquisition, the Company acquired approximately \$0.7 million of customer contracts, \$0.5 million associated with a non-compete agreement, \$0.1 of net assets and \$3.7 million of goodwill. The results of operations for Big Designs have been included since the date of acquisition and are reflected in our Marketing Services segment.

In October 2006, the Company acquired CPC Associates, Inc. ("CPC"), a provider of data products and services used to increase effectiveness of direct-response marketing programs for a variety of business sectors. Total consideration paid was approximately \$72.5 million, including acquisition costs. As a result of this acquisition, the Company acquired approximately \$16.8 million of customer contracts, \$0.7 million in purchased software, \$0.6 million in tradenames, \$1.6 million in net assets and \$52.9 million in goodwill. An independent valuation was conducted to assign a fair market value to the intangible assets identified as part of

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**3. BUSINESS ACQUISITIONS — (Continued)**

the acquisition. The results of operations for CPC have been included since the date of acquisition and are reflected in our Marketing Services segment.

Pro forma information has not been included for these acquisitions, as the impact is not material.

*2005 Acquisitions:*

In May 2005, the Company acquired the stock of Atrana Solutions Inc., a provider of point-of-sale technology services. Total consideration paid was approximately \$13.1 million. The results of operations for Atrana have been included since the date of acquisition and are reflected in our Transaction Services segment.

On September 30, 2005, the Company acquired Bigfoot Interactive Inc., (“Epsilon Interactive”), a leading full-service provider of strategic ROI-focused email communications and marketing automation solutions. Total consideration paid was approximately \$133.5 million. The results of operations for Epsilon Interactive have been included since the date of acquisition and are reflected in our Marketing Services segment. Pro forma information has not been included as the impact is not material.

*2004 Acquisitions:*

In October 2004, the Company completed the acquisition of Epsilon Data Management, Inc. (“Epsilon”). The results of operations have been included since the date of acquisition. Epsilon has provided customer management and loyalty solutions for over 35 years. Epsilon utilizes database technologies and analytics to evaluate value, growth and loyalty of its clients’ customers and assists clients in acquiring new customer relationships. The merger consideration consisted of approximately \$310.0 million in cash. The base purchase price of \$310.0 million was adjusted to \$314.5 million as a result of customary post-closing purchase price adjustments and closing costs. Additional closing costs were also paid in 2004.

In November 2004, the Company acquired Capstone Consulting Partners, Inc. (“Capstone”), a provider of management consulting and technical services to the energy industry. Total consideration paid in connection with the acquisition was approximately \$11.4 million. In connection with the acquisition, the Company is required to pay the seller additional consideration for exceeding certain revenue targets, as defined in the acquisition agreement. The contingent payment is limited to \$15.0 million. As of December 31, 2005, the Company had met the initial threshold and recorded a purchase price adjustment of \$15.0 million of which \$5.0 million was paid in 2006 and the remaining \$10.0 million was paid in January of 2007.

*Purchase Price Allocation:*

The following table summarizes the purchase price for the acquisitions, and the allocation thereof:

	<u>2004</u>	<u>2005</u> <u>(In thousands)</u>	<u>2006</u>
Identifiable intangible assets	\$ 113,980	\$ 31,284	\$ 56,610
Capitalized software	12,400	4,942	5,275
Goodwill	218,622	110,589	122,003
Other net (liabilities) assets	(17,786)	(251)	20,880
Purchase price	<u>\$ 327,216</u>	<u>\$ 146,564</u>	<u>\$ 204,768</u>

**4. REDEMPTION SETTLEMENT ASSETS**

Redemption settlement assets consist of cash and cash equivalents and securities available-for-sale and are designated for settling redemptions by collectors of the AIR MILES Reward Program in Canada under



**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**4. REDEMPTION SETTLEMENT ASSETS — (Continued)**

certain contractual relationships with sponsors of the AIR MILES Reward Program. These assets are primarily denominated in Canadian dollars. Realized gains and losses from the sale of investment securities were not material. The principal components of redemption settlement assets, which are carried at fair value, are as follows:

	December 31, 2005				December 31, 2006			
	Cost	Unrealized		Fair value	Cost	Unrealized		Fair Value
		Gains	Losses			Gains	Losses	
	(In thousands)							
Cash and cash equivalents	\$ 56,651	\$ —	\$ —	\$ 56,651	\$ 21,583	\$ —	\$ —	\$ 21,583
Government bonds	47,746	162	(194)	47,714	53,017	109	(159)	52,967
Corporate bonds	157,336	107	(845)	156,598	186,262	767	(622)	186,407
Total	<u>\$ 261,733</u>	<u>\$ 269</u>	<u>\$ (1,039)</u>	<u>\$ 260,963</u>	<u>\$ 260,862</u>	<u>\$ 876</u>	<u>\$ (781)</u>	<u>\$ 260,957</u>

In accordance with FASB Staff Position FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, the following table shows the gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2005 and 2006, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	Less than 12 months		December 31, 2005 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Government bonds	\$ 23,658	\$ (194)	\$ —	\$ —	\$ 23,658	\$ (194)
Corporate bonds	80,568	(437)	34,722	(408)	115,290	(845)
Total	<u>\$ 104,226</u>	<u>\$ (631)</u>	<u>\$ 34,722</u>	<u>\$ (408)</u>	<u>\$ 138,948</u>	<u>\$ (1,039)</u>

	Less than 12 months		December 31, 2006 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Government bonds	\$ 3,465	\$ (13)	\$ 23,582	\$ (146)	\$ 27,047	\$ (159)
Corporate bonds	39,942	(151)	78,298	(471)	118,240	(622)
Total	<u>\$ 43,407</u>	<u>\$ (164)</u>	<u>\$ 101,880</u>	<u>\$ (617)</u>	<u>\$ 145,287</u>	<u>\$ (781)</u>

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, and the Company's ability and intent to hold the investment for a period of time, which may be sufficient for anticipated recovery in market value. The unrealized losses on the Company's investments during 2006 in government and corporate bond securities were caused primarily by changes in interest rates. The Company typically invests in highly-rated securities with low probabilities of default. The Company also has the ability to hold the investments until maturity. As of December 31, 2006, the Company does not consider the investments to be other-than-temporarily impaired.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**4. REDEMPTION SETTLEMENT ASSETS — (Continued)**

The net carrying value and estimated fair value of the securities at December 31, 2006 by contractual maturity are as follows:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(In thousands)	
Due in one year or less	\$ 97,353	\$ 97,780
Due after one year through five years	163,509	163,177
Due after five years through ten years	—	—
Due after ten years	—	—
<b>Total</b>	<b>\$ 260,862</b>	<b>\$ 260,957</b>

**5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>December 31,</u>	
	<u>2005</u>	<u>2006</u>
	(In thousands)	
Software development and conversion costs	\$ 145,022	\$ 154,333
Computer equipment and purchased software	115,248	135,005
Furniture and fixtures	65,850	78,863
Leasehold improvements	58,222	63,528
Capital leases	21,874	33,142
Construction in progress	7,686	10,783
<b>Total</b>	<b>413,902</b>	<b>475,654</b>
Accumulated depreciation	(250,930)	(267,327)
<b>Property and equipment, net</b>	<b>\$ 162,972</b>	<b>\$ 208,327</b>

Depreciation expense totaled \$36.3 million, \$41.2 million and \$50.2 million for the years ended December 31, 2004, 2005, and 2006, respectively, and includes amortization of capital leases. Amortization associated with capitalized software development and conversion costs totaled \$27.5 million, \$20.3 million and \$19.9 million for the years ended December 31, 2004, 2005, and 2006, respectively.

**6. SECURITIZATION OF CREDIT CARD RECEIVABLES**

The Company regularly securitizes its credit card receivables to the WFN Trusts. During the initial phase of a securitization reinvestment period, the Company generally retains principal collections in exchange for the transfer of additional credit card receivables into the securitized pool of assets. During the amortization or accumulation period of a securitization, the investors' share of principal collections (in certain cases, up to a maximum specified amount each month) is either distributed to the investors or held in an account until it accumulates to the total amount due, at which time it is paid to the investors in a lump sum. The Company's outstanding securitizations are scheduled to begin their amortization or accumulation periods at various times between 2007 and 2011 and thereafter.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**6. SECURITIZATION OF CREDIT CARD RECEIVABLES — (Continued)**

The following table shows the maturities of borrowing commitments as of December 31, 2006 for the WFN Trusts by year:

	2007	2008	2009	2010	2011 & Thereafter	Total
	(In thousands)					
Public notes	\$ 600,000	\$ 600,000	\$ 500,000	\$ —	\$ 950,000	\$ 2,650,000
Private conduits(1)	1,085,714	—	—	—	—	1,085,714
<b>Total</b>	<b>\$ 1,685,714</b>	<b>\$ 600,000</b>	<b>\$ 500,000</b>	<b>\$ —</b>	<b>\$ 950,000</b>	<b>\$ 3,735,714</b>

(1) Represents borrowing capacity, not outstanding borrowings.

Seller's interest and credit card receivables, less allowance for doubtful accounts consists of:

	December 31,	
	2005	2006
	(In thousands)	
Seller's interest	\$ 203,614	\$ 253,170
Credit card receivables	310,698	338,864
Other receivables	3,211	23,274
Allowance	(38,415)	(45,919)
	<b>\$ 479,108</b>	<b>\$ 569,389</b>

Due from securitizations consists of:

	December 31,	
	2005	2006
	(In thousands)	
Spread deposits	\$ 117,844	\$ 128,787
I/O strips	88,763	110,060
Residual interest in securitization trust	53,514	82,110
Excess funding deposits	11,135	4,500
	<b>\$ 271,256</b>	<b>\$ 325,457</b>

The Company is required to maintain minimum interests ranging from 4% to 10% of the securitized credit card receivables. This requirement is met through seller's interest and is supplemented through the excess funding deposits. Excess funding deposits represent cash amounts deposited with the trustee of the securitizations. Residual interest in securitization represents a subordinated interest in the cash flows of the WFN Trusts.

The spread deposits and I/O strips are initially recorded at their allocated carrying amount based on relative fair value. Fair value is determined by computing the present value of the estimated cash flows, using the dates that such cash flows are expected to be released to the Company, at a discount rate considered to be commensurate with the risks associated with the cash flows. The amounts and timing of the cash flows are estimated after considering various economic factors including payment rates, delinquency, default and loss assumptions. I/O strips, seller's interest and other interests retained are periodically evaluated for impairment based on the fair value of those assets.

Fair values of I/O strips and other interests retained are based on a review of actual cash flows and on the factors that affect the amounts and timing of the cash flows from each of the underlying credit card

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**6. SECURITIZATION OF CREDIT CARD RECEIVABLES — (Continued)**

receivable pools. Based on this analysis, assumptions are validated or revised as deemed necessary, the amounts and the timing of anticipated cash flows are estimated and fair value is determined. The Company has one collateral type, private label credit card receivables.

At December 31, 2006, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in the assumptions are as follows:

	<u>Assumptions</u>	<u>Impact on Fair Value of 10% Change</u>	<u>Impact on Fair Value of 20% Change</u>
		(In thousands)	
Fair value of I/O strip	\$ 110,060		
Weighted average life	7.25 months		
Discount rate	11.0%	\$ (333)	\$ (664)
Expected yield, net of dilution	17.1%	(26,359)	(52,502)
Interest expense	5.9%	(989)	(1,971)
Net charge-offs rate	7.2%	(7,962)	(15,816)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in an assumption to the change in fair value may not be linear. Also, in this table the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in practice, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Spread deposits, carried at estimated fair value, represent deposits that are held by a trustee or agent and are used to absorb shortfalls in the available net cash flows related to securitized credit card receivables if those available net cash flows are insufficient to satisfy certain obligations of the WFN Trusts. The fair value of spread deposits is based on the weighted average life of the underlying securities and the discount rate. The discount rate is based on a risk adjusted rate paid on the series. The amount required to be deposited is approximately 3.8% of the investor's interest in the WFN Trusts. Spread deposits are generally released proportionately as investors are repaid, although some spread deposits are released only when investors have been paid in full. None of these spread deposits were required to be used to cover losses on securitized credit card receivables in the three-year period ended December 31, 2006.

The table below summarizes certain cash flows received from and paid to securitization trusts:

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
	(In millions)		
Proceeds from collections reinvested in previous credit card securitizations	\$ 7,060.4	\$ 7,192.8	\$ 7,341.4
Proceeds from new securitizations	1,400.0	—	500.0
Servicing fees received	59.3	59.4	64.1
Other cash flows received on retained interests	317.9	349.5	505.8

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**6. SECURITIZATION OF CREDIT CARD RECEIVABLES — (Continued)**

The tables below present quantitative information about the components of total credit card receivables managed, delinquencies and net charge-offs:

	December 31,	
	2005	2006
	(In millions)	
Total credit card receivables managed	\$ 3,714.5	\$ 4,171.3
Less credit card receivables securitized	3,486.6	3,832.4
Add credit card receivables securitized for which we do not bear the risk of loss	82.8	—
Credit card receivables	<u>\$ 310.7</u>	<u>\$ 338.9</u>
Principal amount of managed credit card receivables 90 days or more past due	<u>\$ 69.3</u>	<u>\$ 88.1</u>

	Year Ended December 31,		
	2004	2005	2006
	(In thousands)		
Net managed charge-offs	\$ 205,454	\$ 207,397	\$ 180,449

**7. INTANGIBLE ASSETS AND GOODWILL**

Intangible assets consist of the following:

	December 31, 2005			
	Gross Assets	Accumulated Amortization (In thousands)	Net	
<i>Finite Lived Assets</i>				
Customer contracts and lists	\$ 243,906	\$ (73,766)	\$ 170,140	2-20 years — straight line
Premium on purchased credit card portfolios	77,529	(14,700)	62,829	5-10 years — straight line, accelerated
Collector database	60,186	(42,292)	17,894	30 years — 15% declining balance
Noncompete agreements	2,400	(1,545)	855	2-5 years — straight line
Favorable lease	1,000	(68)	932	4 years — straight line
	<u>\$ 385,021</u>	<u>\$ (132,371)</u>	<u>\$ 252,650</u>	
<i>Indefinite Lived Assets</i>				
Tradenames	12,350	—	12,350	Indefinite life
Total intangible assets	<u>\$ 397,371</u>	<u>\$ (132,371)</u>	<u>\$ 265,000</u>	

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**7. INTANGIBLE ASSETS AND GOODWILL — (Continued)**

	December 31, 2006			Amortization Life and Method
	Gross Assets	Accumulated Amortization (In thousands)	Net	
<i>Finite Lived Assets</i>				
Customer contracts and lists	\$ 292,272	\$ (111,486)	\$ 180,786	2-20 years — straight line
Premium on purchased credit card portfolios	72,108	(21,861)	50,247	5-10 years — straight line, accelerated
Collector database	60,067	(44,916)	15,151	30 years — 15% declining balance
Customer databases	2,900	(181)	2,719	4 years — straight line
Noncompete agreements	1,800	(458)	1,342	2-5 years — straight line
Favorable lease	1,000	(341)	659	4 years — straight line
Tradenames	550	(34)	516	4 years — straight line
Purchased data lists	449	(285)	164	1 year — accelerated basis
	<u>\$ 431,146</u>	<u>\$ (179,562)</u>	<u>\$ 251,584</u>	
<i>Indefinite Lived Assets</i>				
Tradenames	12,350	—	12,350	Indefinite life
Total intangible assets	<u>\$ 443,496</u>	<u>\$ (179,562)</u>	<u>\$ 263,934</u>	

As a result of acquisitions during 2006, the Company acquired \$55.1 million of customer contracts with a weighted average life of 5 years, tradenames of \$0.6 million with a weighted average life of 4 years and non-compete agreements of \$0.9 million with a weighted average life of 2 years.

Amortization expense related to the intangible assets was approximately \$27.6 million, \$38.2 million and \$54.9 million for the years ended December 31, 2004, 2005, and 2006, respectively.

The estimated amortization expense related to intangible assets for the next five years is as follows:

	For Years Ending December 31, (In thousands)
2007	\$ 54,348
2008	49,535
2009	38,078
2010	35,783
2011	23,453
2012 & thereafter	50,387

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**7. INTANGIBLE ASSETS AND GOODWILL — (Continued)**

**Goodwill**

The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2006 respectively, are as follows:

	<u>Marketing Services</u>	<u>Credit Services</u>	<u>Transaction Services</u>	<u>Total</u>
	(In thousands)			
December 31, 2004	\$ 405,272	\$ —	\$ 303,874	\$ 709,146
Goodwill acquired during year	101,913	—	8,676	110,589
Effects of foreign currency translation	6,504	—	340	6,844
Other, primarily final purchase price adjustments	9,362	—	22,529	31,891
December 31, 2005	\$ 523,051	\$ —	\$ 335,419	\$ 858,470
Goodwill acquired during year	122,003	—	—	122,003
Effects of foreign currency translation	(369)	—	(21)	(390)
Other, primarily final purchase price adjustments	(9,660)	—	(452)	(10,112)
December 31, 2006	\$ 635,025	\$ —	\$ 334,946	\$ 969,971

The Company completed annual impairment tests for goodwill on July 31, 2004, 2005, and 2006 and determined at each date that no impairment exists. No further testing of goodwill impairments will be performed until July 31, 2007, unless circumstances exist that indicate that an impairment may have occurred.

**8. ACCRUED EXPENSES**

Accrued expenses consist of the following:

	<u>December 31,</u>	
	<u>2005</u>	<u>2006</u>
	(In thousands)	
Accrued payroll and benefits	\$ 77,433	\$ 93,781
Accrued taxes	56,488	42,384
Accrued other liabilities	64,786	65,739
Accrued liabilities	\$ 198,707	\$ 201,904

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**9. DEFERRED REVENUE**

A reconciliation of deferred revenue for the AIR MILES Reward Program is as follows:

	Deferred Revenue		Total
	Service	Redemption (In thousands)	
December 31, 2004	158,026	389,097	547,123
Cash proceeds	107,568	190,758	298,326
Revenue recognized	(86,829)	(168,901)	(255,730)
Effects of foreign currency translation	6,134	14,680	20,814
December 31, 2005	184,899	425,634	610,533
Cash proceeds	123,204	242,359	365,563
Revenue recognized	(103,485)	(217,354)	(320,839)
Other	—	(1,361)	(1,361)
Effects of foreign currency translation	(901)	(1,489)	(2,390)
December 31, 2006	<u>\$ 203,717</u>	<u>\$ 447,789</u>	<u>\$ 651,506</u>

**10. DEBT**

Debt consists of the following:

	December 31,	
	2005	2006
	(In thousands)	
Certificates of deposit	\$ 379,100	\$ 299,000
Senior notes	—	500,000
Credit facilities	441,000	225,000
Other	16,844	20,377
	<u>836,944</u>	<u>1,044,377</u>
Less: current portion	(578,443)	(302,702)
Long-term portion	<u>\$ 258,501</u>	<u>\$ 741,675</u>

**Certificates of Deposit**

Terms of the certificates of deposit range from three months to 24 months with annual interest rates ranging from 3.9% to 5.0% at December 31, 2005 and 4.3% to 6.0% at December 31, 2006. Interest is paid monthly and at maturity.

**Credit Facilities**

At the beginning of fiscal year 2006, the Company maintained three credit agreements with aggregate revolving lending commitments of \$515.0 million with the capability to increase such commitments up to \$550.0 million as follows:

- *3-year credit agreement* — revolving lending commitments of \$250.0 million and a maturity date of April 3, 2008;
- *364-day credit agreement* — revolving lending commitments of \$230.0 million and a maturity date of April 6, 2006; and



**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**10. DEBT — (Continued)**

- *Canadian credit agreement* — revolving lending commitments of \$35.0 million and a maturity date of April 3, 2008.

During January 2006, the Company entered into an additional credit agreement to increase its borrowing capacity by an incremental \$300.0 million. This credit agreement included usual and customary negative covenants for credit agreements of this type. On January 5, 2006, the Company borrowed \$300.0 million under this credit agreement, which the Company used for general corporate purposes, including other debt repayment, repurchases of its common stock in connection with its stock repurchase program, mergers and acquisitions, and capital expenditures. The Company paid in full the \$300.0 million credit agreement on May 16, 2006 with a portion of the proceeds from the senior notes (described below) and permitted such \$300.0 million credit agreement to terminate pursuant to its terms on its scheduled maturity date, June 30, 2006.

On April 6, 2006, the Company amended its 364-day credit agreement to extend the maturity date from April 6, 2006 to April 5, 2007.

Advances under these four credit facilities were in the form of either base rate loans or eurodollar loans. The interest rate on base rate loans fluctuated based upon the higher of (1) the interest rate announced by the administrative agent as its “prime rate” and (2) the Federal funds rate plus 0.5%, in each case with no additional margin. The interest rate on eurodollar loans fluctuated based upon the rate at which eurodollar deposits in the London interbank market are quoted plus a margin of 0.5% to 1.0% based upon the ratio of total debt under these credit facilities to consolidated Operating EBITDA, as each term is defined in the credit facilities. The credit facilities were secured by pledges of stock of certain of the Company’s subsidiaries and pledges of certain intercompany promissory notes.

On September 29, 2006, the Company entered into a new consolidated credit agreement to provide for a \$540.0 million revolving credit facility with a U.S. \$50.0 million sublimit for Canadian dollar borrowings and a \$50.0 million sublimit for swing line loans (the “2006 credit facility”). Additionally, the 2006 credit facility includes an uncommitted accordion feature of up to \$210.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions. The lending commitments under the 2006 credit facility are scheduled to terminate September 29, 2011. The 2006 credit facility is unsecured. Each of ADS Alliance Data Systems, Inc., Alliance Data Foreign Holding, Inc., Epsilon Marketing Services, LLC and Epsilon Data Management, LLC are guarantors under the 2006 facility.

As of December 31, 2006, the Company has borrowed approximately \$225.0 million under the 2006 credit facility for general corporate purposes and to pay off and terminate the 3-year credit agreement, the 364-day credit agreement and the Canadian credit agreement. At December 31, 2006, borrowings under the 2006 credit facility had a weighted average interest rate of 6.4%.

Advances under the 2006 credit facility are in the form of either base rate loans or eurodollar loans and may be denominated in U.S. dollars or Canadian dollars. The interest rate for base rate loans denominated in U.S. dollars fluctuates and is equal to the higher of (1) the Bank of Montreal’s prime rate and (2) the Federal funds rate plus 0.5%, in either case with no additional margin. The interest rate for base rate loans denominated in Canadian dollars fluctuates and is equal to the higher of (1) the Bank of Montreal’s prime rate for Canadian dollar loans and (2) the CDOR rate plus 1%, in either case with no additional margin. The interest rate for eurodollar loans denominated in U.S. or Canadian dollars fluctuates based on the rate at which deposits of U.S. dollars or Canadian dollars, respectively, in the London interbank market are quoted plus a margin of 0.5% to 1.0% based upon the Company’s Senior Leverage Ratio as defined in the 2006 credit facility.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**10. DEBT — (Continued)**

Among other fees, the Company pays a facility fee of 0.1% to 0.2% per annum (due quarterly) on the aggregate commitments under the 2006 credit facility, whether used or unused, based upon the Company's Senior Leverage Ratio as defined in the 2006 credit facility. The Company will also pay fees with respect to any letters of credit issued under the 2006 credit facility.

The 2006 credit facility includes usual and customary negative covenants for credit agreements of this type, including, but not limited to, restrictions on the Company's ability, and in certain instances, its subsidiaries' ability, to consolidate or merge; substantially change the nature of its business; sell, transfer or dispose of assets; create or incur indebtedness; create liens; pay dividends and repurchase stock; and make investments. The negative covenants are subject to certain exceptions, as specified in the 2006 credit facility. The 2006 credit facility also requires the Company to satisfy certain financial covenants, including maximum ratios of Total Capitalization and Senior Leverage as determined in accordance with the 2006 credit facility and a minimum ratio of Consolidated Operating EBITDA to Consolidated Interest Expense as determined in accordance with the 2006 credit facility.

The 2006 credit facility also includes customary events of default, including, among other things, payment default, covenant default, breach of representation or warranty, bankruptcy, cross-default, material ERISA events, a change of control of the Company, material money judgments and failure to maintain subsidiary guarantees.

**Senior Notes**

On May 16, 2006, the Company entered into a senior note purchase agreement and issued and sold \$250.0 million aggregate principal amount of 6.00% Series A Notes due May 16, 2009 and \$250.0 million aggregate principal amount of 6.14% Series B Notes due May 16, 2011. The proceeds were used to retire the \$300.0 million credit agreement, to repay other debt and for general corporate purposes.

The Series A and Series B Notes will accrue interest on the unpaid balance thereof at the rate of 6.00% and 6.14% per annum, respectively, from May 16, 2006, payable semiannually, on May 16 and November 16 in each year, commencing with November 16, 2006, until the principal has become due and payable. The note purchase agreement includes usual and customary negative covenants and events of default for transactions of this type. The senior notes are unsecured. The payment obligations under the senior notes are guaranteed by certain of the Company's existing and future subsidiaries, originally ADS Alliance Data Systems, Inc. Due to their status as guarantors under the 2006 credit facility and pursuant to a Joinder to Subsidiary Guaranty dated as of September 29, 2006, three additional subsidiaries of the Company became guarantors of the senior notes, including Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC and Epsilon Data Management, LLC.

On April 27, 2006, the Company entered into a treasury rate lock agreement with a notional amount of \$250.0 million to mitigate its exposure to increases in interest rates associated with the placement of the senior notes. Effective April 28, 2006, the treasury lock was terminated and the Company realized a loss of \$0.2 million.

*Other* — The Company has other minor borrowings, primarily capital leases, with varying interest rates.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**10. DEBT — (Continued)**

*Maturities* — Debt at December 31, 2006 matures as follows (in thousands):

2007	\$ 302,702
2008	11,352
2009	252,760
2010	1,863
2011	475,700
Thereafter	—
	<u>\$ 1,044,377</u>

**11. INCOME TAXES**

The Company files a consolidated federal income tax return.

	Year Ended December 31,		
	2004	2005 (In thousands)	2006
<b>Components of income before income taxes:</b>			
Domestic	\$ 117,040	\$ 157,027	\$ 227,044
Foreign	47,279	65,099	79,225
Total	<u>\$ 164,319</u>	<u>\$ 222,126</u>	<u>\$ 306,269</u>
<b>Components of income tax expense are as follows:</b>			
<b>Current</b>			
Federal	\$ 4,348	\$ 52,290	\$ 92,442
State	2,114	4,793	6,362
Foreign	24,332	39,773	45,632
Total current	30,794	96,856	144,436
<b>Deferred</b>			
Federal	36,091	5,092	(16,780)
State	630	(3,033)	(1,870)
Foreign	(5,567)	(15,534)	(9,122)
Total deferred	31,154	(13,475)	(27,772)
Total provision for income taxes	<u>\$ 61,948</u>	<u>\$ 83,381</u>	<u>\$ 116,664</u>

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**11. INCOME TAXES — (Continued)**

A reconciliation of recorded federal provision for income taxes to the expected amount computed by applying the federal statutory rate of 35% for all periods to income before income taxes is as follows:

	Year Ended December 31,		
	2004	2005 (In thousands)	2006
Expected expense at statutory rate	\$ 57,511	\$ 77,744	\$ 107,194
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal benefit	1,387	1,144	3,996
Foreign earnings at other than United States rates	531	293	398
Non-deductible expenses	1,512	1,439	4,244
Texas law change, net of federal expense	—	—	(1,076)
Canadian rate reduction	—	—	3,321
Other, net	1,007	2,761	(1,413)
<b>Total</b>	<b>\$ 61,948</b>	<b>\$ 83,381</b>	<b>\$ 116,664</b>

Deferred tax assets and liabilities consist of the following:

	December 31,	
	2005 (In thousands)	2006
<b>Deferred tax assets</b>		
Deferred revenue	\$ 105,304	\$ 112,547
Allowance for doubtful accounts	6,665	16,105
Net operating loss carryforwards and other carryforwards	34,579	53,592
Depreciation	2,476	9,267
Stock-based compensation and other employee benefits	6,919	16,684
Accrued expenses and other	11,417	15,597
Total deferred tax assets	167,360	223,792
Valuation Allowance	(15,931)	(32,070)
Deferred tax assets, net of valuation allowance	151,429	191,722
<b>Deferred tax liabilities</b>		
Deferred income	\$ 35,988	\$ 35,948
Servicing rights	31,167	38,788
Intangible assets	76,900	72,498
Total deferred tax liabilities	144,055	147,234
Net deferred tax asset	\$ 7,374	\$ 44,488
<b>Amounts recognized in the consolidated balance sheet:</b>		
Current assets	\$ 70,221	\$ 88,722
Non-current liabilities	\$ 62,847	\$ 44,234

At December 31, 2006, the Company has, for federal income tax purposes, approximately \$87.5 million of net operating loss carryovers (“NOLs”) and approximately \$2.0 million of tax credits (“credits”), which expire at various times through the year 2025. Pursuant to Section 382 of the Internal Revenue Code, the Company’s utilization of such NOLs and approximately \$2.0 million of tax credits are subject to an annual

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**11. INCOME TAXES — (Continued)**

limitation. The Company believes it is more likely than not that a portion of the federal NOLs and credits will expire before being utilized. Therefore, in accordance with FAS No. 109, "Accounting for Income Taxes", the Company has established a valuation allowance on the portion of NOLs and credits that the Company expects to expire prior to utilization.

At December 31, 2006, the Company has state income tax NOLs of approximately \$356.9 million and state credits of approximately \$2.0 million available to offset future state taxable income. The state NOLs and credits will expire at various times through the year 2026. The Company believes it is more likely than not that a portion of the state NOLs and credits will expire before being utilized. Therefore, in accordance with SFAS No. 109, "Accounting for Income Taxes", the Company has established a valuation allowance on the portion of NOLs and credits that the Company expects to expire prior to utilization.

At December 31, 2006, the Company has foreign income tax NOLs of approximately \$18.0 million and capital losses of approximately \$6.3 million. The foreign NOLs expire at various times through the year 2016. The Company believes it is more likely than not that all foreign NOLs will expire before being utilized and capital gains will not be generated to utilize the capital losses in the foreseeable future. Therefore, in accordance with SFAS No. 109, "Accounting for Income Taxes", the Company has established a valuation allowance on the portion of NOLs that are expected to expire prior to utilization, as well as the entire capital loss.

As of December 31, 2006, the Company's valuation allowance has increased, which is primarily attributable to the anticipated expiration of acquired companies' NOLs. Almost all of these NOLs are subject to an annual limitation under Internal Revenue Code Section 382 and are expected to expire prior to utilization as a result of this limitation.

The Company has unremitted earnings of foreign subsidiaries of approximately \$73.6 million. A deferred tax liability has not been established on the unremitted earnings, as it is management's intention to permanently reinvest those earnings in foreign jurisdictions. If a portion were to be remitted, management believes income tax credits would substantially offset any resulting tax liability.

Of the total tax benefits resulting from the exercise of employee stock options and other employee stock programs, the amounts recorded to stockholders' equity were approximately \$11.2 million, \$13.6 million and \$17.5 million for the years ended 2004, 2005 and 2006, respectively.

In May 2006, Texas repealed its current income tax and replaced it with a gross margins tax that is understood to be accounted for as an income tax. The Company becomes subject to the Texas margins tax beginning January 1, 2007. As a result of the repeal of the former Texas income tax and enactment of the new margins tax, the Company recorded a net tax benefit of \$1.1 million representing the new tax credits available under the enacted Texas margins tax.

The Canadian corporate income tax rates for years beginning in 2008 forward have been decreased. For 2006, the Company recorded \$3.3 million of income tax expense to reduce the net deferred tax assets in Canada related to the future lower income tax rates.

As a matter of course, the Company is regularly examined by federal, state and foreign tax authorities. Although the results of these examinations are uncertain, based on currently available information, the Company believes that the ultimate outcome will not have a material adverse effect on the Company's financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**12. STOCKHOLDERS' EQUITY**

On June 8, 2005, the Company's Board of Directors authorized a repurchase program to acquire up to an aggregate of \$80.0 million of its outstanding common stock through June 2006. On October 27, 2005, the Company's Board of Directors authorized a second stock repurchase program to acquire up to an additional \$220.0 million of its outstanding common stock through October 2006.

On September 28, 2006, the Company's Board of Directors authorized a third stock repurchase program to acquire up to an additional \$600.0 million of its outstanding common stock through December 2008, in addition to any amount remaining available at the expiration of the second stock repurchase program.

Under the plans, the Company has acquired 3,942,100 shares and 2,857,672 shares for approximately \$148.8 million and \$146.0 million for the years ended December 31, 2005 and 2006, respectively.

**13. STOCK COMPENSATION PLANS**

The Company has adopted equity compensation plans to advance the interests of the Company by rewarding certain employees for their contributions to the financial success of the Company and thereby motivating them to continue to make such contributions in the future.

On April 4, 2003, the Board of Directors of the Company adopted the 2003 long term incentive plan and the stockholders approved it at the Company's 2003 annual meeting of stockholders on June 10, 2003. This plan reserves 6,000,000 shares of common stock for grants of incentive stock options, nonqualified stock options, restricted stock awards and performance shares to officers, employees, non-employee directors and consultants performing services for the Company or its affiliates.

On June 7, 2005, at the annual meeting of stockholders, the stockholders approved and adopted the Company's 2005 long term incentive plan, effective July 1, 2005. This plan reserves 4,750,000 shares of common stock for grants of incentive stock options, nonqualified stock options, restricted stock awards, restricted stock units and performance shares to officers, employees, non-employee directors and consultants performing services for the Company or its affiliates. Terms of all awards are determined by the Board of Directors or the compensation committee of the Board of Directors or its designee at the time of award.

Effective January 1, 2006, the Company adopted the provisions of, and accounted for stock-based compensation in accordance with, SFAS No. 123(R) which supersedes APB No. 25. Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized ratably over the requisite service period. The Company elected the modified prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS No. 123(R) apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation expense estimated under SFAS No. 123 pro forma disclosures, adjusted for forfeitures.

In November 2005, the FASB issued Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards" ("FSP 123R-3"). The Company has elected to adopt the alternative transition method provided in FSP 123R-3 for calculating the tax effects of stock-based compensation under SFAS No. 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in-capital pool ("APIC pool") related to the tax effects of stock-based compensation, and for determining the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R).

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**13. STOCK COMPENSATION PLANS — (Continued)**

Total stock-based compensation expense recognized in the Company's consolidated statements of income for the years ended December 31, 2004, 2005, and 2006, is as follows:

	Year Ended December 31,		
	2004	2005 (In thousands)	2006
Cost of operations	\$ 2,339	\$ —	\$ 26,982
General and administrative	13,428	14,143	16,071
Total	<u>\$ 15,767</u>	<u>\$ 14,143</u>	<u>\$ 43,053</u>

As the amount of stock-based compensation expense recognized is based on awards ultimately expected to vest, the amount recognized in the Company's results of operations has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on the Company's historical experience. Prior to the adoption of SFAS No. 123(R), the Company accounted for forfeitures as they occurred in accordance with APB No. 25 and did not estimate forfeitures. As a result, upon adoption of SFAS No. 123(R) the Company recognized a cumulative effect of a change in accounting principle of \$0.8 million, net of tax, to reverse compensation expense recognized for those awards not expected to vest.

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25. Under the intrinsic value method, stock-based compensation expense for employee stock options was not recognized in the Company's results of operations as the exercise price equaled the fair market value of the underlying stock at the date of grant. In accordance with the modified prospective transition method, the Company's prior year financial statements have not been restated to reflect the impact of the adoption of SFAS No. 123(R).

***Restricted Stock***

During 2006, the Company has awarded both service-based and performance-based restricted stock units. Fair value of the restricted stock is estimated on the date of grant. In accordance with SFAS No. 123(R), the Company recognizes the estimated stock-based compensation expense, net of estimated forfeitures, over the applicable service period.

Service-based restricted stock awards typically vest ratably over a three year period. Performance-based restricted stock awards vest if specified performance measures tied to the Company's financial performance are met. The vesting provisions of 86,314 performance-based restricted stock unit awards issued in 2006 to eight employees were modified in March 2006. The vesting provisions, which were dependent on the Company's cash earnings per share ("EPS") growth as compared to the S&P 500, were modified such that under the new terms, the vesting provisions are dependent on the Company's year-over-year cash EPS growth. The number of shares that vest may range from zero to 200%. A minimum cash EPS growth rate of 10% is necessary for the minimum 50% vesting, 18% cash EPS growth for a 100% vesting, and 36% cash EPS growth (or more) for a maximum 200% vesting. The modification had no impact on the fair value of the award; however, it did result in a change in estimate of the most likely outcome of the number of shares to vest. The incremental stock-based compensation expense recorded as a result of the change in estimate was not material.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**13. STOCK COMPENSATION PLANS — (Continued)**

	Performance- Based	Service-Based <sup>(1)</sup>	Total
<b>Balance at January 1, 2004</b>	—	—	—
Shares granted	125,778	195,347	321,125
Shares vested	(121,778)	(4,347)	(126,125)
Shares cancelled	(4,000)	—	(4,000)
<b>Balance at December 31, 2004</b>	—	191,000	191,000
Shares granted	153,086	388,794	541,880
Shares vested	(141,693)	(78,876)	(220,569)
Shares cancelled	(11,393)	(31,078)	(42,471)
<b>Balance at December 31, 2005</b>	—	469,840	469,840
Shares granted	242,015	626,672	868,687
Shares vested	(8,100)	(130,793)	(138,893)
Shares cancelled	(14,460)	(75,765)	(90,225)
<b>Balance at December 31, 2006</b>	219,455	889,954	1,109,409

<sup>(1)</sup> Amounts include 4,347, 4,489 and 3,206 shares of stock issued to the Board of Directors for 2004, 2005 and 2006, respectively. The shares vest immediately, but are subject to transfer restrictions until one year after the director's service on the Board terminates.

The weighted average grant-date fair value per share was \$45.17 for restricted stock awards granted for the year ended December 31, 2006.

**Stock Options**

Stock option awards are granted with an exercise price equal to the market price of the Company's stock. Options typically vest ratably over three years and expire ten years after the date of grant. As of January 1, 2005, the fair value of each option award is estimated on the date of grant using a binomial lattice model. Prior to January 1, 2005, the fair value of each option award was estimated on the grant date using a Black-Scholes valuation model. The following table indicates the assumptions used in estimating fair value for the years ended December 31, 2004, 2005 and 2006.

	Year Ended December 31,		
	2004	2005	2006
Expected dividend yield	—	—	—
Risk-free interest rate	3.4%	2.94%-4.76%	4.53%-4.65%
Expected life of options (years)	4.0	6.4	7.1
Assumed volatility	38.0%	28.8%-43.6%	31.9%-37.0%
Weighted average fair value	\$ 11.94	\$16.60	\$18.46



**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**13. STOCK COMPENSATION PLANS — (Continued)**

The following table summarizes stock option activity under the Company's equity compensation plans:

	Outstanding		Exercisable	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	(In thousands, except per share amounts)			
<b>Balance at January 1, 2004</b>	7,072	\$ 16.20		
Granted	2,001	32.93		
Exercised	(2,131)	14.80		
Cancelled	(327)	23.00		
<b>Balance at December 31, 2004</b>	<u>6,615</u>	<u>\$ 21.33</u>	<u>3,261</u>	<u>\$ 14.08</u>
Granted	2,102	41.00		
Exercised	(1,506)	17.86		
Cancelled	(531)	32.80		
<b>Balance at December 31, 2005</b>	<u>6,680</u>	<u>\$ 27.19</u>	<u>3,319</u>	<u>\$ 18.01</u>
Granted	620	\$ 43.44		
Exercised	(2,053)	21.57		
Cancelled	(375)	29.96		
<b>Balance at December 31, 2006</b>	<u>4,872</u>	<u>\$ 30.98</u>	<u>2,697</u>	<u>\$ 23.80</u>
At December 31, 2006 Vested or Expected to Vest	<u>4,391</u>	<u>\$ 30.07</u>		

Based on the market value on their respective exercise dates, the total intrinsic value of options exercised during the year ended December 31, 2006 was approximately \$64.5 million.

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2006:

Range of Exercise Prices	Outstanding			Exercisable	
	Options	Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	(In thousands, except per share amounts)				
\$9.00 to \$12.00	499	3.9	\$ 11.55	499	\$ 11.55
\$12.01 to \$15.00	634	4.0	\$ 14.97	634	\$ 14.97
\$15.01 to \$22.00	34	5.9	\$ 18.65	34	\$ 18.65
\$22.01 to \$29.00	598	6.5	\$ 24.14	597	\$ 24.13
\$29.01 to \$39.00	963	7.3	\$ 31.97	498	\$ 31.83
\$39.01 to \$47.00	2,125	8.3	\$ 41.78	435	\$ 41.47
\$47.01 to \$54.00	19	9.4	\$ 53.34	—	\$ —
	<u>4,872</u>			<u>2,697</u>	

The aggregate intrinsic value of options outstanding as of December 31, 2006 was approximately \$153.4 million. The aggregate intrinsic value of options outstanding and options exercisable expected to vest as of December 31, 2006 was approximately

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**13. STOCK COMPENSATION PLANS — (Continued)**

\$142.3 million and \$104.6 million with a weighted average remaining contractual life of 6.7 years and 5.8 years, respectively. The number of options outstanding expected to vest is impacted by our forfeiture rate assumptions.

**14. EMPLOYEE BENEFIT PLANS**

On June 7, 2005, at the annual meeting of stockholders, the stockholders approved and adopted the Amended and Restated Employee Stock Purchase Plan (the "ESPP"), effective on July 1, 2005. No employee may purchase more than \$25,000 in stock under the ESPP in any calendar year, and no employee may purchase stock under the ESPP if such purchase would cause the employee to own more than 5% of the voting power or value of the Company's common stock. The ESPP provides for three month offering periods, commencing on the first trading day of each calendar quarter and ending on the last trading day of each calendar quarter. The purchase price of the common stock upon exercise shall be 85% of the fair market value of shares on the applicable purchase date as determined by averaging the high and low trading prices of the last trading day of each quarter. An employee may elect to pay the purchase price of such common stock through payroll deductions. The maximum number of shares that were reserved for issuance under the ESPP is 1,500,000 shares, and subject to adjustment as provided in the ESPP. Employees are required to hold any stock purchased through the ESPP for 180 days prior to any sale or withdrawal of shares. Approximately 646,427 shares of common stock have been purchased under the plan since its adoption, with approximately 82,474 shares purchased in 2006.

On June 7, 2005, the stockholders, at the annual meeting of stockholders, approved the Executive Annual Incentive Plan. Under the plan, the Company may grant to each eligible employee, including executive officers and other key employees, incentive awards to receive cash upon the achievement of pre-established performance goals. No participant may be granted performance awards in excess of \$5.0 million in any calendar year.

The Company maintains a 401(k) retirement savings plan, which covers all eligible U.S. employees. Participants can, in accordance with Internal Revenue Service ("IRS") guidelines, set aside both pre- and post-tax savings in this account. In addition to an employee's savings, the Company contributes to plan participants' accounts. The Alliance 401(k) and Retirement Savings Plan was amended effective January 1, 2004 to better benefit the majority of Company employees. The plan is an IRS-approved safe harbor plan design that eliminates the need for most discrimination testing. Eligible employees can participate in the plan immediately upon joining the Company and after six months of employment begin receiving Company matching contributions. On the first three percent of savings, the Company matches dollar-for-dollar. An additional fifty cents for each dollar an employee contributes is matched for savings of more than three percent and up to five percent of pay. All Company matching contributions are immediately vested. In addition to the Company match, the Company annually may make an additional contribution based on the profitability of the Company. This contribution, subject to Board of Directors approval, is based on a percentage of pay and is subject to a five year vesting schedule. The participants in the plan can direct their contributions and the Company's matching contribution to nine investment options, including the Company's common stock. Company contributions for employees age 65 or older vest immediately. Contributions for the years ended December 31, 2004, 2005 and 2006 were \$11.3 million, \$14.2 million and \$15.2 million, respectively.

The Company also provides a Deferred Profit Sharing Plan for its Canadian employees after one year of service. Company contributions range from one to four percent of earnings, based on years of service. This program changed effective January 1, 2007, and as a result, Company contributions range from one to five percent of earnings, based on years of service.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**14. EMPLOYEE BENEFIT PLANS — (Continued)**

The Company also maintains an Executive Deferred Compensation Plan. The Executive Deferred Compensation Plan provides an opportunity for a select group of management and highly compensated employees to defer on a pre-tax basis a portion of their regular compensation and bonuses payable for services rendered and to receive certain employer contributions.

**15. COMPREHENSIVE INCOME**

The components of comprehensive income, net of tax effect, are as follows:

	Year Ended December 31,		
	2004	2005	2006
	(In thousands)		
Net income	\$ 102,371	\$ 138,745	\$ 189,605
Reclassification into earnings	482	—	—
Unrealized (loss) gain on securities available-for-sale	(144)	414	1,880
Foreign currency translation adjustments(1)	4,965	3,205	(721)
<b>Total comprehensive income</b>	<b>\$ 107,674</b>	<b>\$ 142,364</b>	<b>\$ 190,764</b>

(1) Primarily related to the impact of changes in the Canadian currency exchange rate.

The components of accumulated other comprehensive income are as follows:

	Year Ended December 31,	
	2005	2006
	(In thousands)	
Unrealized gain on securities available-for-sale	\$ 3,511	\$ 5,391
Unrealized foreign currency gain	4,578	3,857
<b>Total comprehensive income</b>	<b>\$ 8,089</b>	<b>\$ 9,248</b>

**16. COMMITMENTS AND CONTINGENCIES**

**AIR MILES Reward Program**

The Company has entered into contractual arrangements with certain AIR MILES Sponsors that result in fees being billed to those Sponsors upon the redemption of reward miles issued by those Sponsors. The Company has obtained letters of credit and other assurances from those Sponsors for the Company's benefit that expire at various dates. These letters of credit and other assurances totaled \$113.5 million at December 31, 2006, which exceeds the amount of the Company's estimate of its obligation to provide travel and other rewards upon the redemption of the reward miles issued by those Sponsors.

The Company currently has an obligation to provide Collectors with travel and other rewards upon the redemption of AIR MILES reward miles. The Company believes that the redemption settlements assets, including the letters of credit and other assurances mentioned above, are sufficient to meet that obligation.

The Company has entered into certain long-term arrangements to purchase tickets from airlines and other suppliers in connection with redemptions under the AIR MILES Reward Program. These long-term arrangements allow the Company to make purchases at set prices. Under these agreements, the Company is required to pay annual minimums of approximately \$22.1 million.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**16. COMMITMENTS AND CONTINGENCIES — (Continued)**

**Leases**

The Company leases certain office facilities and equipment under noncancellable operating leases and is generally responsible for property taxes and insurance related to such facilities. Lease expense was \$43.7 million, \$45.9 million and \$50.2 million for the years ended December 31, 2004, 2005, and 2006, respectively.

Future annual minimum rental payments required under noncancellable operating and capital leases, some of which contain renewal options, as of December 31, 2006 are:

Year:	Operating Leases	Capital Leases
	(In thousands)	
2007	\$ 42,536	\$ 9,149
2008	34,648	7,797
2009	25,685	3,023
2010	18,879	1,971
2011	14,914	712
Thereafter	63,527	—
<b>Total</b>	<b>\$ 200,189</b>	<b>22,652</b>
Less amount representing interest		(2,275)
<b>Total present value of minimum lease payments</b>		<b>\$ 20,377</b>

**Regulatory Matters**

WFNNB is subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, WFNNB must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Before WFNNB can pay dividends to ADSC, it must obtain prior regulatory approval if all dividends declared in any calendar year would exceed its net profits for that year plus its retained net profits for the preceding two calendar years, less any transfers to surplus. In addition, WFNNB may only pay dividends to the extent that retained net profits, including the portion transferred to surplus, exceed bad debts. Moreover, to pay any dividend, WFNNB must maintain adequate capital above regulatory guidelines. Further, if a regulatory authority believes that WFNNB is engaged in or is about to engage in an unsafe or unsound banking practice, which, depending on its financial condition, could include the payment of dividends, the authority may require, after notice and hearing, that WFNNB cease and desist from the unsafe practice.

Quantitative measures established by regulation to ensure capital adequacy require WFNNB to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined) and of Tier 1 capital to average assets (as defined) ("total capital ratio", "Tier 1 capital ratio" and "leverage ratio", respectively). Under the regulations, a "well capitalized" institution must have a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, but 3% is allowed in some

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**16. COMMITMENTS AND CONTINGENCIES — (Continued)**

cases. Under these guidelines, WFNNB is considered well capitalized. As of December 31, 2006, WFNNB's Tier 1 capital ratio was 37.3%, total capital ratio was 39.1% and leverage ratio was 59.1%, and WFNNB was not subject to a capital directive order.

The Company's industrial bank, World Financial Capital Bank, is authorized to do business by the State of Utah and the Federal Deposit Insurance Corporation. World Financial Capital Bank is subject to capital ratios and paid-in capital minimums and must maintain adequate allowances for loan losses. While the consequence of losing the World Financial Capital Bank authority to do business would be significant, the Company believes that the risk of such loss is minimal as a result of the precautions it has taken and the management team it has in place.

As part of an acquisition in 2003 by World Financial Network National Bank, which required approval by the OCC, the OCC required World Financial Network National Bank to enter into an operating agreement with the OCC and a capital adequacy and liquidity maintenance agreement with the Company. The operating agreement requires World Financial Network National Bank to continue to operate in a manner consistent with its current practices, regulatory guidelines and applicable law, including those related to affiliate transactions, maintenance of capital and corporate governance. This operating agreement has not required any changes in World Financial Network National Bank's operations. The capital adequacy and liquidity maintenance agreement memorializes the Company's current obligations to World Financial Network National Bank.

If either of the Company's depository institution subsidiaries, World Financial Network National Bank or World Financial Capital Bank, failed to meet the criteria for the exemption from the definition of "bank" in the Bank Holding Company Act under which it operates, and if the Company did not divest such depository institution upon such an occurrence, the Company would become subject to regulation under the Bank Holding Company Act. This would require the Company to cease certain activities that are not permissible for companies that are subject to regulation under the Bank Holding Company Act.

**Cardholders**

The Company's Credit Services segment is active in originating private label and co-branded credit cards in the United States. The Company reviews each potential customer's credit application and evaluates the applicant's financial history and ability and perceived willingness to repay. Credit card loans are made primarily on an unsecured basis. Cardholders reside throughout the United States and are not significantly concentrated in any one area.

Holders of credit cards issued by the Company have available lines of credit, which vary by cardholders that can be used for purchases of merchandise offered for sale by clients of the Company. These lines of credit represent elements of risk in excess of the amount recognized in the financial statements. The lines of credit are subject to change or cancellation by the Company. As of December 31, 2006, the Company had approximately 29.3 million cardholders, having unused lines of credit averaging \$947 per account.

**Legal Proceedings**

From time to time, the Company is involved in various claims and lawsuits arising in the ordinary course of business that it believes will not have a material adverse affect on its business or financial condition, including claims and lawsuits alleging breaches of contractual obligations.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**17. FINANCIAL INSTRUMENTS**

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit through charge cards. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

*Fair Value of Financial Instruments* — The estimated fair values of the Company's financial instruments were as follows:

	2005		December 31,	
	Carrying Amount	Fair Value	2006	Fair Value
	(In thousands)			
<b>Financial assets</b>				
Cash and cash equivalents	\$ 143,213	\$ 143,213	\$ 180,075	\$ 180,075
Due from card associations	58,416	58,416	108,671	108,671
Trade receivables, net	203,883	203,883	271,563	271,563
Seller's interest and credit card receivables, net	479,108	479,108	569,389	569,389
Redemption settlement assets, restricted	260,963	260,963	260,957	260,957
Due from securitizations	271,256	271,256	325,457	325,457
<b>Financial liabilities</b>				
Accounts payable	67,384	67,384	112,582	112,582
Merchant settlement obligations	127,038	127,038	188,336	188,336
Debt	836,944	836,944	1,044,377	1,048,477

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed herein:

*Cash and cash equivalents, due from card associations, trade receivables, net, accounts payable, and merchant settlement obligations* — The carrying amount approximates fair value due to the short maturity.

*Seller's interest and credit card receivables, net* — The carrying amount of credit card receivables approximates fair value due to the short maturity, and the average interest rates approximate current market origination rates.

*Redemption settlement assets* — Fair value for securities are based on quoted market prices.

*Due from securitizations* — The spread deposits and I/O strips are recorded at their fair value. The carrying amount of excess funding deposits approximates its fair value due to the relatively short maturity period and average interest rates, which approximate current market rates.

*Debt* — The fair value was estimated based on the current rates available to the Company for debt with similar remaining maturities.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**18. PARENT-ONLY FINANCIAL STATEMENTS**

ADSC provides guarantees under the credit facilities on behalf of certain of its subsidiaries. The stand alone parent-only financial statements are presented below.

**Balance Sheets**

	December 31,	
	2005	2006
(In thousands)		
<b>Assets:</b>		
Cash and cash equivalents	\$ 5	\$ 20
Investment in subsidiaries	733,444	1,262,115
Intercompany receivables	874,157	805,768
Other assets	3,171	3,073
Total assets	<u>\$ 1,610,777</u>	<u>\$ 2,070,976</u>
<b>Liabilities:</b>		
Current debt	\$ 230,000	\$ —
Long-term debt	211,000	725,000
Other liabilities	248,670	274,443
Total liabilities	689,670	999,443
Stockholders' equity	921,107	1,071,533
Total liabilities and stockholders' equity	<u>\$ 1,610,777</u>	<u>\$ 2,070,976</u>

**Statements of Income**

	Year Ended December 31,		
	2004	2005	2006
(In thousands)			
Interest from loans to subsidiaries	\$ 20,049	\$ 27,235	\$ 33,996
Dividends from subsidiaries	100,900	100,000	102,500
Total revenue	120,949	127,235	136,496
Interest expense, net	4,429	11,665	34,061
Other expenses	239	140	184
Total expenses	4,668	11,805	34,245
Income before income taxes and equity in undistributed net income of subsidiaries	116,281	115,430	102,251
Provision for income taxes	4,567	10,192	1,399
Income before equity in undistributed net income of subsidiaries	111,714	105,238	100,852
Equity in undistributed net income of subsidiaries	(9,343)	33,507	88,753
Net income	<u>\$ 102,371</u>	<u>\$ 138,745</u>	<u>\$ 189,605</u>

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**18. PARENT-ONLY FINANCIAL STATEMENTS — (Continued)**

**Statements of Cash Flows**

	Year Ended December 31,		
	2004	2005 (In thousands)	2006
Net cash (used in) provided by operating activities	\$ (8,926)	\$ 18,292	\$ (97,857)
Investing activities:			
Net cash paid for corporate acquisitions	(314,453)	(140,901)	(205,567)
Net cash used in investing activities	(314,453)	(140,901)	(205,567)
Financing activities:			
Credit facility and subordinated debt	765,000	1,264,000	3,599,000
Repayment of credit facility and subordinated debt	(577,000)	(1,126,000)	(3,315,000)
Excess tax benefit from share-based awards	—	—	17,521
Other	—	—	(3,415)
Purchase of treasury shares	—	(145,043)	(145,998)
Net proceeds from issuances of common stock	34,528	29,106	48,831
Dividends paid	100,900	100,000	102,500
Net cash provided by financing activities	323,428	122,063	303,439
Increase (decrease) in cash and cash equivalents	49	(546)	15
Cash and cash equivalents at beginning of year	502	551	5
Cash and cash equivalents at end of year	<u>\$ 551</u>	<u>\$ 5</u>	<u>\$ 20</u>

**19. SEGMENT INFORMATION**

Operating segments are defined by SFAS No. 131 "Disclosure About Segments of an Enterprise and Related Information" as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision making group is the Executive Committee of management, which consists of the Chairman of the Board and Chief Executive Officer, Chief Operating Officer, and all Executive Vice Presidents. The operating segments are reviewed separately because each operating segment represents a strategic business unit that generally offers different products and serves different markets.

The Company operates in three reportable segments: Marketing Services, Credit Services and Transaction Services.

- Marketing Services provides loyalty programs, such as the AIR MILES Reward Program, and integrated direct marketing solutions that combine database marketing technology and analytics with a broad range of direct marketing services, that includes email marketing campaigns. The Marketing Services segment has two operating segments, AIR MILES Reward Program and U.S. Marketing Services, that have been aggregated to one reportable segment.
- Credit Services provides private label, commercial and co-brand credit card receivables financing. Credit Services generally securitizes the credit card receivables that it underwrites from its private label credit card programs.



**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**19. SEGMENT INFORMATION — (Continued)**

- Transaction Services encompasses card processing, billing and payment processing and customer care for specialty and petroleum retailers (processing services), customer information system hosting, customer care and billing and payment processing for regulated and de-regulated municipal utilities (utility services) and point-of-sale services (merchant services).

The Transaction Services segment performs card processing and servicing activities for cardholder accounts generated by the Credit Services segment. For this, the Transaction Services segment receives a fee equal to its direct costs before corporate overhead plus a margin. The margin is based on estimated current market rates for similar services. This fee represents an operating cost to the Credit Services segment and a corresponding revenue for the Transaction Services segment. Inter-segment sales are eliminated upon consolidation. Revenues earned by the Transaction Services segment from servicing the Credit Services segment, and consequently paid by the Credit Services segment to the Transaction Services segment, are set forth opposite "Other and eliminations" in the tables below.

The accounting policies of the operating segments are generally the same as those described in the summary of significant accounting policies. Corporate overhead is allocated equally across the segments.

Interest expense, net and income taxes are not allocated to the segments in the computation of segment operating profit for internal evaluation purposes. Total assets are not allocated to the segments.

Year Ended December 31, 2004	Marketing Services	Credit Services	Transaction Services (In thousands)	Other/ Elimination	Total
Revenues	\$ 375,630	\$ 513,988	\$ 681,736	\$ (313,916)	\$ 1,257,438
Adjusted EBITDA <sup>(1)</sup>	56,081	125,718	97,465	—	279,264
Depreciation and amortization	21,674	7,938	61,786	—	91,398
Stock compensation expense	5,256	5,256	5,255	—	15,767
Operating income	29,151	112,524	30,424	—	172,099
Fair value loss on interest rate derivative	—	(808)	—	—	(808)
Interest expense, net	—	—	—	6,972	6,972
Income before income taxes	\$ 29,151	\$ 111,716	\$ 30,424	\$ (6,972)	\$ 164,319
Capital expenditures	\$ 17,263	\$ 1,375	\$ 29,691	\$ —	\$ 48,329

Year Ended December 31, 2005	Marketing Services	Credit Services	Transaction Services (In thousands)	Other/ Elimination	Total
Revenues	\$ 604,145	\$ 561,413	\$ 699,884	\$ (313,005)	\$ 1,552,437
Adjusted EBITDA <sup>(1)</sup>	97,903	162,481	90,074	—	350,458
Depreciation and amortization	36,477	6,647	56,583	—	99,707
Stock compensation expense	4,714	4,714	4,715	—	14,143
Operating income	56,712	151,120	28,776	—	236,608
Interest expense, net	—	—	—	14,482	14,482
Income before income taxes	\$ 56,712	\$ 151,120	\$ 28,776	\$ (14,482)	\$ 222,126
Capital expenditures	\$ 20,340	\$ 2,152	\$ 43,408	\$ —	\$ 65,900

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**19. SEGMENT INFORMATION — (Continued)**

Year Ended December 31, 2006	Marketing Services	Credit Services	Transaction Services (In thousands)	Other/ Elimination	Total
Revenues	\$ 849,158	\$ 731,338	\$ 776,036	\$ (357,790)	\$ 1,998,742
Adjusted EBITDA <sup>(1)</sup>	159,186	248,204	107,970	—	515,360
Depreciation and amortization	58,681	13,690	52,669	—	125,040
Stock compensation expense	18,162	8,451	16,440	—	43,053
Operating income	82,343	226,063	38,861	—	347,267
Interest expense, net	—	—	—	40,998	40,998
Income before income taxes	\$ 82,343	\$ 226,063	\$ 38,861	\$ (40,998)	\$ 306,269
Capital expenditures	\$ 32,652	\$ 1,996	\$ 65,704	\$ —	\$ 100,352

(1) Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, fair value loss on interest rate derivative, other expenses, depreciation and amortization. Adjusted EBITDA is presented in accordance with SFAS No. 131 as it is the primary performance metric by which senior management is evaluated.

Information concerning principal geographic areas is as follows:

	United States	Canada	Other	Total
<b>Revenues</b>				
Year Ended December 31, 2004	\$ 913,378	\$ 338,919	\$ 5,141	\$ 1,257,438
Year Ended December 31, 2005	1,135,968	412,193	4,276	1,552,437
Year Ended December 31, 2006	1,413,957	571,920	12,865	1,998,742
<b>Long lived assets</b>				
December 31, 2005	\$ 1,339,530	\$ 544,099	\$ —	\$ 1,883,629
December 31, 2006	1,519,199	560,182	14,659	2,094,040

**20. SUBSEQUENT EVENTS**

In December 2006, the Company entered into an agreement to acquire Abacus, a division of DoubleClick Inc. Abacus is a leading provider of data, data management and analytical services for the retail and catalog industry as well as other industries. The acquisition closed in February 2007. Total consideration paid was approximately \$435 million in cash.

In January 2007, the Company entered into a short term credit agreement with the Bank of Montreal which provides for loans to the Company in a maximum amount of \$400.0 million. At the closing of this bridge loan, the Company borrowed \$300.0 million for general corporate purposes including the repayment of debt and the financing of permitted acquisitions. The bridge loan includes an uncommitted accordion feature of up to \$100.0 million, subject to certain conditions. The bridge loan is scheduled to mature on July 24, 2007. The bridge loan is unsecured. The bridge loan must be prepaid prior to the scheduled maturity date if the Company or any subsidiary issues any debt or equity securities, subject to certain exceptions.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**21. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

Unaudited quarterly results of operations for the years ended December 31, 2005 and 2006 are presented below.

	Quarter Ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
	(In thousands, except per share amounts)			
Revenues	\$ 375,875	\$ 370,568	\$ 384,813	\$ 421,181
Operating expenses	313,626	313,221	325,008	363,974
Interest expense, net	2,761	2,353	2,422	6,946
Income before income taxes	59,488	54,994	57,383	50,261
Provision for income taxes	22,306	20,611	21,532	18,932
Net income	\$ 37,182	\$ 34,383	\$ 35,851	\$ 31,329
Net income per share — basic	\$ 0.45	\$ 0.42	\$ 0.43	\$ 0.39
Net income per share — diluted	\$ 0.43	\$ 0.40	\$ 0.42	\$ 0.38

	Quarter Ended			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
	(In thousands, except per share amounts)			
Revenues	\$ 477,231	\$ 490,447	\$ 506,584	\$ 524,480
Operating expenses	377,823	407,265	417,375	449,012
Interest expense, net	8,537	10,059	10,639	11,763
Income before income taxes	90,871	73,123	78,570	63,705
Provision for income taxes	34,450	28,328	29,790	24,096
Net income	\$ 56,421	\$ 44,795	\$ 48,780	\$ 39,609
Net income per share — basic	\$ 0.70	\$ 0.56	\$ 0.61	\$ 0.50
Net income per share — diluted	\$ 0.69	\$ 0.55	\$ 0.60	\$ 0.48

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Alliance Data Systems Corporation has duly caused this annual report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLIANCE DATA SYSTEMS CORPORATION

By: \_\_\_\_\_ /s/ J. Michael Parks  
J. Michael Parks  
*Chairman of the Board, Chief Executive Officer  
and Director*

DATE: FEBRUARY 26, 2007

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of Alliance Data Systems Corporation and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
_____ /s/ J. Michael Parks J. Michael Parks	Chairman of the Board, Chief Executive Officer and Director	February 26, 2007
_____ /s/ Edward J. Heffernan Edward J. Heffernan	Executive Vice President and Chief Financial Officer	February 26, 2007
_____ /s/ Michael D. Kubic Michael D. Kubic	Senior Vice President, Corporate Controller, and Chief Accounting Officer	February 26, 2007
_____ /s/ Bruce K. Anderson Bruce K. Anderson	Director	February 26, 2007
_____ /s/ Roger H. Ballou Roger H. Ballou	Director	February 26, 2007
_____ /s/ Lawrence M. Benveniste, Ph.D. Lawrence M. Benveniste, Ph.D.	Director	February 26, 2007
_____ /s/ D. Keith Cobb D. Keith Cobb	Director	February 26, 2007
_____ /s/ E. Linn Draper, Jr., Ph.D. E. Linn Draper, Jr., Ph.D.	Director	February 26, 2007
_____ /s/ Kenneth R. Jensen Kenneth R. Jensen	Director	February 26, 2007
_____ /s/ Robert A. Minicucci Robert A. Minicucci	Director	February 26, 2007

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SCHEDULE II  
ALLIANCE DATA SYSTEMS CORPORATION  
CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Write-Offs Net of Recoveries	Balance at End of Period
Allowance for Doubtful Accounts — Trade receivables:					
Year Ended December 31, 2004	\$ 1,316	\$ 495	\$ 342	\$ (695)	\$ 1,458
Year Ended December 31, 2005	1,458	799	40	(218)	2,079
Year Ended December 31, 2006	2,079	3,550	208	(512)	5,325
Allowance for Doubtful Accounts — Seller's interest and credit card receivables:					
Year Ended December 31, 2004	17,151	1,797	2,535	(9,810)	11,673
Year Ended December 31, 2005	11,673	20,916	21,698	(15,872)	38,415
Year Ended December 31, 2006	38,415	33,777	4,802	(31,075)	45,919

LEASE

THIS LEASE made the 14<sup>th</sup> day of November, 2005,  
IN PURSUANCE OF THE SHORT FORMS OF LEASES ACT

BETWEEN:

592423 ONTARIO INC.,  
(the "Landlord")

OF THE FIRST PART

AND

LOYALTY MANAGEMENT GROUP CANADA INC.,  
(the "Tenant")

OF THE SECOND PART

In consideration of the premises and the mutual covenants, agreements and conditions herein contained, it is hereby covenanted, agreed and declared between the parties as follows:

**ARTICLE 1.00 - DEFINITIONS**

The terms defined herein shall, for all purposes of this Lease and all instruments supplemental hereto, have the following meanings, unless the context expressly or by necessary implication otherwise requires:

- (a) **"Additional Rent"** shall mean all sums of money, other than Basic Rent, which are required to be paid by the Tenant pursuant to any provision of this Lease.
  - (b) **"Additional Service"** shall mean any service which is requested by the Tenant in addition to those supplied by the Landlord as part of the normal Development service and which the Landlord is prepared to supply at an additional cost to the Tenant.
  - (c) **"Additional Service Cost"** shall mean the additional cost payable by the Tenant to the Landlord for any Additional Service.
  - (d) **"Basic Rent"** shall mean the rent payable by the Tenant pursuant to Section 4.1.
  - (e) **"Building"** shall mean the building and all other fixed improvements situate at any time on the Lands, all of which are commonly known as 438 University Avenue, Toronto, Ontario.
  - (f) **"Building Standard"** shall mean the building standard established by the Landlord, including matters of design, construction and/or installation to be observed by the tenants in the Building, as amended from time to time by the Landlord, acting reasonably.
  - (g) **"Business Hours"** shall mean the period from 7:00 A.M. to 6:00 P.M. on any Business Day and **"Business Day"** shall mean Monday through Friday excluding all statutory or civic holidays. **"Business Operating Hours"** has the meaning ascribed to it in Section 6.2 herein.
  - (h) **"Capital Tax"** shall mean any tax or taxes payable under the Corporations Tax Act (Ontario) or under any existing or proposed
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federal legislation based upon or computed by reference to the paid-up capital or place of business Of the Landlord and/or the owners of the Development as determined for the purposes of such tax or based upon or computed by reference to the taxable capital employed in Canada or any similar tax levied, imposed or assessed in the future in lieu thereof or in addition thereto by any municipal, legislative or parliamentary authority.

- (i) **“Common Facilities”** shall mean those areas and facilities of the Development which serve the Development, including, without limitation, the landscaped areas, sidewalks, public entrance doors, halls, public lobbies, lavatories, stairways, passageways, elevators, service ramps and common loading and receiving facilities and Common Use Equipment and which are designated from time to time by the Landlord for the common use and enjoyment of the tenants in the Development, including the Tenant, and their agents, invitees, servants, employees and licensees or for use by the public, but excluding rentable premises in the Building and other portions of the Building which are from time to time designated by the Landlord for private use by one or a limited group of tenants.
  - G) **“Common Use Equipment”** shall mean all mechanical, plumbing, electrical and HVAC equipment, pipes, ducts, wiring, machinery and equipment and other integral services, utility connections and the like providing services to the Building, but for greater certainty shall exclude any items installed by the Tenant pursuant to Sections 16.27, 16.28 and 16.29 of this Lease.
  - (k) **“Development”** shall mean the Lands and the Building.
  - (l) **“Insured Damage”** shall mean that part of any damage occurring to the Development, including the Premises, of which the cost of repair (except as to any reasonable deductible amount provided for in the applicable policy or policies of insurance) is recovered by the Landlord or its assignee under a policy or policies of insurance from time to time effected by the Landlord pursuant hereto or would have been recoverable had the Landlord taken out the insurance required of it pursuant to this Lease.
  - (m) **“Lands”** shall mean the lands described in Schedule “B” attached hereto, as the boundaries thereof may be varied from time to time by additions functionally integrated therewith or by deletions for road widening or other public purposes.
  - (n) INTENTIONALLY DELETED
  - (o) **“Lease”** shall mean this lease agreement, including any Schedules, as amended from time to time pursuant hereto.
  - (p) **“Leasehold Improvements”** shall mean all items generally considered as leasehold improvements, including, without limitation, all fixtures, equipment, improvements, installations, alterations and additions from time to time made, erected or installed by or on behalf of the Tenant or any previous occupant of the Premises, in the Premises, including all partitions however affixed and whether or not movable, and all wall-to-wall carpeting, other than carpeting laid over finished floors and affixed so as to be readily removable without damage; but excluding trade fixtures, furniture, unattached or free-standing partitions and equipment which is readily removable without causing material damage.
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- (q) **“Operating Costs”** shall mean operating costs as defined in Schedule “C” attached hereto;
- (r) INTENTIONALLY DELETED
- (s) **“Premises”** shall mean the premises demised to the Tenant under this Lease consisting of all of the 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup>, 9<sup>th</sup>, 10<sup>th</sup>, and 11<sup>th</sup> floors of the Building, (each containing 17,656.6 square feet of Rentable Area), for a total of 176,566 square feet of Rentable Area as per the certificate attached as Schedule “J” to this Lease, which Premises are shown on Schedule “E” attached hereto and the Rentable Area of which have been determined in accordance with the Standard Method of Floor Measurement set forth in Schedule “A”.
- (t) **“Present Value”** shall mean the value determined by using an annual discount rate equal to the annual rate of interest in effect as of such date of default announced by the Canadian Imperial Bank of Commerce as its prime rate, being the reference rate used by it to determine interest for loans in Canadian dollars to Canadian customers.
- (u) **“Proportionate Share”** shall mean a fraction having as its numerator the Rentable Area of the Premises and as its denominator the Total Rentable Area of the Building.
- (v) **“Rate of Interest”** shall mean the annual rate of interest announced from time to time by the Canadian Imperial Bank of Commerce as the reference rate of interest then in effect for loans to customers of varying degrees of credit-worthiness plus 3%, adjusted from time to time to reflect changes in such rate.
- (w) **“Rent”** shall mean Basic Rent and Additional Rent.
- (x) **“Rentable Area”** and **“Net Rentable Area”** shall mean the number of square feet of floor area determined in accordance with the method of floor measurement set forth in Schedule “A”.
- (y) **“Sales Taxes”** shall mean all goods and services taxes or similar taxes imposed by the government of Canada or any provincial or local government upon the Landlord or the Tenant or in respect of this Lease or the payments made by the Tenant hereunder or the goods and services provided by the Landlord hereunder, including, without limitation, the rental of the Premises and the provision of administrative services to the Tenant hereunder.
- (z) **“Taxes”** shall mean all taxes, rates, duties, levies, fees, charges, sewer levies, local improvement rates and assessments whatsoever imposed, assessed, levied or charged now or in the future by any school, municipal, regional, provincial, federal, parliamentary or other governmental body, corporate authority, agency or commission (including, without limitation, school boards and utility commissions) against the Development and/or the Landlord and/or the owner of the Development in connection therewith. There shall be excluded from Taxes:
- (i) land improvement levies, development charges and local improvement rates to the extent incurred in respect of the initial development of the Development or any additions thereto (including, without limitation, the construction of any additions to the Building and any additional building(s) erected on the Lands);
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- (ii) the Landlord's corporate, business, inheritance, estate, succession, income, profits and excess profits taxes and any other, rate, duty, fee, assessment, impost, charge or levy of a personal nature to the Landlord, including, without limitation, Capital Tax (including, without limitation, the federal Large Corporation Tax); and
  - (iii) any penalties or carrying charges relating to the late payment by the Landlord of Taxes or any installment(s) thereof.
- (aa) **"Tenant's Taxes"** shall mean the aggregate of:
- (i) all taxes imposed upon the Tenant which are attributable to the personal property, furnishings, fixtures and Leasehold improvements installed in the Premises; and
  - (ii) all taxes imposed upon the Tenant which are attributable to the business, income or occupancy of the Tenant or any other occupant of the Premises and to the use of any of the Common Facilities by the Tenant or other occupant of the Premises.
- (bb) **"Term"** shall mean the term of this Lease as specified in Section 3.3 as same may be extended pursuant to Section 16.26 of this Lease.
- (cc) **"Total Rentable Area of the Building"** shall mean the aggregate of all Rentable Areas (including the Premises) of the Building, measured in accordance with the method of floor measurement specified in Schedule "A" of this Lease, excluding all storage areas located below grade.

**ARTICLE 2.00 — GENERAL COVENANTS**

**2.1 Tenant's Covenants**

The Tenant covenants with the Landlord:

- (a) to pay Rent; and
- (b) to observe and perform all the covenants and obligations of the Tenant herein.

**2.2 Landlord's Covenants**

The Landlord covenants with the Tenant:

- (a) for quiet enjoyment; and
- (b) to observe and perform all the covenants and obligations of the Landlord herein.

**ARTICLE 3.00 — DEMISE AND TERM**

**3.1 Demise of Premises**

The Landlord hereby demises and leases unto the Tenant, and the Tenant hereby leases from the Landlord, the Premises for the Term and subject to the provisions of this Lease.

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**3.2 License Over Certain Common Facilities**

The Landlord hereby grants to the Tenants its agents, employees, invitees and other persons transacting business with it, in common with all others entitled thereto, a license to have the use of such of the Common Facilities as is reasonably necessary for the use, enjoyment and access to the Premises, including, without limitation, the entrances to the Building, the elevators, stairways, corridors, foyers, lobbies and lavatories; provided, however, that such use shall be subject to all other provisions contained in this Lease and to the Landlord's Rules and Regulations referred to in Section 7.6.

**3.3 Term**

To have and to hold the Premises for and during the term of ten (10) years and 14 days (the "**Term**"), commencing September 17<sup>th</sup>, 2007, or such date as may be extended pursuant to Section 16.19 hereof (the "**Commencement Date**") and ending September 30<sup>th</sup>, 2017.

The Tenant shall have the right to occupy and commence operation in the Premises prior to the Commencement Date, provided that both the Tenant's Work and Landlord's Work have been completed. Should the Tenant occupy the Premises prior to the Commencement Date, the Tenant shall be governed by the terms and conditions of this Lease, save for the payment of any Basic Rent, and the Tax component of Additional Rent. For clarity purposes, the Tenant shall be responsible for the payment of Operating Costs and the Tenant hydro for the portion of the Premises that it occupies and operates its business in prior to the Commencement Date. Should the Tenant request the Landlord to complete the Landlord's Work prior to December 31, 2006 (on space that is located on the 4<sup>th</sup> to 7<sup>th</sup> floors only), the Tenant shall be responsible for the payment of Additional Rent for any period that it occupies and operates its business in prior to December 31, 2006. Prior to occupancy, the Tenant shall provide evidence of insurance coverage satisfactory to the Landlord, acting reasonably.

**3.4 Overholding**

If the Tenant occupies any part of the Premises after the expiration or sooner termination of the Term without objection by the Landlord, the Tenant shall be deemed to be only a monthly tenant at a monthly basic rent payable in advance and equal to one and one-quarter (VA) of the monthly Basic Rent payable immediately prior to the overholding, plus additional rent equivalent to Additional Rent hereunder, and otherwise on the same terms as herein contained, except for any right of renewal; and such tenancy may be terminated by either the Landlord or the Tenant on 30 days' notice to the other. Nothing herein shall limit the liability of the Tenant in damages or otherwise.

**3.5 Leasehold Improvements**

- (a) Subject to Sections 3.5(b) and (c) and Sections 16.27, 16.28, 16.29 and 16.30, upon the expiration or other termination of this Lease, all Leasehold Improvements in the Premises, including all fixed partitions (including floor to ceiling partitions which, although demountable, involve attachment to any floor, ceiling or permanent wall such that they cannot be removed without damage to the Premises, but excluding the Tenant's movable partitions, such as free-standing partitions or partial height partitions which can be removed without damage to the Premises and which shall be deemed to be removable trade fixtures) shall remain upon and be surrendered with the Premises as a part thereof without disturbance, molestation or injury and the same and any trade fixtures not removed or not in the process of being removed by the Tenant are the property of the
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Landlord absolutely, free of any liens or encumbrances and without payment therefore to the Tenant.

- (b) The Landlord may, by notice to the Tenant prior to or promptly after the expiration or other termination of this Lease, require the removal forthwith, at the expense of the Tenant, of any or all of the Tenant's trade fixtures and the repair forthwith of any damage to the Premises or the Development caused by such removal, such work to be done forthwith by or at the direction of the Landlord and at the expense of the Tenant. If such notice is given prior to the expiration or other termination of this Lease, such removal and repair shall be completed by such expiration or termination.
- (c) Notwithstanding anything herein contained, provided the Tenant has paid the Rent hereby reserved and performed and observed all the covenants and conditions herein contained, the Tenant shall have, at the expiration or other termination of this Lease, the right to remove its trade fixtures, furnishings and equipment provided that the Tenant repairs by the expiration or other termination of this Lease, at its own expense, any damage to the Premises or the Development caused by such removal, such work to be done by or at the direction of the Landlord and at the expense of the Tenant.

**ARTICLE 4.00 — RENT**

**4.1 Basic Rent**

The Tenant shall pay to the Landlord yearly and every year during the Term without any set-off, compensation or deduction whatsoever, except as is otherwise specifically provided for in this Lease, Basic Rent in Canadian dollars as follows:

- (a) For the first year (plus 14 days) to the end of the fifth year, the sum of \$16.00 per square foot of Rentable Area annually plus G.S.T., payable in advance in equal consecutive monthly installments on the first day of each and every month during such period; and
- (b) for years six to ten inclusive, the sum of \$16.50 per square foot of Rentable Area annually plus G.S.T., payable in advance in equal consecutive monthly installments on the first day of each and every month during such period.

**4.2 Additional Rent**

The Tenant shall pay to the Landlord during the Term, when due, as Additional Rent:

- (a) all Tenant's Taxes;
  - (b) that portion of Taxes payable by the Tenant pursuant to Section 5.3;
  - (c) the Tenant's Proportionate Share of Operating Costs pursuant to Section 6.1;
  - (d) all Additional Service Costs payable by the Tenant; and
  - (e) all other amounts payable by the Tenant pursuant to this Lease.
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**4.3 Payment of Additional Rent**

The Additional Rent specified in Sections 4.2(b) and (c) shall be paid and adjusted with reference to a fiscal period of 12 calendar months, which shall be the 12-month period ending on December 31st in each year during the Term, unless the Landlord, by notice to the Tenant, shall from time to time have selected a fiscal period which ends on a different date (but which shall be a 12-month period, except where a shorter broken fiscal period occurs at the commencement or end of the Term or is necessary to accommodate a change in the fiscal period made during the Term). From time to time throughout the Term, the Landlord shall give notice to the Tenant of the Landlord's estimate of such Additional Rent to be paid by the Tenant during the next ensuing fiscal period. Each estimate shall be reasonable. Such Additional Rent payable by the Tenant shall be paid in equal monthly installments in advance at the same time as payment of Basic Rent is due hereunder and shall be based on the Landlord's estimate as aforesaid. From time to time the Landlord may re-estimate on a reasonable basis the amount of such Additional Rent for any fiscal period, in which case the Landlord shall give notice to the Tenant of such re-estimate and fix new equal monthly installments for the remaining balance of such fiscal period so that after giving credit for the installments paid by the Tenant on the basis of the previous estimate or estimates, all the Additional Rent as estimated or re-estimated will have been paid during such fiscal period.

All Additional Service Costs shall be paid by the Tenant within 5 days after receipt by it from time to time of invoices from the Landlord specifying the amounts thereof.

**4.4 Adjustment of Additional Rent**

The Landlord agrees to provide the Tenant with an audited accounting of the actual Additional Rent payable to the Landlord pursuant to Sections 4.2(b) and 4.2(c) in respect of the relevant fiscal period referred to in Section 4.3 within one hundred and twenty (120) days of the end of each such fiscal period. Within thirty (30) days after the receipt of such accounting for the relevant fiscal period, either the Tenant shall pay to the Landlord any amount by which the amount found payable by the Tenant with respect to such fiscal period exceeds the aggregate of the monthly payments made by it on account thereof or the Landlord shall pay to the Tenant any amount by which the amount found payable as aforesaid is less than the aggregate of such monthly payments. The Tenant shall have the right exercisable by the delivery of written notice to the Landlord within eighteen (18) months following receipt by it of the relevant audited accounting of such Additional Rent for the relevant fiscal period, upon reasonable prior notice to have access to Landlord's books and records respecting such Additional Rent for the relevant fiscal period for the purposes of verifying same, provided that such verification is completed by a chartered accounting firm that is not compensated on a contingency basis. Such verification shall be done at the sole cost and expense of the Tenant unless the results of such verification indicate that the said Additional Rent for the relevant fiscal period have been overstated by 4% or more, in which event Landlord shall reimburse the Tenant for its costs of such verification within fifteen (15) days of receipt of an invoice therefore, failing which, the Tenant shall be entitled to deduct same from the Rent. The Tenant shall reimburse Landlord for its reasonable bona fide out-of-pocket costs incurred in respect of any such verification by the Tenant, unless the results of such verification indicate that the said Additional Rent for the relevant fiscal period have been overstated by 4% or more, in which event the Landlord shall be responsible for all such out-of-pocket costs. For greater certainty should the Tenant fail to provide the Landlord with written notice of the exercise of its rights hereunder within eighteen (18) months of receipt by it of the relevant audited accounting of such Additional Rent for the relevant fiscal period, the Tenant's right to

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conduct such verification for such relevant fiscal period shall become null and void.

In the event of any dispute by the Tenant as to the amount of such Additional Rent payable, a letter of the Landlord's auditors shall be conclusive absent manifest error.

4.5 **Apportionment of Rent**

Rent shall be considered as accruing from day to day hereunder. If it is necessary to calculate Rent for a period of less than one year or less than one calendar month, an appropriate apportionment and adjustment on a pro rata daily basis shall be made. Where the calculation of Additional Rent cannot be made until after the expiration or earlier termination of this Lease, the obligation of the Tenant to pay such Additional Rent and the obligation of the Landlord to refund any overpayments shall survive the expiration or earlier termination hereof and such amount shall be paid by the Tenant to the Landlord forthwith upon demand or by the Landlord to the Tenant forthwith upon determination of any such overpayment, as the case may be. If the Term commences on any day other than the first day of the month, Rent for such fraction of a month shall be adjusted as aforesaid and paid by the Tenant on the Commencement Date.

4.6 **No Right of Set-off**

The Tenant expressly waives the benefits of Section 35 of the Commercial Tenancies Act, and any amendments thereto and any present or future enactment of the Province of Ontario permitting the Tenant to claim a set-off against Rent for any cause whatsoever.

4.7 **Additional Rent Deemed Rent**

All Additional Rent shall be deemed to be Rent and the Landlord shall have all rights against the Tenant for default in payment of Additional Rent as for default in the payment of Basic Rent.

4.8 **Interest on Arrears**

If the Tenant fails to pay Rent when due, the Tenant shall pay interest on the unpaid amount at the Rate of Interest from the date due until the date paid without prejudice to and in addition to any other remedy available to the Landlord under this Lease or at law.

4.9 **Net Lease to Landlord**

This Lease and the Rent payable hereunder shall be absolutely net to the Landlord, except as expressly provided herein.

4.10 **Deposit**

The Landlord acknowledges that the Tenant has delivered a cheque in the amount equal to the first months Basic Rent, Additional Rent and GST due under this Lease to be held by Avison Young Commercial Real Estate (Ontario) Inc., in trust, in an interest bearing trust account with all interest accruing to benefit of Tenant as a deposit until application on account of the first months Basic Rent, Additional Rent and GST due under this Lease.

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**ARTICLE 5.00 — TAXES****5.1 Taxes**

The Landlord shall pay when due to the taxing authority or authorities having jurisdiction all Taxes.

**5.2 Tenant's Taxes and Sales Taxes**

- (a) The Tenant shall pay without duplication of any other amount payable by it pursuant to this Lease when due to the taxing authority or authorities having jurisdiction all Tenant's Taxes.
- (b) The Tenant shall pay to the Landlord when due all Sales Taxes imposed on the Landlord with respect to Rent payable by the Tenant hereunder or in respect of the rental of space under this Lease.

**5.3 Tenant's Contribution to Taxes**

- (a) The Tenant shall, in respect of each calendar year included in whole or in part within the Term, pay to the Landlord, without duplication, an amount to cover the Taxes that are attributable to the Premises for such calendar year, such amount to be determined on the basis of a separate assessment or separate valuation for the Premises (or, in lieu thereof, calculations made by authorities having jurisdiction from which a separate assessment or separate valuation for the Premises may be readily determined) and in the absence of such separate assessment or separate valuation (or, in lieu thereof, such calculations made by authorities having jurisdiction from which a separate assessment or separate valuation for the Premises may be readily determined), the Tenant shall pay its Proportionate Share of Taxes. The Tenant shall provide the Landlord with a copy of any separate notices of assessment for the Premises which the Tenant has received.
- (b) INTENTIONALLY DELETED
- (c) The Tenant shall, in respect of each calendar year included in whole or in part within the Term, pay to the Landlord the amount by which Taxes are increased above the Taxes which would have otherwise been payable as a result of the Premises or the Tenant or any other occupant of the Premises being taxed or assessed in support of separate schools.
- (d) Payment by the Tenant of all amounts on account of Taxes shall be governed by Sections 4.3 and 4.4.

**5.4 Payments**

- (a) The Landlord may postpone any payment payable by it pursuant to Section 5.1 and the Tenant may postpone any payment payable by it directly to a taxing authority (but not to the Landlord) pursuant to this Article, in each case to the extent permitted by law and if prosecuting in good faith any appeal against the imposition thereof, but provided that in the case of a postponement by the Tenant which involves any risk of the Development or any part thereof or the Landlord becoming liable to assessment, prosecution, fine or other liability, the Tenant shall have given security in a form and of an amount satisfactory to the Landlord in respect of such liability and such undertakings as the Landlord may reasonably require to ensure payment thereof.
  - (b) Whenever requested by the Landlord, the Tenant shall deliver to the Landlord receipts for payment of all Tenant's Taxes and furnish such other
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information in connection therewith as the Landlord may reasonably require.

**ARTICLE 6.00 — SERVICES, COMMON FACILITIES**

**6.1 Tenant's Contribution to Operating Costs**

- (a) The Tenant shall throughout the Term pay to the Landlord the Tenant's Proportionate Share of Operating Costs.
- (b) Payment by the Tenant of all amounts on account of the Tenant's Proportionate Share of Operating Costs shall be governed by Sections 4.3 and 4.4.

**6.2 Operation of Regular HVAC System**

The Landlord and the Tenant acknowledge that the Building operating hours shall be Monday through Friday from 8:00 a.m. to 11:59 p.m., Saturday from 8:00 a.m. to 6:00 p.m., and Sunday from 11:00 am to 1:00 p.m., (the "**Building Operating Hours**"). Heating, ventilation and air conditioning ("**HVAC**") shall be provided during the Building Operating Hours so as to maintain during the Building Operating Hours a comfortable temperature for the Tenant's intended uses of the Premises and in any event in accordance with the standards of a first class office building in the downtown core of the City of Toronto, except during the making of repairs, inspections, overhauling or replacement. In addition, the Landlord will upon request of the Tenant make available HVAC services outside of Building Operating Hours to the Tenant so as to maintain during such after hours HVAC a comfortable temperature for the Tenant's intended uses of the Premises and in any event in accordance with the standards of a first-class office building in the downtown core of the City of Toronto, which cost to the Tenant shall be equal to the Landlord's costs to provide such after-hours HVAC, with no profit. The Tenant shall provide the Landlord with not less than twenty-four (24) hours' prior written notice of the times it requires HVAC services outside of Building Operating Hours as aforesaid, unless same are required on a weekend or a statutory holiday, in which event the Tenant shall notify the Landlord of the times it requires same not later than noon on the Business Day immediately preceding such weekend or statutory holiday.

If any equipment or systems are damaged or destroyed or, in the opinion of the Landlord, require repair, inspection, overhauling or replacement, the Landlord shall (i) give the Tenant reasonable prior written notice of such repair, inspection, overhauling or replacement except in the event of an emergency; and (ii) carry out such repair, inspection, overhauling or replacement with all reasonable diligence and in such manner so as to minimize any interference with the Tenant's business operations in the Premises. The Landlord shall not be responsible for any loss, damages or costs arising from the failure of such equipment or systems to perform their function, so long as the Landlord diligently proceeds to the extent reasonably possible in the circumstances, directed by the cause of any such failure of such equipment and systems to perform their function. In addition, the Landlord shall not be responsible for the failure of such equipment and systems to perform their function if the number of persons in the Premises at any one time exceeds a reasonable number (the Landlord acknowledging and agreeing that a portion of the Premises may be used and is intended to be used as a customer care centre/call centre) or if the electrical load from lights and power in the Premises is excessive or if such failure results from any arrangement of partitioning in the Premises or change or alteration thereto or if the window covering on exterior windows is not kept fully closed while the windows are exposed to direct sunlight or if any use of mechanical or electrical equipment installed in the Premises generates heat in excess of amounts

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specified in the Building Standard. The Landlord shall not be liable for direct, indirect or consequential damage or damages for personal discomfort or illness of the Tenant of its employees, invitees or other persons transacting business with it by reason of the operation or non-operation of such systems and equipment.

In no event shall Rent abate during any non-operation.

**6.3 Additional HVAC — INTENTIONALLY DELETED**

**6.4 Other Utilities**

(a) The Landlord shall furnish to the Premises electricity for lighting and for office and kitchen equipment capable of operating from the circuits available and standard to the Building. The Tenant shall pay without duplication, as an Additional Service Cost all charges for electricity and other utilities provided to the Premises. The charges for electricity and other utilities used in the Premises shall be determined by the Landlord or its agent using a reasonable method of calculation which has been communicated to the Tenant. If requested by the Landlord or Tenant, the Landlord shall install, at the Landlord's sole expense, separate meters for measuring consumption of energy in the Premises.

(b) The Landlord shall also replace as and when required all electric light bulbs, fluorescent tubes and ballasts initially supplied in the Premises and provide the necessary maintenance and repair of fluorescent and other standard Building lighting fixtures located in the Premises. The costs of replacement, maintenance and repair shall, as determined by the Landlord from time to time and applied on a uniform basis in the Development, either be charged to the Tenant as an Additional Service Cost or included in Operating Costs.

**6.5 Operation of Common Facilities**

All Common Facilities shall be subject at all times to the exclusive control and management of the Landlord. The Landlord shall be entitled to operate and police the same, to change the area and location thereof, to employ all personnel and to make all rules and regulations necessary for the proper operation and maintenance thereof and to do such other acts with respect thereto as the Landlord, acting reasonably, shall determine to be advisable; provided, however, that the Tenant, unless deprived by reasons beyond the Landlord's control, shall always have the use of such of the Common Facilities as is reasonably necessary for the use, enjoyment and access to the Premises. In the exercise by the Landlord of its rights under this Section 6.5, the Landlord shall:

- (i) unless deprived by reasons beyond the Landlord's control, ensure that access to the Premises is at all times available from the elevator lobbies of the Building by at least two (2) elevators;
  - (ii) use reasonable commercial efforts so as not to materially affect the visibility of the Tenant's exterior signage referred to in Sections 7.7(a) and 7.7(b) of this Lease; and
  - (iii) use reasonable commercial efforts so as not to materially affect the Tenant's business operations in the Premises and repair any damage to the Premises, the Leasehold Improvements and the furniture and equipment located in the Premises caused as a result of the exercise of such rights.
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**6.6 Janitorial Services**

- (a) The Landlord shall provide to the Premises normal office cleaning services of a standard (both as to extent and frequency) as a reasonably prudent owner of a similar first-class office building in the downtown core of the City of Toronto would do, the cost of which is to form a part of Operating Costs. Such services shall include, but not be limited to, causing periodically as may be appropriate or necessary in keeping with such standard the floors of the Premises to be swept, the interior surface of the exterior windows of the Premises to be cleaned, the desks, tables, other furniture and Venetian blinds, if any, in the Premises to be dusted and any broadloom in the Premises to be vacuumed. Cleaning in addition to the foregoing standard (such as, for example, the washing of carpets and the dry-cleaning of drapes) shall be the responsibility of the Tenant, although the Landlord shall have the right to elect to provide such additional cleaning as provided in Section 6.6(c).
- (b) The Tenant acknowledges that the Landlord will be relieved from its cleaning obligation as provided in Section 6.6(a) in respect of any part of the Premises to which access is not granted to the person or persons retained to perform such work.
- (c) If the Landlord from time to time elects, acting reasonably, to provide exclusively (either directly or through agents or contractors designated by it) any janitor or cleaning services for the Premises in addition to those contemplated by Section 6.6(a) or to supervise the moving of furniture or equipment of the Tenant or the making of deliveries to or from the Premises, such additional services referred to in this Section 6.6(c) shall be treated as Additional Services and all reasonable Additional Service Costs shall be paid by the Tenant to the Landlord forthwith after demand.
- (d) The Tenant acknowledges that the Landlord shall not be responsible for any omission or act of commission on the part of the person or persons employed or retained to perform the cleaning services referred to in this Section or for any loss thereby sustained by the Tenant, the Tenant's employees, agents, invitees or others. Provided however, the Landlord shall use reasonable commercial efforts to ensure the person or persons employed or retained to perform the cleaning services referred to in this Section 6.6(d) are insured in a manner comparable to the insuring of cleaning personnel in other similar first-class office buildings in the downtown core of the City of Toronto.
- (e) In the event the Tenant is not satisfied with the level or quality of cleaning services being provided to the Premises by the Landlord, the Landlord shall upon receipt from the Tenant of particulars as to the reason(s) for its dissatisfaction, use reasonable commercial efforts to cause same to be rectified by the person or persons employed or retained to perform such cleaning services to the satisfaction of the Tenant. The Landlord shall keep the Tenant advised at all times as to the steps being undertaken by it from time to time to rectify the cause of such Tenant's dissatisfaction.

**6.7 Security Services**

- (a) Subject to Section 16.32 herein, the Landlord shall provide security services for the Building so as to reasonably ensure that access to the Building during other than Business Hours shall be restricted to those persons entitled to be allowed entry to the Building, provided they comply with the requirements established by the Landlord.
  - (b) The Tenant acknowledges that the Landlord shall not be responsible for any omission or act of commission on the part of any person employed or
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retained to provide security service pursuant to this Section or for any loss thereby sustained by the Tenant, the Tenant's employees, agents, invitees or others. Provided however, the Landlord shall use reasonable commercial efforts to ensure that the person or persons providing such security services are insured in a manner comparable to the insuring of security personnel in other similar first-class office buildings in the downtown core of the City of Toronto.

**6.8 Interruption in Services**

The Landlord has the right upon reasonable prior notice to the Tenant (except in the event of an emergency) to stop the use of any facilities and the supply of any services when necessary by reason of accident or during the making of repairs, replacements, alterations or improvements in the judgment of the Landlord are necessary to be made until the repairs, replacements, alterations or improvements have been completed to the satisfaction of the Landlord, provided that the Landlord shall carry out such repairs, replacements, alterations and improvements with due diligence and in such a manner so as to minimize any interference with the Tenant's business operations in the Premises, both as to the extent and duration of such interference. The Landlord shall have no responsibility or liability for failure to operate any facilities or supply any services when the use of the facility is stopped as aforesaid or when the Landlord is prevented from using the facility or supplying the service by strike or by orders or regulations of any governmental authority or agency or by failure of the electric current, gas, steam or water supply necessary to the operation of any facility or by the failure to obtain such a supply or by any other cause beyond the Landlord's reasonable control. Provided however, in any such instance the Landlord shall to the extent possible in the circumstances proceed diligently to restore the operation of any such facility or the supply of any such service, as the case may be.

**6.9 Energy Conservation**

The Tenant shall use reasonable commercial efforts to comply with any measures the Landlord, acting reasonably, or any legislative authority may from time to time introduce to conserve or to reduce consumption of energy or to reduce or control other Operating Costs or pay as Additional Rent the cost, to be estimated by the Landlord, acting reasonably, of the additional energy consumed by reason of such non-compliance.

It is understood and agreed that:

- (a) any and all costs and expenses paid or incurred by the Landlord in installing energy conservation equipment and systems, so far as the same apply to or are reasonably apportioned to the Building by the Landlord, shall to the extent permitted be included in Operating Costs; and
- (b) the Landlord shall not be liable to the Tenant in any way for any loss, costs, damages or expenses whether direct or consequential, paid, suffered or incurred by the Tenant due to any reduction in the services provided by the Landlord to the Tenant or to the Building or any part thereof as a result of the Landlord's compliance with such laws, by-laws, regulations or orders.

**6.10 Pest Control by the Tenant**

The Tenant agrees to institute and carry out and maintain at its own expense such pest control measures in the Premises as the Landlord reasonably requires.

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**ARTICLE 7.00 — USE AND OCCUPANCY OF PREMISES****7.1 Use of Premises**

The Tenant may use the Premises solely for the sole purpose of general business offices, a customer care centre / call centre, licensed travel agent, and cafeteria preparing and serving food for its employees and invitees only (and not general sale to the public) (such uses being hereinafter individually and collectively referred to as the “**Intended Uses**”); and any other use permitted by the applicable by-laws covering the Premises. The Tenant shall use commercially reasonable efforts to ensure that odors do not emanate from the Premises. Notwithstanding the above, only the general business offices shall be entitled to use the Premises above the tenth (10th) floor of the Building and it is further acknowledged that no form of call centre shall be permitted above the 10th floor of the Building, and the Tenant shall not use or permit the Premises to be used for any other purpose.

**7.2 Waste and Nuisance**

The Tenant shall not carry on any business or do or suffer any act or thing which may constitute or result in a nuisance to the Landlord or to other tenants of the Development or do or suffer any waste or damage to the Premises or the Development. The Landlord acknowledges and agrees that the Intended Uses (including, without limitation, as a customer care centre/call centre so long as same is not permitted above the 10th floor of the Building) are deemed not to constitute a nuisance to the Landlord or to the other tenants of the Development, provided that such Intended Uses are being conducted in accordance with the terms of this Lease.

**7.3 No Overloading of Floors or Common Use Equipment**

The Tenant shall not permit or allow any overloading of the floors of the Premises or the bringing into any part of the Premises of any articles or fixtures that by reason of their weight or size might damage or endanger the structure of the Premises or the Building. The Tenant shall not permit or allow anything that might result in any overloading of any of the Common Use Equipment.

**7.4 Insurance Cancellation or Increase**

The Tenant shall not do or omit to do or permit to be done or omitted to be done in the Premises anything which would cause an increase in the cost of any insurance which the Landlord is obligated by this Lease to maintain. In the event of any such increase, the Tenant shall pay to the Landlord, forthwith upon demand, the amount of any such increase in cost. If any insurance policy maintained by the Landlord on the Development is cancelled or not renewed or threatened by the insurer to be cancelled or not renewed or the coverage thereunder is altered in any way because of the use or occupation of the Premises by the Tenant or by any person for whom the Tenant is in law responsible, and if the Tenant fails to remedy the condition giving rise to the cancellation or non-renewal, threatened cancellation or non-renewal or alteration in coverage within 48 hours (or such longer period as may be afforded to the Landlord by its insurers) or fails to obtain insurance coverage in replacement of the coverage cancelled or not renewed, threatened to be cancelled or not renewed or altered in coverage, the Landlord may, but shall not be obligated to, without further notice or any liability to the Tenant or any other occupant of the Premises, enter the Premises and attempt to remedy such condition or obtain or attempt to obtain insurance coverage in replacement of the coverage cancelled, not renewed threatened to be cancelled or not renewed or altered in coverage; and the Tenant shall pay to the Landlord forthwith upon demand the cost thereof. The Landlord

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acknowledges and agrees that the Intended Uses (including, without limitation, as a customer care centre/call centre, so long as same is not permitted above the 10<sup>th</sup> floor of the Building) are deemed not to constitute any such increase in the cost of any insurance which the Landlord is obligated by this Lease to maintain or to cause any such cancellation, non-renewal, threatened cancellation or non-renewal or alteration in coverage, provided that such Intended Uses are being conducted in accordance with the terms of this Lease.

7.5 **Observance of Law by the Landlord and the Tenant**

- (a) The Landlord shall, at its expense (except insofar as the expense is included in Operating Costs), promptly comply with and conform to the requirements of every applicable statute, law, by-law, regulation, ordinance and order at any time or from time to time in force during the Term affecting the Development, other than to those matters which are the obligation of the Tenant as provided in Section 7.5(b).
- (b) The Tenant shall, at its expense, promptly comply with and conform to the requirements of every applicable statute, law, by-law, regulation, ordinance and order at any time or from time to time in force during the Term affecting the Tenant's use of the Premises or any part thereof and/or the business carried on therein and/or the Leasehold Improvements, trade fixtures, furniture, machinery, equipment and other facilities located in the Premises and/or any other part of the Development affected by the Tenant's actions in the Premises. Notwithstanding the foregoing, the Landlord shall be responsible at its sole cost and expense and to the complete exoneration of the Tenant for remedying any work done by it in the Premises which was not done in compliance with the requirements of any applicable statute, law, bylaw, regulation, ordinance or order. The Landlord hereby covenants, warrants and represents to the Tenant that as of the Access Date, the Development and the Premises shall be in compliance with the requirements of all such applicable statutes, laws, by-laws, regulations, ordinances and orders. Without prejudice to any other rights available to the Tenant under this Lease or at law, the Landlord shall be responsible at its sole cost and expense for any work required as a result of the foregoing, covenant, representation and warranty being untrue.

7.6 **Rules and Regulations**

The Tenant shall observe and perform and shall cause its employees, agents, invitees and others over whom the Tenant can reasonably be expected to exercise control to observe and perform the rules and regulations attached hereto as Schedule "D" (the "**Rules and Regulations**") and such other rules and regulations or amendments as may be made from time to time by the Landlord, acting reasonably.

The Tenant acknowledges that the Rules and Regulations as from time to time amended or replaced are not necessarily of uniform application, but may be waived in whole or in part in respect of other tenants without affecting their enforceability with respect to the Tenant and the Premises and may be waived in whole or in part with respect to the Premises without waiving them as to future application to the Premises and the imposition of such Rules and Regulations shall not create or imply any obligation of the Landlord to enforce them.

In any conflict between a provision of this Lease and any of the Rules and Regulations, the provision of this Lease shall govern. Such Rules and

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Regulations as amended shall not be promulgated or enforced in an arbitrary or discriminatory manner as against the Tenant.

7.7 **Signs**

- (a) For the Term, the Tenant shall have the exclusive signage rights to the facia at the top of the Building, to install signage displaying a logo and, or a name on the Building. The Tenant shall pay for the cost to install, maintain, and insure such signage, and for the cost to remove such signage at the expiry or termination of this Lease. There shall be no ongoing charge for such signage rights. The Landlord will work with the Tenant to assist the Tenant to obtain any and all required permits for such signage. The exact size and location(s) of the Tenant's signage shall be in accordance with the Tenant's specifications, subject to all governing authorities, and to the Landlord's written approval, such approval not to be unreasonably withheld or delayed.
- (b) For the Term, the Tenant shall be permitted to install non-exclusive (save that no other office-only tenant shall have any signage rights at these locations) signage displaying a logo and, or a name, on the grade, and, or second floor facia, on the eastern and northern elevations of the Building. The Tenant shall pay for the cost to install, maintain, and insure such signage, and for the cost to remove such signage at the expiry or termination of this Lease. There shall be no ongoing charge for such signage rights. The Landlord will work with the Tenant to assist the Tenant to obtain any and all required permits for such signage. The exact size and location of the Tenant's grade level signage shall be in accordance with the Tenant's specifications, subject to all governing authorities, and to the Landlord's written approval, such approval not to be unreasonably withheld or delayed.
- (c) For the Term, the Tenant shall have exclusive rights for the three (3) signage boxes (display areas) located in the Building's northern elevator lobby. The Tenant shall be permitted to display corporate, and, or sponsor information, signage, logos and, or names in these display areas. There shall be no ongoing charge for such signage rights, or use of these display areas.
- (d) The Landlord shall not nor shall it permit any tenant or occupant of the Building (other than the Tenant) to name the Building other than its municipal address.

7.8 **Name of Development**

The Tenant shall, in referring to the Development, use only the name designated from time to time by the Landlord.

**ARTICLE 8.00 — ALTERATIONS**

8.1 **Alterations by the Tenant**

- (a) The Tenant shall not, without the prior consent of the Landlord, make, erect, alter or install any Leasehold Improvements or other alterations to the Premises (the "**Work**"). Notwithstanding the foregoing, the Tenant shall be entitled, without the consent of the Landlord but upon prior notice to the Landlord, to complete Work which does not in the aggregate cost more than Twenty Five Thousand Dollars (\$25,000) to complete (which amount shall increase by three percent (3%) compounded annually on each anniversary date of the Commencement Date) provided that same does not affect the structural components of
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the Building and/or the base building mechanical, electrical and/or plumbing systems and does not require a building permit to complete.

- (b) If the Tenant wishes to do any Work requiring the Landlord's prior written consent, the Tenant shall apply for the Landlord's consent and furnish such plans, specifications and designs as shall be necessary to fully describe the Work. The Landlord's consent thereto shall not be unreasonably withheld or delayed; provided that, without limitation, any refusal to grant consent based on grounds that such Work is not in compliance with the Building Standard or that the Tenant has not posted security with the Landlord (which in the case of the Tenant's Work the Tenant shall not be required to post), shall be conclusively deemed not to be an unreasonable withholding of consent.
- (c) Subject to the Landlord's consent having been obtained and the Landlord's reasonable requirements being met, the Landlord recognizes the right of the Tenant to install such interior partitions and other Leasehold Improvements as are necessary or appropriate to its use and occupancy of the Premises.
- (d) Any Work which affects the structural components of the Building and/or the base building mechanical, electrical and/or plumbing systems (the "**Excluded Work**") shall, if the Landlord so elects, be performed by employees or contractors who have been designated by the Landlord and who have contracted directly with the Tenant and agreed to carry out such Work in a good and workmanlike manner and at a cost to the Tenant which is not unreasonable when compared with the amounts which would be charged by reputable contractors performing the same Work. In the absence of any such election by the Landlord with respect to the Excluded Work, the Excluded Work and all other such Work shall be performed by contractors retained by the Tenant. In either event, the Landlord shall have the right to inspect such Work (including the Excluded Work) and require any Work (including the Excluded Work) not being properly done to be corrected and with respect to any Work (including the Excluded Work) which requires the Landlord's prior written consent to approve on a reasonable basis the contractors, tradesmen or the Tenant's own employees (as the case may be) employed by the Tenant in connection therewith.
- (e) Subject to Section 16.34 in respect of the Tenant's Work, the Tenant shall pay to the Landlord within 10 days after the receipt of the Landlord's invoice the Landlord's reasonable out-of-pocket costs incurred in examining and approving the Tenant's plans, specifications and designs and in inspecting the Work (including the Excluded Work), unless the Tenant uses the Landlord's base building or designated engineers) or consultant(s) with respect to such Work (including the Excluded Work) in which event the Tenant shall not be responsible for any costs incurred by the Landlord in respect thereof and any additional out-of-pocket expenses actually incurred by the Landlord in connection with such Work (including the Excluded Work).
- (f) The Tenant shall upon request provide to the Landlord a complete set of updated drawings of the Premises, including, without limitation, all electrical, mechanical and architectural drawings.

## 8.2 Air-Balancing

The Landlord agrees that it will on the Commencement Date and periodically throughout the Term, including, without limitation, whenever any alterations

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are made to the Premises, balance the air movement in the Premises at the Tenant's expense.

**8.3 No Financing by the Tenant of Leasehold Improvements**

Deleted Intentionally

**8.4 Liens**

- (a) In connection with the making, erection, installation or alteration of Leasehold Improvements and trade fixtures and all other work or installations made by or for the Tenant in the Premises, the Tenant shall comply with every applicable statute, law, by-law, regulation, ordinance and order affecting the same and affecting the Development as a result of the actions of the Tenant, including, without limitation, the Construction Lien Act of Ontario and any other statutes from time to time applicable thereto (including any provision requiring or enabling the retention by way of holdback of portions of any sums payable) and, except as to any such holdback, shall promptly pay all accounts relating thereto.
- (b) Whenever any construction or other lien for work, labour, services or materials supplied to or for the Tenant or for the cost of which the Tenant may be in any way liable or claims therefore shall arise or be filed or any such prohibited mortgage, charge, conditional sale agreement or other encumbrance shall attach, the Tenant shall within 5 Business Days after receipt of notice thereof procure and register the discharge thereof, including any certificate of action registered in respect of any lien, by payment or in such other manner as may be required or permitted by law and failing which the Landlord may make any payment into Court required to procure and register the discharge of any such liens or encumbrances, including any certificate of action registered in respect of any lien, and shall be entitled to be reimbursed by the Tenant as provided in Section 15.3, and its right to reimbursement shall not be affected or impaired if the Tenant shall then or subsequently establish or claim that any lien or encumbrance so discharged was without merit or excessive or subject to any abatement, set-off or defence.
- (c) The Landlord and the Tenant agree that any Work done in the Premises during the Term by or on behalf of the Tenant shall not be done and shall be deemed not to have been done at the request of the Landlord.

**8.5 Alterations by Landlord**

The Landlord may from time to time, at its own expense, make alterations to the Building or any part thereof and alterations to or relocations of the Common Facilities provided that:

- (a) the Premises shall not be altered, relocated or interfered with in any material way;
  - (b) the Common Facilities shall not be altered or relocated to such an extent as to materially reduce their convenience to the Tenant;
  - (c) access and services to or benefiting the Premises shall not be reduced or interrupted;
  - (d) any alteration or relocation shall be such that a reasonably prudent owner of the Development would make having regard to the type and age of the Development;
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- (e) the Landlord shall in the course of completing any such alterations or relocation use reasonable commercial efforts so as not to materially affect the visibility of the Tenant's signage referred to in Section 7.7 of this Lease;
- (f) any alteration or relocation shall not materially affect the Tenant's business operations in the Premises; and
- (g) the Landlord shall repair any damage to the Premises, the Leasehold Improvements and the furniture and equipment located in the Premises caused as a result of the exercise of such rights.

**ARTICLE 9.00 — REPAIRS****9.1 Landlord's Repairs**

The Landlord shall throughout the Term operate, secure, maintain, repair and replace the Building, including without limitation, the structural components and roof of the Building, the Common Facilities and all base building mechanical, electrical and plumbing systems and equipment in accordance with all applicable governmental laws, by-laws and regulations and in a first class manner as would a prudent owner of a similar building, of similar age, use and class in the downtown core of the City of Toronto, subject to the Landlord's right to charge back certain of such charges in Operating Costs.

**9.2 Tenant's Repairs**

Subject to Section 9.5, the Tenant shall at its expense and throughout the Term keep the Premises, the Leasehold Improvements and the trade fixtures therein and all electrical and telephone outlets and conduits and all mechanical and electrical equipment within the Premises in good condition and repair, reasonable wear and tear, Insured Damage and the Landlord's maintenance, repair and replacement obligations pursuant to this Lease only excepted. All repairs by the Tenant shall be subject to Section 8.1.

**9.3 Entry by Landlord to View State of Repair**

The Landlord shall upon reasonable prior notice (except in the event of an emergency) be entitled to enter and view the state of repair of the Premises. The Tenant will repair according to notice as specified in Section 9.2.

**9.4 Notice of Defects**

The Tenant shall give to the Landlord prompt notice of any defect in the plumbing or utility systems and equipment or any damage to the Premises or any part thereof howsoever caused; provided that nothing herein shall be construed so as to require repairs to be made by the Landlord except as expressly provided in this Lease.

**9.5 Termination or Abatement after Damage**

- (a) If and whenever the Premises are destroyed or damaged by any cause to the extent that, in the reasonable opinion of Landlord's independent and duly qualified architect (the "**Architect**") to be given in writing to the Tenant within 60 days after the occurrence of such damage or destruction, they are unable to be repaired or rebuilt within 180 days after such destruction or damage, then either the Landlord or the Tenant may terminate this Lease by notice to the other, to be given within 30 days after the giving of the Architect's written opinion above
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referred to, and the Tenant shall immediately thereupon surrender the Premises and this Lease to the Landlord and Rent shall be apportioned to the date of such destruction or damage (subject to the payment of Rent from the date of such destruction or damage to the date of surrender in the same proportion that the part of the Net Rentable Area of the Premises fit for occupancy by the Tenant until such surrender is of the total Net Rentable Area of the Premises).

- (b) If and whenever all or any substantial portion of the Building is destroyed or damaged by reason of any cause (whether or not such portion includes all or any part of the Premises) to such extent that:
- (i) in the Architect's reasonable opinion to be given to the Tenant in writing within 60 days after the occurrence of such damage or destruction, it is unable to be repaired or rebuilt within 180 days after such destruction or damage; or
  - (ii) the estimated cost (as estimated by the Architect) of repairing or rebuilding the Development exceeds the proceeds of insurance available to the Landlord for such purpose (or which would have been available if the Landlord had insured in compliance with Section 10.1),
- the Landlord may terminate this Lease upon not less than 30 days' prior written notice to the Tenant given within 90 days after the happening of such destruction or damage and the Tenant shall immediately thereupon surrender the Premises and this Lease to the Landlord;
- (iii) if and to the extent that such destruction or damage has rendered the Premises in whole or in part unfit for occupancy by the Tenant, Rent shall abate from the date of such destruction or damage to the date of surrender in the same proportion that the part of the Net Rentable Area of the Premises unfit for occupancy is of the total Net Rentable Area of the Premises; and
  - (iv) otherwise Rent shall be apportioned to the date of surrender.
- (c) If and whenever the Premises are destroyed or damaged by reason of any cause and this Lease shall not have been terminated, the Landlord shall, with all reasonable diligence, make the repairs specified in Section 9.1 and the Tenant shall, with all reasonable diligence and in compliance with Section 8.1, make all repairs to the Premises specified in Section 9.2 and complete the Premises for occupancy for the purpose described in Section 7.1 and in compliance with Section 7.5(b). If as a result of any destruction or damage to the Premises which the Landlord is obligated to repair pursuant to Section 9.1, then during the period commencing on the occurrence of such destruction or damage and ending upon the date when both the repairs to the Premises which the Landlord is obligated to make as aforesaid are completed sufficiently to enable the Tenant to commence its repairs and the Tenant has been allowed a reasonable period of time which is sufficient for the completion by it of the repairs it is obligated to make as aforesaid with due diligence, Rent shall from time to time abate in the same proportion that the part of the Net Rentable Area of the Premises from time to time rendered unfit for such occupancy by reason of such destruction or damage is of the total Net Rentable Area of the Premises.
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**9.6 No Claim by the Tenant**

Except in respect of abatement of Rent as provided for in this Article, no claim for compensation or damages, direct or indirect, shall be made by the Tenant by reason of the loss of use, inconvenience or otherwise arising from the necessity of repairing any portion of the Development however the necessity may arise so carried out with reasonable diligence.

**9.7 Tenant to Leave Premises in Good Repair**

The Tenant shall leave the Premises and (subject to Sections 3.5, 16.27, 16.28, 16.29 and 16.30) the Leasehold Improvements at the expiration or other termination of the Term in the condition and repair required of the Tenant under Section 9.2.

**ARTICLE 10.00 INSURANCE AND LIABILITY****10.1 Landlord's Insurance**

Subject to its general availability, the Landlord shall effect and maintain during the Term:

- (a) "all risks" insurance which shall insure the Development against loss or damage by perils now or hereafter from time to time embraced by or defined in a standard all risks insurance policy;
- (b) boiler and machinery insurance on objects defined in a standard comprehensive boiler and machinery policy against accidents as defined therein;
- (c) loss of rental income insurance in an amount sufficient to replace all Basic Rent and Additional Rent payable under the provisions of this Lease for an indemnity period of a reasonable period of time;
- (d) comprehensive general liability insurance covering claims for personal injury and property damage arising out of all operations in connection with the management and administration of the Development; and
- (e) such other coverage, or increases in the amount of coverage, as the Landlord may consider necessary.

For greater certainty, the Tenant acknowledges that the Landlord is not obligated to insure Leasehold Improvements in the Premises, except to the extent herein specifically required. The insurance to be maintained by the Landlord shall be that which would be carried by reasonably prudent owners of properties similar to the Development, all as from time to time determined by insurance advisors selected by the Landlord and whose written opinion shall be conclusive.

**10.2 Tenant's Insurance**

The Tenant shall, at its own expense, take out and keep in force during the Term:

- (a) comprehensive insurance of the type commonly called general public liability, which shall include coverage for personal injury, tenant's legal liability, non-owned automobile liability, bodily injury, death and property damage, all on an occurrence basis with respect to the business carried on in the Premises and the Tenant's use and occupancy of the Premises and its use of the Common Facilities or of any other part of
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the Building, with coverage for any one occurrence or claim of not less than \$5,000,000.00 or such other amount as the Landlord may reasonably require upon not less than 10 days' notice at any time during the Term, which insurance shall protect the Landlord in respect of claims as if the Landlord were separately insured and which insurance shall contain a severability of interest provision and a cross-liability provision;

- (b) insurance in respect of fire and such other perils as are from time to time defined in the usual extended coverage endorsement covering the Leasehold Improvements, trade fixtures and the furniture and equipment in the Premises for not less than the full replacement cost thereof, which insurance shall provide that any proceeds recoverable with respect to Leasehold Improvements shall be payable to the Landlord and Tenant jointly (the Landlord and Tenant acknowledging and agreeing that such proceeds shall be used and made available toward the repair or replacement of the insured property if this Lease is not terminated pursuant to any other provisions hereof and in the event this Lease is terminated such proceeds shall become the absolute property of the Tenant); and
- (c) insurance against such other perils and in such amounts as the Landlord may from time to time reasonably require upon not less than 60 days' notice, such requirement to be made on the basis that the required insurance is customary at the time in the City of Toronto for tenants of buildings similar to the Building, provided however, so long as the Tenant pursuant to this Lease is Loyalty Management Group Canada Inc. or a corporation affiliated (as that term is defined as of the date of this Lease in the Ontario Business Corporations Act) with Loyalty Management Group Canada Inc. or a corporation formed as a result of a merger or amalgamation involving Loyalty Management Group Canada Inc., the Tenant shall not be required to take out contractual liability or business interruption insurance.

### 10.3 **Form of the Tenant's Insurance**

All insurance required to be maintained by the Tenant hereunder shall be on terms and with insurers to which the Landlord has no reasonable objection. Each policy shall contain an undertaking by the insurer that no material change adverse to the Landlord or the Tenant will be made and the policy will not lapse or be cancelled or not be renewed, except after not less than 30 days' prior written notice to the Landlord of the intended change, lapse, cancellation or non-renewal. The policies of insurance specified in Sections 10.2(a) (as it relates to the Leasehold Improvements solely) and 10.2(b) shall show the Landlord and its agent as additional insureds as their respective interests may appear. The Tenant shall, upon request, furnish to the Landlord certificates as to the insurance from time to time effected by the Tenant and its renewal or continuation in force, together with evidence as to the method of determination of full replacement cost of the Tenant's Leasehold Improvements, trade fixtures, furniture and equipment. If the Landlord reasonably concludes that the full replacement cost has been underestimated, the Tenant shall forthwith arrange for any consequent increase in coverage required under Section 10.2. If the Tenant fails to take out, renew or keep in force such insurance, or if the certificates submitted to the Landlord pursuant to the preceding sentence are unacceptable to the Landlord (or no such certificates are submitted within a reasonable period after request therefore by the Landlord), then the Landlord may give to the Tenant notice requiring compliance with this Section and specifying the respects in which the Tenant is not then in compliance with this Section. If the Tenant does not within five (5) Business Days (or such lesser period as the Landlord may reasonably require having regard to the urgency of the situation), provide appropriate

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evidence of compliance with this Section, the Landlord may (but shall not be obligated to) obtain some or all of the additional coverage or other insurance which the Tenant shall have failed to obtain, without prejudice to any other rights of the Landlord under this Lease or otherwise, and the Tenant shall pay all premiums and other costs incurred by the Landlord forthwith upon demand.

10.4 **Release of Landlord by the Tenant**

The Tenant agrees that the Landlord and those for whom the Landlord is at law responsible shall not be liable to any extent for any personal injury or death of or loss or damage to any property belonging to the Tenant or its employees, invitees or licensees or any other person in, on or about the Development, unless resulting from the act, fault, omission or negligence of the Landlord or those for whom it is in law responsible or as a result from a breach of the obligations of the Landlord under this Lease. In no event shall the Landlord be liable for:

- (a) any damage (other than Insured Damage) which is caused by steam, water, rain or snow which may leak into, issue or flow from any part of the Development or from the pipes or plumbing works, including the sprinkler system, thereof or from any other place or quarter or for any damage caused by or attributable to the condition or arrangement of any electric or other wiring or of sprinkler heads or for any damage caused by anything done or omitted by any other tenant;
- (b) any act or omission (including theft, malfeasance or negligence) on the part of any agent, contractor or person from time to time employed by it to perform janitorial services, security services, supervision or any other work in or about the Premises or the Development;
- (c) loss or damage however caused to money, securities, negotiable instruments, papers or other valuables of the Tenant;
- (d) damage required to be insured against by the Tenant; or
- (e) any indirect or consequential damages suffered by the Tenant however caused.

The Tenant hereby further releases the Landlord and those for whom the Landlord is at law responsible from all claims or liabilities in respect of damage required to be insured against by the Tenant.

10.5 **Release of the Tenant by Landlord**

The Landlord hereby releases the Tenant and those for whom the Tenant is at law responsible from all claims or liabilities in respect of any damage which is Insured Damage to the extent of the insurance proceeds actually receivable by the Landlord or which would have been receivable by the Landlord had it maintained the insurance required of it pursuant to this Lease.

10.6 **Indemnity of Landlord by the Tenant**

Except as provided in Section 10.5 and unless caused by or to the extent contributed to by the act, fault, omission or negligence of the Landlord or those for whom it is in law responsible or as a result of the breach by the Landlord of any of its obligations under this Lease or any of its covenants, warranties or representations contained in this Lease, the Tenant shall indemnify and save harmless the Landlord against and from any and all expenses, costs, damages, suits, actions or liabilities arising or growing out of any default by the Tenant hereunder and from all claims and demands of every kind and nature made by any person or persons to or against the Landlord and/or its agent for

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all and every manner of costs, damages or expenses incurred by or injury or damage to such person or persons or his, her or their property, which claims or demands may arise howsoever out of the use and occupation of the Premises by the Tenant or any subtenant or occupant authorized by the Tenant or by any assignee or sublessee thereof or any of the above-mentioned or his, her or their servants, agents, assistants, employees, invitees or other persons entering into the Building to go to the Premises or any part thereof, and from all costs, counsel fees, expenses and liabilities incurred in or about any such claim or any action or proceeding brought thereon.

10.7 **Indemnity of Tenant by the Landlord**

Except as provided in Section 10.4 and unless caused by or to the extent contributed to by the act, fault, omission or negligence of the Tenant or those for whom it is in law responsible or as a result of the breach by the Tenant of any of its obligations under this Lease, the Landlord shall indemnify and save harmless the Tenant and those for whom it is in law responsible against and from any and all expenses, costs, damages, suits, actions or liabilities arising or growing out of any act, fault, omission or negligence of the Landlord or those for whom it is in law responsible or the breach by the Landlord of any of its obligations under this Lease or any of its covenants, warranties or representations contained in this Lease and from all costs, counsel fees, expenses and liabilities incurred in or about any such claim, action or proceeding brought thereon.

**ARTICLE 11.00 — ASSIGNMENTS AND TRANSFERS**

11.1 **Assignments, Subleases, Charges by the Tenant**

- (a) The Tenant shall not assign this Lease or sublet all or any part of the Premises without the consent of the Landlord, which consent may not be unreasonably withheld or delayed. Without limitation, it shall constitute reasonable grounds for any withholding of consent by the Landlord that, in the Landlord's reasonable judgment:
- (i) the proposed assignee or subtenant does not have a satisfactory financial condition having regard to the obligations which it will assume as assignee or subtenant; or
  - (ii) the proposed assignee or subtenant is a tenant or subtenant of other space in the Development; or
  - (iii) the proposed assignee or subtenant does not have an established good reputation in the business community; or
  - (iv) it is intended or likely that it will use any part of the Premises for purposes which are not permitted by this Lease or which are not acceptable to the Landlord, acting reasonably, or which are not compatible with the other businesses or activities which are being carried on in the Development; or
  - (v) where the return to the Tenant on any proposed assignment or subletting is greater than the amounts payable by the Tenant hereunder and the Tenant has not agreed to pay one-half of such excess to the Landlord (after deducting the Tenant's reasonable costs in procuring any such assignment or subletting, including, without limitation, commissions, legal fees, the value of rent-free periods, inducements and improvement allowances granted to the assignee or sublessee and any other direct costs incurred by the Tenant in affecting the said assignment or subletting).
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- (b) Without limitation, the Tenant shall for purposes of this Section be considered to have, assigned or sublet in any case where it permits the Premises or any portion thereof to be occupied by a person or persons other than the Tenant, its employees and others engaged in carrying on the business of the Tenant, whether pursuant to assignment, subletting, license or other right, and shall also include any case where any of the foregoing occurs by operation of law.
- (c) DELETED INTENTIONALLY.
- (d) The Landlord shall also have the right of approval of any marketing of space by the Tenant.
- (e) If the Landlord's consent is given, the Tenant shall assign or sublet, as the case may be, but only upon the terms set out in the offer submitted to the Landlord and not otherwise. Such assignment or subletting shall occur within 180 days after the Tenant's request for consent and only upon any assignee entering into an agreement directly with the Landlord and in a form satisfactory to the Landlord, acting reasonably, to perform, observe and keep each and every covenant, proviso, condition and agreement in this Lease on the part of the Tenant to be performed, observed and kept, including payment of Rent from and after the effective date of any such assignment.
- (f) The Tenant shall have the right without the consent of the Landlord, provided that the Tenant has first given notice to the Landlord, to assign or sublet the whole or any portion of the Premises to:
  - (i) a corporation affiliated (as that term is defined as of the date of this Lease in the *Ontario Business Corporations Act*) with the Tenant; or
  - (ii) a purchaser of all or substantially all of the Tenant's business,provided that any assignee has entered into an agreement directly with the Landlord and in a form satisfactory to the Landlord, acting reasonably, to perform, observe and keep each and every covenant, proviso, condition and agreement in this Lease on the part of the Tenant to be performed, observed and kept, including payment of Rent from and after the effective date of such assignment.
- (g) All costs of the Landlord incurred with respect to any assignment or sublease by the Tenant shall be paid by the Tenant forthwith after demand.
- (h) The Tenant shall not require the Landlord's consent respecting a merger or amalgamation with another corporation and same shall not be considered to be an assignment or subletting. In addition, any security agreement entered into by the Tenant with a lender shall not require the Landlord's consent and same shall not be considered to be an assignment or subletting or to cause a default of any of the Tenant's obligations under this Lease. Further, any change in the effective voting control of the Tenant shall be deemed not to constitute an assignment or subletting and accordingly same may be effected without the prior written consent and without any notice to the Landlord.

11.2 **Landlord's Rights of Cancellation** Deleted Intentionally

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11.3 **Continuing Obligations**

- (a) No consent by the Landlord to any assignment or subletting shall release or relieve the Tenant from any of its obligations hereunder.
- (b) No consent by the Landlord to any assignment or subletting shall be construed to mean that the Landlord has consented or will consent to any further assignment or subletting which shall remain subject to the provisions of this Article.

11.4 **Dealings by Landlord**

The Landlord may sell, transfer, mortgage, encumber or otherwise deal with the Development or any portion thereof or any interest of the Landlord therein, in every case without the consent of the Tenant and without restriction. To the extent that any purchaser or transferee from the Landlord has covenanted and agreed in writing with the Tenant to become bound by and perform the covenants and obligations of the Landlord under this Lease, the Landlord shall without further written agreement be freed and relieved of liability with respect to such covenants and obligations to the extent that same relates to the period from and after the effective date of any such sale or transfer. If the Landlord assigns or transfers this Lease it shall obtain, as a condition thereof, the written agreement of the assignee or transferee in favor of the Tenant whereby the assignee or transferee covenants and agrees in writing with the Tenant to become, bound by and perform the covenants and obligations of the Landlord under this Lease as if an original signatory hereto.

11.5 **Subordination and Attornment**

The Tenant acknowledges that this Lease is, at the option of any mortgagee or chargee, subject and subordinate to any and all ground leases, mortgages or charges (including deeds of trust and mortgage securing bonds, all indentures supplemental thereto or any other instruments of financing, refinancing or collateral financing) which may now or hereafter affect the Development or any part thereof and to all renewals, modifications, consolidations, replacements and extensions thereof, so long as the holder(s) of any such ground leases, mortgages or charges first grants to the Tenant a written non-disturbance agreement providing that so long as the Tenant is not in default of any material covenant under this Lease, the Tenant shall be entitled to remain undisturbed in its possession of the Premises, subject to the terms, covenants and conditions of this Lease (a "**Non-Disturbance Agreement**"). Subject to the Tenant first obtaining a Non-Disturbance Agreement from any party to which its rights under this Lease are to be subordinated to, the Tenant agrees to execute promptly any certificate or instrument in confirmation of such subordination and will, if requested, attorn to such mortgagee or charges on the terms, covenants and conditions contained in this Lease, and the Tenant hereby constitutes the Landlord its agent and attorney for the purpose of executing any such certificate or instrument.

Within six (6) months after November 4th, 2005, the Landlord shall obtain a Non-Disturbance Agreement from the holders of any existing ground leases, mortgages, charges or other interest in the Development having priority to the Tenant's rights under this Lease.

**ARTICLE 12.00 — ESTOPPEL CERTIFICATES, REGISTRATION**

12.1 **Estoppel Certificates**

Each of the Landlord and the Tenant agrees that it will at anytime and from time to time upon not less than 10 days' notice execute and deliver to the

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other (and, if required, to any prospective purchaser or mortgagee of the Development) a certificate in writing as to the status at that time of this Lease, including as to whether this Lease is unmodified and in full force and effect (or if modified, stating the modification and that the same is in full force and effect as modified), the amount of the Rent then being paid hereunder, the dates on which the same, by installments or otherwise and other charges hereunder, have been paid, whether or not there is any existing default on the part of the other of which it has notice and any other matters pertaining to this Lease as to which the other shall request a statement.

If any such certificate requested by the Landlord is not returned to the Landlord within 10 days after its request therefore, the Landlord shall have the right and is hereby appointed by the Tenant as its agent to prepare and execute such certificate.

#### 12.2 **Registration on Title**

The Tenant shall not register this Lease in full on the title to the Development. If the Tenant wishes to register a notice of this Lease, the Tenant shall deliver the form of notice to the Landlord for its prior approval, such approval not to be unreasonably withheld or delayed.

The Tenant agrees that it will, at its sole expense, discharge and withdraw from title any such registration within 30 days after the expiration or sooner termination of this Lease. If such registration is not discharged and withdrawn during the aforesaid time, the Landlord shall have the right and is hereby appointed by the Tenant as its agent to prepare, execute and register such documentation as is required to discharge and withdraw any such registration.

#### **ARTICLE 13.00 — UNAVOIDABLE DELAYS**

Whenever and to the extent that either the Landlord or the Tenant is unable to fulfill or is delayed or restricted in the fulfillment of any obligation hereunder in respect of the supply or provision of any service or utility or the doing of any work or the making of any repairs by reason of being unable to obtain the material, goods, equipment, service, utility or labor required to enable it to fulfill such obligation, or by reason of any statute, law, by-law or order-in-council or any regulation or order passed or made pursuant thereto, or by reason of the order or direction of any legislative, administrative or judicial body, controller or board, or any governmental department or any governmental officer or other authority having jurisdiction, or by reason of its inability to procure any license or permit required therefore, or by reason of not being able to obtain any permission or authority required therefore, or by reason of any strikes, lockouts, slow-downs or other combined action of workmen, or shortages of material, or any other cause beyond its control, other than any insolvency, lack of funds or other financial cause of delay, the Landlord or the Tenant, as the case may be, shall be relieved from the fulfillment of such obligation so long as such cause continues provided always that (except as may be expressly provided in this Lease) the Tenant shall not be entitled to any compensation for any inconvenience, or nuisance or discomfort thereby occasioned, or to cancel or terminate this Lease or to any abatement of Rent accruing due after the Commencement Date.

#### **ARTICLE 14.00 — LANDLORD'S ACCESS TO PREMISES**

##### **14.1 Inspection and Repair**

The Landlord and its authorized agents and employees shall have the right at any time and from time to time to enter the Premises for the purpose of inspection, providing janitor service, maintenance, making repairs, alterations or improvements to the Development or to have access to utilities and

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services and the Tenant shall provide free and unhampered access for such purpose. The Landlord in exercising its rights hereunder shall, save and except for the purposes of providing janitor services and save in the event of an emergency, provide the Tenant with reasonable prior notice thereof, shall carry out such maintenance, repairs, alterations and improvements with due diligence and in such a manner so as to minimize interference with the Tenant's business operations in the Premises. The Landlord shall be responsible at its sole cost and expense to repair any damage to the Premises, the Leasehold Improvements and the furniture and equipment located therein caused as a result of the exercise of such rights.

14.2 **Right to Exhibit Premises**

The Landlord and its authorized agents and employees shall have the right upon reasonable prior notice to exhibit the Premises to prospective tenants during business hours during the last 15 months of the Term and with a representative of the Tenant in attendance. The Landlord and its authorized agents and employees shall also have the right upon reasonable prior notice to enter upon the Premises at all reasonable hours during the Term and with a representative of the Tenant in attendance for the purpose of exhibiting the Development to any prospective purchaser or mortgagee thereof.

**ARTICLE 15.00 — DEFAULT**

15.1 **Events of Default**

Each of the following shall be an event of default of the Tenant:

- (a) whenever the Tenant defaults in the payment of any Rent and such default continues for five Business Days after notice to the Tenant; or
  - (b) whenever the Tenant defaults in the performance of any of its other obligations hereunder and such default can be remedied by the Tenant, but is not remedied within a period next after notice and which period shall be:
    - (i) if the default could reasonably be remedied within 30 days after notice and provided the Tenant has commenced to remedy such failure within 10 Business Days after notice and proceeds thereafter diligently and continuously to remedy it, 30 days;
    - (ii) if the default could not reasonably be remedied within 30 days after notice and provided the Tenant has commenced to remedy such failure not later than 10 Business Days after notice and proceeds thereafter diligently and continuously to remedy it, that number of days after notice which would reasonably suffice for the remedying of such default if the Tenant had commenced to remedy such default within 10 Business Days after notice and proceeded thereafter diligently and continuously to remedy it; and
    - (iii) in any case where the Tenant does not commence to remedy such default within 10 Business Days after notice, 10 Business Days; or
  - (c) whenever the Tenant defaults in the performance of any of its other obligations hereunder and such default cannot be remedied by the Tenant; or
  - (d) if the Tenant is adjudicated to be insolvent or makes an assignment for the benefit of creditors or in bankruptcy or is declared bankrupt, or takes the benefit of any legislation that may be in force for bankrupt or
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insolvent debtors or if any proceedings are taken by or against the Tenant under any winding-up legislation and such adjudication, assignment, declaration or proceedings are not set aside or revoked within 60 days after the making or taking of the same, or if the Tenant makes any sale of its assets under the Bulk Sales Act of Ontario, except to a successor in conjunction with a permitted assignment of this Lease; or

- (e) if the Premises are used by any other person or persons other than the Tenant or other person or persons entitled to the use thereof or for any other purpose than that for which the same were let, in each case without the prior written consent of the Landlord where required under this Lease.

15.2 **Remedies by Landlord**

Upon any event of default of the Tenant, in addition to any remedy which the Landlord may have by this Lease or at law or in equity, the Landlord may, at its option:

- (a) in the event of a default described in Section 15.1(d) provide by notice to the Tenant that the current month's Rent and Rent for the next ensuing 3 months shall thereupon become immediately due and payable; and/or
- (b) re-enter and take possession of the Premises as though the Tenant is overholding after the expiration of the Term and the Term shall be forfeited and void in such event; and/or
- (c) enter the Premises as agent of the Tenant, either by force or otherwise, without being liable for any prosecution therefore and without being deemed to have terminated this Lease and relet the Premises or any part thereof as the agent of the Tenant and receive the rent therefore to be applied on account of the Rent; and/or
- (d) exercise its right of distress and the Tenant hereby waives any present or future limitation on the Landlord's right of distress; and/or
- (e) terminate this Lease and re-enter and take possession of the Premises in which event the Landlord shall be under an obligation to mitigate its damages and provide by notice to the Tenant for an immediate payment by the Tenant of an amount equal to the Present Value as of the date of such termination of the excess, if any, of the amount of Rent required to be paid under this Lease for the remainder of the then current Term over the then reasonable rental value of the Premises for the remainder of the then current Term.

15.3 **Additional Self-help Remedy of Landlord**

In addition to all other remedies the Landlord may have by this Lease at law or in equity, if the Tenant does not perform any of its obligations hereunder, the Landlord, may at its option, perform any of such obligations after 5 Business Days notice to the Tenant or in the event of an emergency, without notice and, in such event, the cost of performing any of such obligations, plus an administrative charge of 15% of such cost, shall be payable by the Tenant to the Landlord forthwith on demand, together with interest at the Rate of Interest from the date of the performance of any of such obligations by the Landlord to the date of payment by the Tenant.

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**15.4 Legal Costs**

The Tenant hereby agrees to pay to the Landlord within 5 Business Days after demand all legal fees on a solicitor and his own client basis incurred by the Landlord for the enforcement of any rights of the Landlord under this Lease or in the enforcement of any of the provisions of this Lease or in the obtaining of possession of the Premises or for the collection of any moneys from the Tenant.

The Landlord hereby agrees to pay to the Tenant within 5 Business Days after demand all legal fees on a solicitor and his own client basis incurred by the Tenant for the enforcement of any rights of the Tenant under this Lease or in the enforcement of any of the provisions of this Lease or for the collection of any moneys from the Landlord.

**15.5 Remedies Cumulative**

The Landlord or Tenant, as the case may be, may from time to time resort to any or all of the rights and remedies available to it in the event of any default hereunder by the other, either by any provision of this Lease or by statute or at law or in equity, all of which rights and remedies are intended to be cumulative and not alternative, and the express provisions hereunder as to certain rights and remedies are not to be interpreted as excluding any other or additional rights and remedies available to the Landlord or Tenant, as the case may be, at law or in equity.

**15.6 Non-Waiver**

Any condoning, excusing or overlooking by either the Landlord or the Tenant of any default by the other at any time or times in respect of any obligation of the other herein shall not operate as a waiver of the non-defaulting party's rights hereunder in respect of such default or so as to defeat or affect in any way the rights of the non-defaulting party in respect of any such continuing or subsequent default by the defaulting party. No waiver shall be implied by anything done or omitted by a party. Any waiver of a particular default shall not operate as a waiver of any subsequent or continuing default.

**15.7 Self-help Remedy of Tenant**

In the event the Landlord should at any time during the Term of this Lease fail to (i) make any payment required of it pursuant to this Lease within fifteen (15) days of demand therefor by the Tenant; or (ii) perform any of its obligations hereunder and should such failure adversely affect access to or egress from the Premises or the Tenant's business operations therein and should the Landlord fail to commence and to proceed diligently with the performance of such obligation within fifteen (15) days following written notice from the Tenant to the Landlord thereof, then in such event, the Tenant shall, without obligation to do so, be entitled to make any such payment or perform any such obligation at the cost of the Landlord to be paid by it to the Tenant within ten (10) days after receipt of written notice of such cost accompanied by written evidence of the amount thereof. In the event of default of such payment by the Landlord, the Landlord shall pay interest to the Tenant on the unpaid cost at the Rate of Interest from the due date until the date of payment in full and the Tenant shall, without prejudice to and in addition to any other remedy available to the Tenant under this Lease or at law as a consequence thereof, be entitled to deduct such unpaid cost incurred by it, together with interest as aforesaid, from the Rent payable pursuant to this Lease to a maximum aggregate amount of Two Hundred Thousand Dollars (\$200,000.00) (which amount shall increase by three percent (3%) compounded annually on each anniversary date of the Commencement Date).

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**ARTICLE 16.00 — GENERAL PROVISIONS****16.1 Entire Agreement**

This Lease contains all of the terms and conditions of the agreement between the Landlord and the Tenant relating to the matters herein provided and supersedes all previous agreements or representations of any kind, written or verbal, made by anyone in reference thereto. There shall be no amendment hereto unless in writing and signed by the party to be bound.

**16.2 Schedules**

The Schedules to this Lease form a part of this Lease.

**16.3 Planning Act**

This Lease is subject to compliance, if necessary, with the Planning Act of Ontario.

**16.4 Survival of Obligations**

Any obligation of a party which is unfulfilled on the termination of this Lease shall survive until fulfilled.

**16.5 Severability of Illegal Provision**

If any provision of this Lease is or becomes illegal or unenforceable, it shall during such period that it is illegal or unenforceable be considered separate and severable from the remaining provisions of this Lease, which shall remain in force and be binding as though the said provision had never been included.

**16.6 Governing Law**

This Lease shall be governed by the laws applicable in the Province of Ontario.

**16.7 No Partnership**

Nothing contained herein shall be deemed to create any relationship between the parties hereto other than the relationship of landlord and tenant.

**16.8 Number, Gender, Joint and Several Liability**

The words "Tenant", "assignee" and "sublessee" and personal pronouns relating thereto and used in conjunction therewith shall be read and construed as "Tenant" or "Tenants", "assignee" or "assignees" and "sublessee" or "sublessees", respectively, and "his", "her", "it", "its" and "their" as the number and gender of the party or parties referred to in each case require and the number of the verb agreeing therewith shall be considered as agreeing with the said word or pronoun so substituted. If at any time there is more than one Tenant together or in succession, they shall be jointly and severally liable for all of the obligations of the Tenant hereunder.

**16.9 Captions**

The captions for Articles and Sections of this Lease are for convenience only and are not to be considered a part of this Lease and do not in any way limit or amplify the terms and provisions of this Lease.

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16.10 **Time of Essence**

Time shall be of the essence of this Lease.

16.11 **Landlord's Agent**

The Landlord may perform any of its obligations or exercise any of its rights hereunder through such agency as it may from time to time determine and the Tenant shall as from time to time directed by the Landlord pay to any such agent any moneys payable hereunder to the Landlord.

16.12 **Accounting Principles**

All calculations referred to herein shall be made in accordance with generally accepted accounting principles and practices applicable to the real estate development industry and applied on a consistent basis.

16.13 **Other Leases in Building** — INTENTIONALLY DELETED16.14 **Notices and Consents, Etc.**

Any demand notice or other communication (the "**Communication**") to be given in connection with this Agreement shall be given in writing and shall be given by personal delivery, telecopier transmission or by mailing by registered mail with postage thereon, fully prepaid in a sealed envelope addressed to the intended recipient as follows:

(a) to the Landlord, at:

161 Eglinton Avenue East  
Suite 201  
Toronto, Ontario M4P 1J5

Attention: Moni Lustig  
Telecopier No: (416) 506-1306

(b) to the Tenant, at:

Prior to the Commencement Date:

4110 Yonge Street  
Suite 200 Toronto,  
Ontario M2P 2B7

Attention: Michael Kline  
Senior Vice-President, Legal Services and  
Secretary

Telecopier No.: (416) 733-2876

After the Commencement Date:

the Premises

Attention: Michael Kline  
Senior Vice-President, Legal Services and  
Secretary

or to such other addresses, telecopier number or individual as may be designated by a Communication given by a party to the other parties as aforesaid. Any Communication given by personal delivery shall be

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conclusively deemed to have been given on the day of actual delivery thereof, if given by registered mail on the 2nd Business Day following the deposit thereof in the mail and if given by telecopier transmission, on the Business Day following the day on which it was telecopied. If the party giving any Communication knows or reasonably knows of any difficulties with the postal system which might effect the delivery of mail, any such Communication shall not be mailed but shall be given by personal delivery or by telecopier transmission.

16.15 **Further Assurances**

Each party agrees to make such further assurances as may be reasonably required from time to time by the other to more fully implement the true intent of this Lease.

16.16 **Environmental**

The Landlord covenants that as of the date hereof, and during the Term, the Landlord shall not permit within the Premises, Building, the Lands and all appurtenances thereto, any and all materials proscribed or banned pursuant to environmental statutes, laws, orders, and regulations of competent jurisdiction (individually and collectively the "**Laws**"), and that should it be shown that the Building, the Lands or Premises (other than by virtue of the Tenant's acts) contain any such material(s) beyond acceptable governmental levels, the Landlord shall forthwith remove same, or deal with same in accordance with all applicable Laws, in good and proper manner, in accordance with all proper procedures, and certify via independent environmental engineers as to completion of same, all such work to be carried out by the Landlord at its sole cost, without reimbursement by the Tenant. Except as specifically disclosed herein, the Landlord warrants that to the best of its knowledge and belief the Building, the Lands and the Premises contains no such material beyond acceptable governmental levels. This covenant and all obligations in connection therewith shall be ongoing and shall bind Landlord's successors and assigns.

16.17 **Financial Information**

Tenant acknowledges and agrees that commencing in the fiscal year 2006 it will provide, at Landlord's request from time to time, a copy of the Tenant's most recent annual financial statements (such financial statements of the Tenant to be substantially in the form reviewed by Landlord in respect of the Tenant's year end December 2004) together with a letter from the Tenant's parent's Senior Vice-President, Controller certifying that such financial statements are those used in the preparation of the consolidated financial statements of the Tenant's parent company, Alliance Data Systems Corporation.

16.18 **Letter of Credit**

The Tenant agrees to take out and maintain within five (5) Business Days of unconditional acceptance of the Offer between the parties until the later of thirty (30) days following occupancy of the Premises by the Tenant, or thirty (30) days after the Commencement Date, an irrevocable Letter of Credit from a Schedule A Bank in the amount of two million dollars (\$2,000,000.00 CAD). This Letter of Credit shall be in the Landlord's name, who upon any non-payment of Basic Rent and/or Additional Rent by the Tenant shall have the unfettered right to draw down the amount of such non-payment under the Letter of Credit, without prejudice to any other rights the Landlord may have under this Lease.

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**16.19 Force Majeure**

If either, the completion of the Landlord's Work is delayed beyond the Access Date, or the completion of the Tenant's Work is delayed beyond the Commencement Date, for reason of strike, lockout, labor troubles, inability to procure materials, failure of power, restrictive governmental laws, riots, insurrection, war or other reason of a like nature not the fault of the party delayed in performing work or doing acts under the terms of this Lease, then the Commencement Date shall be delayed by until such time as the Tenant's Work is substantially completed, and all other applicable dates in this Lease with the Landlord shall be adjusted accordingly. In the event of a change in the Access Date or the Commencement Date as determined in accordance with the foregoing the parties shall execute an acknowledgement of same.

**16.20 Building Systems**

The Landlord represents and warrants that the schedule attached hereto as Schedule "F", Building Systems Review, accurately represents the Building's systems and improvements, as of August 28, 2005, and the Tenant can rely on such information.

**16.21 No Requirement to Occupy**

During the Term, the Tenant shall be permitted to vacate all or a portion of the Premises. Should the Tenant vacate the Premises, it shall maintain all its financial obligations, as if it were in occupancy. The Tenant shall have the right to resume occupancy of the Premises at anytime without notice to the Landlord.

**16.22 Sale and Demolition**

The Landlord shall not have the right of early termination in the event of any sale, redevelopment, renovation or demolition of the Building.

**16.23 Window Blinds**

The Tenant shall have the right to replace Building Standard window blinds in the Premises with a new style of window covering. The Tenant shall provide details of such window treatment to the Landlord for its review and approval, such approval not to be unreasonably withheld or delayed.

**16.24 Parking**

The Landlord shall make available to the Tenant, upon 30 days written notice, underground unreserved parking spaces located in the parking garage of the Building throughout the Term, as is proportionate to the Proportionate Share of the Premises in the Building, (ie. Rentable Area of the Premises as it exists from time to time divided by the Rentable Area of the Building (322,358 square feet), which as of the Commencement Date will be 98 unreserved parking spaces), at a charge of \$185.00 per month per space during the first year of the Term (increased on each anniversary date of the Commencement Date by the percentage increase in the Consumers Price Index, All Items for Toronto, as published by Statistics Canada) plus applicable taxes. Such rental shall be payable by the Tenant to the Landlord on the first day of each month of the Term. Partial months' rent owing shall be calculated and paid on a pro rated basis. All such underground unreserved parking spaces shall be made available to the Tenant on a 24 hour, 7 day a week basis.

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**16.25 Right of First Refusal**

In addition to the Tenant's rights under Section 16.41 herein during the period commencing upon November 4th, 2005 and throughout the Term (save and except with respect to the 12th floor of the Building for which the period shall commence on the date the Additional Premises have been determined pursuant to Section 16.41(b) hereof and only if the Additional Premises as so determined do not consist of the 12th floor of the Building and shall continue throughout the balance of the Term), and subject to any rights in existence as of August 29, 2005 in favor of the tenants of the Building as of August 29, 2005 and the respective successors and assigns of such tenants (which existing rights in favor of such tenants are set out in Schedule "I" of this Lease), the Tenant shall, provided it is not in default, have an ongoing right of first refusal to lease all or any part of any office space that is located on the 12th through 18th floors in the Building to a maximum of 35,396 square feet of Rentable Area (the "**Right of First Refusal**").

During the period commencing upon November 4th, 2005 and during the Term of this Lease (save and except with respect to the 12th floor of the Building for which the period shall commence on the date the Additional Premises have been determined pursuant to Section 16.41(b) hereof and only if the Additional Premises as so determined do not consist of the 12th floor of the Building and shall continue throughout the balance of the Term), if the Landlord receives an acceptable written bona fide offer from an arm's length third party to lease all or any part of any office space that is located on the 12th through 18th floors in the Building, then the Landlord will notify the Tenant in writing of the terms of such acceptable written offer to lease (the "**Acceptable Offer to Lease**"). The Tenant shall have five (5) Business Days from receipt of such notice to unconditionally exercise its Right of First Refusal, in writing, delivered to Landlord, to lease that portion of the Building covered by the Acceptable Offer to Lease on the same terms and conditions as provided for in such offer, less any commissions. It is understood and agreed that the term of any space leased under this Right of First Refusal will be coterminous with the Term for the Premises, and any renewal(s) or extension(s) thereof.

**16.26 Option to Extend**

If the Tenant is not then in default (after notice of default has been provided and time to remedy such default has passed) at the notice date or the commencement of the applicable extension period of any covenants, conditions and agreements herein reserved and contained and on the part of the Tenant to be paid and performed, Landlord will, upon the Tenant's request in writing, given at least fifteen (15) months and not more than twenty (20) months prior to the expiration of the then current Term, grant to the Tenant or its permitted assigns or transferees two (2) successive options to extend this Lease (on the same terms and conditions including, without limitation, the provisions of Section 16.25 of this Lease, each for a further five (5) years, save and except that there shall be no further rights to extend beyond the second of such extensions and save and except that the Basic Rent payable during the applicable extension period shall be mutually agreed upon between the parties at least four (4) months prior to the expiry of the then current Term, and shall be based on the then current fair market rent for the Premises, taking into account that the Tenant is receiving no tenant inducements, no Landlord's Work, and taking into consideration the age of the Leasehold Improvements in the Premises and premises similar to the Premises which are comparable in size, location, type, and condition, for tenants leasing similar premises of a similar size and for a similar term.

In the event that a new Basic Rent is not agreed upon at least four (4) months prior to the expiry of the then current Term, the Basic Rent for the applicable extension period shall be settled by a single arbitrator pursuant to the

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Arbitration Act, S.O. 1991 c.17 as amended or replaced, and shall be equal to the then current market rent for the Premises, taking into account that the Tenant is receiving no teniht inducements, no Landlord's Work, and taking into consideration the age of the Leasehold Improvements in the Premises and premises similar to the Premises which are comparable in size, location, type, and condition, for tenants leasing similar premises of a similar size and for a similar term. The expense of arbitration shall be borne equally by the Landlord and the Tenant, except that each party shall be responsible for its respective solicitor's and experts' fees and witnesses. It is understood and agreed that the arbitrator shall be qualified by education, experience, and training to make a decision on the matter being arbitrated.

16.27 **Roof Mounted Communication Equipment**

For the Term, the Tenant shall have the right, exercisable at its option, risk and expense to install and maintain communication equipment on the roof of the Building, for its own use. The Landlord will provide, at no cost or expense to the Tenant, a mutually agreeable location for the installation. There shall be no ongoing charge for the space required for such communication equipment. The Landlord shall approve the size and method of installation of the communication equipment, such approval not to be unreasonably withheld or delayed. Such work to install and maintain any roof mounted communication equipment shall be in accordance with the terms of this Lease. Upon expiration or earlier termination of the Term, the Tenant, at its sole cost and expense, shall be obliged to remove said equipment and repairing damage caused by said removal. The Tenant shall co-operate with the Landlord, and shall remove and/or relocate such equipment, if required to do so, for the purpose of repairs and maintenance of the Building.

16.28 **Roof Mounted Emergency Power Generator Equipment**

For the Term, the Tenant shall have the right, exercisable at its option, to install and maintain on the roof of the Building, at its cost and expense, an emergency generator (generator will be self-contained, and include sound mitigation and an oil tank), a fuel tank in the lowest parking level of the Building, and fuel lines to supply such emergency generator, all to serve the Tenant's electrical requirements. The Landlord will provide, at no cost or expense to the Tenant, mutually agreeable locations for the installation of the Tenant's emergency generator, and associated fuel tank. There shall be no ongoing charge for the space required for the Tenant's own generator, fuel tank, or for the Tenant's access to conduit or riser space required to connect to such generator. Such work to install and maintain a generator shall be in accordance with the terms of this Lease. Upon expiration or earlier termination of the Term, the Tenant, at its sole cost and expense, shall be obliged to remove said equipment and repairing damage caused by said removal.

16.29 **Internal Cooling Unit(s)**

For the Term, the Tenant shall have the right, exercisable at its option, to install and maintain a supplemental condenser water system in the Premises, with heat rejection in the loading dock or on the roof of the Building. It is expected that the Tenant will require roughly fifty (50) tons of cooling to service the Tenant's equipment rooms, 24/7 cooling zones, and to supplement the base building system in the Premises, where the Tenant's cooling loads are intensive. The Landlord shall permit the Tenant to access Building's municipal water to service the Tenant's air-conditioning system. The Landlord will provide, at no cost or expense to the Tenant, mutually agreeable locations for the installation of such heat rejection equipment, and distribution pumps, and access to conduit or riser space required to connect to such cooling units, such installation to be at the sole cost and expense of the Tenant. There shall

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be no ongoing charge for the space required for such heat rejection equipment, and distribution pumps, and any conduit or riser space required for such installation. Upon expiration or earlier termination of the Term, the Tenant, at its sole cost and expense, shall be obliged to remove said equipment and repairing damage caused by said removal. The Tenant shall install at the Tenant's sole cost and expense check meters for all utility consumption for the above-mentioned internal cooling units.

16.30 **Restoration**

Subject to Sections 3.5, 16.27, 16.28 and 16.29, the Tenant shall not be responsible for the restoration of the Premises or the removal of any Leasehold Improvements, the Tenant cabling or wiring, in the Premises, at the expiry or earlier termination of this Lease.

16.31 **Leasehold Improvements**

The Leasehold Improvements, fixtures, furnishings and equipment installed or placed in or on the Premises by or on behalf of the Tenant, howsoever affixed (other than the Building and its systems, and equipment, affixed thereto and forming part thereof), will be the personal property of the Tenant, during the Term, after which time same shall subject to Section 3.5 of this Lease become the property of the Landlord.

16.32 **Building Access**

The Landlord shall allow the Tenant, its agents, clerks, servants, employees and other persons transacting business with it to have access to the Premises by the main entrance or entrances of the Building and Premises and to use stairways and passages therefrom, and parking areas at all times, 365 days a year, on a 24 hour basis, subject to the rules and regulations provided in this Lease, and subject to emergencies.

16.33 **Leasehold Improvement Allowance**

- (a) It is understood and agreed that Landlord shall pay to the Tenant a leasehold improvement allowance being the sum of thirty-five dollars (\$35.00) per sq.ft. multiplied by the Rentable Area of the Premises, together with the Sales Taxes thereon, (the "**Leasehold Improvement Allowance**"). The Tenant shall use the Leasehold Improvement Allowance to pay the cost of the Tenant's Work in the Premises for its use and operation.
  - (b) Notwithstanding the provisions of the foregoing, Landlord shall, on no more than three (3) occasions, allow the Tenant to draw portions of the Leasehold Improvement Allowance, which shall be payable within thirty (30) days following the date of the Tenant's written request for such draw, subject to construction lien holdback, which shall be no more than 10% in the aggregate of the said Leasehold Improvement Allowance.
  - (c) Payment of each progress draw shall be subject to the following:
    - (i) delivery of invoices for costs incurred to date of such advance;
    - (ii) the Tenant satisfying Landlord that the value of the construction materials and labour is commensurate with the amounts invoiced;
    - (iii) statement of the Tenant's contractor certifying that the level of work has been completed in respect to the current progress draw for the same has been made to the Landlord; and
    - (iv) a draw request from the Tenant to the Landlord, including therewith the Tenant's G.S.T registration number.
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- (d) In addition to the foregoing provisions the final advance of the Leasehold Improvement Allowance for the Premises shall be payable upon the following conditions:
- (i) the delivery to the Landlord of proof of payment of worker's compensation assessment for all the Tenant's contractors and subcontractors
  - (ii) the completion of the Tenant's Leasehold Improvements and trade fixtures, and
  - (iii) the delivery to the Landlord of a statutory declaration stating that there are no construction liens registered or outstanding affecting the Premises in respect to the Tenant's Leasehold Improvements, or trade fixtures, and that all accounts for work, services or materials have been paid in full with respect to the Tenant's Leasehold Improvements and trade fixtures.
- (e) If the Landlord fails to pay any installment(s) of the Leasehold Improvement Allowance to the Tenant when otherwise due to the Tenant, then the Tenant may set-off any such unpaid installment(s) together with interest thereon at a rate of six (6) percent per annum from the Basic Rent and Additional Rent next coming due until set-off in full.

16.34 **Tenant's Work**

The Tenant shall be responsible for all work to prepare the Premises for its occupancy not provided under Landlord's Work including, but not limited to, the installation and cost of all its internal partitions, fixtures, electrical wiring, telecommunication cabling and plumbing costs, together with the cost of any modifications to the ceiling, light or heating ventilation and air-conditioning systems in the Premises, as required by the Tenant's occupancy, excluding any Landlord's Work provided for herein (the "**Tenant's Work**").

The Tenant shall also be responsible for the cost of installing any special equipment required by its occupancy. The Tenant's Work shall be completed in a good and workmanlike manner, subject to the prior written approval of the Tenant's plans by Landlord, acting reasonably, as detailed and provided for in paragraph 16.35 contained herein and shall be completed in accordance with the Tenant Leasehold Improvement Manual attached as Schedule "H" to this Lease governing the Building's rules and regulations for the coordination and construction of the Tenant's Work.

Tenant shall bear (i) the out-of-pocket costs of all the Landlord's plan reviews and approvals in respect of the mechanical and electrical components of the Tenant's Work in an amount not to exceed \$9,000.00 (plus Sales Taxes), and (ii) the reasonable out-of-pocket costs incurred by the Landlord in retaining its base building or designated engineers) or consultant(s) to review and approve the plans for any other component(s) of the Tenant's Work (save for the mechanical and electrical components as aforesaid), unless the Tenant engages the services of any such base building or designated engineer(s) or consultant(s) with respect to any such component(s) of the Tenant's Work in which event the Tenant shall not be responsible for any costs incurred by Landlord in respect thereof. The Tenant shall not be responsible for any charges for electrical use or other security, management, supervision, or elevator use, or other special Landlord costs, during the construction of the Tenant's Work or Landlord's Work, prior to the Commencement Date. Landlord shall co-ordinate with the Tenant the use of one (1) service elevator for the Tenant's use during its Fixturing Period.

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**16.35 Working Drawings**

The Tenant shall submit to the Landlord working drawings of its proposed improvements to the Premises, such drawings must be approved by the Landlord prior to the commencement of any such work, provided that such work shall be done by qualified and licensed contractors or sub-contractors of whom the Landlord shall have approved in writing, such approvals not to be unreasonably withheld or delayed. It shall be deemed that Landlord has given consent to the Tenant's drawings and licensed contractors or subcontractors, if consent or other written notice is not provided to the Tenant within ten (10) Business Days from the Landlord's receipt of the Tenant's drawings or list of contractors.

The Landlord shall provide the Tenant with a copy of any and all design, mechanical and electrical drawings, for existing improvements in the Premises, that are within the Landlord's possession and control upon acceptance of the Offer between the parties.

**16.36 Permit and Approvals**

It is the Tenant's responsibility to secure all the necessary building permits and approvals required by the City of Toronto for all its Tenant's Work. Such permits must be secured and copies provided to the Landlord before any work shall commence in the Premises. The Landlord shall promptly provide any consent or approvals required of it in this regard.

**16.37 Condition of Premises**

Except for the Landlord's Work, as described herein, the Tenant shall accept the Premises on an "as is" basis, and with the understanding that any Leasehold Improvements currently in place shall remain for the use of the Tenant, for the duration of the Term.

**16.38 Landlord's Work**

The Landlord shall be responsible for the cost and installation of the work outlined on the schedule attached hereto as Schedule "G" (the "**Landlord's Work**"). The Landlord covenants and agrees to use its reasonable commercial efforts to complete its Landlord's Work prior to the Access Date (as defined in Section 16.39 herein), subject to force majeure outlined in paragraph 16.19 herein.

Notwithstanding anything contained herein, the Tenant may request the Landlord to complete the Landlord's Work to any one or more of the following floors (on a full floor basis only), being the 4th, 5th, 6th, and/or 7th floors in the Building, upon two (2) months written notice provided by the Tenant to the Landlord.

**16.39 Fixturing Period**

The Landlord shall complete the Landlord's Work to such an extent that will permit the Tenant to commence and complete the Tenant's Work without interference by the Landlord's workmen or work on the 2nd, 4th, 5th, 6th, 7th, 8th, 9th, 10th and 11th floors on or before December 31, 2006 and on the 3rd floor on or before June 1, 2007 (the "**Access Dates**"), to permit the Tenant to carry out the construction of its Tenant's Work, and for the installation of the Tenant's trade fixtures and equipment which the Tenant shall be entitled to undertake during the period commencing from and after the Access Dates to and including the day immediately preceding the Commencement Date on a Rent free basis except as otherwise provided for in the last paragraph of Section 3.3 of this Lease.

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**16.40 Other Charges**

The Tenant shall be responsible for its telecommunication charges and any other special services provided to the Premises, at its request

**16.41 Additional Premises**

- (a) The Landlord hereby represents and warrants to the Tenant that its existing lease (the "**Current Lease**") with the existing tenant of the 12th floor of the Building (the "CT") expires on October 31, 2007 and contains options to extend the term of the Current Lease for two (2) further separate and consecutive periods of five (5) years each upon written notice delivered to the Landlord on or before April 30, 2007 in the case of the first extension and April 30, 2012 in the case of the second extension.
  - (b) Subject to subclause (d) below, at some time between October 1, 2011 and March 1, 2013 (the "**A. P. Commencement Date**"), the Landlord shall lease to the Tenant and the Tenant shall lease from the Landlord additional office space in the Building (the "**Additional Premises**"). The Additional Premises shall consist of the entire 12th floor of the Building in the event the CT fails to exercise its first option to extend the term of the Current Lease or the 12th floor of the Building is as of October 1, 2009, vacant and available for lease but otherwise shall consist of one full floor of the 14th, 15th, 16th, 17th and 18th floors of the Building. The Landlord acknowledges and agrees that it is the Tenant's preference that the Additional Premises comprise the entire 12th floor of the Building and the Landlord shall use reasonable commercial efforts to accommodate such preference.
  - (c) Subject to subclause (d) below, the lease of the Additional Premises shall commence on the A. P. Commencement Date and shall be coterminous with the Term (including for greater certainty any extension(s) or renewal(s) thereof, if exercised) and shall otherwise be under the same terms and conditions as this Lease, which shall apply mutatis mutandis, subject to the following provisions:
    - (i) The Landlord shall on or before October 1, 2009 provide written notice to the Tenant of the exact location of the Additional Premises and the A. P. Commencement Date. The Landlord will complete the Landlord's Work to the Additional Premises and deliver vacant possession of same to the Tenant no later than three (3) months prior to the A. P. Commencement Date and the Tenant shall thereafter to and including the day immediately preceding the A. P. Commencement Date be permitted on a gross rent free basis to complete its Tenant's Work to the Additional Premises.
    - (ii) As provided for in this Lease the Landlord shall provide to the Tenant a leasehold improvement allowance for the Additional Premises. The value of the leasehold improvement allowance shall be prorated over the remaining Term after the A. P. Commencement Date and shall be equal to \$0.291667 multiplied by the remaining months of the Term after the A. P. Commencement Date multiplied by the Rentable Area of the Additional Premises.
  - (d) Notwithstanding anything contained in this Section 16.41 of this Lease, in the event that the Tenant has on or before October 1, 2009 leased or committed to lease pursuant to Section 16.25 of this Lease or otherwise, additional premises in the Building (other than the Premises) consisting of at least 17,698 square feet of Rentable Area, then the provisions of this Section 16.41 of this Lease thereafter shall be null and void and of no
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further force and effect.

16.42 **Additional Rent**

The Additional Rent for the calendar year 2005 is estimated to be \$17.10 per rentable sq.ft. and composed of the following estimates:

Taxes:	\$ 8.38 per rentable sq.ft. per annum*
Operating Costs:	\$7.72 per rentable sq.ft. per annum**
Tenant Utilities:	\$1.00 per rentable sq.ft. per annum*
Total:	\$17.10 per rentable sq.ft. per annum

\* No management or administration fee shall be eligible

\*\* This estimate includes a management and administration fee which is not to exceed 15% of Operating Costs

The Tenant and the Landlord acknowledge that the above amount for Additional Rent is an estimate only and is subject to adjustment based on actual costs. It is further acknowledged that the estimate is based on current Business Hours and will increase as a result of the increased Building Operating Hours outlined in Section 6.2 herein.

16.43 **Interesse Termini**

The Landlord and Tenant acknowledge and agree that for all purposes of this Lease including, without limitation, for the purpose of the Tenant enforcing its right to exclusive possession of the Premises, the parties specifically waive the applicability of the common law doctrine of *interesse termini* (the "Doctrine") and agree that the Doctrine shall not be applicable to this Lease or the rights of the Tenant under this Lease and the Tenant shall be entitled to enforce its rights and remedies contained in this Lease and at law (including, without limitation, obtaining an order for specific performance) as if the Doctrine had been abolished in the Province of Ontario.

16.44 **Suite 208 — INTENTIONALLY DELETED**

16.45 **Landlord's Covenant, Warranty and Representation**

The Landlord covenants, warrants and represents to the Tenant as follows:

- (i) that it is the registered owner of the Development, it has the right to enter into and perform its obligations under this Lease and that it has obtained all approvals and consents required in order for it to do so; and
  - (ii) save and except for routine day-to-day maintenance items, there are no significant anticipated or scheduled maintenance, repairs or replacements to the Development or any of its components.
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16.46 INTENTIONALLY DELETED

**16.47 Reasonableness**

Unless otherwise stated in this Lease to the contrary, whenever any consent, approval, judgement, discretion or other similar decision is required of the Landlord, its architect, engineers, auditors or similar person, such consent, approval, judgement, discretion or other similar decision shall not be withheld or exercised unreasonably and all the parties shall be bound to act reasonably, in good faith and without undue delay.

**16.48 Successors and Assigns**

Except as otherwise specifically provided, the covenants, terms and conditions contained in this Lease shall apply to and bind the parties hereto and their respective successors and assigns.

**IN WITNESS WHEREOF** the parties hereto have duly executed this Lease as of the day, month and year first above written.

**592423 ONTARIO INC.**

Per: \_\_\_\_\_  
[Authorized Signing Officer]

Per: \_\_\_\_\_  
[Authorized Signing Officer]

We have authority to bind the Corporation.

**LOYALTY MANAGEMENT GROUP CANADA INC.**

Per: \_\_\_\_\_  
[Authorized Signing Officer]

Per: \_\_\_\_\_  
[Authorized Signing Officer]

We have authority to bind the Corporation.

**ADS PLACE PHASE I, LLC  
c/o Duke Realty Corporation  
5600 Blazer Parkway, Suite 100  
Dublin, OH 43017**

August 25, 2006

ADS Alliance Data Systems, Inc. 4590  
E. Broad Street Columbus, Ohio 43213  
Attn: Bruce McClary

**Re: 3100 Easton Square Place  
Columbus, Ohio**

Ladies and Gentlemen:

Reference is made to the Lease Agreement dated as of August 25, 2006 (the "Lease") between ADS Place Phase I, LLC ("Landlord") and ADS Alliance Data Systems, Inc. ("Tenant"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in the Lease.

Tenant acknowledges that it holds an option to purchase the Adjacent Land, as described in Section 16.21 of the Lease which it intends to incorporate into the construction of a second building for its occupancy ("Phase II"). At such time as Tenant elects to proceed with the development of Phase II, Tenant shall deliver to Landlord a written proposal (the "Proposal") setting forth the material terms and conditions under which Tenant would engage Landlord to act as Tenant's owner and developer for Phase II.

Landlord shall have thirty (30) days after receipt of the Proposal to either accept or reject such Proposal. If Tenant does not receive Landlord's written response within such thirty (30) day period, then Landlord shall be deemed to have rejected the Proposal. In the event Landlord elects to accept the Proposal, Landlord and Tenant shall proceed to negotiate in good faith definitive documentation evidencing such engagement.

In the event Landlord declines, or is deemed to have declined, the Proposal, then Tenant may proceed to negotiate and enter into an agreement with a third party developer to act as owner and developer for Phase II provided the terms of such engagement (the "Third Party Engagement") are substantially the same as those originally set forth in the Proposal. Notwithstanding the foregoing, if the terms of the Third Party Engagement are not substantially the same as the terms set forth in the Proposal or better for Tenant, then prior to entering into any binding agreement with such third party, Tenant shall send to Landlord a written proposal (the "Second Proposal") to act as owner and developer for Phase II on the same terms and conditions

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as the Third Party Engagement and Landlord shall have the right, exercisable within five (5) days after receipt thereof, to accept the Second Proposal and act as the owner and developer for Phase II. If Tenant does not receive Landlord's written response to the Second Proposal within such five (5) day period, then Landlord shall be deemed to have rejected the Second Proposal.

Landlord shall have the right to assign its rights under this letter agreement to any third party developer upon prior notice from Landlord to Tenant.

This letter agreement shall be governed and construed in accordance with the laws of the State of Ohio.

This letter agreement may be executed in one or more counterparts, each of which taken together shall constitute one and the same agreement.

Sincerely,

ADS PLACE PHASE I, LLC,  
a Delaware limited liability company

By: Duke Construction Limited Partnership,  
an Indiana limited partnership, its manager

By: Duke Business Centers Corporation,  
an Indiana corporation, its general  
partner /

By: \_\_\_\_\_  
James T. Clark  
Senior Vice President  
Columbus Operations

AGREED AND ACCEPTED:

ADS ALLIANCE DATA SYSTEMS, INC.

By:

Name: Daniel T. Groomes

Title: Senior Vice President

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**LEASE AGREEMENT**

THIS LEASE is executed this 25th day of August, 2006 (the "Execution Date"), by and between ADS PLACE PHASE I, LLC, a Delaware limited liability company ("Landlord"), and ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation ("Tenant").

WITNESSETH:

**ARTICLE 1 - LEASE OF PREMISES**

**Section 1.01. Basic Lease Provisions and Definitions.**

A. **Leased Premises:** That certain three (3) story building consisting of approximately 198,602 rentable square feet to be constructed at Easton, Franklin County, Columbus, Ohio (the "Building"), which Building shall be situated on that certain tract or parcel of land containing approximately 13.4 acres as more particularly described in **Exhibit A-I** attached hereto and made a part hereof by reference (the "Land"), located in Easton Square Place (the "Park"). The Leased Premises, the Building and the Land are sometimes collectively referred to herein as the "Project". The preliminary lease outline drawing of the Leased Premises is set forth on the site plan of the Project attached hereto as **Exhibit A** and made a part hereof by reference (the "Site Plan").

B. **Rentable Area of the Leased Premises:** approximately 198,602 rentable square feet.

"**Rentable Area**", "**Rentable Square Feet**" or variations on such term as used in this Lease means the square footage of Rentable Area as defined in the Building Owners and Managers Association International ("BOMA") Standard Method for Measuring Floor Area in Office Buildings American National Standard ANSI-265.1-1996 approved June 7, 1996 by American National Standards Institute, Inc. ("BOMA Standards") which shall be utilized to determine the useable area of the Leased Premises and the usable area of the Building. Within ten (10) days after the Commencement Date, Landlord shall cause the Rentable Area of the Leased Premises to be determined pursuant to BOMA Standards by a qualified architect or engineer who is reasonably acceptable to Landlord and Tenant and who certifies to Landlord and Tenant the number of Rentable Square Feet in the Leased Premises. If the Rentable Area in the Leased Premises is other than 198,602 Rentable Square Feet, Minimum Annual Rent and the Monthly Rental Installments in **Section 1.01C** and D, the TI Allowance in **Section 2.02(10)** and the Moving Allowance in **Section 2.02(1)**, shall be adjusted accordingly.

C. **Minimum Annual Rent:**

*Month 1	\$0.00
Months 2-61	**\$2,323,643.40 per year
Months 62 -121	**\$2,522,245.44 per year.

D. **Monthly Rental Installments:**

*Month 1	\$0.00 per month
Months 2-61	**\$193,636.95 per month
Months 62-121	**\$210,187.12 per month.

\*During such time period, Tenant shall not be responsible for paying to Landlord Minimum Annual Rent for the Leased Premises.

\*\* These amounts are based on the Leased Premises containing 198,602 Rentable Square Feet. If the actual Rentable Area of the Leased Premises as determined pursuant to **Section 1.01B** is not 198,602 Rentable Square Feet, these amounts will be adjusted accordingly.

E. **Term:** Ten (10) years and one (1) month, plus the partial calendar month, if any, in which the Commencement Date occurs (the "Original Term"), together with all duly exercised Extension Terms.

F. **Target Commencement Date:** November 1, 2007.

G. **Security Deposit:** None.

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H. Guarantor: None.

Broker: Duke Realty Services Limited Partnership representing Landlord.

J. Permitted Use: Class "A" General office and administrative use, together with related storage, and uses ancillary thereto (such as, but not limited to, an on-site cafeteria).

K. Address for payments and notices as follows:

Landlord:	ADS Place Phase 1, LLC c/o Duke Realty Corporation Attn.: Vice President, Property Management 5600 Blazer Parkway, Suite 100 Dublin, OH 43017
and	The Georgetown Co. Attn: Jonathan E. Schmerin 667 Madison Avenue New York, NY 10021
With Rental Payments to:	Duke Realty Corporation Accounts Receivable Manager 600 East 96 <sup>th</sup> Street, Suite 100 Indianapolis, Indiana 46240
Tenant (prior to occupancy):	ADS Alliance Data Systems, Inc. Attn: Oren Snell 4590 E. Broad Street Columbus, OH 43213
and	Alliance Data Systems, Inc. Attn: General Counsel 17655 Waterview Parkway Dallas, TX 75252
Tenant (following occupancy):	ADS Alliance Data Systems, Inc Attn: Oren Snell 4590 E. Broad Street Columbus, OH 43213
and	Alliance Data Systems, Inc. Attn: General Counsel 17655 Waterview Parkway Dallas, TX 75252.

L. Business Day: Any day other than a Saturday, Sunday or Federal or State of Ohio legal holiday. If any deadline or obligation falls on a non-Business Day, such deadline or obligation shall be extended to the next Business Day.

M. Exhibits attached hereto:

Exhibit A:	Site Plan of the Project
Exhibit A-1:	Legal Description of the Land
Exhibit B:	Building Description
Exhibit C:	Letter of Understanding
Exhibit D:	Rules and Regulations
Exhibit E:	Agency Disclosure Statement
Exhibit F:	Adjacent Land
Exhibit G:	Landlord's Rules of Conduct'

Section 1.02. Lease of Project. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, under the terms and conditions herein, the Project.

## **ARTICLE 2 — TERM AND POSSESSION**

Section 2.01. Term. The term of this Lease ("Lease Term" or "Term") shall be for the period of time as set forth in Section 1.01(E) hereof, and shall commence on the date (the "Commencement Date")

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that is the later to occur of: (i) the Target Commencement Date or (ii) Substantial Completion of the Building Description (as all such terms are hereinafter defined).

**Section 2.02. Construction of Tenant Finish Improvements and Possession.**

(a) The scope of the work for the Building shell improvements (the "Shell Work") to be performed by Landlord, at Landlord's sole cost and expense, is set forth in the building description and written descriptions thereto all of which are listed and/or set forth on **Exhibit B** attached hereto and made a part hereof (the "Building Description"). Landlord shall construct in a good workmanlike manner and in accordance with all applicable laws, statutes, codes, ordinances and regulations all of the Shell Work and supply all applicable permits, work, labor, materials and equipment necessary to complete the Shell Work in accordance with the Building Description, which shall include, without limitation, the installation of landscaping, parking lots, driveways and all improvements as described in **Exhibit B**.

(b) Landlord shall construct, or shall cause another affiliate of Landlord to construct, in a good and workmanlike manner and in accordance with the applicable laws, statutes, codes, ordinances and regulations the leasehold improvements to the Leased Premises (the "Tenant Improvements") in accordance with the plans and specifications and/or construction drawings (the "Plans and Specifications"), which shall be prepared by Landlord and mutually agreed upon by the parties following the execution of this Lease. Landlord shall obtain all applicable permits, work, labor, materials and equipment necessary or desirable for the completion of such Tenant Improvements. Tenant and Landlord shall reasonably cooperate and use reasonable efforts to have the Plans and Specifications mutually approved by October 5, 2006. Following Tenant's approval of the Plans and Specifications, Landlord shall solicit, but shall not be obligated to obtain, competitive bids from at least three (3) subcontractors for each major trade. Landlord and Tenant shall review the bids jointly and Landlord shall consult with the Tenant on selection of sub-contractors and then Landlord shall select one sub-contractor for each item bid. Landlord agrees to use good business judgment in its selection of sub-contractors and pricing and timing shall be significant factors in Landlord's selection of sub-contractors. Promptly following the selection of a subcontractor for each major trade, Landlord shall deliver to Tenant a statement of the cost to construct and install all of the Tenant Improvements (the "Cost Statement"). Tenant acknowledges and agrees that the Cost Statement shall include design fees and a ten percent (10%) construction management fee payable to the project's construction manager or general contractor (who may be an affiliate of Landlord) and Landlord represents that such fees have been included in all estimates provided by Landlord to Tenant prior to the Execution Date. Tenant agrees to acknowledge the Cost Statement in writing within three (3) business days following Landlord's written request therefor.

(c) Landlord shall provide Tenant with a proposed schedule for the construction and installation of the Tenant Improvements and shall notify Tenant of any material changes to said schedule. Tenant agrees to coordinate with Landlord regarding the installation of Tenant's phone and data wiring and any other trade related fixtures that will need to be installed in the Leased Premises prior to Substantial Completion. Landlord agrees to cooperate with Tenant so that Tenant can install any phone and data wiring and other items which should be installed before walls, ceiling and flooring is completed. Thirty (30) days prior to the Commencement Date, Tenant shall have the right and privilege of going onto the Leased Premises to begin fixturing and to complete interior decoration work and to prepare the Leased Premises for its occupancy (which right shall expressly exclude making any structural modifications); provided, however, that its schedule in so doing shall be communicated to Landlord and the reasonable approval of Landlord secured. Landlord agrees to reasonably cooperate with Tenant in Landlord's completion schedule so that Landlord substantially completes its work in parts of the Building as required by Tenant to facilitate Tenant's completion of the Leased Premises for its occupancy in a manner which minimizes conflicts between Landlord's completion work and Tenant's work and facilitates Tenant's orderly occupancy of the Leased Premises. Subject to the forgoing, Tenant shall not unreasonably interfere with the other work of Landlord being carried on at such time; provided such work by Tenant does not unreasonably interfere with other work of Landlord being carried on at the time. Landlord shall have no responsibility or liability whatsoever for any loss or damage to any of Tenant's leasehold improvements, fixtures, equipment or any other materials installed or left in the Leased Premises by Tenant unless due to Landlord's negligence or willful misconduct or the negligence or willful misconduct of Landlord's agents, employees or contractors. During any entry prior to the Commencement Date (i) Tenant shall comply with all terms and conditions of this Lease other than the obligation to pay Rent, (ii) Tenant shall not unreasonably interfere with Landlord's completion of the Tenant Improvements, (iii) Tenant shall cause its personnel and contractors to comply with the terms and conditions of Landlord's rules of conduct, which are attached hereto as **Exhibit G**, and (iv) Tenant shall not begin operation of its business. Tenant acknowledges that Tenant shall be responsible for obtaining all applicable permits and inspections relating to any such entry by Tenant.

(d) Tenant shall have the right to request changes to the Plans and Specifications at any time following the date of approval by way of written change order (each, a "Change Order", and collectively, "Change Orders"). Provided such Change Order is reasonably acceptable to Landlord, Landlord shall prepare and submit promptly to Tenant a memorandum setting forth the impact on cost and schedule

resulting from said Change Order (the "Change Order Memorandum of Agreement"). Tenant shall, within five (5) business days following Tenant's receipt of the Change Order Memorandum of Agreement, either (i) execute and return the Change Order Memorandum of Agreement to Landlord, or (ii) retract its request for the Change Order. At Landlord's option, Tenant shall pay Landlord (or Landlord's designee), within twenty (20) days following Landlord's request, one-half of any increase in the cost to construct the Tenant Improvements resulting from the Change Order, as set forth in the Change Order Memorandum of Agreement and one-half upon completion of such work. Landlord shall not be obligated to commence any work set forth in a Change Order until such time as Tenant has delivered to Landlord the Change Order Memorandum of Agreement executed by Tenant and, if applicable, Tenant has paid Landlord one-half of any increase in the cost of construction resulting from said Change Order. If any Change Order result in a net decrease in cost such amount shall credited to any amount payable by Tenant to Landlord pursuant to Section 2.02(h), following Substantial Completion or be added to any credit against Rent as provided in Section 2.02(h).

(e) For purposes of this Lease (i) "Substantial Completion" (or any grammatical variation thereof) shall mean completion of construction of the Shell Work and the Tenant Improvements, subject only to punchlist items to be identified by Landlord and Tenant in a joint inspection of the Leased Premises prior to Tenant's occupancy, the completion of which will not materially affect Tenant's use and occupancy of, or ability to obtain an occupancy permit for the Leased Premises (Tenant acknowledging, however, that even if Landlord has Substantially Completed the Tenant improvements, Tenant may not be able to obtain an occupancy permit for the Leased Premises because of the need for completion of all or a portion of improvements being installed in the Leased Premises directly by Tenant, in which case the Leased Premises shall be deemed Substantially Complete); and (ii) "Tenant Delay" shall mean any delay in the completion of the Tenant Improvements attributable to Tenant, including, without limitation, (A) Tenant's failure to meet any time deadlines specified herein, (B) Change Orders, (C) Tenant's requirements for special work or materials, finishes or installations other than those provided for in the Building Description and the Plans and Specifications, (D) the performance of any other work in the Leased Premises by any person, firm or corporation employed by or on behalf of Tenant, or any failure to complete or delay in completion of such work which does not result from the acts or omissions of Landlord or its employees, agents, contractors or subcontractors, and (E) any other act or omission of Tenant.

(f) Notwithstanding anything to the contrary contained in Section 2.01 above, if Substantial Completion of the Tenant Improvements is delayed beyond the Target Commencement Date as a result of Tenant Delay, then, for purposes of determining the Commencement Date, Substantial Completion of the Tenant Improvements shall be deemed to have occurred on the date that Substantial Completion of the Tenant Improvements would have occurred but for such Tenant Delay. Without limiting the foregoing, Landlord shall use commercially reasonable speed and diligence to Substantially Complete the Tenant Improvements on or before the Target Commencement Date. In the event Substantial Completion is delayed beyond thirty (30) days from the Target Commencement Date, and such delay is not caused by a Tenant Delay or force majeure event, Rent shall abate one day for every day of delay beyond such thirty (30) day period. Such abatement shall equal one day's Rent as provided in Section 1.01D for months 2-61 for each day of such delay and shall be deducted on a daily basis from the first Monthly Rental Installments until fully recouped. Promptly following the Commencement Date, Tenant shall execute Landlord's Letter of Understanding in substantially the form attached hereto as Exhibit C, and made a part hereof, acknowledging (x) the Commencement Date of this Lease, and (y) except for any punchlist items and latent defects which are not reasonably determinable during the joint inspection provided in Section 2.02(e) above, that Tenant has accepted the Leased Premises. If Tenant takes possession of and occupies the Leased Premises, Tenant shall be deemed to have accepted the Leased Premises and that the condition of the Leased Premises and the Building was at the time satisfactory and in conformity with the provisions of this Lease in all respects, subject to any punchlist items and latent defects which are not reasonably determinable during the joint inspection provided in Section 2.02(e) above.

(g) Provided that the need to exercise the warranty referenced herein is not created by the negligence or willful misconduct of Tenant, its contractors, employees, or agents, Landlord hereby warrants the Shell Work and the Tenant Improvements for a period of twelve (12) months from the Commencement Date (the "Warranty Period"). After the expiration of the Warranty Period, Landlord shall (i) assign to Tenant all warranties (if assignable) from subcontractors and material suppliers for materials, workmanship, fixtures or equipment installed by Landlord in the Leased Premises to the extent such warranties continue in effect after the expiration of the Warranty Period; or (ii) to the extent not assignable, enforce such warranties at Tenant's request, and at Tenant's sole cost and expense.

(h) TI Cost. Landlord shall construct the Tenant Improvements, but in no event shall the Landlord bear the cost of the Tenant Improvements (the "TI Costs") in excess of Thirty-seven Dollars and Forty-eight Cents (\$37.48) per Rentable Square Foot of the Leased Premises (Seven Million Four Hundred Forty-three Thousand Six Hundred Two Dollars and Ninety-six Cents (\$7,443,602.96)) if the Leased Premises contain 198,602 Rentable Square Feet, or as adjusted per Section 1.01 (the "TI Allowance"). If, following Tenant's approval (or deemed approval) of the Plans and Specifications, the

Cost Statement shows that the TI Costs will exceed the TI Allowance, Tenant shall deliver to Landlord, within twenty (20) days following Landlord's written request, an amount equal to one-half (1/2) of such excess. Following Substantial Completion of the Tenant Improvements, Tenant shall pay to Landlord the remaining difference between the Cost Statement (taking into account any increases or decreases resulting from any Change Orders) and the TI Allowance within twenty (20) days of Landlord's request therefor. Tenant's failure to deliver the payments required in this paragraph shall entitle Landlord to stop the construction and installation of the Tenant Improvements until such payment is received, and any resulting delay shall constitute a Tenant Delay (as hereinafter defined) hereunder, in addition, all delinquent payments shall accrue interest at 12% per annum. If the TI Costs are less than the TI Allowance (taking into account any increases or decreases resulting from any Change Orders), such savings shall be a credit against the initial Monthly Rental Installments, until such savings are fully credited.

(i) Moving Allowance. Landlord shall pay to Tenant within thirty (30) days after the Commencement Date Three Hundred Ninety-seven Thousand Two Hundred Four Dollars (\$397,204.00) (Two Dollars (\$2.00)) per rentable square foot of the Leased Premises) (the "Moving Allowance") on account of Tenant's moving and relocation costs and expenses. The Moving Allowance shall be paid to Tenant regardless of Tenant's actual moving costs.

Section 2.03. Surrender of the Leased Premises. Upon the expiration or earlier termination of this Lease, Tenant shall immediately surrender the Leased Premises to Landlord in broom-clean condition and in good order, condition and repair, ordinary wear and tear and loss or damage due to third parties, fire or other casualty and eminent domain excepted. Tenant shall remove its personal property and computer equipment (including wiring and cabling) from the Leased Premises, at its sole cost and expense. Tenant shall, at its expense, promptly repair any damage caused by any such removal, and shall restore the Leased Premises to the condition existing prior to the installation of the items so removed (normal wear and tear excepted). All Tenant property which is not removed within ten (10) business days following Landlord's written demand therefor (provided such notice is delivered after the expiration or termination of this Lease and Tenant is granted any license necessary to enter the Leased Premises to remove such property) shall be conclusively deemed to have been abandoned and Landlord shall be entitled to dispose of such property at Tenant's cost without incurring any liability to Tenant. The provisions of this Section 2.03 shall survive the expiration or other termination of this Lease.

Section 2.04. Holding Over. If Tenant retains possession of the Leased Premises after the expiration or earlier termination of this Lease, Tenant shall become a tenant from month to month at one hundred fifty percent (150%) of the Monthly Rental Installment for the Leased Premises in effect upon the date of such expiration or earlier termination (the "Holdover Rent"), and otherwise upon the terms, covenants and conditions herein specified, so far as applicable. Acceptance by Landlord of rent after such expiration or earlier termination shall not result in a renewal of this Lease. Tenant shall vacate and surrender the Leased Premises to Landlord upon Tenant being given thirty (30) days prior written notice from Landlord to vacate. This Section 2.04 shall in no way constitute a consent by Landlord to any holding over by Tenant upon the expiration or earlier termination of this Lease, nor limit Landlord's remedies in such event, but one-third 1/3 of the Holdover Rent paid will be credited against any other damages which Landlord incurs as a result of such holdover.

### ARTICLE 3 - RENT

Section 3.01. Minimum Annual Rent. Tenant shall pay to Landlord the Minimum Annual Rent in the Monthly Rental Installments in advance, without deduction or offset, except as otherwise provided in Section 2.02(f) of this Lease, on the Commencement Date and on or before the first day of each and every calendar month thereafter during the Lease Term. The Monthly Rental Installments for partial calendar months shall be prorated.

Section 3.02. Additional Rent. It is the intention of the parties hereto that, during the Term, this Lease shall be a "triple net bondable" lease and it is agreed and intended that Minimum Annual Rent and Additional Rent shall be paid, except to the extent otherwise expressly specified in this Lease, without notice, demand, counterclaim, setoff, deduction or defense and without abatement, suspension, deferment, diminution or reduction and that Tenant's obligation to pay all such amounts, throughout the Term is absolute and unconditional in all respects, except to the extent otherwise expressly specified in this Lease, the obligations and liabilities of Tenant to pay Minimum Annual Rent and Additional Rent hereunder arising during or otherwise relating to the Term shall in no way be released, discharged or otherwise affected for any reason, including, without limitation, the following: (i) any defect in the condition, merchantability, design, quality, construction or fitness for use of the Leased Premises or any part thereof; (ii) any damage to, removal, abandonment, salvage, loss, condemnation, theft, scrapping or destruction of or any requisition or taking of the Leased Premises or any part thereof, or any environmental conditions on the Leased Premises or any property in the vicinity of the Leased Premises; (iii) any restriction, prevention, or curtailment of or interference with any use of the Leased Premises or any part thereof including eviction; (iv) any defect in title to or rights to the Leased Premises or any lien on such title or

rights to the Leased Premises; (v) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceedings relating to Tenant or any other Person, or any action taken with respect to this Lease by any trustee or receiver of Tenant or any other Person, or by any court, in any such proceeding; (vi) any failure on the part of Landlord, or any other Person to perform or comply with any of the terms of this Lease, or of any other agreement; (vii) any invalidly, unenforceability, rejection or disaffirmance of this Lease by operation of law or otherwise against or by Tenant or Landlord or any provision hereof; (viii) the impossibility of performance by Tenant or Landlord, or both; (ix) any action by any court, administrative agency or other Governmental Authority; (x) any interference, interruption or cessation in the use, possession or quiet enjoyment of the Leased Premises; (xi) any failure of Tenant to have the right of possession or actual possession of the Premises; or (xii) any other occurrence whatsoever, whether similar or dissimilar to the foregoing, whether foreseeable or unforeseeable, and whether or not Tenant shall have notice or knowledge of any of the foregoing.

Except as otherwise specifically set forth in this Lease during the Term, this Lease shall not be terminable by Tenant for any reason whatsoever and, except as otherwise expressly provided in this Lease, Tenant waives all rights now or hereafter conferred by statute or otherwise to quit, terminate or surrender this Lease or to any diminution, abatement or reduction of Rent payable hereunder in each case to the fullest extent now or hereafter permitted by Legal Requirements.

In addition to the Minimum Annual Rent Tenant shall pay, either directly or by reimbursement to Landlord, as "Additional Rent," all costs and expenses during the Lease Term for Real Estate Taxes and Operating Expenses for the Project (collectively "Building Expenses").

"Operating Expenses" shall mean all expenses for operation, repair, replacement and maintenance to keep the Project in good order, condition and repair, including, but not limited to, utilities; stormwater discharge fees; license, permit, inspection and other fees; fees and assessments imposed by any covenants or owners' association; security services; insurance premiums and deductibles; and maintenance, repair and replacement of the driveways, parking areas (including snow removal), exterior lighting, landscaped areas, walkways, curbs, drainage strips, sewer lines, exterior walls, foundation, structural frame, roof and gutters except for the cost to repair, correct or replace defective construction of the Project for which Landlord is responsible under this Lease during the Warranty Period as expressly provided in [Section 2.02\(g\)](#) above.

"Real Estate Taxes" shall mean any form of real estate tax or assessment or service payments in lieu thereof, and any license fee, fifty percent (50%) of any commercial rental tax applicable to the Project (the other fifty percent being paid by Landlord), improvement bond or other similar charge or tax (other than inheritance, personal income, franchise or estate taxes) imposed upon the Building (or against Landlord's business of leasing the Building) or Land, by any authority having the power to so charge or tax, together with costs and expenses of contesting the validity or amount of Real Estate Taxes (but deducting therefrom all reductions or refunds received by Landlord as a result of any such contest, appeal or otherwise) and deducting or excluding, as applicable, all applicable tax abatements. Additionally, Tenant shall pay, prior to delinquency, all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all personal property of Tenant contained in the Leased Premises. Landlord will make reasonable efforts to have real estate taxes bills sent directly to Tenant during the Term, but if they cannot be sent directly to Tenant, Landlord will provide such bills to Tenant promptly after Landlord receives such bills and Landlord shall be responsible for any penalties or interest resulting from Landlord's failure to promptly deliver such bills to Tenant. Landlord shall also provide some reasonably verifiable document, or an officer's certificate, evidencing the commercial rental tax due. Landlord hereby authorizes Tenant, at Tenant's sole cost and expense, to contest any assessments or valuations of the Project for real estate tax purposes and authorizes Tenant to pursue such contests in Landlord's name, if required by law.

[Section 3.03. Payment of Additional Rent.](#) Unless Tenant is in Default hereunder, Tenant shall pay the Building Expenses directly to the applicable payees as such Building Expenses become due and payable. In the event of a Tenant Default and thereafter, Landlord shall estimate the total amount of Additional Rent to be paid by Tenant during each calendar year of the Lease Term, pro-rated for any partial years. Following a Tenant Default and Landlord's notice, Tenant shall pay to Landlord each month, at the same time the Monthly Rental Installment is due, an amount equal to one-twelfth (1/12) of the estimated Additional Rent for such year. Within a reasonable time after the end of each calendar year, Landlord shall submit to Tenant a statement of the actual amount of such Additional Rent and within thirty (30) days after receipt of such statement, Tenant shall pay any deficiency between the actual amount owed and the estimates paid during such calendar year. In the event of overpayment, Landlord shall credit the amount of such overpayment toward the next installments of Minimum Rent. Tenant shall have the right to inspect, at reasonable times and in a reasonable manner, during the sixty (60) day period following the delivery of Landlord's statement of the actual amount of the Additional Rent (the "Inspection Period"), such of Landlord's books of account and records as pertain to and contain information concerning the Additional Rent for the prior calendar year in order to verify the amounts thereof. Such inspection shall take place at Landlord's office. Only Tenant or a certified public

accountant that is not being compensated for its services on a contingency fee basis shall conduct such inspection. Landlord and Tenant shall act reasonably in assessing the other party's calculation of the Additional Rent. Tenant shall provide Landlord with a copy of its findings within thirty (30) days after completion of the audit. Tenant's failure to exercise its rights hereunder within the Inspection Period shall be deemed a waiver of its right to inspect or contest the method, accuracy or amount of such Additional Rent. All of the information obtained through Tenant's inspection, as well as any compromise, settlement or adjustment reached between Landlord and Tenant relative to the results of the inspection shall be held in strict confidence by Tenant and its officers, agents, and employees, and Tenant shall cause its independent professionals to be similarly bound.

**Section 3.04. Late Charges.** Tenant acknowledges that Landlord shall incur certain additional unanticipated administrative and legal costs and expenses if Tenant fails to timely pay any payment required hereunder. Therefore, in addition to the other remedies available to Landlord hereunder, if any payment required to be paid by Tenant to Landlord hereunder shall not be paid after the expiration of all applicable notice and cure periods, such unpaid amount shall bear interest from the due date thereof to the date of payment at the prime rate (as set forth in the Wall Street Journal) of interest plus three and three-fourths percent (3.75%) per annum or the maximum interest rate allowed by law, whichever is less (collectively, the "Interest Rate").

**ARTICLE 4 — SECURITY DEPOSIT — [Intentionally Omitted].**

**ARTICLE 5 — OCCUPANCY AND USE**

**Section 5.01. Use.** The Leased Premises shall be used by Tenant for the Permitted Use and for no other purposes without the prior written consent of Landlord, not to be unreasonably withheld, conditioned or delayed. Tenant shall have access to the Project during the Lease Term twenty-four (24) hours a day, seven (7) days a week.

**Section 5.02. Covenants of Tenant Regarding Use.** Tenant shall (i) use and maintain the Leased Premises and conduct its business thereon in a safe, careful, reputable and lawful manner, (ii) comply with the Declaration of Covenants, Conditions and Restrictions for Easton made by MORSO Holding Co. of record in Official Record Volume 32534, page C-08, as amended by First Amendment to Declaration of Covenants, Conditions, Restrictions for Easton of record in Official Record Volume 34316, page C-06, as amended by Second Amendment to Declaration of Covenants, Conditions and Restrictions for Easton of record in Instrument Number 199804240098650, as amended by Third Amendment to Declaration of Covenants, Conditions and Restrictions for Easton of record in Instrument Number 200005120094010, as amended by Fourth Amendment to Declaration of Covenants, Conditions and Restrictions for Easton of record in Instrument Number 200207190177934, as re-recorded in Instrument Number 200308050246689, as amended by Fifth Amendment to Declaration of Covenants, Conditions and Restrictions for Easton of record in Instrument Number 200303280089787, as amended by Sixth Amendment to Declaration of Covenants, Conditions and Restrictions for Easton of record in Instrument Number 200410120236907, Recorder's Office, Franklin, County, Ohio, and all Laws now in force or which may hereafter be in force, including without limitation those which shall impose upon Tenant any duty with respect to or triggered by a change in the use or occupation of, or any improvement or alteration to, the Leased Premises, (iii) comply with and obey all the rules and regulations attached hereto as **Exhibit D**, as may be reasonably modified from time to time by notice to Tenant. Tenant shall not do or permit anything to be done in or about the Leased Premises or the Land, which constitutes a legal nuisance. Tenant shall not use the Leased Premises, or allow the Leased Premises to be used, for any purpose or in any particular manner different from the Permitted Use which would invalidate any policy of insurance now or hereafter carried on the Building. All damage to the floor structure or foundation of the Building due to improper positioning or storage of items or materials shall be repaired by Tenant at its sole expense.

**Section 5.03. Landlord's Rights Regarding Use.** In addition to the rights specified elsewhere in this Lease, Landlord shall have the following rights regarding the use of the Leased Premises, the Building, or the Land, which may be exercised without notice or liability to Tenant: Landlord, its employees and agents and any mortgagee of the Building shall have the right to enter any part of the Leased Premises at reasonable times, upon prior Written notice to Tenant (at least forty eight (48) hours prior notice, except in the event of an emergency in which case no notice shall be required), for the purposes of examining or inspecting the same, showing the same to prospective purchasers, mortgagees or, within the last twelve (12) months of the Lease Term to tenants and for making such repairs and replacements to and maintaining the Leased Premises, the Building and the Land as Landlord may deem necessary in the event Tenant is in Default hereunder (such cost and expense of said repairs, replacement and maintenance shall be Additional Rent hereunder unless otherwise provided herein). Landlord shall incur no liability to Tenant for such entry, nor shall such entry constitute an eviction of Tenant or a termination of this Lease, or entitle Tenant to any abatement of rent therefor; provided, however, that Landlord complies with the terms of this **Section 5.03** and in exercising its rights hereunder, Landlord agrees to use commercially reasonable efforts to not interfere with Tenant's business operations or



obstruct or prevent access to and egress from the Leased Premises or the Project. Except in the case of emergency, Tenant shall be entitled to have a representative of Tenant accompany Landlord, its employees, agents, contractors, invitees or licensees (collectively, "Landlord's Representatives") while they are in the Leased Premises and all Landlord's Representatives shall comply with all reasonable security and confidentiality requirements of Tenant. Landlord acknowledges that all information concerning Tenant's business, including, without limitation, information regarding Tenant's employees, customers, operations, procedures, processes and financials are confidential and proprietary to Tenant and shall not be disclosed to any third parties by any of Landlord's Representatives. Among other requirements, Tenant may require that any and all of Landlord's Representatives sign confidentiality agreements as a condition of entry into the Leased Premises.

**Section 5.04. Parking.** Prior to the Commencement Date, as part of Landlord's Shell Work, Landlord shall construct the parking areas upon the Land serving the Leased Premises, in a good and workmanlike, first-class manner, in compliance with all applicable Laws (including, without limitation, the Americans with Disabilities Act), with no fewer than approximately nine hundred seventy-one (971) parking spaces for passenger vehicles.

**Section 5.05. Quiet Enjoyment.** Upon payment by Tenant of the Rent reserved and provided to be paid by Tenant hereunder and upon the keeping, observance and performance by Tenant of all of the terms, covenants, conditions and provisions of this Lease on Tenant's part to be kept, observed and performed, Tenant shall peaceably and quietly hold and enjoy the Project for the Lease Term without hindrance or interruption by Landlord or by any person or persons claiming or holding by, through or under Landlord.

#### **ARTICLE 6 — UTILITIES AND OTHER BUILDING SERVICES**

**Section 6.01. Services.** Tenant shall obtain in its own name and shall pay directly to the appropriate supplier the cost of all utilities serving the Project.

**Section 6.02. Interruption of Services.** Tenant understands, acknowledges and agrees that any one or more of the utilities or other building services may be interrupted by accident, emergency or other causes beyond Landlord's control (which shall not include Landlord's failure to pay any sums owed to the service provider); that Landlord does not represent or warrant the uninterrupted availability of such utilities or building services; that any such interruption shall not be deemed an eviction or disturbance of Tenant's right to possession, occupancy and use of the Leased Premises or any part thereof, or render Landlord liable to Tenant for damages by abatement of rent or otherwise, or relieve Tenant from the obligation to perform its covenants under this Lease; and that Landlord shall not be liable to Tenant for any injury, loss or damage occasioned by the bursting, stoppage or leaking of water, gas, sewer or other pipes, except to the extent caused by Landlord's negligence or willful misconduct or the negligence or willful misconduct of Landlord's agents, employees or contractors.

#### **ARTICLE 7 — REPAIRS, MAINTENANCE, ALTERATIONS, IMPROVEMENTS AND FIXTURES**

**Section 7.01. Repair and Maintenance.** Tenant shall, at its own cost and expense, maintain the Project in good condition, regularly servicing and promptly making all repairs and replacements thereto, including but not limited to the electrical systems, heating and air conditioning systems, plate glass, floors, windows and doors, and plumbing systems. Tenant shall obtain a preventive maintenance contract on the heating, ventilating and air-conditioning systems and provide Landlord with a copy thereof or otherwise provide such preventive maintenance. The preventive maintenance contract or Tenant's preventive maintenance program shall meet or exceed Landlord's standard maintenance criteria, and shall provide for the inspection and maintenance of the heating, ventilating and air conditioning system on at least a quarterly basis. Tenant shall make all necessary repairs, replacements and maintenance to the roof, sprinkler systems, exterior walls, foundation, structural frame of the Building and the parking and landscaped areas and other areas of the Project. All obligations of Tenant hereunder shall be conducted in a manner consistent with a Class "A" office building.

**Section 7.02. Alterations or Improvements.** Tenant shall not be permitted to make any alterations of the Leased Premises that (i) affect the Building structure or any Building system, or (ii) result in any changes to the exterior of the Building or to the Land, unless and until the plans have been approved in advance by Landlord in writing. Such approval shall not be unreasonably withheld, conditioned or delayed. As a condition of any approval required hereunder, Landlord may require Tenant to remove the alterations and repair any damage to the Project upon expiration or earlier termination of this Lease, provided Landlord earmarks or identifies at the time of consent and prior to installation, any alterations or improvements that must be removed at the end of the Lease Term. If Landlord consents to Tenant's performance of alterations or additions to the Project or if consent is not required under this **Section 7.02**, then Tenant shall ensure that all alterations and improvements which are made or necessitated thereby shall be made in accordance with all applicable Laws, in a good and workmanlike

manner and in quality equal to or better than the original construction of the Building and shall comply with such reasonable requirements as Landlord considers necessary or desirable. Landlord's approval of the plans, specifications and working drawings for Tenant's alterations shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules and regulations of governmental agencies or authorities. Any alterations or improvements to the Leased Premises, except movable office furniture and equipment, machinery and all generators and trade fixtures, shall become a part of the realty and the property of Landlord, and shall not be removed by Tenant; provided that Tenant may remove upgrades to existing systems, which are installed by Tenant as alterations, provided that Tenant restores original systems to the condition that existed prior to such alteration, and Tenant may remove additions to existing systems made by Tenant as alterations provided that such removal does not materially and adversely affect the operation of such system as it existed prior to such additions. No person shall be entitled to any lien derived through or under Tenant for any labor or material furnished to the Leased Premises, and nothing in this Lease shall be construed to constitute Landlord's consent to the creation of any lien. If any lien is filed against the Land for work claimed to have been done for or material claimed to have been furnished to Tenant, Tenant shall cause such lien to be discharged of record within thirty (30) days after Tenant becomes aware of such filing. Tenant shall indemnify Landlord from all costs, losses, expenses and attorneys' fees in connection with any construction or alteration and any related lien.

**Section 7.03. Trade Fixtures.** Any trade fixtures installed on the Leased Premises by Tenant at its own expense, such as movable partitions, counters, shelving, showcases, mirrors and the like (including removal alternatives as provided in [Section 7.02](#) above), may, and, at the request of Landlord, shall be removed on the expiration or earlier termination of this Lease, as provided in [Section 2.03](#), provided that Tenant bears the cost of such removal, and further that Tenant repairs at its own expense any and all damage to the Leased Premises resulting from such removal. If Tenant fails to remove any and all such trade fixtures from the Leased Premises on the expiration or earlier termination of this Lease, all such trade fixtures shall become the property of Landlord unless Landlord elects to require their removal, in which case Tenant shall, at its expense, promptly remove the same and repair any damage to the Leased Premises caused by such removal.

#### **ARTICLE 8 — INDEMNITY AND INSURANCE**

**Section 8.01. Release.** All of Tenant's trade fixtures, merchandise, inventory and all other personal property in or about the Leased Premises, the Building or the Land, which is deemed to include the trade fixtures, merchandise, inventory and personal property of others located in or about the Leased Premises or Land at the invitation, direction or acquiescence (express or implied) of Tenant shall be referred to herein, collectively, as "Tenant's Property". Landlord shall not be liable to Tenant or to any other person for, and Tenant hereby releases Landlord from (a) any and all liability for theft or damage to Tenant's Property, and (b) any and all liability for any injury to Tenant or its employees, agents, contractors, guests and invitees in or about the Leased Premises, the Building or the Land, except to the extent of personal injury or property loss or damage (to the extent not covered by insurance) which results directly from the negligence or willful misconduct of Landlord, its agents, employees or contractors or results from breach by Landlord under this Lease. Nothing contained in this [Section 8.01](#) shall limit (or be deemed to limit) the waiver contained in [Section 8.05](#) below. In the event of any conflict between the provisions of [Section 8.01](#), the provisions of [Section 8.05](#) shall prevail. This [Section 8.01](#) shall survive the expiration or earlier termination of this Lease.

**Section 8.02. Indemnification by Tenant.** Tenant shall protect, defend, indemnify and hold Landlord, its agents, employees and contractors harmless from and against any and all claims, damages, demands, penalties, costs, liabilities, losses, and expenses (including reasonable attorneys' fees and expenses at the trial and appellate levels) to the extent (a) arising out of or relating to any act, omission, negligence, or willful misconduct of Tenant or Tenant's agents, employees, contractors, customers or invitees in or about the Leased Premises, the Building or the Land, or (b) arising out of any other act or occurrence within the Leased Premises, the Building or on the Land in all such cases, except to the extent of personal injury or property loss or damage (to the extent not covered by insurance) which results directly from the negligence or willful misconduct of Landlord, its agents, employees or contractors. Nothing contained in this [Section 8.02](#) shall limit (or be deemed to limit) the waivers contained in [Section 8.05](#) below, in the event of any conflict between the provisions of [Section 8.05](#) below and this [Section 8.02](#), the provisions of [Section 8.05](#) shall prevail. This [Section 8.02](#) shall survive the expiration or earlier termination of this Lease.

**Section 8.03. Indemnification by Landlord.** Landlord shall protect, defend, indemnify and hold Tenant, its agents, employees and contractors harmless from and against any and all claims, damages, demands, penalties, costs, liabilities, losses and expenses (including reasonable attorneys' fees and expenses at the trial and appellate levels) to the extent arising out of or relating to any act, omission, negligence or willful misconduct of Landlord or Landlord's agents, employees or contractors. Nothing contained in this [Section 8.03](#) shall limit (or be deemed to limit) the waivers contained in [Section 8.05](#) below. In the event of any conflict between the provisions of [Section 8.05](#) below and this [Section 8.03](#).

the provisions of Section 8.05 shall prevail. This Section 8.03 shall survive the expiration or earlier termination of this Lease.

Section 8.04. Tenant's Insurance.

(a) During the Lease Term (and any period of early entry or occupancy or holding over by Tenant, if applicable), Tenant shall maintain the following types of insurance, in the amounts specified below:

(i) Liability Insurance. Commercial General Liability Insurance (which insurance shall not exclude blanket, contractual liability, broad form property damage, personal injury, or fire damage coverage) covering the Leased Premises, the Building and the Land, and Tenant's use thereof against claims for bodily injury or death and property damage, which insurance shall provide coverage on an occurrence basis with a per occurrence limit of not less than \$3,000,000, and with general aggregate limits of not less than \$10,000,000 for each policy year, which limits may be satisfied by any combination of primary and excess or umbrella per occurrence policies.

(ii) Property Insurance. Special Form Insurance (which insurance shall not exclude flood or earthquake) in the amount of the full replacement cost of the Building and betterments (including alterations or additions performed by Tenant pursuant hereto, and any improvements made pursuant to Section 2.02 above) and Tenant's Property, which insurance shall include an agreed amount endorsement waiving coinsurance limitations.

(iii) Worker's Compensation Insurance. Worker's Compensation insurance in amounts required by applicable law.

(iv) Business Interruption Insurance. Business Interruption Insurance with limits of not less than an amount equal to one (1) year's rent hereunder.

(b) All insurance required by Tenant hereunder shall (i) be issued by one or more insurance companies reasonably acceptable to Landlord, licensed to do business in the State in which the Leased Premises is located and having an AM Best's rating of A- IX or better, and (ii) provide that said insurance shall not be materially changed, canceled or permitted to lapse on less than thirty (30) days' prior written notice to Landlord. In addition, Tenant's insurance shall protect Tenant and Landlord as their interests may appear, naming Landlord, Landlord's managing agent, and any mortgagee requested by Landlord, as additional insureds under its commercial general liability policies. On or before the Commencement Date (or the date of any earlier entry or occupancy by Tenant), and thereafter, within thirty (30) days prior to the expiration of each such policy, Tenant shall furnish Landlord with certificates of insurance in the form of ACORD 25 or ACORD 25-S (or other evidence of insurance reasonably acceptable to Landlord), evidencing all required coverages, together with a copy of the endorsement(s) to Tenant's commercial general liability policy evidencing primary and non-contributory coverage afforded to the appropriate additional insureds, unless the policy contains an automatic endorsement for contractual liabilities, then the certificate of insurance evidencing the additional insured shall suffice. Upon Tenant's receipt of a request from Landlord, Tenant shall provide Landlord with a mutually convenient date to review all insurance policies, including all endorsements, evidencing the coverages required hereunder in Tenant's office. If Tenant fails to carry such insurance and furnish Landlord with such certificates of insurance or copies of insurance policies (if applicable), Landlord may obtain such insurance on Tenant's behalf and Tenant shall reimburse Landlord upon demand for the cost thereof as Additional Rent. Landlord reserves the right from time to time to require Tenant to obtain higher minimum amounts or different types of insurance if it becomes customary for other landlords of similar buildings in the area to require similar sized tenants in similar industries to carry insurance of such higher minimum amounts or of such different types.

Section 8.05. Waiver of Subrogation. Notwithstanding anything contained in this Lease to the contrary, Tenant and Landlord hereby waive any rights each may have against the other on account of any loss of or damage to their property, the Leased Premises, its contents, or other portions of the Building arising from any risk which is required to be insured under this Lease. The special form coverage insurance policies maintained by Tenant as provided in this Lease shall include an endorsement containing an express waiver of any rights of subrogation by the insurance company against Landlord.

**ARTICLE 9 — CASUALTY AND EMINENT DOMAIN**

Section 9.01. General Provisions. Subject to Tenant's rights to utilize or obtain the same in accordance with Section 9.03, Tenant hereby irrevocably assigns to Landlord any award, compensation or insurance payment to which Tenant may become entitled by reason of Tenant's interest in the Leased Premises (i) if the use, occupancy or title of the Project or any part thereof is taken, requisitioned or sold in, by or on account of any actual or threatened eminent domain proceeding or other action by any person having the power of eminent domain ("Condemnation") or (ii) if the Project or any part thereof is

damaged or destroyed by fire, flood or other casualty ("Casualty") (all awards, compensations, and insurance payments on account of any Condemnation or Casualty (net of any amounts applicable to Tenant's Property) are hereinafter collectively called "Compensation"). In the event of any Casualty, or in the event of a Condemnation or threatened Condemnation with respect to the Project, Tenant or Landlord (whoever receives notice first) shall give prompt written notice thereof to the other (if such notice is from Tenant, it shall set forth Tenant's good faith estimates of the cost of repairing or restoring any damage or destruction caused thereby, or, if Tenant cannot reasonably estimate the anticipated cost of restoration, Tenant shall nonetheless give Landlord prompt notice of the occurrence of any such Casualty or Condemnation, and will diligently proceed to obtain estimates to enable Tenant to quantify the anticipated cost of such restoration, whereupon Tenant shall promptly notify Landlord of such good faith estimate). Landlord may, if it reasonably so elects, participate in any such proceeding or action to negotiate, prosecute and adjust any claim for any Compensation, and Landlord shall collect any such Compensation at Landlord's sole cost. Notwithstanding Landlord's right to participate therein, Tenant, at Tenant's sole cost, shall initiate, conduct and control any such proceeding, action, negotiation, prosecution or adjustment, unless a Default shall have occurred and be continuing, in which event Landlord shall have the sole right to conduct and control such proceedings, actions, negotiations, prosecutions and adjustments. All Compensation shall be applied pursuant to the applicable provisions of this Article 9, and all such Compensation (less the reasonable costs and expenses of Tenant, in all cases, and Landlord, only if Landlord conducts and controls such proceedings after a Default by Tenant, in collecting such Compensation), is herein called the "Net Proceeds".

Section 9.02. Major Condemnation and Major Casualty. If a Condemnation shall take more than twenty percent (20%) of the Land or the Net Proceeds of such Condemnation shall be for an amount in excess of \$5,000,000, or if a Casualty shall occur which prevents Tenant from using more than fifty percent (50%) of the Leased Premises for a period in excess of twelve (12) months, Tenant shall provide evidence thereof reasonably acceptable to Landlord (herein, a "Major Casualty" and a "Major Condemnation"), then Tenant shall, not later than thirty (30) days after such Major Condemnation or Major Casualty, as the case may be, deliver to Landlord (i) notice of its intention to terminate this Lease with respect to such Project on the first Minimum Annual Rent payment date (the "Lease Termination Date") which occurs not less than 30 days and not more than 90 days after the delivery of such notice and (ii) a certificate of Tenant describing the event giving rise to such termination and stating that Tenant has determined in good faith that such Major Condemnation or Major Casualty, as the case may be, has rendered the Project unsuitable for restoration for continued use and occupancy in Tenant's business and is relinquishing any rights to the Net Proceeds, and (iii) documentation to the effect that termination of this Lease with respect to the Project will not be in violation of any agreement then in effect with which Tenant is obligated to comply pursuant to this Lease.

Section 9.03. Less than Major Condemnation or Casualty.

(a) If, after a Condemnation or Casualty, Tenant is not permitted to give or, if permitted, does not give notice of its intention to terminate this Lease with respect to the Project as provided in Section 9.02 (and is not required to give such notice pursuant to Section 9.02), then this Lease shall continue in full force and effect and Tenant shall, at its expense, promptly rebuild, replace or repair the Building and Leased Premises in conformity with the requirements of Sections 2.02 (including referenced exhibits and Plans and Specifications) and 7.02 so as to restore the applicable Project (in the case of Condemnation, as nearly as practicable) to the condition and fair market value thereof immediately prior to such occurrence (or if the Project was under renovation at such time, to the condition and fair market value thereof at the time of completion of renovation). Prior to any such rebuilding, replacement or repair, Tenant shall deliver its reasonable estimate of the cost thereof, which shall be subject to the approval of Landlord, which approval shall not be unreasonably withheld (the cost approved by Landlord is referred to as the "Restoration Cost").

(b) The Restoration Cost must be confirmed by an architect reasonably acceptable to Landlord (an "Architect"), and if the Restoration Cost is more than the amount of Net Proceeds, the Tenant shall deliver or cause to be delivered to Landlord or its designee (i) cash collateral in an amount equal to such excess, or (ii) an unconditional, irrevocable, clean sight draft letter of credit, in form and substance, and issued by a bank, acceptable to Landlord in its reasonable discretion, in the amount of such excess, or (iii) a bond in form and from an institution reasonably acceptable to Landlord in the amount of such excess; or (iv) evidence acceptable to Landlord that the excess has been expended in performing the restoration work prior to any funds being drawn from the Net Proceeds.

(c) The Restoration Cost shall be paid first out of Tenant's own funds to the extent that the Restoration Cost exceeds the Net Proceeds payable in connection with such occurrence, after which expenditure Tenant shall be entitled to receive the Net Proceeds, but only against certificates of Tenant (and lien releases and other items generally and reasonably required in connection with disbursement of construction loan or insurance proceeds) delivered to Landlord from time to time as such work or rebuilding, replacement and repair progresses, each such certificate describing the work for which Tenant is requesting payment and the cost incurred by Tenant in connection therewith and stating that Tenant has

not theretofore received payment for such work. In addition, in such event the Restoration Cost shall be disbursed in accordance with the procedure set forth in Section 9.03(e) below. Any Net Proceeds remaining after final payment has been made for such work and after Tenant has been reimbursed for any portions it contributed to the Restoration Cost shall be shared equally by Landlord and Tenant, hi the event of any temporary Condemnation, this Lease shall remain in full force and effect and so long as no Event of Default shall have occurred and be continuing the Net Proceeds allocable to such temporary Condemnation shall be paid to Tenant except that such portion of the Net Proceeds allocable to the period after the expiration or termination of the term of this Lease shall be paid to Landlord. If the cost of any rebuilding, replacement or repair required to be made by Tenant pursuant to this Section 9.03 shall exceed the amount of such Net Proceeds, the deficiency shall be paid by Tenant. Tenant shall not be entitled to disbursements of the Net Proceeds if a Default has occurred and is continuing.

(d) The Minimum Annual Rent and the Additional Rent payable under the provisions of this Lease shall not be affected, altered or reduced by any Casualty or Condemnation. Tenant's obligation to continue to pay Minimum Annual Rent and Additional Rent shall continue notwithstanding any such Condemnation or Casualty.

(e) If the Restoration Costs are required to be held by Landlord or its designee pursuant to this Lease, then such Net Proceeds shall be held by Landlord or its designee and shall be paid out from time to time to Tenant as the work progresses (less any cost to Landlord or its designee of recovering and paying out such proceeds, including, without limitation, reasonable attorneys', trustees' or escrow fees relating thereto and costs allocable to inspecting the work and the plans and specifications therefor), subject to each of the following conditions:

(i) Each request for payment shall be made on not less than ten (10) business days' prior notice to Landlord, and shall be accompanied by an officer's certificate (or if such work is being performed under the supervision of an Architect, by a certificate of such Architect), stating (A) in the case of an officer's certificate only, that no Default exists hereunder, (B) that, based upon an inspection of the Project, all of the work completed has been done in substantial compliance with the approved plans and specifications, if required, (C) that the sum requested is validly required to reimburse Tenant for payments by Tenant, or is validly due to the contractor, subcontractors, materialmen, laborers, engineers, architects or other persons rendering services or materials for the work (giving a brief description of such services and materials), and that when added to all sums previously paid out by Landlord does not exceed the value of the work done to the date of such certificate, (D) if the sum requested is to cover payment relating to repair and restoration of personal property required or relating to the Project, that title to the personal property items covered by the request for payment is vested in Landlord or Tenant, as applicable, and (E) the remaining cost to complete such work and that the remaining amount held by Landlord (together with any amounts contemporaneously deposited by Tenant with Landlord or Lender in connection therewith) shall be sufficient to cover such cost of completion; provided, however, that if such certificate is given by an Architect, such Architect shall certify as to clause (B) above, and Tenant shall certify as to the remaining clauses above, and provided, further, that Landlord shall not be obligated to disburse such funds if it determines, in its reasonable discretion, that Tenant shall not be in compliance with this Section 9.03(e)(i). Additionally, each request for payment shall contain a statement signed by Tenant approving both the work done to date and the work covered by the request for payment in question.

(ii) Each request for payment shall be accompanied by waivers of lien reasonably satisfactory to Landlord covering that part of the work for which payment or reimbursement has been made as of the date shown on the current request and, if required by Landlord, a search prepared by a title company or by other evidence satisfactory to Landlord that there has not been filed with respect to the Project any mechanics, or other lien or instrument for the retention of title relating to any part of the work not discharged of record and such other contractors' affidavits, plots of survey and evidence of cost, payment and performance as Landlord may reasonably request and approve. Additionally, as to any personal property covered by the request for payment, Landlord shall be furnished with evidence of payment therefor.

(iii) Landlord, and its architects or duly authorized construction representatives, shall have the right to inspect the work at all reasonable times upon reasonable prior notice and may condition any disbursement of Net Proceeds upon the satisfactory completion, as determined in the reasonable discretion of Landlord, of any portion of the work for which payment or reimbursement is being requested. Neither the approval by Landlord of any required plans and specifications for the work nor the inspection by Landlord of the work shall make Landlord responsible for the preparation of such plans and specifications or the compliance of such plans and specifications, or of the work, with any applicable legal requirement, covenant or agreement.

(iv) Net Proceeds shall not be disbursed more frequently than once every thirty (30) days. No disbursement made prior to final completion of any item of work shall cause the aggregate amount disbursed with respect to such item of work to exceed 90% of the value of the portion of such

item of work which has been completed if, at the time of such disbursement a Default has occurred and is continuing.

(v) So long as a Default shall have occurred and be continuing, Landlord may apply any Net Proceeds held by it to continue the restoration and repair of the Project.

Net Proceeds held by Landlord in accordance with this Section shall be held in an interest bearing account if (A) such an account is available at the institution at which Landlord holds such Net Proceeds, and (B) Landlord determines, in its reasonable judgment, that holding the Net Proceeds in such an account is practical under the then existing circumstances. Any interest earned on the Net Proceeds shall be a part of the Net Proceeds, and shall be disbursed in accordance with this Lease.

(f) Notwithstanding any other provision of this Section, if Tenant is then currently maintaining a S&P rating of BBB and in Tenant's reasonable judgment the cost of the Work (as hereinafter defined) is less than \$2,000,000 with respect to any one casualty or partial condemnation, such Work can be completed in less than one hundred eighty (180) days (subject to Force Majeure) and no Default has occurred and is continuing, then Landlord, upon request by Tenant, shall permit Tenant to apply for and receive the Net Proceeds directly from the insurer or payor thereof (and Landlord shall advise such insurer or payor to pay over such Net Proceeds directly to Tenant), provided that Tenant shall promptly and diligently commence and complete such Work in a good and workmanlike manner.

(g) If a Default shall have occurred and be, continuing or if Tenant (i) shall fail to submit to Landlord for approval plans and specifications (if required pursuant to [Section 9.03\(b\)](#) hereof) for the work (the "Work") (approved by the Architect and by all governmental authorities whose approval is required), (ii) after any such plans and specifications are approved by all such governmental authorities, the Architect and Landlord, shall fail to commence promptly such Work, (iii) after Landlord has released the Net Proceeds to the extent provided for hereunder, shall fail to diligently prosecute such Work to completion, or (iv) shall materially fail in any other respect to comply with the Work obligations under this [Section 9.02](#), then in addition to all other rights available hereunder, at law or in equity, Landlord or any receiver of the Project or any portion thereof, upon fifteen (15) days prior written notice to Tenant (except in the event of emergency in which case no notice shall be required), may (but shall have no obligation to) perform or cause to be performed such Work, and may take such other steps as Landlord deems advisable (but such performance shall not cure the Default of Tenant). Tenant hereby waives, for Tenant and all others holding under or through Tenant, any claim, other than for negligence or willful misconduct, against Landlord and any receiver arising out of any act or omission of Landlord or such receiver pursuant hereto, and Landlord may apply all or any portion of the Net Proceeds (without the need to fulfill any other requirements forth in this [Section 9.03](#)) to reimburse Landlord or such receiver, for all amounts incurred in connection with the Work, and any costs not reimbursed to such parties shall be paid by Tenant to Landlord (or such other party) on demand, together with interest thereon at the rate set forth in [Section 3.04](#) from the date such amounts are advanced until the same are paid by Tenant.

**ARTICLE 10 — EMINENT DOMAIN — [Intentionally Omitted].**

**ARTICLE 11 — ASSIGNMENT AND SUBLEASE**

Tenant shall not assign this Lease or sublet the Project in whole or in part without Landlord's prior written consent, which consent shall not be unreasonably withheld, delayed or denied. In the event of any permitted assignment or subletting, Tenant shall remain primarily liable hereunder. The acceptance of rent from any other person shall not be deemed to be a waiver of any of the provisions of this Lease or to be a consent to the assignment of this Lease or the subletting of the Project. Without in any way limiting Landlord's right to refuse to consent to any assignment or subletting of this Lease, Landlord reserves the right to refuse to give such consent if (i) such proposed assignment or subletting is for less than 15,000 square feet, or (ii) in Landlord's reasonable opinion, such proposed assignee or subtenant is not an appropriate tenant for a Class "A" office building. Notwithstanding the foregoing, Tenant may assign this Lease or sublease all or any portion of the Leased Premises without Landlord's consent to any of the following (a "Permitted Transferee"): (i) any successor corporation or other entity resulting from a merger or consolidation of Tenant; (ii) any purchaser of all or substantially all of Tenant's assets; or (iii) any entity which controls, is controlled by, or is under common control with Tenant. Tenant shall give Landlord at least thirty (30) days' prior written notice of the effective date of such assignment or sublease. Any Permitted Transferee who is an assignee shall assume in writing all of Tenant's obligations under this Lease. Tenant shall nevertheless, regardless of any transfer, assignment or sublet of all or any portion of the Leased Premises, at all times remain fully responsible and liable for the payment of rent and the performance and observance of all of Tenant's other obligations under this Lease. Nothing in this paragraph is intended to nor shall permit Tenant to transfer its interest under this Lease as part of a fraud or subterfuge to intentionally avoid its obligations under this Lease (for example, transferring its interest to a shell corporation that subsequently files a bankruptcy), and any such transfer shall constitute a Default hereunder.

## ARTICLE 12 — TRANSFERS BY LANDLORD

Section 12.01. Sale of the Building. Landlord shall have the right to sell the Building and the Land at any time during the Lease Term and prior to the Commencement Date, and upon the assumption of Landlord's obligations hereunder by the transferee, such sale shall operate to release Landlord from liability hereunder accruing after the date of such conveyance. Landlord shall notify Tenant of the identity and notice address of such transferee at, or promptly following the closing of such transfer.

Section 12.02. Subordination and Estoppel Certificate. This Lease shall be subject and subordinate to any mortgage presently existing or hereafter placed upon the Building and/or Land by so declaring in such mortgage, provided that the holder of said mortgage, for itself and its successors and assigns, including, without limitation, any purchaser at foreclosure sale or by deed in lieu of foreclosure, agrees to recognize this Lease and not to disturb Tenant's possession of the Leased Premises or use of Project so long as Tenant is not in Default hereunder. Such subordination and non-disturbance may be evidenced by a subordination and non-disturbance agreement as set forth herein. Promptly following Landlord's request, Tenant shall execute a subordination and non-disturbance and attornment agreement which shall provide the holder shall not disturb Tenant's right of possession so long as Tenant is not in Default, and that the Tenant shall attorn to and recognize the mortgage holder in the event that such mortgage holder succeeds to the interest of Landlord under the Lease, and further providing that the mortgage holder and its successors and assigns, as provided above, shall not be bound by, (i) any payment of Minimum Annual Rent or Additional Rent made more than one month in advance, and (ii) defaults of the Landlord under this Lease or any offset rights relating to such defaults. Within fifteen (15) days following receipt of a written request from Landlord, Tenant shall execute and deliver to Landlord, without cost, any instrument which is reasonably requested to confirm the subordination, non-disturbance and attornment obligations of this Lease. Furthermore, either party may request from the other an estoppel certificate in such form as such party may reasonably request certifying (i) that this Lease is in full force and effect and unmodified or stating the nature of any modification, (ii) the date to which rent has been paid, (iii) that there are not, to the delivering party's knowledge, any uncured defaults or specifying such defaults if any are claimed, and (iv) any other matters or state of facts reasonably required respecting this Lease. Such estoppel, when requested by Landlord, may be relied upon by Landlord and by any purchaser or mortgagee of the Building, or when requested by Tenant, may be relied upon by Tenant, or any assignee, subtenant or lender of Tenant. Notwithstanding the foregoing, if the mortgagee shall take title to the Leased Premises through foreclosure or deed in lieu of foreclosure, Tenant shall be allowed to continue in possession of the Leased Premises as provided for in this Lease so long as Tenant shall not be in Default.

## ARTICLE 13 — DEFAULT AND REMEDY

Section 13.01. Default. The occurrence of any of the following shall be a "Default":

A. Tenant fails to pay any Monthly Rental Installment or Additional Rent within five (5) days after receipt of notice from Landlord that payment is past due, or Tenant fails to pay any other amounts past due Landlord from Tenant within ten (10) days after receipt of notice from Landlord that payment is past due.

B. Tenant fails to perform or observe any other term, condition, covenant or obligation required under this Lease for a period of thirty (30) days after notice thereof from Landlord; provided, however, that if the nature of Tenant's default is such that more than thirty (30) days are reasonably required to cure, then such default shall be deemed to have been cured if Tenant commences such performance within said thirty (30) day period and thereafter diligently completes the required action within a reasonable time.

rC. [Intentionally Omitted].

D. Tenant shall assign or sublet all or a portion of the Leased Premises in contravention of the provisions of Article 11 of this Lease.

E. All or substantially all of Tenant's assets in the Leased Premises or Tenant's interest in this Lease are attached or levied under execution (and Tenant does not discharge the same within sixty (60) days thereafter); a petition in bankruptcy, insolvency or for reorganization or arrangement is filed by or against Tenant (and Tenant fails to secure a stay or discharge thereof within sixty (60) days thereafter); Tenant is insolvent and unable to pay its debts as they become due; Tenant makes a general assignment for the benefit of creditors; Tenant takes the benefit of any insolvency action or law; the appointment of a receiver or trustee in bankruptcy for Tenant or its assets if such receivership has not been vacated or set aside within thirty (30) days thereafter; or, dissolution or other termination of Tenant's corporate charter if Tenant is a corporation.

Tenant acknowledges and agrees that Tenant shall not be entitled to, and Landlord shall not be obligated to provide, notice of default of any monetary obligations relating to Monthly Rental Installments or Tenant's regular monthly installments of Building Expenses (if applicable) under this Lease more than two (2) times during any calendar year.

Section 13.02. Remedies. Upon the occurrence of any Default, Landlord shall have the following rights and remedies, in addition to those allowed by law or in equity, any one or more of which may be exercised without further notice to Tenant:

A. Landlord may re-enter the Leased Premises and cure any Default of Tenant, and Tenant shall reimburse Landlord as Additional Rent for any costs and expenses which Landlord thereby incurs; and Landlord shall not be liable to Tenant for any loss or damage which Tenant may sustain by reason of Landlord's action.

B. Without terminating this Lease, Landlord may terminate Tenant's right to possession of the Leased Premises, and thereafter neither Tenant nor any person claiming under or through Tenant shall be entitled to possession of the Leased Premises, and Tenant shall immediately surrender the Leased Premises to Landlord; and Landlord may re-enter the Leased Premises and dispossess Tenant and any other occupants of the Leased Premises by any lawful means and may remove their effects, without prejudice to any other remedy which Landlord may have. Upon the termination of possession, Landlord may (i) re-let all or any part thereof for a term different from that which would otherwise have constituted the balance of the Lease Term and for rent and on terms and conditions different from those contained herein, provided such rent, terms and conditions are reasonable and consistent with the market, whereupon Tenant shall be immediately obligated to pay to Landlord an amount equal to the present value (discounted at the Prime Rate) of the difference between the rent provided for herein and that provided for in any lease covering a subsequent re-letting of the Leased Premises, for the period which would otherwise have constituted the balance of the Lease Term (the "Accelerated Rent Difference"), or (ii) without re-letting, declare the present value (discounted at the Prime Rate) of all rent which would have been due under this Lease for the balance of the Lease Term, including the amount of Building Expenses, which shall be based on the average amount due for the calendar year in which the termination occurs, less the present value (discounted at the Prime Rate) of all net rent, including the amount of Building Expenses, that Landlord reasonably estimates that Landlord will receive via a reletting of the Leased Premises for the balance of the Lease Term, to be immediately due and payable as liquidated damages (the "Accelerated Rent"). Upon termination of possession, Tenant shall be obligated to pay to Landlord (A) the Accelerated Rent Difference or the Accelerated Rent, whichever is applicable, (B) all loss or damage which Landlord may sustain by reason of Tenant's Default, which are not included in the Accelerated Rent Difference or Accelerated Rent ("Default Damages"), which may include without limitation, expenses of preparing the Leased Premises for re-letting, demolition, repairs, tenant finish improvements and brokers' commissions and attorneys' fees, and (C) all unpaid Minimum Annual Rent and Additional Rent that accrued prior to the date of termination of possession, plus any interest and late fees due hereunder (the "Prior Obligations").

C. Landlord may terminate this Lease and declare the Accelerated Rent to be immediately due and payable, whereupon Tenant shall be obligated to pay to Landlord (i) the Accelerated Rent, (ii) all of Landlord's Default Damages, and (iii) all Prior Obligations. It is expressly agreed and understood that all of Tenant's liabilities and obligations set forth in this subsection (c) shall survive termination.

D. Neither the filing of a dispossessory proceeding nor an eviction of personalty in the Leased Premises shall be deemed to terminate the Lease.

E. Landlord may sue for injunctive relief or to recover damages for any loss resulting from the Default.

F. If Landlord terminates this Lease or Tenant's right to possession, Landlord shall use reasonable efforts to mitigate damages hereunder, consistent with applicable law. If Landlord has not terminated this Lease or Tenant's right to possession, Landlord shall have no obligation to mitigate except as required by applicable law and may permit the Leased Premises to remain vacant or abandoned. Landlord shall not be deemed to have failed to mitigate if it incurs reasonable reletting costs and make reasonable efforts to relet the Project. Notwithstanding the foregoing, Tenant shall retain the burden of pleading mitigation of damages as an affirmative defense and retain the burden of proof.

Section 13.03. Landlord's Default and Tenant's Remedies. Landlord shall be in default if it fails to perform any term, condition, covenant or obligation required under this Lease for a period of thirty (30) days after written notice thereof from Tenant to Landlord; provided, however, that if the term, condition, covenant or obligation to be performed by Landlord is such that it cannot reasonably be performed within thirty (30) days, such default shall be deemed to have been cured if Landlord commences such performance within said thirty (30) day period and thereafter diligently undertakes to complete the same. Upon the occurrence of any such default, Tenant may sue for injunctive relief or to recover damages for



any loss directly resulting from the breach, but Tenant shall not be entitled to terminate this Lease or withhold, offset or abate any sums due hereunder, without court order.

**Section 13.04. Limitation of Landlord's Liability.** If Landlord shall fail to perform any term, condition, covenant or obligation required to be performed by it under this Lease and if Tenant shall, as a consequence thereof, recover a money judgment against Landlord, Tenant agrees that it shall look solely to Landlord's right, title and interest in and to the Project, including the rents and sales, insurance or condemnation proceeds therefrom, for the collection of such judgment; and Tenant further agrees that no other assets of Landlord, other than as set forth above, shall be subject to levy, execution or other process for the satisfaction of Tenant's judgment.

**Section 13.05. Nonwaiver of Defaults.** Neither party's failure or delay in exercising any of its rights or remedies or other provisions of this Lease shall constitute a waiver thereof or affect its right thereafter to exercise or enforce such right or remedy or other provision. No waiver of any default shall be deemed to be a waiver of any other default. Landlord's receipt of less than the full rent due shall not be construed to be other than a payment on account of rent then due, nor shall any statement on Tenant's check or any letter accompanying Tenant's check be deemed an accord and satisfaction. No act or omission by Landlord or its employees or agents during the Term of this Lease shall be deemed an acceptance of a surrender of the Leased Premises, and no agreement to accept such a surrender shall be valid unless in writing and signed by Landlord.

**Section 13.06. Attorneys' Fees.** If either party defaults in the performance or observance of any of the terms, conditions, covenants or obligations contained in this Lease and the non-defaulting party obtains a judgment against the defaulting party, then the defaulting party agrees to reimburse the non-defaulting party for the reasonable attorneys' fees incurred thereby. As used herein, "judgment" shall include any unappealable or unappealed ruling or finding of an arbitrator or mediator, if applicable.

#### **ARTICLE 14 — LANDLORD'S RIGHT TO RELOCATE TENANT**

*[Intentionally Omitted].*

#### **ARTICLE 15 — RESPONSIBILITIES REGARDING ENVIRONMENTAL LAWS AND HAZARDOUS SUBSTANCES.**

##### **Section 15.01. Environmental Definitions.**

A. "**Environmental Laws**" — All present or future federal, state and municipal laws, codes, orders, decrees, ordinances, rules and regulations applicable to the environmental and ecological condition of the Project, as well as the rules and regulations of the Federal Environmental Protection Agency or any other federal, state or municipal agency or governmental board or entity regulating, relating to, or imposing liabilities or standards of conduct concerning any hazardous, toxic, or dangerous waste, substance, material, gas, or petroleum product, and having jurisdiction over the Project.

B. "**Hazardous Substances**" — Those substances included within the definitions of "hazardous substances," "hazardous materials," "toxic substances" "solid waste" or "infectious waste" under Environmental Laws and petroleum products. "Hazardous Substances" shall not include ordinary or customary office or cleaning supplies, materials or solutions or other items used and stored in the ordinary course of Tenant's operation of the Permitted Uses in compliance with applicable Environmental Laws.

**Section 15.02. Compliance.** As to Tenant's use, generation, release, manufacture, refining, production, processing, storage or disposal of any Hazardous Substances, Tenant, at its sole cost and expense, shall promptly comply with the Environmental Laws including any notice from any source issued pursuant to the Environmental Laws or issued by any insurance company whether such notice shall be served upon Landlord or Tenant.

**Section 15.03. Restrictions.** Tenant shall operate its business on and about the Leased Premises in compliance with all Environmental Laws. Tenant shall not cause or permit the use, generation, release, manufacture, refining, production, processing, storage or disposal of any Hazardous Substances on, under or about the Project, or the transportation to or from the Leased Premises of any Hazardous Substances.

**Section 15.04. Notices, Affidavits, Etc.** Each party shall immediately notify the other party hereto of (i) any violation by such party, its employees, agents, representatives, customers, invitees or contractors of the Environmental Laws on, under or about the Leased Premises, Land or Building, or (ii) the presence or suspected presence of any Hazardous Substances on, under or about the Leased Premises, Land or Building and shall immediately deliver to the other party any notice received by such party relating to (i) and (ii) above from any source. Tenant shall execute reasonable affidavits, representations and the like within twenty (20) days of Landlord's request (such request not to be made more than once per calendar year unless Landlord has reason to believe a violation of Environmental

Laws exists upon the Leased Premises) therefor concerning Tenant's best knowledge regarding the presence of any Hazardous Substances on, under or about the Project. Landlord shall provide to Tenant any environmental inspection report which Landlord or its agents, contractors or employees receive with respect to the Project, promptly after receipt and Tenant's written request.

**Section 15.05. Landlord's Rights.** Landlord and its agents shall have the right, but not the duty, at Landlord's sole cost and expense, subject to the terms of **Section 5.03** hereof, upon advance notice (except in the case of emergency when no notice shall be required) to inspect the Project and conduct tests thereon to determine whether or the extent to which there has been a violation of Environmental Laws by Tenant or whether there are Hazardous Substances on, under or about the Project. In exercising its rights herein, Landlord shall use reasonable efforts to minimize interference with Tenant's business but such entry shall not constitute an eviction of Tenant, in whole or in part, and Landlord shall not be liable for any interference, loss, or damage to Tenant's property or business caused thereby unless due to Landlord's negligence or willful misconduct or that of Landlord's agents, servants, employees or contractors, or violation of the terms of **Section 5.03** hereof.

**Section 15.06. Indemnification.** Tenant shall indemnify Landlord and Landlord's managing agent, parent and affiliate, from any and all claims, losses, liabilities, costs, expenses and damages, including attorneys' fees, costs of testing and remediation costs, incurred by Landlord in connection with any breach by Tenant of its obligations under this **Article 15**. Landlord shall indemnify Tenant and Tenant's parent and affiliates (collectively, the "Tenant Parties") from any and all claims, losses, liabilities, costs, expenses and damages, including attorneys' fees, costs of testing and remediation costs, incurred by Tenant in connection with any breach by Landlord of its obligations under this **Article 15**. The covenants and obligations under this **Article 15** shall survive the expiration or earlier termination of this Lease.

**Section 15.07. Existing Conditions.** Notwithstanding anything contained in this **Article 15** to the contrary, Tenant shall not have any liability to Landlord under this **Article 15** resulting from any conditions existing, or events occurring, or any Hazardous Substances existing or generated, at, in, on, under or in connection with the Leased Premises, Land or Building prior to the Commencement Date of this Lease, except to the extent Tenant knowingly exacerbates the same.

#### **ARTICLE 16 - MISCELLANEOUS**

**Section 16.01. Benefit of Landlord and Tenant.** This Lease shall inure to the benefit of and be binding upon Landlord and Tenant and their respective heirs, successors and assigns.

**Section 16.02. Governing Law.** This Lease shall be governed in accordance with the laws of the State where the Building is located.

**Section 16.03. Guaranty.** *[[Intentionally Omitted]].*

**Section 16.04. Force Majeure.** Landlord and Tenant (except with respect to the payment of any monetary obligation) shall be excused for the period of any delay in the performance of any obligation hereunder when such delay is occasioned by causes beyond its control, including but not limited to work stoppages, boycotts, slowdowns or strikes; shortages of materials, equipment, labor or energy; unusual weather conditions; or acts or omissions of governmental or political bodies.

**Section 16.05. Examination of Lease.** Submission of this instrument for examination or signature to Tenant does not constitute a reservation of or option for Lease, and it is not effective as a Lease or otherwise until execution by and delivery to both Landlord and Tenant.

**Section 16.06. Indemnification for Leasing Commissions.** The parties hereby represent and warrant that the only real estate brokers involved in the negotiation and execution of this Lease is the Broker, and Landlord agrees to pay all commissions due the Broker on account of this transaction pursuant to separate agreements. Each party shall indemnify the other from any and all liability for the breach of this representation and warranty on its part and shall pay any compensation to any other broker or person who may be entitled thereto.

**Section 16.07. Notices.** Any notice, request, consent, approval, demand, statement or communication required or permitted to be given under this Lease or by law shall be given in writing and shall be deemed to have been given if it is written and delivered by reputable overnight courier or mailed by certified mail, postage prepaid, to the party who is to receive such notice at the address specified in **Article 1** (subject to any express provision in this Lease which requires or permits such notices to be given in a different manner). When so sent, the notice shall be deemed to have been given as of the date it is received or rejected. Either party may change its address by giving written notice thereof to the other party.

Section 16.08. Partial Invalidity; Complete Agreement. If any provision of this Lease shall be held to be invalid, void or unenforceable, the remaining provisions shall remain in full force and effect. This Lease represents the entire agreement between Landlord and Tenant covering everything agreed upon or understood in this transaction. There are no oral promises, conditions, representations, understandings, interpretations or terms of any kind as conditions or inducements to the execution hereof or in effect between the parties. No change or addition shall be made to this Lease except by a written agreement executed by Landlord and Tenant.

Section 16.09. Financial Statements. During the Lease Term and any extensions thereof, Tenant shall provide to Landlord, at Landlord's request not more frequently than once per calendar year, a copy of Tenant's most recent certified and audited financial statements prepared as of the end of Tenant's fiscal year. All financial statements provided by Tenant to Landlord hereunder shall be prepared in conformity with generally accepted accounting principles, consistently applied. Notwithstanding the foregoing, Landlord shall not require Tenant to deliver such financial information so long as Tenant's (or Tenant's parent company's) financial statements meeting generally the above requirements are publicly available and can be obtained by Landlord at a nominal cost or no cost.

Section 16.10. Representations and Warranties.

(a) The undersigned represent and warrant that (i) such party is duly organized, validly existing and in good standing (if applicable) in accordance with the laws of the state under which it was organized; and (ii) the individual executing and delivering this Lease has been properly authorized to do so, and such execution and delivery shall bind such party.

(b) Landlord represents and warrants that it is the fee simple owner of the Land and that the Land is not subject to any easements, conditions, restrictions or reservations which will materially, adversely affect the use of the Leased Premises for its Permitted Use set forth in Section 1.011. Notwithstanding the foregoing, Tenant acknowledges that (i) certain restrictions are contained in the Covenants; and (ii) Landlord is seeking either affirmative title insurance over or the release of certain gas line easements affecting the Land which are "blanket" in nature.

(c) To the best of Landlord's knowledge and belief, as of the execution date of the Lease, there are no other documents recorded against the Land in the manner of private restrictions that require the regular payment of dues and assessments, other than the Covenants. Landlord agrees to obtain Tenant's prior written consent before agreeing to any private restrictions recorded against the Land (other than the Covenants) that require the payment of dues and assessments, change the architectural standards applicable to the Leased Premises, or materially adversely affect Tenant's use of or access to the Leased Premises, provided that Landlord may agree to new restrictions that require the payment of dues and assessments if such assessments are not included in Operating Expenses.

Section 16.11. Option to Extend.

(a) Grant and Exercise of Option. Provided that (i) no default has occurred and is then continuing (ii) the creditworthiness of Tenant is then reasonably acceptable to Landlord (Tenant's creditworthiness at the Execution Date qualifies as acceptable to Landlord) and (iii) Tenant originally named herein or a Permitted Transferee remains in possession of and has been continuously operating in the entire Leased Premises throughout the term immediately preceding the Extension Term (as defined below), Tenant shall have the option to extend the Lease Term for three (3) additional periods of five (5) years each (the "Extension Term(s)"). Each Extension Term shall be upon the same terms and conditions contained in the Lease except (x) this provision giving three (3) extension options shall be amended to reflect the remaining options to extend, if any, and (y) any improvement allowances or other concessions applicable to the Leased Premises under the Lease shall not apply to the Extension Term, and (z) the Minimum Annual Rent shall be adjusted as set forth below (the "Rent Adjustment"). Tenant shall exercise each option by (i) delivering to Landlord, no later than twelve (12) months prior to the expiration of the preceding term, written notice of Tenant's desire to extend the Lease Term. Tenant's failure to timely exercise such option shall be deemed a waiver of such option and any succeeding option. Tenant may request that Landlord notify Tenant of the amount of Rent Adjustment at any time which is not more than eighteen (18) months prior to the expiration of the then existing term. Landlord shall notify Tenant of the amount of Rent Adjustment within thirty (30) days after receipt of such request and Landlord and Tenant shall negotiate such Rent Adjustment in good faith. If Landlord fails to provide the amount of the Rent Adjustment within such thirty (30) day period, the date by which Tenant must exercise the option shall be postponed a like number of days. Tenant shall be deemed to have accepted the Rent Adjustment if it fails to deliver to Landlord a written objection thereto within fifteen (15) business days after receipt thereof. If Tenant properly exercises its option to extend, Landlord and Tenant shall execute an amendment to the Lease reflecting the terms and conditions of the Extension Term within thirty (30) days after Tenant's acceptance (or deemed acceptance) of the Rent Adjustment.

(b) Rent Adjustment. The Minimum Annual Rent for the applicable Extension Term shall be an amount equal to ninety-five percent (95%) of the fair market rent for buildings of comparable size and quality and with similar or equivalent improvements as are found in the Building, in the general location of the Easton area of Columbus, Ohio; provided, however, that in no event shall the Minimum Annual Rent during any Extension Term be less than the highest Minimum Annual Rent payable during the immediately preceding term. The Monthly Rental Installments shall be an amount equal to one-twelfth (1/12) of the Minimum Annual Rent for the Extension Term and shall be paid at the same time and in the same manner as provided in the Lease.

Section 16.12. Signage. Landlord shall provide Tenant with an allowance for signage as provided in the Building Description and the Plans and Specifications. Any changes requested by Tenant to the initial signage as provided in the Building Description and Plans and Specifications shall be made by Change Order pursuant to Section 2.02(d) above and all signage shall be subject to Landlord's prior approval and in compliance with any codes and applicable covenants. Tenant shall not place any exterior signs on the Leased Premises or interior signs visible from the exterior of the Leased Premises without the prior written consent of Landlord. Notwithstanding any other provision of this Lease to the contrary, Landlord may immediately remove any sign(s) placed by Tenant in violation of this Section 16.12. Tenant agrees to maintain all signage in a good state of repair, and upon expiration of the Lease Term, Tenant agrees to promptly remove such signs and repair any damage to the Building and/or Land. With respect to the Park identification sign (the "Park Sign") to be constructed on the Land, Landlord and Tenant understand that Morso Holding Co., a Delaware corporation ("Morso"), will be providing a side letter to Tenant addressing any restrictions being imposed upon the Park Sign. Landlord shall not be responsible, nor have any liability, for any enforcement of the terms of such side letter. Except for the Park Sign and the right of Landlord to place a "for Lease" sign on the Land at a location which is reasonably acceptable to Tenant, if Tenant does not timely exercise any renewal option, Landlord shall place no other signage on the Project without Tenant's consent, in Tenant's sole discretion.

Section 16.13. Consents and Approvals. Whenever under this Lease the consent or approval of either Landlord or Tenant is required, such consent or approval shall not be unreasonably withheld, conditioned or delayed, unless otherwise specifically provided in this Lease.

Section 16.14. Time. TIME IS OF THE ESSENCE OF EACH TERM AND PROVISION OF THIS LEASE.

Section 16.15. Patriot Act. Each of Landlord and Tenant, each as to itself, hereby represents its compliance with all applicable anti-money laundering laws, including, without limitation, the USA Patriot Act, and the laws administered by the United States Treasury Department's Office of Foreign Assets Control, including, without limitation, Executive Order 13224 ("Executive Order"). Each of Landlord and Tenant further represents (i) that it is not, and it is not owned or controlled directly or indirectly by any person or entity, on the SDN List published by the United States Treasury Department's Office of Foreign Assets Control and (ii) that it is not a person otherwise identified by government or legal authority as a person with whom a U.S. Person is prohibited from transacting business. As of the date hereof, a list of such designations and the text of the Executive Order are published under the internet website address [www.ustreas.gov/offices/enforcement/ofac](http://www.ustreas.gov/offices/enforcement/ofac).

Section 16.16. Agency Disclosure. Tenant acknowledges having previously received the Agency Disclosure Statement attached hereto as Exhibit E. The broker set forth in Section 1.01(j) above, its agents and employees, have represented only Landlord, and have not in any way represented Tenant, in the marketing, negotiation, and completion of this lease transaction.

Section 16.17. Contingencies. *[Intentionally Omitted]*.

Section 16.18. Counterpart Signatures; Facsimile Signatures. This Lease may be executed in counterparts, each of which shall be an original, but all of which, taken together, shall constitute one and the same instrument. Transmission of a facsimile signature page (by telephone facsimile transmission or electronic mail) shall have the same binding effect as delivery of an original counterpart, but the parties agree to promptly deliver original counterpart signatures for confirmatory purposes only.

Section 16.19. Exhibits and Schedules. All Exhibits, Schedules, Riders, Attachments and Addenda attached hereto, if any, and identified with this Lease are incorporated herein by this reference as if fully set forth herein.

Section 16.20. Roof Rights. Tenant shall have the right during the Lease Term to install, operate, maintain and replace cellular communications antennae, signal repeaters, satellite dishes and/or telecommunication equipment upon the roof of the Building without the Landlord's consent. Tenant shall be responsible for obtaining all necessary permits for such rooftop use, and Tenant's installations shall conform to all applicable Laws. At the expiration or sooner termination of the Lease Term, Tenant shall remove all such equipment from the roof(s), and repair any damage to the roof(s) caused by such

installation and/or removal. Tenant shall be responsible for all costs and expenses relating to equipment installation, maintenance, utilities and removal of such equipment, including (without limitation) the repair of any damage to the roof caused by such installation, operation, maintenance and removal. Tenant shall have the exclusive right to use and occupancy of the roof of the Building and any exterior walls of the Building, provided, Tenant shall nevertheless be subject to obtaining Landlord's written consent for rights not specifically granted under this Lease.

**Section 16.21. Automatic Extension.** In the event, following the exercise by Tenant or its assignee of Tenant's option to purchase the real property adjacent to the Land (the "Adjacent Land"), Tenant, or any of its affiliates enters into a lease (the "Adjacent Lease") for a building located thereon and/or on the Land, as depicted in **Exhibit E** attached hereto and incorporated herein by reference or otherwise pursuant to this **Section 16.21** and **Section 16.22**, and provided that the term of the Adjacent Lease is longer than the Lease Term, the Lease Term shall be extended to be coterminous with the term of the Adjacent Lease. The Minimum Annual Rent during such extended term shall be an amount equal to ninety-five percent (95%) of the Minimum Annual Rent then being quoted by Landlord to prospective renewal tenants of the Building for space of comparable size and quality and with similar or equivalent improvements as are found in the Building, and if none, then in similar buildings in the Park; provided, however, that in no event shall the Minimum Annual Rent during such extension term be less than the highest Minimum Annual Rent payable during the immediately preceding term. The Monthly Rental Installments shall be an amount equal to one-twelfth (1/12) of the Minimum Annual Rent for such extension term and shall be paid at the same time and in the same manner as provided in the Lease. Tenant agrees that if Landlord is not the landlord under the Adjacent Lease, Tenant shall provide Landlord with a copy of the Adjacent Lease within fifteen (15) days of the full execution thereof.

**Section 16.22. Expansion on Adjacent Land.** In the event Tenant or its assignee (in such capacity, the "Adjacent Land Owner") exercises its option to purchase the Adjacent Land, Tenant and Landlord acknowledge that Tenant may desire to have the expansion building constructed partially on the Land and partially on the Adjacent Land, as illustrated on **Exhibit E**, which exhibit is attached solely for purposes of illustration and shall not bind Landlord or Tenant to any future expansion plan, or otherwise in a manner which results in the expansion building being located partially on the Adjacent Land and partially on the Land. Upon Tenant's written request, Landlord shall cooperate in good faith with the Adjacent Land Owner at no cost or expense to Landlord, (including, but not limited to, attorney fees, transfer fees, utility relocation costs, and due diligence expenses), by either, at Landlord's option, (a) exchanging with the Adjacent Land Owner a portion of the Land for up to an equal amount of the Adjacent Land; or (b) conveying a portion of the Land to the Adjacent Land Owner without accepting a conveyance of any portion of the Adjacent Land and entering an easement agreement in form reasonably satisfactory to Landlord, as may be necessary for accommodating the parking needs for the Building and expansion building. Landlord's obligations under this Section 16.22 are subject to obtaining any applicable lender approvals, and any exchange or granting of easements shall additionally be in compliance with and subject to all laws, governmental regulations, and matters of record in Office of the Recorder of Franklin County, Ohio. Landlord agrees that it will make a good faith effort to obtain all approvals necessary from its lenders.

**Section 16.23. Incentive Money Pass-Through.** Landlord represents to Tenant that, in connection with Landlord's acquisition of the Land, Landlord has negotiated with MORSO Holding Co., the seller of the Land ("Seller"), the right to receive 57.143% (up to a maximum amount of One Million Dollars (\$1,000,000.00)) of any money that the Seller receives from the City of Columbus, Ohio as reimbursement for certain roadway and utility improvements being constructed by the Seller. Landlord agrees that any such money, to the extent actually received by Landlord from the Seller, shall be promptly paid by Landlord to Tenant as and when received. Landlord shall have no liability to Tenant due to the non-receipt of any such funds from the Seller, and in no event shall Tenant have the right to off-set any such amounts against the rent payable hereunder. Landlord shall make commercially reasonable efforts to enforce the obligation of Seller (under that Real Estate Purchase Agreement dated August 25, 2006) to pass through to Landlord such reimbursed funds, provided such enforcement is not at Landlord's expense.

[SIGNATURES CONTAINED ON THE FOLLOWING PAGES]

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the day and year first above written.

LANDLORD:

ADS PLACE PHASE I, LLC,  
a Delaware limited liability company

By: Duke Construction Limited Partnership, an  
Indiana limited partnership, its Manager

By: Duke Business Centers Corporation, an  
Indiana corporation, its general partner

By: \_\_\_\_\_

Printed: James T. Clark

Title: Sr. V.P.

STATE OF OHIO

COUNTY OF FRANKLIN

Before me, a Notary Public in and for said County and State, personally appeared James T. Clark by me known to be the Sr. V.P. of Duke Business Centers Corporation, an Indiana corporation, the general partner of Duke Construction Limited Partnership, an Indiana limited partnership, the Manager of ADS PLACE PHASE I, LLC, a Delaware limited liability company, who acknowledged the execution of the foregoing "Lease Agreement" on behalf of said company.

WITNESS my hand and Notarial Seal this 25<sup>th</sup> day of August 2006.

Notary Public

Printed Signature: Teresa L. Ross

My Commission Expires: June 23, 2007

My County of Residence: Franklin

[SIGNATURES CONTAINED ON THE FOLLOWING PAGES]

---

TENANT:

ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation

By:

Printed: Daniel T. Grooms

Title: Sr. Vice President

STATE OF OHIO

) SS:

COUNTY OF FRANKLIN

)

Before me, a Notary Public in and for said County and State, personally appeared Daniel Grooms by me known to be the Senior Vice President of Alliance Data, who acknowledged the execution of the foregoing "Lease Agreement" on behalf of said Delaware corporation.

WITNESS my hand and Notarial Seal this 18th day of August, 2006.

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Notary Public

Judith Belba  
Printed Signature

My Commission Expires: 07/09/2010

My County of Residence: Franklin

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**FIRST LEASE AMENDMENT**

THIS FIRST LEASE AMENDMENT (the "Amendment") is executed this \_\_\_\_ day of January, 2007, by and between ADS PLACE PHASE I, LLC, a Delaware limited liability company ("Landlord"), ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation ("Tenant").

WITNESSETH:

WHEREAS, Landlord and Tenant entered into a certain lease dated August 25, 2006 (the "Lease"), whereby Tenant leased from Landlord certain premises consisting of approximately 198,602 rentable square feet of space (the "Leased Premises") located in an office building to be constructed at Easton, Franklin County, Columbus, Ohio; and

WHEREAS, Landlord and Tenant desire to amend the Lease whereby Alliance Data Systems Corporation, a Delaware corporation ("Alliance"), will be tire guarantor to the Lease, all as more particularly set forth herein; .

NOW, THEREFORE, in consideration of Ten Dollars (\$10.00) and other valuable consideration, the receipt and adequacy which is hereby acknowledged, and the foregoing premises, the mutual covenants herein contained and each act performed hereunder by the parties, Landlord and Tenant hereby enter into this Amendment.

1. Incorporation of Recitals. The above recitals are hereby incorporated into this Amendment as if fully set forth herein.
2. Amendment of Section 1.01. " Basic Lease Provisions and Definitions. Section 1.01H of the Lease is hereby deleted in its entirety and the following is substituted in lieu thereof:

"H. Guarantor: Alliance Data Systems Corporation, a Delaware corporation."

3. Amendment of Section 16.03. Guaranty. Section 16.03 of the Lease is hereby amended by incorporating the following:

"In consideration of Landlord's leasing the Leased Premises to Tenant, Tenant shall provide Landlord with a Guaranty of Lease in the form attached hereto as Exhibit H, executed by the Guarantor."

4. Representations and Warranties. The undersigned represents and warrants to Landlord that (i) Tenant is duly organized, validly existing and in good standing in accordance with the laws of the state under which it is organized; (ii) all action necessary to authorize the execution of this Amendment has been taken by Tenant; and (iii) the individual executing and delivering this Amendment on behalf of Tenant has been authorized to do so, and such execution and delivery shall bind Tenant. Tenant, at Landlord's request, shall provide Landlord with evidence of such authority.

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5. Examination of Amendment. Submission of this instrument for examination or signature to Tenant does not constitute a reservation or option, and it is not effective until execution by and delivery to Landlord and Tenant.

6. Definitions. Except as otherwise provided herein, the capitalized terms used in this Amendment shall have the definitions set forth in the Lease.

7. Incorporation. This Amendment shall be incorporated into and made a part of the Lease, and all provisions of the Lease not expressly modified or amended hereby shall remain in full force and effect.

[SIGNATURES CONTAINED ON THE FOLLOWING PAGES]

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed on the day and year first written above.

LANDLORD:

ADS PLACE PHASE I, LLC,  
a Delaware limited liability company

By: Duke Construction Limited Partnership, an  
Indiana limited partnership, its Manager

By: Duke Business Centers Corporation, an  
Indiana corporation, its general partner

By: \_\_\_\_\_

Printed: James T. Clark

Title: Sr. V.P.

STATE OF OHIO ) SS:

COUNTY OF FRANKLIN )

Before me, a Notary Public in and for said County and State, personally appeared James T. Clark, by me known to be the Sr. V.P., of Duke Business Centers Corporation, an Indiana corporation, the general partner of Duke Construction Limited Partnership, the manager of ADS Place Phase I, LLC, a Delaware limited liability company, who acknowledged the execution of the foregoing "First Lease Amendment" on behalf of said company.

WITNESS my hand and Notarial Seal this 2<sup>nd</sup> day of February, 2007.

Notary Public \_\_\_\_\_

My Commission Expires:

10/19/09

Printed Signature: Lauren H. McElhane

My County of Residence:

Franklin

TENANT:  
ADS ALLIANCE DATA SYSTEMS, INC,  
a Delaware corporation

By: \_\_\_\_\_

Printed: Daniel T. Grooms

Title: Sr. Vice President

STATE OF OHIO  
COUNTY OF  
FRANKLIN

Before me, a Notary Public in and for said County and State, personally appeared Daniel T. Grooms, by me known to be the Sr. Vice President, of ADS Alliance Data Systems, Inc., a Delaware corporation, who acknowledged the execution of the foregoing "First Lease Amendment" on behalf of said corporation.

WITNESS my hand and Notarial Seal this 1st day of February, 2007.

Notary Public: \_\_\_\_\_

Printed Signature: Nancy C. Wiseman

My Commission Expires: 06/28/2009

My County of Residence: Franklin

**EXHIBIT H**

**UNCONDITIONAL GUARANTY OF LEASE**

This Unconditional Guaranty of Lease is entered into as of the \_\_\_\_ day of January, 2007, by the undersigned, ALLIANCE DATA SYSTEMS CORPORATION, a Delaware corporation ("Guarantor").

**RECITALS**

WHEREAS, ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation ("Tenant") entered into a certain Lease with ADS PLACE PHASE I, LLC, a Delaware limited liability company ("Landlord"), for certain space located in an office building to be constructed at Easton, Franklin County, Columbus, Ohio (together with the Amendment, defined below, the "Lease"); and

WHEREAS, Landlord and Tenant are contemporaneously entering into an amendment -("Amendment") to the Lease naming Guarantor and that Guarantor guarantees the obligations upon the terms and conditions set forth below; and

WHEREAS, Guarantor is willing and agrees to enter into this Unconditional Guaranty of Lease upon the following terms and conditions; and

WHEREAS, Guarantor is the parent company of Tenant and will be benefited by the Lease;

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor agrees as follows:

1. Guarantor hereby becomes surety for and unconditionally guarantees the prompt payment of all rents, additional rents and other sums to be paid by Tenant under the terms of the Lease, including any renewals or extensions thereof; (such payment obligations to be referred to collectively as "Obligations"), in the event Tenant defaults in the performance of the Obligations, Guarantor hereby promises and agrees to pay to Landlord all rents and any arrearages thereof-and any other amounts that may be or become due.'

2. As conditions of liability pursuant to this Guaranty, Guarantor hereby unconditionally waives (a) any notice of default by Tenant in the payment of rent or any other amount or any other term, covenant or condition of the Lease; (b) any requirement that Landlord exercise or exhaust its rights and remedies against Tenant or against any person, firm or corporation prior to enforcing its rights against Guarantor, and (c) any and all rights of reimbursement, indemnity, subrogation or otherwise which, upon payment under this Guaranty, Guarantor may have against Tenant.

3. Landlord and Tenant may, without notice to Guarantor, and Guarantor hereby consents thereto, modify or otherwise change or alter the terms and conditions of the Lease.

4. Guarantor hereby agrees, upon the request of Landlord, to execute, acknowledge and deliver to Landlord a statement in writing certifying, if this be the fact, that this Guaranty of the referenced Lease is unmodified, in full force and effect, and there are no defenses or offsets thereto; certifying that the referenced Lease is unmodified, in full force and effect, and there are no defenses or offsets to such Lease (or if modified, that the Lease is in full force and effect as modified and that this Guaranty extends to and fully covers such Lease, as modified); and certifying the dates to which Minimum Annual Rent, Annual Rental Adjustment, if any, and any other additional rentals have been paid,

5. In the event Tenant fails during the term of this Lease to pay any rent, additional rent or other payments when due, Guarantor, upon demand of Landlord, shall make such payments and perform such covenants as if they constituted the direct and primary obligations of Guarantor.

6. The rights and obligations created by this Guaranty shall inure to the benefit of and be binding upon the successors, assigns and legal representatives of Guarantor and Landlord,

7. Anything herein or in the Lease to the contrary notwithstanding, Guarantor hereby acknowledges and agrees that any security deposit or other credit in favor of the Tenant may be applied to cure any Tenant default or offset any damages incurred by Landlord under the Lease, as Landlord determines in its sole and absolute discretion, and Landlord shall not be obligated to apply any such deposit or credit to any such default or damages before bringing any action or pursuing any remedy available to Landlord against Guarantor. Guarantor further acknowledges that its liability under this Guaranty shall not be affected in any manner by such deposit or credit, or Landlord's application thereof.

[SIGNATURES CONTAINED ON THE FOLLOWING PAGES]

IN WITNESS WHEREOF, Guarantor has executed this Unconditional Guaranty of Lease as of the date set forth above.

“GUARANTOR”

ALLIANCE DATA SYSTEMS CORPORATION,  
a Delaware corporation

By:

Printed: Michael D. Kubic

**Title: Senior Vice President**

Federal I.D. No.: 31-1429215

STATE OF TEXAS

)SS:

COUNTY OF COLLIN

Before me, a Notary Public in and for said County and State, personally-appeared Michael D. Kubic, by me known and by me known to be the Senior Vice President of Alliance Data Systems Corporation, a Delaware corporation, who acknowledged the execution of the above and foregoing Unconditional Guaranty of Lease on behalf of said corporation.

WITNESS my hand and Notarial Seal this 29<sup>th</sup> day of January, 2007

Notary Public: \_\_\_\_\_

Printed Signature : Kelli W. Hunt

My Commission Expires: 8-1-2007

My County of Residence: Dallas



ALLIANCE DATA

**2007 Incentive Compensation Plan  
for Retail and Alliance Data  
Consolidated**

(As Amended and Restated Effective January 1, 2007)

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**Plan Philosophy**

The intent of the Alliance Data Incentive Compensation (“IC”) Plan (“Plan”) is to:

- Provide IC to round out an eligible associate’s total compensation package in order to attract and retain high performing associates;
- Improve organizational performance by driving financial and individual performance and increasing Associate Satisfaction;
- Improve the alignment between strategic imperatives and initiatives with the Alliance Data Scorecard; and
- Provide an opportunity for associates to share in the success they help create.

Participation in this Plan reflects the importance of an associate’s position and the impact that the associate’s performance can have on the success of the Company.

**Effective Date**

The Plan Year is January 1, 2007 through December 31, 2007.

**Eligibility**

Subject to the provisions of this Plan, Associates are eligible to receive IC under this Plan if they are:

- Employed by Alliance Data Systems Corporation or any of its subsidiaries (collectively, the “Company”) and are either (a) a member of the Alliance Data Senior Leadership Team, as defined by the title Director through Senior Vice President, or (b) in an Exempt position that is designated by the Vice President of Corporate Compensation as IC eligible (currently jobs in pay bands K-Q);
- Employed or promoted into an IC eligible position by the Company before October 1, 2007;
- On active status on the date of the award distribution or are eligible under the guidelines for retirement, disability or leave of absence; and
- Designated by supervisor as having an Incentive Compensation target as a component of their overall pay package.

In the case of part-time associates in one of the specified pay grades listed above, they must be working a schedule equal to a minimum of 30 hours per week in order to be eligible for this IC Plan.

Associates are not eligible if they:

- Do not meet the eligibility requirements listed above;
- Are participating in a sales commission or other incentive plan, unless approved by the appropriate Executive Vice President of a Line of Business (“LOB”) or of a Business Support Group (“BSG”) and confirmed by the LOB/BSG Human Resources Executive and the Vice President of Corporate Compensation;
- Are temporary or on-call associates or contractors;
- Are hired on or after October 1, 2007 or are promoted into an IC eligible pay grade on or after October 1, 2007; or

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- Are on a documented performance improvement plan as of the date of award distribution.

Being eligible for the IC Plan does not mean associates automatically participate in the program. The associate’s manager, with appropriate approvals, must specifically designate that incentive compensation is a component of the associate’s overall pay package.

**Base Compensation Used in Calculating IC Payout**

Annualized base pay as of October 1, 2007 will be used as part of the IC calculation. The IC target percentage(s) will be applied to October 1, 2007 base salary for purposes of calculating the dollar target amount.

**Determining IC Targets**

Each participant has an IC target. IC targets are determined by the participant’s manager using the guidelines established by the Vice President of Corporate Compensation in the following table:

Band Level	IC Target
(Senior Vice President) Q	0% - 45%
(Vice President) P	0% - 35%
(Director/Senior Director) O	0% - 25%
M & N	0% - 15%
K & L	0% - 10%

IC targets are set in 5% increments. When determining the appropriate target, the following are considered:

- The associate’s anticipated contribution to the organization’s success; and
- Targeted total compensation package that is competitive with similar positions in the appropriate labor market or industry.

IC targets will be set at the beginning of the Plan year or at time of hire. If the IC target percentage changes, the manager will explain how the target will be prorated for payout purposes (if appropriate) and whether or not the performance expectations and weightings will change for the current Plan year.

**IC Components**

All performance goals should be established and communicated to the participant at the beginning of the Plan year or as soon as feasible after becoming a participant in the Plan. The degrees to which these performance goals are accomplished have an impact on the actual incentive earned from the Plan.

**Alliance Data Revenue and EBITDA Targets:** The Revenue and Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) targets generally make up 25%-75% of a participant’s IC payment (see Standard Weightings Chart below). LOBs are not required to have an Alliance Data Revenue or EBITDA component if they utilize LOB Revenue and EBITDA targets.

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**LOB Revenue and EBITDA Targets:** There are a number of financial measures that can be used to determine success for a particular area or individual. The appropriate Executive Vice President, along with the LOB Human Resources Executive and the Vice President of Corporate Compensation will determine if sub-measures will be used for a particular LOB or a particular individual. However, it is intended that the Board of Directors approve the achievement of LOB Revenue and EBITDA for payout purposes.

**Associate Satisfaction Index:** The annual administration of the Associate Survey and the tracking of data (i.e., improvement expectations) are designed to motivate ongoing attention to issues that affect quality of client service, as well as the development and retention of associates. The Associate Satisfaction Index ("ASI") is a component of the Associate Survey process. The ASI component is designed to recognize and incent critical non-financial organizational factors that contribute to sustainable business performance and provide a competitive advantage in recruiting, developing and retaining high performing associates. Targets are set at the beginning of each year along with a payout schedule.

**Individual Expectations:** Participants may have a portion of their IC payments based upon the achievement of individual expectations or team strategic imperatives (or action steps to accomplish the strategic imperatives) as determined between the participant and his or her manager. Achievement must fall into one of three (3) categories: accomplishments fall below expectations; fully meets and/or exceeds the requirements; or has achieved/contributed well beyond expectations. The percentage of payout will be 80%, 100% or 110% depending on the level of achievement. If performance/accomplishments fall below 80% achievement, no payout will be made for the Individual Expectation component.

Associate performance is defined as obtaining the needed results of the job and living the Company values. The associate's manager will focus on the following factors to determine whether and to what extent the associate met his/her yearly goals for purposes of IC:

- **Results** - To what extent were results at, above, or below expectations and/or standards?
- **Values** - To what extent did the associate demonstrate/live the values?

Differentiation of performance is considered within three broad levels. Performance toward objectives and manager's expectations within each category can be defined by meeting some or all of the specified characteristics below:

- **Accomplishments fall below expectations:** associate completes 80 — 95% of individual objectives and expectations. Associate falls short of completing all of the objectives that are important to business strategy. Quality of work is less than expected and/or work falls short of productivity, financial or schedule expectations.
- **Fully meets and/or exceeds the requirements:** associate completes up to 110% of objectives or at least 95% of objectives with extenuating circumstances. The associate's completed objectives are closely tied to business strategy and success. The associate's work is of sufficient quality and meets productivity, financial and schedule expectations.
- **Achieved/contributed well beyond expectations:** associate completes more objectives than committed to in all cases. Completed objectives are most important to business strategy. Work exceeds all quality requirements and performed more efficiently, cheaply and/or quickly than expected.

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Less than 80% completion of individual objectives is below minimum level of performance and no IC payout will be made for the Individual Expectation component.

**Standard Weightings Chart for IC Components**

IC objectives are weighted to drive financial and individual performance and increase Associate Satisfaction. LOBs have the ability to use specific components that closely reflect Alliance Data Scorecard measurements. Standard weightings have been established, however, LOBs/BSGs may adjust the standard weightings and adjust the standard components to include measurable financial drivers, such as bad debt or specific client revenue goals, with review and approval by the appropriate Executive Vice President, along with the LOB/BSG Human Resources Executive and the Vice President of Corporate Compensation. All measures that deviate from the standard financial measures must be objective and quantifiable.

The participant's band/job level as of October 1, 2007 will be used to determine the overall weightings. The standard components and weightings are listed in the chart below. In certain cases, LOBs/BSGs may use discretion to determine the overall weightings with the approval of the associate's supervisor and the LOB/BSGs Human Resources Executive.

Approved changes to the standard components and weightings should be communicated to associates as soon as feasible after the beginning of the plan year.

**2007 IC Plan  
Standard Components and Weightings**

		Senior Leadership Team <sup>1</sup>	Exempts with Direct Supervisory Responsibility	All Other Exempts <sup>2</sup>
	<b>LOB EBITDA</b>	50%	25%	25%
	<b>LOB Revenue</b>	25%	25%	25%
<b>LOB</b>	<b>Associate Satisfaction<sup>3</sup></b>	25%	25%	0%
	<b>Individual Expectations<sup>4</sup></b>	0%	25%	50%
	<b>Alliance Data EBITDA</b>	50%	25%	25%
	<b>Alliance Data Revenue</b>	25%	25%	25%
<b>BSG</b>	<b>Associate Satisfaction<sup>3</sup></b>	25%	25%	0%
	<b>Individual Expectations<sup>4</sup></b>	0%	25%	50%

<sup>1</sup> The LOB/BSG executive has some flexibility to establish targets that are important for the success of his or her respective area. The Individual Expectations weighting should not be used for SLT members unless it is used to drive financial performance. Any changes to the standard components, weightings or payout tables should be sent to the Vice President of Corporate Compensation for approval by the appropriate Executive Vice President, along with the LOB/BSG Human Resources Executive.

<sup>2</sup> The LOB/BSG executive has some flexibility in reassigning weightings with approval from the Vice President of Corporate Compensation.

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- 3 Some participants, such as National Account Managers (“NAMs”), may have more emphasis on client relationships than Associate Satisfaction. LOB/BSG executives can determine how they want to distribute the weightings for these positions.
- 4 Eligible exempt associates below the Director level should have Individual Expectations that support strategic imperatives ensuring the success of their LOB/BSG and the Company.

**Determining Payment Calculations**

Payment calculations are determined as provided below. With proper approval from the Vice President of Corporate Compensation, the appropriate Executive Vice President, and the LOB Human Resources Executive, LOBs may provide for an alternate payout table for specific LOB measures except for LOB Revenue or EBTIDA. LOB Revenue and EBITDA must follow the table specified in Attachment B. A minimum of 100% achievement must be met for LOB Revenue and EBTIDA before any other measures will payout over 100%.

**Attachment A: Performance/Payout Table for Revenue and EBITDA**

This table identifies the relationship between level of performance and the percentage to be paid for the achievement of the Alliance Data Revenue, Alliance Data EBITDA, LOB Revenue and LOB EBITDA. A minimum of 90% must be achieved for any payment to be received; performance of 110% or greater receives the maximum payment of 150%. Percentages are rounded to the nearer whole number.

**Attachment B: Performance/Payout Table for Associate Satisfaction and other measures as approved**

This table identifies the relationship between level of performance and percentage to be paid for the achievement of associate satisfaction and any other LOB specific financial measures as approved. For BSGs, both the Alliance Data EBITDA and Alliance Data Revenue targets must be achieved at 100% or greater in order for ASI to be paid above 100% of target. For LOBs, both the LOB EBITDA and LOB Revenue targets must be achieved at 100% or greater in order for ASI and any LOB specific financial measures to be paid above 100% of target.

**Attachment C: Performance/Payout Table for Individual Expectations**

This table identifies the relationship between level of performance and the percentage to be paid for the achievement of Individual Expectations. A minimum of 80% accomplishment of standard objectives must be achieved for any payment to be received.

For BSGs, both the Alliance Data EBITDA and Alliance Data Revenue targets must be achieved at 100% or greater in order for Individual Expectations to be paid above 100% of target. For LOBs, both the LOB EBITDA and LOB Revenue targets must be achieved at 100% or greater in order for Individual Expectations to be paid above 100% of target.

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### Timing of Payment

IC earned for the 2007 Plan year is paid in the first quarter of the following year. A participant must be actively employed on the date payment is made to receive his or her award. Any participant who is on an approved leave of absence or disability leave but is still on active status will receive his or her payment even if he or she is not actively at work on the date payment is made.

### Status Changes That May Affect IC Targets and Payout

Status changes can affect the amount of incentive a participant receives. Status changes include:

- Transfers;
- New Hires;
- IC Target Changes;
- Leaves of Absence; and
- Terminations.

**Transfers:** The LOB or BSG a participant is assigned to as of October 1, 2007 will be used to determine any payments dependent upon LOB/BSG level of performance (see Standard Weightings Chart). Year-end performance for the LOB/BSG will be used to calculate the incentive amount to be paid for this component. No prorating will be done for the amount of time spent in another LOB/BSG or in a different IC eligible grade over the Plan year without prior approval of the appropriate Executive Vice President, along with the LOB/BSG Human Resources Executive and the Vice President of Corporate Compensation.

For the ASI component, leaders who have moved or transferred during the course of the year, and who could therefore have their compensation tied to different reporting groups, will be reviewed as follows:

- Determine where the associate spent the most time during the action planning cycle;
- Assess where the associate had the greatest opportunity to influence Associate Satisfaction; and
- Before the end of December, the appropriate HR Executive will make a report recommendation to the Vice President of Corporate Compensation, to be approved by the appropriate Executive Vice President, along with the LOB/BSG Human Resources Executive.

**New Hires:** For associates hired between **January 1 and September 30, 2007** into an IC eligible position, the base salary as of October 1, 2007 will be used to calculate the IC dollar target. The dollar target will be prorated as follows:

<u>Hired Between These Dates</u>	<u>Prorated Amount</u>
January 1 — March 31	100%
April 1 — June 30	75%
July 1 — September 30	50%
October 1 — December 31	No IC

For example, if an associate is hired on March 12, the IC dollar target will not be prorated. If an associate is hired on July 4, then the IC dollar target will be prorated by 50%.

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**IC Target Changes:** For current Company associates, if there is a promotion or a grade level change during the Plan year but before October 1 which results in either (a) an associate becoming newly IC eligible or (b) a change in IC target, the IC target will be prorated according to the chart below depending on the associate's **IC eligible effective date**. Note: changes in IC targets **after October 1, 2007** will not be used to calculate IC payout for the 2007 Plan year.

IC Eligible Effective Date Between These Dates	Prorated Amount For Old/New IC % Target
January 1 — March 31	0% / 100%
April 1 — June 30	25% / 75%
July 1 — September 30	50% / 50%
October 1 — December 31	100% / 0%

The base salary as of October 1 will be used to calculate the dollar target, even if there is a corresponding change in base salary at the time of the promotion or IC target change. For example, a grade level change in April results in an IC target change from 5% to 10% and a base salary change from \$35,000 to \$40,000. The base salary on October 1 is \$40,000, so that is the salary used in the calculation. The IC dollar target is then calculated using the following formula:

	10/01 Base	IC	Target	Prorate	Subtotal
<b>Old</b>	\$ 40,000	5%	\$ 2,000	25%	\$ 500
<b>New</b>	\$ 40,000	10%	\$ 4,000	75%	\$ 3,000
<b>TOTAL</b>					\$ 3,500

The participant's manager should communicate to the participant the new weightings of financial and Individual Expectations (if applicable).

**Leaves of Absence:** If a participant takes a leave of absence in excess of twelve (12) weeks, either paid or unpaid, during the Plan year, he or she will receive a prorated award. Leaves of absence under twelve (12) weeks are not prorated. For any part of a week that a participant is on a leave of absence over twelve (12) weeks, the IC payment will be prorated by one week. For instance, if a participant is on leave for 12 weeks and 2 days, he or she will receive 51/52nds of the normal IC payout. If a participant is on leave for 13 weeks and 2 days, then he or she will receive 50/52nds of the normal IC payout and so on.

**Terminations:** If a participant terminates his or her position voluntarily or involuntarily during the Plan year, he or she will **not** be eligible for an IC payment because he or she would not be on active status on the date of the award distribution. If a participant retires, becomes disabled or dies during the Plan year, he or she may be eligible for a prorated award at the discretion of the appropriate Executive Vice President, along with the LOB/BSG Human Resources Executive and the Vice President of Corporate Compensation. In the event of death, any incentive award is made to the beneficiary named in the Company-paid life insurance program.

Effective January 1 — December 31, 2007

#### **Other Terms and Conditions**

- All decisions by the Company will be final in the interpretation and administration of the Plan and shall lie within the Company's sole and absolute discretion. Decisions shall be final, conclusive and binding on all parties concerned.
- This Plan does not constitute a contract for the participant's continued employment with the Company. All Company associates are employed "at-will" which means either the Company or the associate may terminate the employment relationship at any time with or without cause.
- Participant's rights under the Plan may not be assigned or transferred in any way, except as otherwise set forth herein.
- The Alliance Data 2007 Incentive Compensation Plan may be amended, modified, suspended or terminated by the Company at any time, without prior consent by or prior notice to associates. The Company at its sole discretion may change objectives at any time without prior consent by or prior notice to associates.
- The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make other segregation of assets to assure the payment of the amounts under the Plan. Rights to the payment of amounts under the Plan shall be no greater than the rights of the Company's general creditors.
- Texas state law governs the validity, construction, interpretation, administration and effect of the Plan and the substantive laws, but not the choice of law rules of the State of Texas, shall govern rights relating to the Plan.
- Generally, all applicable employment and tax deductions plus 401(k) contribution deferrals will be withheld from the IC payout.
- No associate has the right nor is guaranteed the right to participate in the Plan by virtue of being an associate or fulfilling any specific position with the Company. Selection for participation in the Plan is solely within the discretion of the Company. The Company may offer participation in the Plan to additional associates or terminate the participation of any participant in the Plan at any time during the Plan Year.
- Revenues and earnings classified as "windfalls" or business losses may or may not be excluded in whole or in part from the calculation of Revenue and EBITDA at the discretion of the Company.
- Notice to participate in the Plan shall not impair or limit the Company's rights to transfer, promote or demote Plan participants to other jobs or to terminate their employment, nor shall it create any claim or right to receive any payment under the Plan or any right to be retained in the employ of the Company.
- The Plan is established for the current fiscal year. There shall be no obligation on the part of the Company to continue the Plan in the same or modified form for any future years.
- In the event that a participant has a dispute concerning the administration of this Plan, it shall first be submitted in writing to the Vice President of Corporate Compensation. In the event that the Vice President of Corporate Compensation does not provide a response satisfactory to the participant within 30 business days, the participant may submit the dispute in writing within five business days thereafter to the EVP,

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Human Resources, whose decision regarding the dispute shall be final and binding on each participant or person claiming under the Plan.

- The Plan is effective January 1, 2007, and supersedes and replaces all previous IC Plans. All such previous plans, unless earlier terminated, are terminated at midnight, December 31, 2005. If not renewed by the Company, this Plan will automatically terminate on December 31, 2007.
- In the event an eligible associate's performance falls below satisfactory standards during the Plan year, the associate may receive a reduced IC payment, at the discretion of the Company, regardless of the performance results of the Company, LOB, BSG or the ASI results (if applicable).
- The Company, at its sole discretion, may adjust or modify the methodology for calculating IC payments, the eligibility for receiving IC payments, and the actual amount of IC payments. All adjustments or modifications must be approved by the EVP, Human Resources, the appropriate Executive Vice President, the LOB/BSG Human Resources Executive and the Vice President of Corporate Compensation.

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**PERFORMANCE/PAYOUT TABLE  
FOR REVENUE and EBITDA**

% of Objective(s) Achieved*	% Payout*
89% or less	0%
90%	65%
91%	68.5%
92%	72%
93%	75.5%
94%	79%
95%	82.5%
96%	86%
97%	89.5%
98%	93%
99%	96.5%
100%	100%
101%	105%
102%	110%
103%	115%
104%	120%
105%	125%
106%	130%
107%	135%
108%	140%
109%	145%
110% or greater	150%

90% is the threshold for performance achievements to result in a payout.

100% is the target for performance achievements to receive 100% payout.

150% is the maximum payout level.

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**PERFORMANCE/PAYOUT TABLE**  
**FOR ASSOCIATE SATISFACTION and LOB SPECIFIC MEASURES**

% of Objective(s) Achieved*	% Payout*
79% or less	0%
80%	65%
81%	67%
82%	69%
83%	70%
84%	72%
85%	74%
86%	76%
87%	77%
88%	79%
89%	81%
90%	83%
91%	84%
92%	86%
93%	88%
94%	89%
95%	91%
96%	93%
97%	95%
98%	96%
99%	98%
100%	100%
101%	102.5%
102%	105.0%
103%	107.5%
104%	110.0%
105%	112.5%
106%	115.0%
107%	117.5%
108%	120.0%
109%	122.5%
110%	125.0%
111%	127.5%
112%	130.0%
113%	132.5%
114%	135.0%
115%	137.5%
116%	140.0%
117%	142.5%
118%	145.0%
119%	147.5%
120% or greater	150.0%

80% is the threshold for performance achievements to result in a payout.

100% is the target for performance achievements to receive 100% payout.

150% is the maximum payout level.

For business support groups, both Alliance Data EBITDA and Alliance Data Revenue targets must be achieved at 100% or greater in order for ASI to be paid above 100% of target. For lines of business, both LOB EBITDA and LOB Revenue targets must be achieved at 100% or greater in order for ASI or any LOB specific measure to be paid above 100% of target.

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**PERFORMANCE/PAYOUT TABLE  
FOR INDIVIDUAL EXPECTATIONS**

% of Objective(s) Achieved*	% Payout*
Below Minimum	0%
Accomplishments fall below expectations	80%
Fully meets and/or exceeds the requirements	100%
Has achieved/contributed well beyond expectations	110%

80% performance is the threshold for performance achievements to result in a payout.

110% is the maximum payout level.

Fully meets and/or exceeds the requirements is the target for performance achievements to receive 100% payout.

For business support groups, both Alliance Data EBITDA and Alliance Data Revenue targets must be achieved at 100% or greater in order for Individual Expectations to be paid above 100% of target. For lines of business, both LOB EBITDA and LOB Revenue targets must be achieved at 100% or greater in order for Individual Expectations to be paid above 100% of target.

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**RESTRICTED STOCK UNIT AWARD AGREEMENT  
UNDER THE ALLIANCE DATA SYSTEMS CORPORATION  
2005 LONG-TERM INCENTIVE PLAN**

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the “**Agreement**”), made as of DATE (the “**Grant Date**”) by and between Alliance Data Systems Corporation (the “**Company**”) and NAME (the “**Participant**”) who is an employee of the Company or one of its Affiliates, evidences the grant by the Company of an award of restricted stock units (the “**Award**”) to the Participant and the Participant’s acceptance of the Award in accordance with the provisions of the Alliance Data Systems Corporation 2005 Long-Term Incentive Plan (the “**Plan**”). The Company and the Participant agree as follows:

1. **Basis for Award.** The Award is made under the Plan pursuant to Section 6(f) thereof for service rendered to the Company by the Participant.

2. **Restricted Stock Units Awarded.**

(a) The Company hereby awards to the Participant, in the aggregate, AMOUNT Restricted Stock Units which shall be subject to the conditions set forth in the Plan and this Agreement.

(b) Restricted Stock Units shall be evidenced by an account established and maintained for the Participant, which shall be credited for the number of Restricted Stock Units granted to the Participant. By accepting this Award, the Participant acknowledges that the Company does not have an adequate remedy in damages for the breach by the Participant of the conditions and covenants set forth in this Agreement and agrees that the Company is entitled to and may obtain an order or a decree of specific performance against the Participant issued by any court having jurisdiction.

(c) Except as provided in the Plan or this Agreement, prior to vesting as provided in Sections 3 of this Agreement, the Restricted Stock Units will be forfeited by the Participant and all of the Participant’s rights to stock underlying the Award shall immediately terminate without any payment or consideration by the Company, in the event of a Participant’s termination of employment as provided in Section 4 below.

3. **Vesting.**

(a) Subject to Sections 2 and 4 of this Agreement, the Award will vest upon attainment of the Performance Goals set forth in Section 3(b) below; provided, that, the Participant is then employed by the Company or an Affiliate. As soon as practicable after the Award vests and consistent with Section 409A of the Code, payment shall be made in Stock (based upon the Fair Market Value of the Stock on the day all restrictions lapse). The Committee shall cause a Stock certificate to be delivered to the Participant or the Participant’s electronic account with respect to such Stock free of all restrictions, or the Stock may be delivered electronically. Any number of shares delivered shall be net of the number of shares withheld pursuant to Section 11.

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(b) The restrictions described in this Agreement will lapse with respect to all or a portion of the Restricted Stock Units on the date in 2008 (the "**Vesting Date**") on which the Board determines the Company's cash Earnings Per Share ("**EPS**") growth rate for the period that begins on January 1, 2007 and ends on December 31, 2007 (the "**Performance Period**"); provided, that, the performance criteria set forth below have been achieved; provided, further, that, the Participant is still employed by the Company on such Vesting Date. If the Participant ceases to be employed by the Company at any time prior to the Vesting Date, the unvested Restricted Stock Units shall automatically be forfeited upon such cessation of service. The number of Restricted Stock Units that will vest on the Vesting Date (if any) will depend on whether a cash EPS growth threshold milestone is achieved or exceeded for the Performance Period. The measure for the number of Restricted Stock Units vesting will be based on the Company's cash EPS growth rate which for purposes of this calculation includes stock-based compensation expense.

The number of Restricted Stock Units vesting (if any) will be determined in accordance with the following chart:

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Alliance Data Cash EPS Growth Rate <i>(1-yr Chg in EPS)</i>	% of Target PBRSU Award Earned
<b>36% and up</b>	<b>Maximum</b>
35%	194%
34%	189%
33%	183%
32%	178%
31%	172%
30%	167%
29%	161%
28%	156%
27%	150%
26%	144%
25%	139%
24%	133%
23%	128%
22%	122%
21%	117%
20%	111%
19%	106%
<b>18%</b>	<b>Target</b>
17%	94%
16%	88%
15%	81%
14%	75%
13%	69%
12%	63%
11%	56%
<b>10%</b>	<b>Threshold</b>
Below 10%	0%

The Committee shall have the discretion to reduce or eliminate the number of Restricted Stock Units that will vest based on a subjective evaluation of the Participant's performance. Any Restricted Stock Units that do not vest, whether due to cash EPS performance or the exercise of Committee discretion, will be forfeited.

4. **Termination of Employment.** Unless otherwise determined by the Committee at time of grant or thereafter or as otherwise provided in the Plan, any unvested portion of any outstanding Award held by a Participant at the time of termination of employment or other service for any reason will be forfeited upon such termination.

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5. **Company; Participant.**

(a) The term “**Company**” as used in this Agreement with reference to employment shall include the Company and its Affiliates, as appropriate.

(b) Whenever the word “**Participant**” is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the beneficiaries, the executors, the administrators, or the person or persons to whom the Restricted Stock Units may be transferred by will or by the laws of descent and distribution, the word “**Participant**” shall be deemed to include such person or persons.

6. **Adjustments; Change in Control.**

(a) In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or exchange of Stock or other securities, liquidation, dissolution, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares that may be issued in respect of Restricted Stock Units. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate or in response to changes in applicable laws, regulations, or accounting principles. Notwithstanding the foregoing, no such adjustment shall be authorized with respect to Awards subject to Section 6(g) of the Plan to the extent that such authority could cause such Awards to fail to qualify as “qualified performance-based compensation” under Section 162(m)(4)(C) of the Code.

(b) In connection with a Change in Control, the Committee may, in its sole discretion, accelerate the vesting with respect to the Award. If the Award is not assumed, substituted for an award of equal value, or otherwise continued after a Change in Control, the Award shall automatically vest prior to the Change in Control at a time designated by the Committee. Timing of any payment or delivery of shares of Stock under this provision shall be subject to Section 409A of the Code.

(c) All outstanding Restricted Stock Units shall immediately vest upon a termination of employment by the Company without Cause, within twelve months after a Change in Control.

7. **Clawback.** Notwithstanding anything in the Plan or this Agreement to the contrary, in the event that the Participant breaches any nonsolicitation agreement entered into with, or while acting on behalf of, the Company or any Affiliate, the Committee may (a) cancel the Award, in whole or in part, whether or not vested, and/or (b) if such conduct or activity occurs within one year following the vesting of any portion of the Award, require the Participant to repay to the Company any shares received with respect to the Award (with such shares valued

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as of the vesting date). Such cancellation or repayment obligation shall be effective as of the date specified by the Committee. Any repayment obligation may be satisfied in shares of Stock or cash or a combination thereof (based upon the Fair Market Value of the shares of Stock on the date of repayment) and the Committee may provide for an offset to any future payments owed by the Company or any Affiliate to the Participant if necessary to satisfy the repayment obligation; provided, however, that if any such offset is prohibited under applicable law, the Committee shall not permit any offsets and may require immediate repayment by the Participant.

8. **Compliance with Law.** Notwithstanding any of the provisions hereof, the Company will not be obligated to issue or transfer any Stock to the Participant hereunder, if the exercise thereof or the issuance or transfer of such Stock shall constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority. Any determination in this connection by the Committee shall be final, binding and conclusive. The Company shall in no event be obliged to register any securities pursuant to the Securities Act of 1933 (as now in effect or as hereafter amended) or to take any other affirmative action in order to cause the issuance or transfer of Stock pursuant thereto to comply with any law or regulation of any governmental authority.

9. **No Right to Continued Employment.** Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved, to discharge the Participant at any time for any reason whatsoever, with or without Cause. Participant acknowledges and agrees that the continued vesting of the Restricted Stock Units granted hereunder is premised upon attainment of the performance goals set forth herein and vesting of such Restricted Stock Units shall not accelerate upon his termination of employment for any reason unless specifically provided for herein.

10. **Representations and Warranties of Participant.** The Participant represents and warrants to the Company that:

(a) **Agrees to Terms of the Plan.** The Participant has received a copy of the Plan and has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Agreement, the Plan shall govern and control. All capitalized terms not defined herein shall have the meaning ascribed to them as set forth in the Plan. The Participant acknowledges that there may be adverse tax consequences upon the vesting of Restricted Stock Units or later disposition of the shares of Stock once the Award has vested, and that the Participant should consult a tax adviser prior to such time.

(b) **Cooperation.** The Participant agrees to sign such additional documentation as may reasonably be required from time to time by the Company.

11. **Taxes and Share Withholding.** At such time as the Participant has taxable income in connection with an Award (a "Taxable Event"), the Company will require the withholding of a portion of shares then issuable to the Participant having an aggregate Fair Market Value equal to, but not in excess an amount equal to, the minimum federal, state and

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local income taxes and other amounts as may be required by law to be withheld by the Company in connection with the Taxable Event.

12. **Notice.** Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided, that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to him or her at his or her address as recorded in the records of the Company. Notwithstanding the foregoing, at such time as the Company institutes a policy for delivery of notice by e-mail, notice may be given in accordance with such policy.

13. **Governing Law.** This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to its conflict of law principles.

14. **Electronic Transmission.** The Company reserves the right to deliver any notice or Award by email in accordance with its policy or practice for electronic transmission and any written Award or notice referred to herein or under the Plan may be given in accordance with such electronic transmission policy or practice.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ALLIANCE DATA SYSTEMS  
CORPORATION

By:



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**Transient C. Taylor**  
**EVP, Human Resources**

PARTICIPANT

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**NAME**

**RESTRICTED STOCK UNIT AWARD AGREEMENT  
UNDER THE ALLIANCE DATA SYSTEMS CORPORATION  
2005 LONG-TERM INCENTIVE PLAN**

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the “**Agreement**”), made as of DATE (the “**Grant Date**”) by and between Alliance Data Systems Corporation (the “**Company**”) and NAME (the “**Participant**”) who is an employee of the Company or one of its Affiliates, evidences the grant by the Company of an award of restricted stock units (the “**Award**”) to the Participant and the Participant’s acceptance of the Award in accordance with the provisions of the Alliance Data Systems Corporation 2005 Long-Term Incentive Plan (the “**Plan**”). The Company and the Participant agree as follows:

1. **Basis for Award.** The Award is made under the Plan pursuant to Section 6(f) thereof for service rendered to the Company by the Participant.

2. **Restricted Stock Units Awarded.**

(a) The Company hereby awards to the Participant, in the aggregate, AMOUNT Restricted Stock Units which shall be subject to the conditions set forth in the Plan and this Agreement.

(b) Restricted Stock Units shall be evidenced by an account established and maintained for the Participant, which shall be credited for the number of Restricted Stock Units granted to the Participant. By accepting this Award, the Participant acknowledges that the Company does not have an adequate remedy in damages for the breach by the Participant of the conditions and covenants set forth in this Agreement and agrees that the Company is entitled to and may obtain an order or a decree of specific performance against the Participant issued by any court having jurisdiction.

(c) Except as provided in the Plan or this Agreement, prior to vesting as provided in Sections 3 of this Agreement, the Restricted Stock Units will be forfeited by the Participant and all of the Participant’s rights to stock underlying the Award shall immediately terminate without any payment or consideration by the Company, in the event of a Participant’s termination of employment as provided in Section 4 below.

3. **Vesting.**

(a) Subject to Sections 2 and 4 of this Agreement, the Award will vest upon attainment of the Performance Goals set forth below; ~~provided that~~, the Participant is then employed by the Company or an Affiliate. As soon as practicable after the Award vests and consistent with Section 409A of the Code, payment shall be made in Stock (based upon the Fair Market Value of the Stock on the day all restrictions lapse). The Committee shall cause a Stock certificate to be delivered to the Participant or the Participant’s electronic account with respect to such Stock free of all restrictions, or the Stock may be delivered electronically. Any number of shares delivered shall be net of the number of shares withheld pursuant to Section 11.

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(b) The restrictions described in this Agreement will lapse with respect to 25% of the Award on the date in 2008 on which the Board determines the Company's cash Earnings Per Share ("EPS") growth rate if such cash EPS growth rate meets or exceeds 5% for the period that begins on January 1, 2007 and ends on December 31, 2007. An additional 25% of the award will vest on February 21, 2009 and the remaining 50% of the award will vest on February 21, 2010, provided that the original performance criteria for 2007 was achieved, and provided further that the Participant is still employed by the Company on such dates. If the Participant ceases to be employed by the Company at any time prior to any of such dates, the unvested Restricted Stock Units shall automatically be forfeited upon such cessation of service.

The Committee shall have the discretion to reduce or eliminate the number of Restricted Stock Units that will vest based on a subjective evaluation of the Participant's performance. Any Restricted Stock Units that do not vest, whether due to cash EPS performance or the exercise of Committee discretion, will be forfeited.

4. **Termination of Employment.** Unless otherwise determined by the Committee at time of grant or thereafter or as otherwise provided in the Plan, any unvested portion of any outstanding Award held by a Participant at the time of termination of employment or other service for any reason will be forfeited upon such termination.

5. **Company; Participant.**

(a) The term "Company" as used in this Agreement with reference to employment shall include the Company and its Affiliates, as appropriate.

(b) Whenever the word "Participant" is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the beneficiaries, the executors, the administrators, or the person or persons to whom the Restricted Stock Units may be transferred by will or by the laws of descent and distribution, the word "Participant" shall be deemed to include such person or persons.

6. **Adjustments; Change in Control.**

(a) In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or exchange of Stock or other securities, liquidation, dissolution, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares that may be issued in respect of Restricted Stock Units. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate or in response to changes in applicable laws, regulations, or accounting principles. Notwithstanding the foregoing, no such adjustment shall be authorized with respect to Awards subject to Section 6(g) of the Plan to the extent that such authority could

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cause such Awards to fail to qualify as “qualified performance-based compensation” under Section 162(m)(4)(C) of the Code.

(b) In connection with a Change in Control, the Committee may, in its sole discretion, accelerate the vesting with respect to the Award. If the Award is not assumed, substituted for an award of equal value, or otherwise continued after a Change in Control, the Award shall automatically vest prior to the Change in Control at a time designated by the Committee. Timing of any payment or delivery of shares of Stock under this provision shall be subject to Section 409A of the Code.

(c) All outstanding Restricted Stock Units shall immediately vest upon a termination of employment by the Company without Cause, within twelve months after a Change in Control.

7. **Clawback.** Notwithstanding anything in the Plan or this Agreement to the contrary, in the event that the Participant breaches any nonsolicitation agreement entered into with, or while acting on behalf of, the Company or any Affiliate, the Committee may (a) cancel the Award, in whole or in part, whether or not vested, and/or (b) if such conduct or activity occurs within one year following the vesting of any portion of the Award, require the Participant to repay to the Company any shares received with respect to the Award (with such shares valued as of the vesting date). Such cancellation or repayment obligation shall be effective as of the date specified by the Committee. Any repayment obligation may be satisfied in shares of Stock or cash or a combination thereof (based upon the Fair Market Value of the shares of Stock on the date of repayment) and the Committee may provide for an offset to any future payments owed by the Company or any Affiliate to the Participant if necessary to satisfy the repayment obligation; provided, however, that if any such offset is prohibited under applicable law, the Committee shall not permit any offsets and may require immediate repayment by the Participant.

8. **Compliance with Law.** Notwithstanding any of the provisions hereof, the Company will not be obligated to issue or transfer any Stock to the Participant hereunder, if the exercise thereof or the issuance or transfer of such Stock shall constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority. Any determination in this connection by the Committee shall be final, binding and conclusive. The Company shall in no event be obliged to register any securities pursuant to the Securities Act of 1933 (as now in effect or as hereafter amended) or to take any other affirmative action in order to cause the issuance or transfer of Stock pursuant thereto to comply with any law or regulation of any governmental authority.

9. **No Right to Continued Employment.** Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved, to discharge the Participant at any time for any reason whatsoever, with or without Cause. Participant acknowledges and agrees that the continued vesting of the Restricted Stock Units granted hereunder is premised upon attainment of the performance goals set forth herein and vesting of such Restricted Stock Units shall not accelerate upon his termination of employment for any reason unless specifically provided for herein.

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10. **Representations and Warranties of Participant.** The Participant represents and warrants to the Company that:

(a) **Agrees to Terms of the Plan.** The Participant has received a copy of the Plan and has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Agreement, the Plan shall govern and control. All capitalized terms not defined herein shall have the meaning ascribed to them as set forth in the Plan. The Participant acknowledges that there may be adverse tax consequences upon the vesting of Restricted Stock Units or later disposition of the shares of Stock once the Award has vested, and that the Participant should consult a tax adviser prior to such time.

(b) **Cooperation.** The Participant agrees to sign such additional documentation as may reasonably be required from time to time by the Company.

11. **Taxes and Share Withholding.** At such time as the Participant has taxable income in connection with an Award (a "Taxable Event"), the Company will require the withholding of a portion of shares then issuable to the Participant having an aggregate Fair Market Value equal to, but not in excess an amount equal to, the minimum federal, state and local income taxes and other amounts as may be required by law to be withheld by the Company in connection with the Taxable Event.

12. **Notice.** Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided, that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to him or her at his or her address as recorded in the records of the Company. Notwithstanding the foregoing, at such time as the Company institutes a policy for delivery of notice by e-mail, notice may be given in accordance with such policy.

13. **Governing Law.** This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to its conflict of law principles.

14. **Electronic Transmission.** The Company reserves the right to deliver any notice or Award by email in accordance with its policy or practice for electronic transmission and any written Award or notice referred to herein or under the Plan may be given in accordance with such electronic transmission policy or practice.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ALLIANCE DATA SYSTEMS  
CORPORATION

By:



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**Transient C. Taylor**  
**EVP, Human Resources**

PARTICIPANT

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NAME



**CANADIAN NONQUALIFIED STOCK OPTION AGREEMENT  
UNDER THE ALLIANCE DATA SYSTEMS CORPORATION  
2005 LONG TERM INCENTIVE PLAN**

THIS AGREEMENT, made as of the [Day] day of [Month], YEAR, by and between Alliance Data Systems Corporation (the “**Company**”) and [First] [Last] (the “**Participant**”) who is an employee of the Company or one of its Affiliates.

**WITNESSETH:**

WHEREAS, pursuant to the Company’s 2005 Long Term Incentive Plan (the “**Plan**”), the Company desires to afford the Participant the opportunity to acquire, or enlarge, his ownership of the Company’s common stock, \$0.01 par value per share (“**Stock**”), so that he may have a direct proprietary interest in the Company’s success.

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereto hereby agree as follows:

1. **Grant of Option.** Subject to the term and conditions set forth herein and in the Plan, the Company hereby grants to the Participant, during the period commencing on the date of this Agreement and ending on the close of business on the day of the tenth anniversary of the date hereof (the “**Termination Date**”), the right and option (the “**Option**”) to purchase from the Company, at a price of [Option Price] per share (the “**Option Price**”), an aggregate of [# Options] shares of Stock (the “**Option Shares**”).

2. **Limitation on Exercise of Option.** Subject to the terms and conditions set forth herein and in the Plan, the Option will become exercisable 33% upon the day of the first anniversary of grant; an additional 33% of the Option will become vested and exercisable on the day of the second anniversary of the date of grant; and the final 34% of the Option will become vested and exercisable on the day of the third anniversary of the date of grant provided, that, the Participant is then employed by the Company or an Affiliate. Notwithstanding the foregoing, subject to the limitations of the Plan, the Committee may accelerate the vesting and exercisability of all or part of the Option at any time and for any reason.

3. **Termination of Employment.** Upon termination of employment, the Option shall remain exercisable as follows:

(a) From the date of the notice to the Participant of the termination of the Participant’s employment or service with the Company and its Affiliates, or the date of the notice of resignation from the Participant, as the case may be, for any reason other than death, Disability, Retirement or termination by the Company or an Affiliate for Cause, the Participant may exercise a vested portion of any outstanding Option, but only to the extent the Option was exercisable immediately prior to the date of such notice, until the earlier of the last day of the Option term or the last day of the 30-day period following the date of such notice without regard to any statutory or common law amounts to which the Participant may otherwise be entitled.

- (b) If a Participant terminates employment due to Retirement, the Participant may exercise the vested portion of any outstanding Option, but only to the extent the Option was exercisable immediately prior to Retirement, until the earlier of the last day of the Option term or the last day of the one-year period following Retirement.
- (c) Upon termination of the Participant's employment with the Company and its Affiliates due to death or Disability, the Participant may exercise the vested portion of any outstanding Option, but only to the extent the Option was exercisable immediately prior to termination of employment, until the earlier of the last day of the Option term or the last day of the one-year period following termination of employment or other service.
- (d) Upon termination of a Participant's employment or other service with the Company and its Affiliates due to Cause, the entire Option shall immediately be forfeited and no longer exercisable.
4. **Time and Method of Exercising Option.** The Option, to the extent vested, may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of whole shares of Stock to be purchased. Such notice shall be accompanied by the payment in full of the Option Price. Such payment shall be made either: (i) in cash at the time of purchase; (ii) through such "cashless exercise" procedure that is acceptable to the Committee in its full discretion, to the extent that such procedure does not violate the Sarbanes-Oxley Act of 2002, or any other applicable law, or (iii) subject to applicable law, in any other form of legal consideration that may be acceptable to the Committee in its discretion. Notwithstanding the provision herein or in the Plan, once granted, neither the exercise period nor the term of any Option may be extended if such extension would cause the Option to be subject to excise tax under Section 409A of the Internal Revenue Code ("409A of the Code"). In addition, the timing of any payment shall also comply with 409A of the Code.
5. **Issuance of Shares.** Except as otherwise provided in the Plan, and subject to applicable law, as promptly as practical after receipt of such written notification of exercise and full payment of the Option Price and any required income tax withholding, the Company shall issue or transfer to the Participant the number of Option Shares with respect to which Options have been so exercised (less shares withheld in satisfaction of tax withholding obligations, if any), and shall deliver to the Participant a certificate or certificates thereof, registered in the Participant's name.
6. **Company; Participant.**
- (a) The term "**Company**" as used in this Agreement with reference to employment shall include the Company and its Affiliates, as appropriate.
- (b) Whenever the word "**Participant**" is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the beneficiaries, the executors, the administrators, or the person or persons to whom the Options may be transferred by will or by the laws of descent and distribution, the word "**Participant**" shall be deemed to include such person or persons.

7. **Non-Transferability.** The Option shall not be transferable by the Participant other than by will or by the laws of descent and distribution or pursuant to a domestic relations order (within the meaning of Rule 16a-12 promulgated under the Exchange Act) and the Option shall be exercisable during the lifetime of the Participant only by the Participant or his guardian or legal representative. The terms of the Option shall be final, binding and conclusive upon the beneficiaries, executors, administrators, heirs and successors of the Participant. Until the Option has vested, shares subject to the Option shall not be sold, transferred or otherwise disposed of, shall not be pledged or otherwise hypothecated, and shall not be subject to the claims of creditors.

8. **Adjustments; Change in Control.**

(a) In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or exchange of Stock or other securities, liquidation, dissolution, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of shares that may be issued in respect of outstanding Options and (ii) the exercise price or purchase price relating to an Option. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Options in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate or in response to changes in applicable laws, regulations, or accounting principles. Notwithstanding the foregoing, no such adjustment shall be authorized with respect to Options subject to Section 6(g) of the Plan to the extent that such authority could cause such Options to fail to qualify as "qualified performance-based compensation" under Section 162(m)(4)(C) of the Code.

(b) In connection with a Change in Control, the Committee may, in its sole discretion, accelerate the vesting with respect to any or all Options granted under the Plan and may require that any and all vested Options be cancelled irrespective of whether the exercise price of such Options is greater than the Fair Market Value of the shares covered by such Options. In the event of any such cancellation, if the exercise price of such Option is less than the Fair Market Value of the shares covered by such Options (the "Spread"), the Committee must provide either that (a) any such cancelled Options shares or combination thereof be deemed automatically exercised or (b) the affected Participants shall receive property, shares or a combination thereof, an amount equal to the value of the Spread. If the Option is not assumed, substituted for an Award of equal value, or otherwise continued after a Change in Control, the Option shall automatically vest prior to the Change in Control at a time designated by the Committee. Notwithstanding the foregoing, no cancellation pursuant to this provision shall be deemed an action that materially impairs the rights of any Participant with respect to his Option and no Participant consent shall be required with respect to the cancellation of any Option under this provision. Timing of any payment or delivery of shares of Stock under this provision shall be subject to the 409A of the Code. Notwithstanding the foregoing, no such adjustment shall be authorized with respect to Options subject to Section 6(g) of the Plan to the extent that such

authority could cause such Options to fail to qualify as “qualified performance-based compensation” under Section 162(m)(4)(C) of the Code.

(c) Notwithstanding any other provision contained herein to the contrary, all conditions and restrictions relating to the Option, including limitations on exercisability, risks of forfeiture and conditions and restrictions requiring continued employment or the achievement of performance objectives with respect to the exercisability of the Option, shall immediately lapse upon a termination of employment or service by the Company without Cause or by a Participant for Good Reason, within twelve months after a Change in Control, and the Option shall remain outstanding until the earlier of the last day of the term of such Option, or the end of the last day of the one-year period following such termination.

9. **Clawback.** Notwithstanding anything in the Plan or this Agreement to the contrary, in the event that the Participant breaches any nonsolicitation Agreement entered into with, or while acting on behalf of, the Company or any Affiliate, the Committee may (a) cancel the Option, in whole or in part, whether or not vested, and/or (b) if such conduct or activity occurs within one year following the exercise or payment of the Option, require the Participant to repay to the Company any gain realized or payment or shares received upon the exercise or payment of the Option (with such gain, payment or shares valued as of the date of exercise or payment). Such cancellation or repayment obligation shall be effective as of the date specified by the Committee. Any repayment obligation may be satisfied in shares of Stock or cash or a combination thereof (based upon the Fair Market Value of the shares of Stock on the date of repayment), and the Committee may provide for an offset to any future payments owed by the Company or any Affiliate to the Participant if necessary to satisfy the repayment obligation; provided, however, that if any such offset is prohibited under applicable law, the Committee shall not permit any offsets and may require immediate repayment by the Participant.

10. **Rights as Shareholder.** The Participant or a transferee of the Options shall have no rights as shareholder with respect to any Option Shares until he shall have become the holder of record of such share, and no adjustment shall be made for dividends or distributions or other rights in respect of such Option Shares for which the record date is prior to the date upon which he shall become the holder of record thereof.

11. **Compliance with Law.** Notwithstanding any of the provisions hereof, the Participant hereby agrees that he will not exercise the Option, and that the Company will not be obligated to issue or transfer any shares to the Participant hereunder, if the exercise hereof or the issuance or transfer of such shares shall constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority. Any determination in this connection by the Committee shall be final, binding and conclusive. The Company shall in no event be obliged to register any securities pursuant to the Securities Act of 1933 (as now in effect or as hereafter amended) or to take any other affirmative action in order to cause the exercise of the Options or the issuance or transfer of shares pursuant thereto to comply with any law or regulation of any governmental authority.

12. **No Right to Continued Employment.** Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which are hereby expressly

reserved, to terminate the employment of the Participant at any time for any reason whatsoever, with or without Cause. Participant acknowledges and agrees that the continued vesting of the Options granted hereunder is premised upon his provision of future services with the Company and such Option shall not accelerate upon his termination of employment for any reason unless specifically provided for herein.

13. **Taxes and Share Withholding.** At such time as the Participant has taxable income in connection with an Option (a "Taxable Event"), the Participant shall pay to the Company in cash an amount equal to the minimum federal, state and local income taxes and other amounts as may be required by law to be withheld by the Company in connection with the Taxable Event (the "Withholding Taxes").

14. **Notice.** Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided, that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to him at his address as recorded in the records of the Company. Notwithstanding the foregoing, at such time as the Company institutes a policy for delivery of notice by e-mail, notice may be given in accordance with such policy.

15. **Nonqualified Stock Option.** The Option granted hereunder is not intended to be an "incentive stock option" within the meaning of Section 422 of the Code ("ISO").

16. **Binding Effect.** Subject to Section 7 hereof, this Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

17. **Governing Law.** This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to its conflict of law principles.

18. **Plan.** The terms and provisions of the Plan are incorporated herein by reference, and the Participant hereby acknowledges receiving a copy of the Plan. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Agreement, the Plan shall govern and control. All capitalized terms not defined herein shall have the meaning ascribed to them as set forth in the Plan.

19. **Electronic Transmission.** The Company reserves the right to deliver any notice or Award by email in accordance with its policy or practice for electronic transmission and any written Award or notice referred to herein or under the Plan may be given in accordance with such electronic transmission policy or practice.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ALLIANCE DATA SYSTEMS  
CORPORATION

By:



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**Transient C. Taylor**  
**Executive Vice President, Human Resources**

PARTICIPANT

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**[First] [Last]**

**CANADIAN RESTRICTED STOCK UNIT AWARD AGREEMENT  
UNDER THE ALLIANCE DATA SYSTEMS CORPORATION  
2005 LONG-TERM INCENTIVE PLAN**

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the “**Agreement**”), made as of DATE (the “**Grant Date**”) by and between Alliance Data Systems Corporation (the “**Company**”) and NAME (the “**Participant**”) who is an employee of the Company or one of its Affiliates, evidences the grant by the Company of an award of restricted stock units (the “**Award**”) to the Participant and the Participant's acceptance of the Award in accordance with the provisions of the Alliance Data Systems Corporation 2005 Long-Term Incentive Plan (the “**Plan**”). The Company and the Participant agree as follows:

1. **Basis for Award.** The Award is made under the Plan pursuant to Section 6(f) thereof for service rendered to the Company by the Participant.
  2. **Restricted Stock Units Awarded.**
    - (a) The Company hereby awards to the Participant, in the aggregate, AMOUNT Restricted Stock Units which shall be subject to the conditions set forth in the Plan and this Agreement.
    - (b) Restricted Stock Units shall be evidenced by an account established and maintained for the Participant, which shall be credited for the number of Restricted Stock Units granted to the Participant. By accepting this Award, the Participant acknowledges that the Company does not have an adequate remedy in damages for the breach by the Participant of the conditions and covenants set forth in this Agreement and agrees that the Company is entitled to and may obtain an order or a decree of specific performance against the Participant issued by any court having jurisdiction.
    - (c) Except as provided in the Plan or this Agreement, prior to vesting as provided in Sections 3 of this Agreement, the Restricted Stock Units will be forfeited by the Participant and all of the Participant's rights to stock underlying the Award shall immediately terminate without any payment or consideration by the Company, in the event of a Participant's termination of employment as provided in Section 4 below.
  3. **Vesting.** Subject to Sections 2 and 4 of this Agreement, the Award will vest upon with respect to 33% of the Award upon the day of the first anniversary of grant; an additional 33% of the Award will become vested on the day of the second anniversary of the date of grant; and the final 34% of the Award will become vested on the day of the third anniversary of the date of grant; provided, that, the Participant is then employed by the Company or an Affiliate. Notwithstanding the foregoing, subject to the limitations of the Plan, the Committee may accelerate the vesting of all or part of the Award at any time and for any reason. As soon as practicable after the Award vests and consistent with Section 409A of the Code, payment shall be made in Stock (based upon the Fair Market Value of the Stock on the day all restrictions lapse). The Committee shall cause a Stock certificate to be delivered to the Participant or the Participant's electronic account with respect to such Stock free of all restrictions, or the Stock
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may be delivered electronically. Any number of shares delivered shall be net of the number of shares withheld pursuant to Section 11.

4. **Termination of Employment.** Unless otherwise provided in the Plan, all unvested Restricted Stock Units shall be automatically forfeited on the date of the notice to the Participant of the termination of the Participant's employment with the Company and its Affiliates, or the date of the notice of resignation from the Participant, as the case may be, without regard to any statutory or common law amounts to which the Participant may otherwise be entitled.

5. **Company; Participant.**

(a) The term "**Company**" as used in this Agreement with reference to employment shall include the Company and its Affiliates, as appropriate.

(b) Whenever the word "**Participant**" is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the beneficiaries, the executors, the administrators, or the person or persons to whom the Restricted Stock Units may be transferred by will or by the laws of descent and distribution, the word "**Participant**" shall be deemed to include such person or persons.

6. **Adjustments; Change in Control.**

(a) In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or exchange of Stock or other securities, liquidation, dissolution, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares that may be issued in respect of Restricted Stock Units. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate or in response to changes in applicable laws, regulations, or accounting principles. Notwithstanding the foregoing, no such adjustment shall be authorized with respect to Awards subject to Section 6(g) of the Plan to the extent that such authority could cause such Awards to fail to qualify as "qualified performance-based compensation" under Section 162(m)(4)(C) of the Code.

(b) In connection with a Change in Control, the Committee may, in its sole discretion, accelerate the vesting with respect to the Award. If the Award is not assumed, substituted for an award of equal value, or otherwise continued after a Change in Control, the Award shall automatically vest prior to the Change in Control at a time designated by the Committee. Timing of any payment or delivery of shares of Stock under this provision shall be subject to Section 409A of the Code.

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(c) All outstanding Restricted Stock Units shall immediately vest upon a termination of employment by the Company without Cause, within twelve months after a Change in Control.

7. **Clawback.** Notwithstanding anything in the Plan or this Agreement to the contrary, in the event that the Participant breaches any nonsolicitation agreement entered into with, or while acting on behalf of, the Company or any Affiliate, the Committee may (a) cancel the Award, in whole or in part, whether or not vested, and/or (b) if such conduct or activity occurs within one year following the vesting of any portion of the Award, require the Participant to repay to the Company any shares received with respect to the Award (with such shares valued as of the vesting date). Such cancellation or repayment obligation shall be effective as of the date specified by the Committee. Any repayment obligation may be satisfied in shares of Stock or cash or a combination thereof (based upon the Fair Market Value of the shares of Stock on the date of repayment) and the Committee may provide for an offset to any future payments owed by the Company or any Affiliate to the Participant if necessary to satisfy the repayment obligation; provided, however, that if any such offset is prohibited under applicable law, the Committee shall not permit any offsets and may require immediate repayment by the Participant.

8. **Compliance with Law.** Notwithstanding any of the provisions hereof, the Company will not be obligated to issue or transfer any Stock to the Participant hereunder, if the exercise thereof or the issuance or transfer of such Stock shall constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority. Any determination in this connection by the Committee shall be final, binding and conclusive. The Company shall in no event be obliged to register any securities pursuant to the Securities Act of 1933 (as now in effect or as hereafter amended) or to take any other affirmative action in order to cause the issuance or transfer of Stock pursuant thereto to comply with any law or regulation of any governmental authority.

9. **No Right to Continued Employment.** Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved, to discharge the Participant at any time for any reason whatsoever, with or without Cause. Participant acknowledges and agrees that the continued vesting of the Restricted Stock Units granted hereunder is premised upon attainment of the performance goals set forth herein and vesting of such Restricted Stock Units shall not accelerate upon his termination of employment for any reason unless specifically provided for herein.

10. **Representations and Warranties of Participant.** The Participant represents and warrants to the Company that:

(a) **Agrees to Terms of the Plan.** The Participant has received a copy of the Plan and has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Agreement, the Plan shall govern and control. All capitalized terms not defined herein shall have the meaning ascribed to them as set forth in the Plan. The Participant acknowledges that there may be adverse tax consequences

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upon the vesting of Restricted Stock Units or later disposition of the shares of Stock once the Award has vested, and that the Participant should consult a tax adviser prior to such time.

(b) **Cooperation.** The Participant agrees to sign such additional documentation as may reasonably be required from time to time by the Company.

11. **Taxes and Share Withholding.** At such time as the Participant has taxable income in connection with an Award (a "Taxable Event"), the Company will require the withholding of a portion of shares then issuable to the Participant having an aggregate Fair Market Value equal to, but not in excess an amount equal to, the minimum federal, state and local income taxes and other amounts as may be required by law to be withheld by the Company in connection with the Taxable Event.

12. **Notice.** Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided, that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to him or her at his or her address as recorded in the records of the Company. Notwithstanding the foregoing, at such time as the Company institutes a policy for delivery of notice by e-mail, notice may be given in accordance with such policy.

13. **Governing Law.** This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to its conflict of law principles.

14. **Electronic Transmission.** The Company reserves the right to deliver any notice or Award by email in accordance with its policy or practice for electronic transmission and any written Award or notice referred to herein or under the Plan may be given in accordance with such electronic transmission policy or practice.

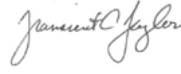
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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ALLIANCE DATA SYSTEMS  
CORPORATION

By:



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**Transient C. Taylor**  
**EVP, Human Resources**

PARTICIPANT

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**NAME**

**CANADIAN RESTRICTED STOCK UNIT AWARD AGREEMENT  
UNDER THE ALLIANCE DATA SYSTEMS CORPORATION  
2005 LONG-TERM INCENTIVE PLAN**

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the “**Agreement**”), made as of DATE (the “**Grant Date**”) by and between Alliance Data Systems Corporation (the “**Company**”) and NAME (the “**Participant**”) who is an employee of the Company or one of its Affiliates, evidences the grant by the Company of an award of restricted stock units (the “**Award**”) to the Participant and the Participant’s acceptance of the Award in accordance with the provisions of the Alliance Data Systems Corporation 2005 Long-Term Incentive Plan (the “**Plan**”). The Company and the Participant agree as follows:

1. **Basis for Award.** The Award is made under the Plan pursuant to Section 6(f) thereof for service rendered to the Company by the Participant.
  2. **Restricted Stock Units Awarded.**
    - (a) The Company hereby awards to the Participant, in the aggregate, AMOUNT Restricted Stock Units which shall be subject to the conditions set forth in the Plan and this Agreement.
    - (b) Restricted Stock Units shall be evidenced by an account established and maintained for the Participant, which shall be credited for the number of Restricted Stock Units granted to the Participant. By accepting this Award, the Participant acknowledges that the Company does not have an adequate remedy in damages for the breach by the Participant of the conditions and covenants set forth in this Agreement and agrees that the Company is entitled to and may obtain an order or a decree of specific performance against the Participant issued by any court having jurisdiction.
    - (c) Except as provided in the Plan or this Agreement, prior to vesting as provided in Sections 3 of this Agreement, the Restricted Stock Units will be forfeited by the Participant and all of the Participant’s rights to stock underlying the Award shall immediately terminate without any payment or consideration by the Company, in the event of a Participant’s termination of employment as provided in Section 4 below.
  3. **Vesting.**
    - (a) Subject to Sections 2 and 4 of this Agreement, the Award will vest upon attainment of the Performance Goals set forth below; provided, that, the Participant is then employed by the Company or an Affiliate. As soon as practicable after the Award vests and consistent with Section 409A of the Code, payment shall be made in Stock (based upon the Fair Market Value of the Stock on the day all restrictions lapse). The Committee shall cause a Stock certificate to be delivered to the Participant or the Participant’s electronic account with respect to such Stock free of all restrictions, or the Stock may be delivered electronically. Any number of shares delivered shall be net of the number of shares withheld pursuant to Section 11.
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(b) The restrictions described in this Agreement will lapse with respect to all or a portion of the Restricted Stock Units on the date in 2008 (the “Vesting Date”) on which the Board determines the Company’s cash Earnings Per Share (“EPS”) growth rate for the period that begins on January 1, 2007 and ends on December 31, 2007 (the “Performance Period”); ~~provided, further, that~~ the performance criteria set forth below have been achieved; ~~provided, further, that~~ the Participant is still employed by the Company on such Vesting Date. If the Participant ceases to be employed by the Company at any time prior to the Vesting Date, the unvested Restricted Stock Units shall automatically be forfeited upon such cessation of service. The number of Restricted Stock Units that will vest on the Vesting Date (if any) will depend on whether a cash EPS growth threshold milestone is achieved or exceeded for the Performance Period. The measure for the number of Restricted Stock Units vesting will be based on the Company’s cash EPS growth rate which for purposes of this calculation includes stock-based compensation expense.

The number of Restricted Stock Units vesting (if any) will be determined in accordance with the following chart:

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Alliance Data Cash  
EPS Growth Rate  
(1-yr Chg in EPS)

% of Target PBRSU Award  
Earned

<b>36% and up</b>	<b>Maximum</b>	<b>200%</b>
35%		194%
34%		189%
33%		183%
32%		178%
31%		172%
30%		167%
29%		161%
28%		156%
27%		150%
26%		144%
25%		139%
24%		133%
23%		128%
22%		122%
21%		117%
20%		111%
19%		106%
<b>18%</b>	<b>Target</b>	<b>100%</b>
17%		94%
16%		88%
15%		81%
14%		75%
13%		69%
12%		63%
11%		56%
<b>10%</b>	<b>Threshold</b>	<b>50%</b>
Below 10%		0%

The Committee shall have the discretion to reduce or eliminate the number of Restricted Stock Units that will vest based on a subjective evaluation of the Participant's performance. Any Restricted Stock Units that do not vest, whether due to cash EPS performance or the exercise of Committee discretion, will be forfeited.

4. **Termination of Employment.** Unless otherwise provided in the Plan, all unvested Restricted Stock Units shall be automatically forfeited on the date of the notice to the Participant of the termination of the Participant's employment with the Company and its Affiliates, or the date of the notice of resignation from the Participant, as the case may be,

without regard to any statutory or common law amounts to which the Participant may otherwise be entitled.

5. **Company; Participant.**

(a) The term “**Company**” as used in this Agreement with reference to employment shall include the Company and its Affiliates, as appropriate.

(b) Whenever the word “**Participant**” is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the beneficiaries, the executors, the administrators, or the person or persons to whom the Restricted Stock Units may be transferred by will or by the laws of descent and distribution, the word “**Participant**” shall be deemed to include such person or persons.

6. **Adjustments; Change in Control.**

(a) In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or exchange of Stock or other securities, liquidation, dissolution, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares that may be issued in respect of Restricted Stock Units. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate or in response to changes in applicable laws, regulations, or accounting principles. Notwithstanding the foregoing, no such adjustment shall be authorized with respect to Awards subject to Section 6(g) of the Plan to the extent that such authority could cause such Awards to fail to qualify as “qualified performance-based compensation” under Section 162(m)(4)(C) of the Code.

(b) In connection with a Change in Control, the Committee may, in its sole discretion, accelerate the vesting with respect to the Award. If the Award is not assumed, substituted for an award of equal value, or otherwise continued after a Change in Control, the Award shall automatically vest prior to the Change in Control at a time designated by the Committee. Timing of any payment or delivery of shares of Stock under this provision shall be subject to Section 409A of the Code.

(c) All outstanding Restricted Stock Units shall immediately vest upon a termination of employment by the Company without Cause, within twelve months after a Change in Control.

7. **Clawback.** Notwithstanding anything in the Plan or this Agreement to the contrary, in the event that the Participant breaches any nonsolicitation agreement entered into with, or while acting on behalf of, the Company or any Affiliate, the Committee may (a) cancel the Award, in whole or in part, whether or not vested, and/or (b) if such conduct or activity

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occurs within one year following the vesting of any portion of the Award, require the Participant to repay to the Company any shares received with respect to the Award (with such shares valued as of the vesting date). Such cancellation or repayment obligation shall be effective as of the date specified by the Committee. Any repayment obligation may be satisfied in shares of Stock or cash or a combination thereof (based upon the Fair Market Value of the shares of Stock on the date of repayment) and the Committee may provide for an offset to any future payments owed by the Company or any Affiliate to the Participant if necessary to satisfy the repayment obligation; provided, however, that if any such offset is prohibited under applicable law, the Committee shall not permit any offsets and may require immediate repayment by the Participant.

8. **Compliance with Law.** Notwithstanding any of the provisions hereof, the Company will not be obligated to issue or transfer any Stock to the Participant hereunder, if the exercise thereof or the issuance or transfer of such Stock shall constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority. Any determination in this connection by the Committee shall be final, binding and conclusive. The Company shall in no event be obliged to register any securities pursuant to the Securities Act of 1933 (as now in effect or as hereafter amended) or to take any other affirmative action in order to cause the issuance or transfer of Stock pursuant thereto to comply with any law or regulation of any governmental authority.

9. **No Right to Continued Employment.** Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved, to discharge the Participant at any time for any reason whatsoever, with or without Cause. Participant acknowledges and agrees that the continued vesting of the Restricted Stock Units granted hereunder is premised upon attainment of the performance goals set forth herein and vesting of such Restricted Stock Units shall not accelerate upon his termination of employment for any reason unless specifically provided for herein.

10. **Representations and Warranties of Participant.** The Participant represents and warrants to the Company that:

(a) **Agrees to Terms of the Plan.** The Participant has received a copy of the Plan and has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Agreement, the Plan shall govern and control. All capitalized terms not defined herein shall have the meaning ascribed to them as set forth in the Plan. The Participant acknowledges that there may be adverse tax consequences upon the vesting of Restricted Stock Units or later disposition of the shares of Stock once the Award has vested, and that the Participant should consult a tax adviser prior to such time.

(b) **Cooperation.** The Participant agrees to sign such additional documentation as may reasonably be required from time to time by the Company.

11. **Taxes and Share Withholding.** At such time as the Participant has taxable income in connection with an Award (a "Taxable Event"), the Company will require the withholding of a portion of shares then issuable to the Participant having an aggregate Fair

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Market Value equal to, but not in excess an amount equal to, the minimum federal, state and local income taxes and other amounts as may be required by law to be withheld by the Company in connection with the Taxable Event.

12. **Notice.** Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided, that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to him or her at his or her address as recorded in the records of the Company. Notwithstanding the foregoing, at such time as the Company institutes a policy for delivery of notice by e-mail, notice may be given in accordance with such policy.

13. **Governing Law.** This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to its conflict of law principles.

14. **Electronic Transmission.** The Company reserves the right to deliver any notice or Award by email in accordance with its policy or practice for electronic transmission and any written Award or notice referred to herein or under the Plan may be given in accordance with such electronic transmission policy or practice.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ALLIANCE DATA SYSTEMS  
CORPORATION

By:



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**Transient C. Taylor**  
**EVP, Human Resources**

PARTICIPANT

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**NAME**

**CANADIAN RESTRICTED STOCK UNIT AWARD AGREEMENT  
UNDER THE ALLIANCE DATA SYSTEMS CORPORATION  
2005 LONG-TERM INCENTIVE PLAN**

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the “**Agreement**”), made as of DATE (the “**Grant Date**”) by and between Alliance Data Systems Corporation (the “**Company**”) and NAME (the “**Participant**”) who is an employee of the Company or one of its Affiliates, evidences the grant by the Company of an award of restricted stock units (the “**Award**”) to the Participant and the Participant’s acceptance of the Award in accordance with the provisions of the Alliance Data Systems Corporation 2005 Long-Term Incentive Plan (the “**Plan**”). The Company and the Participant agree as follows:

1. **Basis for Award.** The Award is made under the Plan pursuant to Section 6(f) thereof for service rendered to the Company by the Participant.

2. **Restricted Stock Units Awarded.**

(a) The Company hereby awards to the Participant, in the aggregate, AMOUNT Restricted Stock Units which shall be subject to the conditions set forth in the Plan and this Agreement.

(b) Restricted Stock Units shall be evidenced by an account established and maintained for the Participant, which shall be credited for the number of Restricted Stock Units granted to the Participant. By accepting this Award, the Participant acknowledges that the Company does not have an adequate remedy in damages for the breach by the Participant of the conditions and covenants set forth in this Agreement and agrees that the Company is entitled to and may obtain an order or a decree of specific performance against the Participant issued by any court having jurisdiction.

(c) Except as provided in the Plan or this Agreement, prior to vesting as provided in Sections 3 of this Agreement, the Restricted Stock Units will be forfeited by the Participant and all of the Participant’s rights to stock underlying the Award shall immediately terminate without any payment or consideration by the Company, in the event of a Participant’s termination of employment as provided in Section 4 below.

3. **Vesting.**

(a) Subject to Sections 2 and 4 of this Agreement, the Award will vest upon attainment of the Performance Goals set forth below; provided, that, the Participant is then employed by the Company or an Affiliate. As soon as practicable after the Award vests and consistent with Section 409A of the Code, payment shall be made in Stock (based upon the Fair Market Value of the Stock on the day all restrictions lapse). The Committee shall cause a Stock certificate to be delivered to the Participant or the Participant’s electronic account with respect to such Stock free of all restrictions, or the Stock may be delivered electronically. Any number of shares delivered shall be net of the number of shares withheld pursuant to Section 11.

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(b) The restrictions described in this Agreement will lapse with respect to 25% of the Award on the date in 2008 on which the Board determines the Company's cash Earnings Per Share ("EPS") growth rate if such cash EPS growth rate meets or exceeds 5% for the period that begins on January 1, 2007 and ends on December 31, 2007. An additional 25% of the award will vest on February 21, 2009 and the remaining 50% of the award will vest on February 21, 2010, provided that the original performance criteria for 2007 was achieved, and provided further that the Participant is still employed by the Company on such dates. If the Participant ceases to be employed by the Company at any time prior to any of such dates, the unvested Restricted Stock Units shall automatically be forfeited upon such cessation of service.

The Committee shall have the discretion to reduce or eliminate the number of Restricted Stock Units that will vest based on a subjective evaluation of the Participant's performance. Any Restricted Stock Units that do not vest, whether due to cash EPS performance or the exercise of Committee discretion, will be forfeited.

4. **Termination of Employment.** Unless otherwise provided in the Plan, all unvested Restricted Stock Units shall be automatically forfeited on the date of the notice to the Participant of the termination of the Participant's employment with the Company and its Affiliates, or the date of the notice of resignation from the Participant, as the case may be, without regard to any statutory or common law amounts to which the Participant may otherwise be entitled.

5. **Company; Participant.**

(a) The term "Company" as used in this Agreement with reference to employment shall include the Company and its Affiliates, as appropriate.

(b) Whenever the word "Participant" is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the beneficiaries, the executors, the administrators, or the person or persons to whom the Restricted Stock Units may be transferred by will or by the laws of descent and distribution, the word "Participant" shall be deemed to include such person or persons.

6. **Adjustments; Change in Control.**

(a) In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or exchange of Stock or other securities, liquidation, dissolution, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares that may be issued in respect of Restricted Stock Units. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate or in response to changes in applicable laws, regulations, or

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accounting principles. Notwithstanding the foregoing, no such adjustment shall be authorized with respect to Awards subject to Section 6(g) of the Plan to the extent that such authority could cause such Awards to fail to qualify as "qualified performance-based compensation" under Section 162(m)(4)(C) of the Code.

(b) In connection with a Change in Control, the Committee may, in its sole discretion, accelerate the vesting with respect to the Award. If the Award is not assumed, substituted for an award of equal value, or otherwise continued after a Change in Control, the Award shall automatically vest prior to the Change in Control at a time designated by the Committee. Timing of any payment or delivery of shares of Stock under this provision shall be subject to Section 409A of the Code.

(c) All outstanding Restricted Stock Units shall immediately vest upon a termination of employment by the Company without Cause, within twelve months after a Change in Control.

7. **Clawback.** Notwithstanding anything in the Plan or this Agreement to the contrary, in the event that the Participant breaches any nonsolicitation agreement entered into with, or while acting on behalf of, the Company or any Affiliate, the Committee may (a) cancel the Award, in whole or in part, whether or not vested, and/or (b) if such conduct or activity occurs within one year following the vesting of any portion of the Award, require the Participant to repay to the Company any shares received with respect to the Award (with such shares valued as of the vesting date). Such cancellation or repayment obligation shall be effective as of the date specified by the Committee. Any repayment obligation may be satisfied in shares of Stock or cash or a combination thereof (based upon the Fair Market Value of the shares of Stock on the date of repayment) and the Committee may provide for an offset to any future payments owed by the Company or any Affiliate to the Participant if necessary to satisfy the repayment obligation; provided, however, that if any such offset is prohibited under applicable law, the Committee shall not permit any offsets and may require immediate repayment by the Participant.

8. **Compliance with Law.** Notwithstanding any of the provisions hereof, the Company will not be obligated to issue or transfer any Stock to the Participant hereunder, if the exercise thereof or the issuance or transfer of such Stock shall constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority. Any determination in this connection by the Committee shall be final, binding and conclusive. The Company shall in no event be obliged to register any securities pursuant to the Securities Act of 1933 (as now in effect or as hereafter amended) or to take any other affirmative action in order to cause the issuance or transfer of Stock pursuant thereto to comply with any law or regulation of any governmental authority.

9. **No Right to Continued Employment.** Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved, to discharge the Participant at any time for any reason whatsoever, with or without Cause. Participant acknowledges and agrees that the continued vesting of the Restricted Stock Units granted hereunder is premised upon attainment of the performance goals set forth herein

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and vesting of such Restricted Stock Units shall not accelerate upon his termination of employment for any reason unless specifically provided for herein.

10. **Representations and Warranties of Participant.** The Participant represents and warrants to the Company that:

(a) **Agrees to Terms of the Plan.** The Participant has received a copy of the Plan and has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Agreement, the Plan shall govern and control. All capitalized terms not defined herein shall have the meaning ascribed to them as set forth in the Plan. The Participant acknowledges that there may be adverse tax consequences upon the vesting of Restricted Stock Units or later disposition of the shares of Stock once the Award has vested, and that the Participant should consult a tax adviser prior to such time.

(b) **Cooperation.** The Participant agrees to sign such additional documentation as may reasonably be required from time to time by the Company.

11. **Taxes and Share Withholding.** At such time as the Participant has taxable income in connection with an Award (a "Taxable Event"), the Company will require the withholding of a portion of shares then issuable to the Participant having an aggregate Fair Market Value equal to, but not in excess an amount equal to, the minimum federal, state and local income taxes and other amounts as may be required by law to be withheld by the Company in connection with the Taxable Event.

12. **Notice.** Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided, that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to him or her at his or her address as recorded in the records of the Company. Notwithstanding the foregoing, at such time as the Company institutes a policy for delivery of notice by e-mail, notice may be given in accordance with such policy.

13. **Governing Law.** This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to its conflict of law principles.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ALLIANCE DATA SYSTEMS  
CORPORATION

By:



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**Transient C. Taylor**  
**EVP, Human Resources**

PARTICIPANT

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**NAME**

**Subsidiaries of  
Alliance Data Systems Corporation  
A Delaware Corporation**

<u>Subsidiary</u>	<u>Jurisdiction of Organization</u>	<u>Other Business Names</u>
ADS Alliance Data Systems, Inc.	Delaware	None
ADS Commercial Services, Inc.	Delaware	None
ADS MB Corporation	Delaware	Alliance Data The Mail Box
ADS Reinsurance Ltd.	Bermuda	None
Abacus Direct LLC	Delaware	None
Abacus Direct Europe BV	Netherlands	None
Abacus Direct Ireland Limited	Ireland	None
Abacus Direct (UK) Limited	England	None
Alliance Data L.P.	Alberta, Canada	None
Alliance Data FHC, Inc.	Delaware	Epsilon Interactive International Epsilon International
Alliance Data Foreign Holdings, Inc.	Delaware	None
Alliance Data Luxembourg S.ar.l	Luxembourg	None
Alliance Recovery Management, Inc.	Delaware	None
Alliance Travel Services, Inc.	Delaware	None
Conservation Billing Services, Inc.	Florida	Alliance Data Systems Alliance Data
CPC Associates, LLC	Delaware	None
DMDA General Partner LLC	Delaware	None
DMDA Limited Partner LLC	Delaware	None
DNCE LLC	Delaware	None
Enlogix Inc.	Canada	None
Epsilon Data Management, LLC	Delaware	None
Epsilon Interactive, LLC	Delaware	None
Epsilon Interactive CA Inc.	Ontario, Canada	None
Epsilon International, LLC	Delaware	None
Epsilon Marketing Services, LLC	Delaware	None
Epsilon Software Technology Consulting (Shanghai) Co., Ltd.	Shanghai, People's Republic of China	None
Epsilon Texas Ltd. LLP	Texas	None
ICOM Ltd.	Ontario, Canada	None
iCom Information & Communications, Inc.	Delaware	None
ICOM Information & Communications L.P.	Ontario, Canada	Shopper's Voice
Interact Connect LLC	Delaware	None
LMG Travel Services Limited	Ontario, Canada	Extra Mile Books Extra Mile Flowers AIR MILES airmilesshops.ca AIR MILES For Business AIR MILES Incentives AIR MILES Reward Program
Loyalty Management Group Canada Inc.	Ontario, Canada	Alliance Data Fluent Le Groupe Loyalty



<u>Subsidiary</u>	<u>Jurisdiction of Organization</u>	<u>Other Business Names</u>
LoyaltyOne, Inc.	Ohio	Loyalty & Marketing Services The Loyalty Group yourshops.ca Frequency Marketing, Inc.
Orcom Solutions, LLC	Delaware	Alliance Data Alliance Data Systems Alliance Data
Precima, Inc.	Delaware	None
Thunderball Acquisition I Inc.	Nova Scotia, Canada	None
Thunderball Acquisition II Inc.	Nova Scotia, Canada	None
WFN Credit Company, LLC	Delaware	None
World Financial Capital Bank	Utah	None
World Financial Network National Bank	Federal Charter	None

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-125770, 333-106246, 333-68134 and 333-65556 on Form S-8 of our reports dated February 26, 2007 (which report on the consolidated financial statements expressed an unqualified opinion and included an explanatory paragraph regarding the Company's change as of January 1, 2006, in its method of accounting for employee stock-based compensation), relating to the consolidated financial statements and financial statement schedule of Alliance Data Systems Corporation and management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Alliance Data Systems Corporation for the year ended December 31, 2006.

/s/ Deloitte & Touche LLP

Dallas, Texas

February 26, 2007

**CERTIFICATION OF THE  
CHIEF EXECUTIVE OFFICER  
OF  
ALLIANCE DATA SYSTEMS CORPORATION**

I, J. Michael Parks, certify that:

1. I have reviewed this annual report on Form 10-K of Alliance Data Systems Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2007

/s/ J. MICHAEL PARKS

J. Michael Parks  
Chief Executive Officer

**CERTIFICATION OF THE  
CHIEF FINANCIAL OFFICER  
OF  
ALLIANCE DATA SYSTEMS CORPORATION**

I, Edward J. Heffernan, certify that:

1. I have reviewed this annual report on Form 10-K of Alliance Data Systems Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2007

/s/ EDWARD J. HEFFERNAN

Edward J. Heffernan  
Chief Financial Officer

**CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER  
OF  
ALLIANCE DATA SYSTEMS CORPORATION**

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the annual report on Form 10-K for the year ended December 31, 2006 (the "Form 10-K") of Alliance Data Systems Corporation (the "Registrant").

I, J. Michael Parks, the Chief Executive Officer of the Registrant certify that to the best of my knowledge:

- (i) the Form 10-K fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: February 26, 2007

/s/ J. MICHAEL PARKS

Name: J. Michael Parks  
Chief Executive Officer

Subscribed and sworn to before me  
this 26<sup>th</sup> day of February, 2007.

/s/ JANE BAEDKE

Name: Jane Baedke  
Title: Notary Public

My commission expires:  
October 23, 2008

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF  
CHIEF FINANCIAL OFFICER  
OF  
ALLIANCE DATA SYSTEMS CORPORATION**

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the annual report on Form 10-K for the year ended December 31, 2006 (the "Form 10-K") of Alliance Data Systems Corporation (the "Registrant").

I, Edward J. Heffernan, the Chief Financial Officer of the Registrant certify that to the best of my knowledge:

- (i) the Form 10-K fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: February 26, 2007

/s/ EDWARD J. HEFFERNAN

Name: Edward J. Heffernan  
Chief Financial Officer

Subscribed and sworn to before me  
this 26th day of February, 2007.

/s/ JANE BAEDKE

Name: Jane Baedke  
Title: Notary Public

My commission expires:  
October 23, 2008

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained  
by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.