AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 4, 2001

REGISTRATION NO. 333-94623

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 7
TO

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ALLIANCE DATA SYSTEMS CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	7374	31-1429215
(State or Other Jurisdiction of Incorporation or Organization)	(Primary standard industrial classification code number)	(I.R.S. Employer Identification Number)

17655 WATERVIEW PARKWAY
DALLAS, TEXAS 75252
TELEPHONE: (972) 348-5100

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

J. MICHAEL PARKS
CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICER AND PRESIDENT
17655 WATERVIEW PARKWAY
DALLAS, TEXAS 75252
TELEPHONE: (972) 348-5100

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

WITH A COPY TO:

TERRY M. SCHPOK, P.C.	KENNETH M. DORAN, ESQ.
Akin, Gump, Strauss, Hauer & Feld, L.L.P.	Gibson, Dunn & Crutcher LLP
1700 Pacific Avenue, Suite 4100	333 South Grand Avenue
Dallas, Texas 75201	Los Angeles, California 90071
Telephone: (214) 969-2800	Telephone: (213) 229-7000
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE ON OR AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. / /

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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SUBJECT TO COMPLETION, DATED MAY 4, 2001

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

13,000,000 SHARES

[LOGO]

COMMON STOCK

This is an initial public offering of 13,000,000 shares of our common stock. We anticipate the initial public offering price will be between $12.00 and $14.00 per share. We are selling all the shares offered under this prospectus.

Our common stock has been approved for listing, subject to official notice of issuance, on the New York Stock Exchange under the symbol "ADS."

SEE "RISK FACTORS" BEGINNING ON PAGE 7 TO READ ABOUT RISKS THAT YOU SHOULD CONSIDER BEFORE BUYING SHARES OF OUR COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PER SHARE	TOTAL
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

The underwriters may purchase up to an additional 1,950,000 shares of our common stock from us at the initial public offering price less the underwriting discounts, solely to cover over-allotments.

The underwriters are severally underwriting the shares being offered. Bear, Stearns & Co. Inc. expects to deliver the shares in New York, New York on , 2001.

BEAR, STEARNS & CO. INC. MERRILL LYNCH & CO.

CREDIT SUISSE FIRST BOSTON

THE DATE OF THIS PROSPECTUS IS , 2001.

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PROSPECTUS SUMMARY

THIS SUMMARY CONTAINS BASIC INFORMATION ABOUT US AND THE OFFERING. BECAUSE IT IS A SUMMARY, IT DOES NOT CONTAIN ALL THE INFORMATION THAT YOU SHOULD CONSIDER BEFORE INVESTING. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY, INCLUDING THE RISK FACTORS AND OUR FINANCIAL STATEMENTS AND THE RELATED NOTES TO THOSE STATEMENTS INCLUDED IN THIS PROSPECTUS.

OUR COMPANY

We are a leading provider of transaction services, credit services and marketing services to retail companies in North America. We focus on facilitating and managing electronic transactions between our clients and their customers through multiple distribution channels including in-store, catalog and the Internet. Our credit and marketing services assist our clients in identifying and acquiring new customers, as well as helping to increase the loyalty and profitability of their existing customers.

We have a client base in excess of 300 companies, comprised mostly of specialty retailers, petroleum retailers, 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. The Limited, together with its retail affiliates, including Victoria's Secret Stores, Victoria's Secret Catalogue, Express, Lane Bryant, Bath & Body Works, Lerner New York, Henri Bendel and Structure, is our largest client, representing approximately 25.3% of our 2000 consolidated revenue.

OUR PRODUCTS AND SERVICES

Our products and services are centered around three core capabilities--Transaction Services, Credit Services and Marketing Services. We have traditionally marketed and sold our products and services on a stand-alone basis, but increasingly are marketing and selling them on a bundled and integrated basis. Our products and services and target markets are listed below.

SEGMENT	PRODUCTS AND SERVICES	TARGET MARKETS
TRANSACTION SERVICES	- Transaction Processing - Network Services - Merchant Bankcard Services - Account Processing and Servicing - Card Processing - Billing and Payment Processing - Customer Care	- Specialty Retail - Petroleum Retail - Regulated and De-regulated Utility - Mass Transit - Tollways - Parking
CREDIT SERVICES	- Private Label Receivables Financing - Underwriting and Risk Management - Merchant Processing - Receivables Funding	- Specialty Retail - Petroleum Retail
MARKETING SERVICES	- Loyalty Programs - Air Miles - One-to-One Loyalty - Database Marketing Services - Enhancement Services - Direct Marketing	- Specialty Retail - Petroleum Retail - Supermarkets - Financial Services - Regulated and De-regulated Utility

OUR MARKET OPPORTUNITY AND GROWTH STRATEGY

Our services are applicable to the full spectrum of commerce opportunities involving companies that sell products and services to individual consumers. Companies increasingly seek services that compile and analyze customer purchasing behavior, enabling them to more effectively communicate with their customers. The continuing shift to electronic payment systems generates valuable information on individual consumers and their purchasing preferences. Many retailers, however, lack the economies of scale and core competencies necessary to support their own transaction processing infrastructure or credit card or database operations. In addition, we see an increasing acceptance by companies to outsource the development and management of their marketing programs, such as loyalty programs and database marketing services.

Our current strategy to capitalize on these opportunities includes:

- increasing the penetration of our products and services to existing clients;
- expanding our client base in our existing market sectors;
- continuing to expand our services and capabilities to help our clients succeed in multi-channel commerce; and
- considering focused, strategic acquisitions and alliances to enhance our core capabilities or increase our scale.

OUR LIQUIDITY SOURCES

We finance our growth through cash from operations, issuing certificates of deposit through our credit card bank subsidiary, a $100.0 million revolving loan commitment and a securitization program. We utilize cash flow from operations, certificates of deposit and the revolving loan commitment to finance our operating activities and to fund credit enhancement and seller's interest in our securitizations. We finance substantially all our private label credit card receivables through a securitization program, which involves the packaging and selling of both current and future receivable balances of private label credit card accounts to a master trust. Our securitizations are treated as sales for accounting purposes and, accordingly, securitized receivables are removed from our balance sheet. We retain a residual interest in the trust that is commonly referred to as an "interest only strip".

OUR HISTORY AND OWNERSHIP

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 The Limited's credit card bank operation, World Financial Network National Bank. Since then, we have made several complementary portfolio and business acquisitions.

As of April 30, 2001, Welsh, Carson, Anderson & Stowe beneficially owned approximately 74.3% of our common stock, and The Limited, through its wholly owned subsidiary Limited Commerce Corp., beneficially owned approximately 25.3% of our common stock. After this offering, Welsh Carson will have the right to designate up to three nominees for election to our board of directors and Limited Commerce Corp. will have the right to designate up to two nominees, depending on their continued ownership of our common stock above minimum thresholds.

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

THE OFFERING

Common stock offered.....	13,000,000 shares
Common stock to be outstanding after the offering.....	70,936,136 shares
Use of proceeds.....	We intend to use approximately $100.8 million of the net proceeds from the offering to repay outstanding debt, and the balance for general corporate purposes, including potential acquisitions and working capital.
Proposed New York Stock Exchange symbol.....	"ADS"

Unless otherwise indicated, all information in this prospectus:

- gives effect to the 1-for-9 reverse stock split of our common stock effected on March 15, 2000; and

- assumes the conversion of all outstanding shares of our Series A cumulative convertible preferred stock into common stock. As of April 30, 2001, these shares of Series A preferred stock were convertible into 10,273,990 shares of common stock, assuming an initial public offering price of $13.00 per share.

The number of shares of common stock described as being outstanding after this offering excludes up to:

- 4,351,105 shares that we may issue upon the exercise of stock options outstanding as of April 30, 2001 at a weighted average exercise price of $12.43 per share;

- 3,698,743 additional shares that we may issue under our stock option and restricted stock plan;

- 1,500,000 shares that we may issue under our employee stock purchase plan; and

- 1,950,000 additional shares that we may issue upon exercise of the underwriters' over-allotment option.

SUMMARY CONSOLIDATED FINANCIAL DATA

In connection with your review of the summary consolidated financial data you should consider the following information for a better understanding of the data presented:

RECAST 1998. Prior to December 31, 1998, our fiscal year was based on a 52/53-week fiscal year ending on the Saturday closest to January 31. We have since changed our fiscal year end to December 31. In order to provide a better basis of comparison to our results for 1999 and 2000, we have recast our historical operating results to a calendar year basis for the year ended December 31, 1998. In our opinion, the recast historical financial information reflects all normal recurring adjustments necessary for a fair presentation of such financial information.

QUARTERLY INFORMATION. The summary consolidated financial data for the three months ended March 31, 2000 and 2001 have been derived from our unaudited consolidated financial statements, which are included in this prospectus and which, in our opinion, reflect all adjustments, consisting only of adjustments of a normal and recurring nature, necessary for a fair presentation. Results for the three months ended March 31, 2001 are not necessarily indicative of results for the full year.

PRO FORMA INFORMATION. We have also included unaudited pro forma information for 2000. The data contained in the pro forma column give effect to the Utilipro acquisition as if it had been consummated on January 1, 2000. The supplemental pro forma loss per share data give effect to the conversion of all outstanding Series A preferred shares and the exercise of all outstanding warrants as if the conversion and the exercise had occurred at the beginning of the period. The pro forma as adjusted data give effect to this offering as if it occurred on March 31, 2001. The unaudited pro forma data do not purport to present what our results of operations or financial position would actually have been, or to project our results of operations or financial position for any future period. You should read the following pro forma information along with the information contained throughout this prospectus, including the financial statements and the related notes that are included in this prospectus.

USE OF OPERATING EBITDA. Other financial data include operating EBITDA, which is equal to operating income plus depreciation and amortization and the change in deferred revenue less the change in redemption settlement assets. We have presented operating EBITDA because we use it to monitor compliance with the financial covenants in our amended credit agreement, such as debt-to-operating EBITDA, interest coverage ratios and minimum operating EBITDA. We also use operating EBITDA as an integral part of our internal reporting to measure the performance and liquidity of our reportable segments. In addition, we believe operating EBITDA eliminates the uneven effect across all segments of considerable amounts of non-cash amortization of purchased intangibles recognized in business combinations accounted for under the purchase method. Operating EBITDA is not intended to be a performance measure 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 the statement of cash flows as a measure of liquidity. In addition, operating EBITDA is 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 generally accepted accounting principles. The operating EBITDA measure presented in this prospectus may not be comparable to similarly titled measures presented by other companies.

	HISTORICAL					PRO FORMA	
	(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)						
	FOR THE YEARS ENDED DECEMBER 31,			FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,	FOR THE THREE MONTHS ENDED MARCH 31,
	ACTUAL						
	RECAST 1998	1999	2000	2000	2001	2000	2001
	(UNAUDITED)			(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
INCOME STATEMENT DATA							
Total revenue	$ 451,537	$ 583,082	$ 678,195	$ 165,547	$ 180,692	$695,927	$184,832
Cost of operations	360,875	466,856	547,985	134,571	143,258	572,605	147,275
General and administrative	23,364	35,971	32,201	7,505	9,333	32,201	9,333
Depreciation and other amortization	8,782	16,183	26,265	5,997	6,367	27,526	6,741
Amortization of purchased intangibles	46,977	61,617	49,879	13,795	11,113	51,560	11,393
Total expenses	439,998	580,627	656,330	161,868	170,071	683,892	174,742
Operating income	11,539	2,455	21,865	3,679	10,621	12,035	10,090
Other non-operating expense	--	--	2,477	2,476	--	2,477	--
Interest expense	29,295	42,785	38,870	8,776	9,635	40,642	9,930
Income tax expense (benefit)	(2,622)	(6,538)	1,841	716	933	(2,162)	611
Income (loss) from continuing operations	(15,134)	(33,792)	(21,323)	(8,289)	53	(28,922)	(451)
Income (loss) from discontinued operations, net of taxes	(3,948)	7,688	--	--	--	--	--
Loss on disposal of discontinued operations, net of taxes	--	(3,737)	--	--	--	--	--
Net income (loss)	$ (19,082)	$ (29,841)	$ (21,323)	$ (8,289)	$ 53	$(28,922)	(451)
Loss per share from continuing operations--basic and diluted	$ (0.37)	$ (0.78)	$ (0.60)	$ (0.21)	$ (0.04)	$ (0.76)	$ (0.05)
Loss per share--basic and diluted	$ (0.46)	$ (0.70)	$ (0.60)	$ (0.21)	$ (0.04)	$ (0.76)	$ (0.05)
Weighted average shares used in computing per share amounts--basic and diluted	41,308	47,498	47,538	47,529	47,568	47,538	47,568
Supplemental pro forma loss per share from continuing operations--basic and diluted						$ (0.51)	$ (0.01)
Supplemental pro forma loss per share--basic and diluted						$ (0.51)	$ (0.01)
Weighted average shares used in computing supplemental pro forma per share amounts--basic and diluted						56,936	56,966
OTHER FINANCIAL DATA							
Calculation of Operating EBITDA:							
Operating income	$ 11,539	$ 2,455	$ 21,865	$ 3,679	$ 10,621	$ 12,035	10,090
Depreciation and other amortization	8,782	16,183	26,265	5,997	6,367	27,526	6,741
Amortization of purchased intangibles	46,977	61,617	49,879	13,795	11,113	51,560	11,393
EBITDA	67,298	80,255	98,009	23,471	28,101	91,121	28,224
Plus change in deferred revenue	20,729	91,149	40,845	10,794	13,244	40,845	13,244
Less change in redemption settlement assets	11,838	63,472	18,357	3,337	6,163	18,357	6,163
Operating EBITDA	$ 76,189	$ 107,932	$ 120,497	$ 30,928	$ 35,182	$113,609	35,305
Operating EBITDA as a percentage of revenue	16.9%	18.5%	17.8%	18.7%	19.5%	16.3%	19.1%
SEGMENT OPERATING DATA							
Transactions processed	1,134,902	1,839,857	2,519,535	566,275	629,131		
Statements generated	130,895	132,817	127,217	34,333	31,921		
Average securitized portfolio	$1,898,851	$2,004,827	$2,073,574	$2,139,647	$2,214,044		
Credit sales	$3,049,151	$3,132,520	$3,685,069	$ 755,114	$ 780,429		

Air Miles reward miles issued.....	611,824	1,594,594	1,927,016	432,252	524,237
Air Miles reward miles redeemed.....	158,281	529,327	781,823	162,312	192,023

	AS OF DECEMBER 31,			AS OF MARCH 31,	
	1998	1999	2000	2001	2001 PRO FORMA AS ADJUSTED
				(UNAUDITED)	
	(AMOUNTS IN THOUSANDS)				
BALANCE SHEET DATA					
Cash and cash equivalents	$ 47,036	$ 56,546	$ 116,941	$ 58,756	$ 111,353
Credit card receivables and seller's interest	139,458	150,804	137,865	125,013	125,013
Redemption settlement assets, restricted	70,178	133,650	152,007	158,171	158,171
Intangibles and goodwill, net	362,797	493,609	444,549	457,011	457,011
Total assets	1,075,707	1,301,263	1,420,606	1,304,832	1,355,928
Deferred revenue--service and redemption	158,192	249,341	290,186	303,430	303,430
Certificates of deposit and other receivables funding debt	147,984	116,900	139,400	119,700	119,700
Long-term and subordinated debt	332,000	318,236	296,660	294,575	193,750
Total liabilities	780,902	921,791	1,058,215	952,609	851,784
Series A preferred stock	--	119,400	119,400	119,400	--
Total stockholders' equity	294,805	260,072	242,991	232,823	504,144

RISK FACTORS

BEFORE MAKING AN INVESTMENT DECISION, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISKS. THE RISKS DESCRIBED BELOW ARE NOT THE ONLY ONES THAT WE FACE. ANY OF THE FOLLOWING RISKS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION AND OPERATING RESULTS. ADDITIONAL RISKS AND UNCERTAINTIES OF WHICH WE ARE UNAWARE OR CURRENTLY BELIEVE ARE IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE DUE TO ANY OF THESE RISKS, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT IN OUR COMMON STOCK. BEFORE MAKING AN INVESTMENT DECISION, YOU SHOULD ALSO READ THE OTHER INFORMATION INCLUDED IN THIS PROSPECTUS, INCLUDING OUR FINANCIAL STATEMENTS AND THE RELATED NOTES.

RISKS RELATED TO GENERAL BUSINESS OPERATIONS

TEN CLIENTS WERE RESPONSIBLE FOR 63% OF OUR CONSOLIDATED REVENUES LAST YEAR, 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 were responsible for approximately 63% of our consolidated revenue during the year ended December 31, 2000, with The Limited and its retail affiliates representing approximately 25% of our 2000 consolidated revenue. 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.

TRANSACTION SERVICES. Our 10 largest clients in this segment were responsible for approximately 71% of our Transaction Services revenue in 2000. The Limited and its retail affiliates were the largest Transaction Services client in 2000, representing approximately 28% of this segment's 2000 revenue, and Brylane, our second largest Transaction Services client, was responsible for approximately 10% of this segment's 2000 revenue. Equiva Services, LLC was responsible for approximately 8% of this segment's 2000 revenue. Our contracts with The Limited and its retail affiliates and Brylane expire in 2006, and our contract with Equiva expires in December 2001.

We provide transaction processing services to Equiva which is the service provider to Shell-branded locations in the United States. Equiva is one of our 10 largest clients both in the Transaction Services segment and on a consolidated basis. We have been informed by Equiva that it would like to discontinue a portion of the services we currently provide effective upon termination of the existing contract in December 2001. As a result of this termination, our revenue and profitability attributable to Equiva for periods beyond 2001 will decrease. We are now in the process of negotiating with Equiva regarding the other services we currently provide. We can give no assurance that we will successfully reach an agreement with Equiva on similar terms to those currently existing, or at all. If our negotiations with Equiva result in a decrease in pricing or in the number and types of the transaction services we provide to Equiva, our revenue and profitability from Equiva would be further adversely affected.

CREDIT SERVICES. Our two largest clients in this segment were responsible for approximately 80% of our Credit Services revenue in 2000. The Limited and its retail affiliates were responsible for approximately 59%, and Brylane was responsible for approximately 21%, of our Credit Services revenue in 2000. Our contracts with these clients expire in 2006. The Limited is currently planning a restructuring involving some of its retail affiliates. The proposed restructuring would involve a sale of Lane Bryant and the integration of Structure into the Express brand name as Express Men's. While we have a contract with Lane Bryant through 2006, we cannot assure you that an acquirer of Lane Bryant would assume the credit card processing agreement that we currently have with Lane Bryant or that the acquirer would continue Lane Bryant's marketing strategy of utilizing private label credit cards. The integration of Structure into Express could lead to the closing of stores and the name change could adversely impact credit sales causing lower revenues for our Credit Services segment.

MARKETING SERVICES. Our 10 largest clients in this segment were responsible for approximately 61% of our Marketing Services revenue in 2000. Bank of Montreal, Canada Safeway and The Limited and its retail affiliates were the three largest Marketing Services clients in 2000. The Bank of Montreal represented approximately 27%, Canada Safeway represented approximately 10% and The Limited and its retail affiliates represented approximately 7% of this segment's 2000 revenue. Our contracts with The Bank of Montreal and Canada Safeway expire in March 2002 and December 2002, respectively, and our contract with The Limited expires in September 2003.

OUR LARGEST CLIENT, THE LIMITED, IS A SIGNIFICANT STOCKHOLDER, AND AS A RESULT IT HAS THE ABILITY TO INFLUENCE OUR CORPORATE AFFAIRS IN A MANNER THAT COULD BE INCONSISTENT WITH THE BEST INTERESTS OF OUR OTHER STOCKHOLDERS.

Eight of our clients are retail affiliates of Limited Commerce Corp., our second largest stockholder and a wholly owned subsidiary of The Limited. The Limited, together with its retail affiliates, is our largest client. Limited Commerce Corp. beneficially owned approximately 25.3% of our common stock as of April 30, 2001 and, through a stockholders agreement, has the right to designate up to two members of our board of directors. As a significant stockholder with board representation, The Limited, unlike our other clients, is able to exercise significant influence over matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. The interests of The Limited may not be aligned with the interests of our company or other stockholders. The Limited could use its influence as a major client and large stockholder to negotiate contracts with us that have terms that are more favorable to The Limited than could be obtained by unaffiliated retailers. In addition, The Limited could use its influence and could act to hinder our ability to enter into contracts with its competitors.

COMPETITION IN OUR INDUSTRY 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 nor can we be sure that we will be able to successfully market our services at our current levels of profitability.

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 rely on acceptance of the services that we offer. If demand for transaction, credit or marketing services decreases, the price of our common stock could fall and you could lose value in your investment. Loyalty and database marketing strategies are relatively new to retailers, and we cannot guarantee that merchants will continue to use these types of 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. Any decrease in the demand for our services for the reasons discussed above or other reasons could have a material adverse effect on our growth and revenue.

WE CANNOT ASSURE YOU THAT WE WILL EFFECTIVELY INTEGRATE FUTURE ACQUISITIONS, REALIZE THEIR FULL BENEFITS OR SUCCESSFULLY MANAGE OUR COMBINED COMPANY, AND FUTURE ACQUISITIONS MAY RESULT IN DILUTIVE EQUITY ISSUANCES OR INCREASES IN DEBT.

If we are unable to successfully integrate any future acquisition, 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, which could harm our ability to timely meet the needs of our customers and could damage our relationships with key clients.

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. If we incur additional debt, the related interest expense may significantly reduce our profitability. Additionally, we are likely to use purchase accounting for future acquisitions and the related amortization expense associated with goodwill and purchased intangibles may significantly reduce our profitability.

WE MAY FACE DAMAGES AS A RESULT OF LITIGATION IN CONNECTION WITH THE BANKRUPTCY PROCEEDINGS OF ONE OF OUR FORMER CUSTOMERS, SERVICE MERCHANDISE, AND A CLASS ACTION SUIT FILED ON BEHALF OF A GROUP OF WORLD FINANCIAL CARDHOLDERS.

World Financial, our wholly owned subsidiary, is a party to a lawsuit filed by Service Merchandise, Inc. in U.S. Bankruptcy Court for the Middle District of Tennessee. Service Merchandise, which is in voluntary Chapter 11 bankruptcy, alleges that World Financial breached certain contractual provisions of an agreement regarding a private label credit card program by, among other things, unilaterally revising the credit standards applicable to existing cardholders and withholding monthly program payments owed to Service Merchandise. In addition, Service Merchandise alleges that certain actions taken by World Financial violated the automatic stay provisions of the U.S. Bankruptcy Code. Service Merchandise has not specified the amount of damages that it is seeking and has asked that the amount of any such damages be determined at trial. In a separate action, a group of World Financial cardholders recently filed a putative class action complaint against World Financial in U.S. District Court for the Southern District of Florida, Miami Division, alleging that World Financial's billing practices are false, misleading and deceptive, and therefore in breach of state and federal laws and cardholder contracts. The plaintiff group of cardholders has not specified the amount of damages that it is seeking. The amount of such damages, if any, would be determined at trial. See "Business--Legal Proceedings." Due to the uncertainty inherent in litigation, we cannot provide assurance that an ultimate result against World Financial in either of these actions would not have a material adverse effect on us.

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 FROM CONSUMERS.

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 miles program, database marketing program and private label program, 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, database marketing or private label programs could decline if any well-publicized compromise of security occurred. Any public perception that we released consumer information without authorization could subject us to legal claims from consumers and adversely affect our client relationships.

LOSS OF DATA CENTER CAPACITY OR INTERRUPTION OF TELECOMMUNICATION LINKS COULD AFFECT OUR ABILITY TO TIMELY MEET THE NEEDS OF OUR CLIENTS AND THEIR CUSTOMERS.

Our ability to protect our data centers against damage 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 or any failure of our telecommunication links that

interrupts our operations could adversely affect our ability to meet our clients' needs and their confidence in utilizing us for future services.

AS A RESULT OF OUR SIGNIFICANT CANADIAN OPERATIONS, OUR REPORTED RESULTS 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 Loyalty Group operations in Canada, which transacts business in Canadian dollars. Therefore, our reported results from quarter-to-quarter will be affected by changes in the exchange rate between the U.S. and Canadian dollars over the relevant periods.

OUR HEDGING ACTIVITY SUBJECTS US TO OFF-BALANCE SHEET RISKS RELATING TO THE CREDITWORTHINESS OF THE COMMERCIAL BANKS WITH WHOM WE CONTRACT IN OUR HEDGING TRANSACTIONS. IF ONE OF THESE BANKS CANNOT HONOR ITS OBLIGATIONS, WE MAY SUFFER A LOSS.

The interest rate swap and treasury lock agreements we use to reduce our exposure to fluctuations in interest rates subject us to off-balance sheet risk. These off-balance sheet financial instruments involve elements of credit and interest rate risk in excess of the amount recognized on our balance sheet. Our hedging policy subjects us to risks relating to the creditworthiness of the commercial banks with whom we contract in our hedging transactions. If one of these banks cannot honor its obligations, we may suffer a loss. While our hedging policy reduces our exposure to losses resulting from unfavorable changes in interest rates, it also reduces or eliminates our ability to profit from favorable changes in interest rates.

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 material 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.

RISKS PARTICULAR TO TRANSACTION SERVICES

AN INABILITY TO FULLY AND EFFECTIVELY INTEGRATE THE RECENT ACQUISITIONS OF SPS AND UTILIPRO IN OUR TRANSACTION SERVICES SEGMENT COULD RESULT IN INCREASED COSTS WHILE DIVERTING MANAGEMENT'S ATTENTION FROM OUR CORE OPERATIONS, HARM OUR ABILITY TO TIMELY MEET THE NEEDS OF OUR CLIENTS AND DAMAGE OUR RELATIONSHIPS WITH THOSE CLIENTS.

We are currently in the process of integrating the network transaction processing business of SPS Payment Systems, Inc. we acquired in July 1999, and are beginning to integrate the Utilipro operating assets we acquired in February 2001. We expect the SPS integration process to continue through the

second quarter of 2001 and the Utilipro integration process to continue through the third quarter of 2001. Although the majority of the integration process of migrating the SPS systems to an in-house processing environment has proceeded as planned, there were a number of service disruptions that occurred in the first quarter of 2001 which resulted in an inefficient routing of transactions and a backlog of authorizations. We cannot assure you that we will be able to fully or successfully integrate SPS or Utilipro in a timely manner or at all. If we are unable to successfully integrate the Utilipro operations or successfully complete the SPS integration, we may incur substantial costs and delays or other operational, technical or financial problems, any of which could harm our business and adversely affect the trading price of our common stock. In addition, management's attention may be diverted from core operations which could harm our ability to timely meet the needs of our clients and their customers and damage our relationships with those clients.

WE ARE DEPENDENT UPON TRANSACTION NETWORK SOLUTIONS, INC., FORMERLY KNOWN AS PSINET TRANSACTION SOLUTIONS, FOR DATA TRANSMISSION SERVICES AND POINT-OF-SALE DIAL-UP TRANSMISSION SERVICES, AND ANY FAILURE OF TRANSACTION NETWORK SOLUTIONS TO PROVIDE THESE SERVICES COULD SIGNIFICANTLY DISRUPT OUR NETWORK SERVICES OR INCREASE OUR COSTS BY REQUIRING US TO OBTAIN DATA TRANSMISSION SERVICES FROM ANOTHER SUPPLIER.

We are dependent on Transaction Network Solutions for data transmission services and point-of-sale dial-up transmission services for our network services business. On April 3, 2001, an investor group led by GTCR Golder Rauner, LLC purchased Transaction Network Solutions from PSINet, Inc. PSINet has been experiencing significant liquidity and cash flow shortfalls that require the addition of substantial capital, the availability of which is uncertain. If PSINet were to declare bankruptcy, it is possible that parties to the bankruptcy proceeding could attempt to undo the sale of Transaction Network Solutions to Golder Rauner and seek to reject our contract with Transaction Network Solutions. In the event the sale is undone and our contract with Transaction Network Solutions rejected, we would be forced to utilize our backup supplier or another vendor for the contracted services. In the first half of 2001, we intend to complete the migration of a large percentage of our data and point-of-sale dial-up transmission needs for our network services business, representing a quarter of the transactions we processed in 2000, to Transaction Network Solutions. Given our dependence on Transaction Network Solutions, if it were to fail to perform its obligations or its services were otherwise interrupted, for financial or other reasons, we would have to transition the services to our current backup supplier or to another supplier. If this were to occur, any new contract we might enter into for the long-term provision of those services may be at a price and on terms substantially less favorable to us than the terms of our current arrangement.

IF A CARDHOLDER HAS A DISPUTE WITH A MERCHANT OR IF A CARDHOLDER IS A VICTIM OF A FRAUDULENT TRANSACTION WITH A MERCHANT, WE MAY BE LIABLE FOR THE AMOUNT OF ANY CHARGES RELATED TO SUCH DISPUTE OR TRANSACTION IN THE EVENT WE ARE NOT REIMBURSED FOR SUCH CHARGES BY THE MERCHANT.

In our merchant bankcard services business, when a billing dispute between a cardholder and a merchant is resolved in favor of the cardholder, or when a card issuer detects fraudulent transactions submitted by a merchant, we "charge back" to the merchant the amount we originally credited to the merchant. We then credit the amount of the transaction back to the cardholder's account. These billing disputes or chargebacks typically relate to, among others:

- the cardholder's nonreceipt of merchandise or services;
- unauthorized use of a credit card; or
- general disputes between a cardholder and a merchant as to the quality of the goods purchased or the services rendered by the merchant.

If we are unable to collect amounts charged back to a merchant's account, and if the merchant refuses or is unable to reimburse us for the chargeback, we incur a loss equal to the amount of the chargeback.

We cannot assure you that we will not experience significant losses from chargebacks in the future. Such significant losses could arise from merchant bankruptcies or other reasons which reduce the likelihood that we will be reimbursed for chargebacks. Any significant chargeback losses in a period would have a material adverse effect on our profitability.

IF WE ARE REQUIRED TO PAY STATE TAXES ON TRANSACTIONS 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 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 owned by our credit card bank, World Financial, to World Financial Network Credit Card Master Trust as part of our securitization program. This securitization program is the primary vehicle through which World Financial finances our private label credit card receivables. If World Financial 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.

World Financial'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.

Once World Financial 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's interest in the related receivables, along with the excess interest income that would normally be paid to World Financial, until such time as the securization 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 EXPECTATIONS COULD HAVE A NEGATIVE IMPACT ON OUR OPERATING INCOME AND PROFITABILITY; AS THE AVERAGE AGE OF OUR SECURITIZED LOAN PORTFOLIO INCREASES, WE WILL LIKELY EXPERIENCE INCREASING LEVELS OF DELINQUENCY AND LOAN LOSSES.

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 among consumers.

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 credit card receivables and the average age of our various credit card account portfolios. The average age of credit card receivables affects the stability of delinquency and loss rates of the portfolio because delinquency and loss rates typically increase as the average age of accounts in a credit card portfolio increases. At March 31, 2001, 19.2% of our securitized accounts and 38.6% of our securitized loans were less than 24 months old. We believe that our credit card loan portfolio will experience increasing levels of delinquency and loan losses as the average age of our accounts increases. For the three months ended March 31, 2001, our securitized net charge-off ratio was 7.9% compared to 7.6% for the three months ended March 31, 2000. Our securitized net charge-off ratio was 7.6% for 2000 compared to 7.2% for 1999 and 7.8% for 1998. We believe that this ratio will continue to fluctuate but generally rise over time as the average age of our accounts increases. Also, we cannot assure you that our risk-based 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 expectations could have a material adverse impact on us and the value of our net retained interests in loans that we sell though securitizations.

CHANGES IN THE AMOUNT OF PREPAYMENTS 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. Prepayments represent principal reductions in excess of the contractually scheduled reductions. 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 prepayments 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 prepayments to increase, thereby requiring a write down of the interest only strips. If prepayments 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.

INTEREST RATE FLUCTUATIONS COULD SIGNIFICANTLY REDUCE THE AMOUNT WE REALIZE FROM THE SPREAD BETWEEN THE YIELD ON OUR ASSETS AND OUR COST OF FUNDING.

An increase or decrease in market interest rates could have a negative impact on the amount we realize from the spread between the yield on our assets and our cost of funding. A rise in market interest rates may indirectly impact the payment performance of consumers or the value of, or amount we could realize from the sale of, interest only strips. At March 31, 2001, approximately 9.2% of our outstanding debt was subject to fixed rates with a weighted average interest rate of 8.3%. An additional 55.3% of our outstanding debt at March 31, 2001 was locked at an effective interest rate of 6.7% through interest rate swap agreements and treasury locks with notional amounts totaling $1.5 billion. Assuming we do not take any counteractive measures, a 1.0% increase in interest rates would result in a decrease to pretax income of approximately $8.6 million. Conversely, a corresponding decrease in interest rates would result in a comparable improvement to pretax income. The foregoing sensitivity analysis is limited to the potential impact of an interest rate swing 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 PRIVATE LABEL 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 private label card operations to come from the acquisition of existing private label programs and initiating private label programs with retailers who do not currently offer a private label 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 private label programs may result in defaults greater than our expectations and could have a material adverse impact on us and the value of our net retained interests in loans 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 customers, 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 material 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 material adverse effect on our ability to collect our receivables and generate fees on the receivables, thereby adversely affecting our profitability.

IF OUR BANK SUBSIDIARY FAILS TO MEET CREDIT CARD 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 BUSINESS ACTIVITIES AND THUS CAUSE A DRASTIC REDUCTION IN OUR PROFITS AND REVENUE.

Our bank subsidiary, World Financial, is a limited purpose credit card bank. The Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation, insures the deposits of World Financial. World Financial 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 extensions of credit;

- it maintains only one office that accepts deposits; and

- it does not engage in the business of making commercial loans.

If World Financial failed to meet the credit card bank criteria described above, World Financial would be a "bank" as defined by the Bank Holding Company Act, subjecting us to regulation under the Bank Holding Company Act. Being deemed a bank holding company could significantly harm us, as we could be required to either divest any activities deemed to be non-banking activities or cease any activities not permissible for a bank holding company and its affiliates.

While the consequences of being subject to regulation under the Bank Holding Company Act would be severe, we believe that the risk of becoming subject to such regulation is minimal as a result of the precautions we have taken in structuring our business.

RISKS PARTICULAR TO MARKETING SERVICES

BECAUSE WE ARE DEPENDENT UPON AIR CANADA, THE DOMINANT DOMESTIC AIR CARRIER IN CANADA, AS A SUPPLIER OF AIRLINE TICKETS FOR OUR AIR MILES REWARD MILES PROGRAM, WE MAY NOT BE ABLE TO MEET THE NEEDS OF OUR COLLECTORS IF THE CAPACITY MADE AVAILABLE TO US BY AIR CANADA IS INADEQUATE TO MEET OUR COLLECTORS' DEMANDS.

Air Canada completed its acquisition of Canadian Airlines in July 2000 and thereby solidified its position as the dominant Canadian domestic airline. Air Canada has merged the operations of Canadian Airlines and consolidated routes resulting in the reduction of routes, flights and seats offered by the merged airline. As a result of the acquisition, we entered into a new supply agreement with Air Canada that runs through 2004, superseding our prior agreement with Canadian Airlines. Notwithstanding our agreement with Air Canada, we cannot predict what impact route consolidation or elimination or changes in the merged airline's operations will have on our ability to satisfy and retain active collectors and sponsors of the Air Miles reward miles program.

The new supply agreement with Air Canada contains reductions in the guarantee related to the number of tickets available at contractual rates on certain routes after December 31, 2002. Once these capacity guarantees on certain routes are reduced in 2003, we may be required to meet the demands of collectors by purchasing tickets from other carriers. These tickets could be more expensive than a comparable ticket under the Air Canada agreement, and the routes offered by the other airlines may be inconvenient or undesirable to the redeeming collectors. As a result, we may experience higher air travel redemption costs in 2003 and 2004 than we are currently experiencing, while at the same time collector satisfaction with the Air Miles reward miles program may be adversely affected by requiring travel on other carriers on certain routes.

IF ACTUAL REDEMPTIONS BY COLLECTORS OF AIR MILES REWARD MILES ARE GREATER THAN EXPECTED, OUR REVENUES AND 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. While our Air Miles reward miles currently do not expire, 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 revenues and profitability could be adversely affected.

THE LOSS OF OUR MOST ACTIVE AIR MILES REWARD MILES COLLECTORS COULD NEGATIVELY IMPACT OUR GROWTH AND PROFITABILITY.

Our most active Air Miles reward miles collectors represent a disproportionately large percentage of our Air Miles reward program revenue. Over the past year, we estimate that over half of the Air Miles reward program revenues came from our most active Air Miles reward miles collectors. 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.

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 legislation or industry regulations arising from public concern over consumer privacy issues could have a material 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.

The Gramm-Leach-Bliley Act, which became law in November 1999, makes it more difficult to collect and use information that has been legally available and may increase our costs of collecting some data. New regulations under this act that take effect in July 2001 will 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. Once the regulations take effect, we will need to refrain from using data generated by our existing cardholders and new cardholders until such cardholders are given the opportunity to opt out.

Similarly, the Personal Information Protection and Electronic Documents Act enacted in Canada 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. The Loyalty Group allows its customers to voluntarily "opt out" from either promotional mail or electronic mail. Heightened consumer awareness of, and concern about, privacy may encourage more customers to "opt out" at higher rates than they have historically. This would mean that a reduced number of customers would receive bonus mile offers and therefore would collect fewer Air Miles reward miles.

RISKS RELATED TO OUR COMPANY

SOME OF OUR STOCKHOLDERS CURRENTLY OWN, AND AFTER THE OFFERING WILL CONTINUE TO OWN, A SIGNIFICANT AMOUNT OF OUR COMMON STOCK. THESE STOCKHOLDERS MAY HAVE INTERESTS THAT CONFLICT WITH YOURS AND WOULD BE ABLE TO CONTROL THE ELECTION OF DIRECTORS AND THE APPROVAL OF SIGNIFICANT CORPORATE TRANSACTIONS, INCLUDING A CHANGE IN CONTROL.

As of April 30, 2001, Limited Commerce Corp. and the affiliated entities of Welsh, Carson, Anderson & Stowe in the aggregate beneficially owned approximately 99.6% of our outstanding common stock and would have owned approximately 81.4% of our common stock as of that date after giving pro forma effect to this offering. Through a stockholders agreement, Limited Commerce Corp. has the right to designate up to two members of our board of directors and Welsh Carson has the ability to designate up to three members of our board of directors. As a result, these stockholders are able to exercise significant influence over, and in most cases control, matters requiring stockholder approval, including the election of directors, changes to our charter documents and significant corporate transactions. This concentration of ownership makes it unlikely that any other holder or group of holders of common stock will be able to affect the way we are managed or the direction of our business. Limited Commerce Corp. and Welsh Carson may have interests that conflict with the interests of our company or other stockholders. Their continued concentrated ownership after the offering will make it impossible for another company to acquire us and for you to receive any related takeover premium for your shares unless they approve the acquisition.

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 provisions 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 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.

RISKS RELATED TO THIS OFFERING

IF THE PRICE OF OUR COMMON STOCK FLUCTUATES SIGNIFICANTLY, YOUR INVESTMENT COULD LOSE VALUE.

Prior to this offering, there has been no public market for our common stock. Although our common stock has been approved for listing, subject to official notice of issuance, on the New York Stock Exchange, we cannot assure you that an active public market will develop for our common stock or that our common stock will trade in the public market subsequent to this offering at or above the initial public offering price. If an active public market for our common stock does not develop, the trading price and liquidity of our common stock will be materially and adversely affected. Negotiations between us and the underwriters will determine the initial offering price, which may not be indicative of the trading price for our common stock after this offering. In addition, the stock market is subject to significant price and volume fluctuations, and the price of our common stock could fluctuate widely in response to several factors, including:

- our quarterly operating results;
- changes in our earnings estimates;
- additions or departures of key personnel;
- changes in the business, earnings estimates or market perceptions of our competitors;
- changes in general market or economic conditions; and
- announcements of legislative or regulatory change.

The stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies, including companies in our industry. The changes often appear to occur without regard to specific operating performance. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company and these fluctuations could materially reduce our stock price.

FUTURE SALES OF OUR COMMON STOCK MAY ADVERSELY AFFECT OUR COMMON STOCK PRICE.

If a large number of shares of our common stock are sold in the open market after this offering, the trading price of our common stock could decrease. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional common stock. After this offering, we will have an aggregate of 118,810,864 shares of our common stock authorized but unissued and not reserved for specific purposes. In general, we may issue all of these shares without any action or

approval by our stockholders. We may pursue acquisitions of competitors and related businesses and may issue shares of our common stock in connection with these acquisitions.

Upon consummation of the offering, we will have 70,936,136 shares of our common stock outstanding. Of these shares, all shares sold in the offering, other than shares, if any, purchased by our affiliates, will be freely tradable. Of the remaining 57,936,136 shares, 72,013 shares will be freely transferable and 57,864,123 shares will be "restricted securities" as that term is defined in Rule 144 under the Securities Act.

We have reserved 1,500,000 shares of common stock for issuance under our employee stock purchase plan. We have also reserved 8,753,000 shares of our common stock for issuance under our stock option and restricted stock plan, of which 4,351,105 shares are issuable upon exercise of options granted as of April 30, 2001, including options to purchase 1,731,787 shares exercisable as of April 30, 2001 or that will become exercisable within 60 days after April 30, 2001. The sale of shares issued upon the exercise of currently outstanding stock options could further dilute your investment in our common stock and adversely affect our stock price.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. 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 "Risk Factors" and elsewhere in this prospectus.

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 prospectus 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. You should specifically consider the factors identified under "Risk Factors" and elsewhere in this prospectus which could cause actual results to differ before making an investment decision.

USE OF PROCEEDS

We estimate that the net proceeds from our sale of 13,000,000 shares of our common stock in this offering will be approximately $153.4 million, or $178.9 million if the underwriters exercise their over-allotment option in full, assuming an initial public offering price of $13.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses. We intend to use the net proceeds as follows:

- approximately $100.8 million to repay debt outstanding under our $330.0 million credit facility, which we entered into in July 1998, consisting of approximately $90.8 million to repay in full the outstanding balance of a term loan and $10.0 million to repay the outstanding balance of the revolving loan commitment;

- approximately $668,000 to repurchase from JCP Telecom Systems, Inc. a warrant for 167,084 shares of our common stock at an exercise price of $9.00 per share; and

- the balance, approximately $51.9 million, for potential acquisitions and general corporate purposes, including working capital and capital expenditures.

Pending such uses, we intend to invest the net proceeds in short-term interest-bearing, investment-grade instruments, such as certificates of deposit or direct or guaranteed obligations of U.S. government agencies.

The term loan and the revolving loan commitment to be repaid bear interest at floating rates based on the prime rate, the Federal funds rate for a base rate loan plus 50 basis points, or LIBOR plus the applicable Euro-dollar margin, as selected by us from time to time. At March 31, 2001, the effective interest rate on the term loan was 7.6% and the effective interest rate on the outstanding amount of the revolving loan commitment was 9.1%. The term loan matures in installments through July 25, 2003, and the revolving loan commitment matures on July 25, 2003.

Although we are currently considering acquisition candidates in the transaction services field and we continue to monitor and evaluate acquisition opportunities on an ongoing basis, we have no present agreements, commitments or understandings with respect to the acquisition of any business at this time. The amounts and timing of our expenditures for general corporate purposes will vary depending on a number of factors, including the amount of cash generated or used by our operations, competitive and technological developments and the rate of growth of our business. As a result, we will retain broad discretion in the allocation of the net proceeds of this offering.

DIVIDEND POLICY

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 agreement, we cannot declare or pay dividends or return capital to our common stockholders, nor can we authorize or make any other distribution, payment or delivery of property or cash to our common stockholders.

DILUTION

Our pro forma net deficit in tangible book value as of March 31, 2001 was approximately $92.3 million, or approximately $1.59 per share of common stock, after giving effect to the conversion of all our outstanding shares of Series A preferred stock into common stock. Pro forma net deficit in tangible book value per share represents the amount of tangible assets, less intangibles assets and goodwill and total liabilities, divided by the number of shares of common stock outstanding, after giving effect to the conversion of all our outstanding shares of Series A preferred stock into common stock.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of our common stock in this offering and the pro forma net tangible book value per share of our common stock immediately after the offering. After giving effect to our sale of 13,000,000 shares of common stock in this offering at an assumed initial public offering price of $13.00 per share and after deduction of the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of March 31, 2001 would have been approximately $70.9 million, or $0.84 per share. This represents an immediate increase in pro forma net tangible book value to existing stockholders attributable to new investors of $2.43 per share and the immediate dilution of $12.16 per share to new investors.

Assumed initial public offering price per share.....		$13.00
Pro forma net deficit in tangible book value per share before offering.....	$(1.59)	
Increase per share attributable to new investors.....	2.43	
Pro forma as adjusted net tangible book value per share after the offering.....		0.84
Dilution per share to new investors.....		$12.16

The following table sets forth as of March 31, 2001, after giving effect to the conversion of all our outstanding shares of Series A preferred stock into common stock, the total consideration paid and the average price per share paid by our existing stockholders and by new investors, before deducting underwriting discounts and commissions and estimated offering expenses payable by us at an assumed initial public offering price of $13.00 per share.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
	(AMOUNTS IN THOUSANDS)				
Existing stockholders.....	57,936	81.7%	$346,115	67.2%	$ 5.97
New investors.....	13,000	18.3	169,000	32.8	13.00
Total.....	70,936	100.0%	$515,115	100.0%	

This table does not reflect shares issued upon the exercise of stock options after March 31, 2001. As of March 31, 2001, there were outstanding options to purchase a total of 4,384,576 shares of common stock at a weighted average exercise price of $12.43 per share and 8,753,000 shares of common stock reserved for issuance under our stock option and restricted stock plan. If all options outstanding as of March 31, 2001 were exercised on the date of the closing of the offering, new investors purchasing shares in this offering would suffer dilution per share of $12.21.

CAPITALIZATION

Capitalization is the amount invested in a company and is a common measurement of a company's size. The table below shows our capitalization as of March 31, 2001:

- on an actual basis;
- on a pro forma basis to reflect the conversion of all of our Series A preferred stock into common stock; and
- on a pro forma as adjusted basis to give effect to the sale of the 13,000,000 shares of our common stock offered by this prospectus at an assumed initial public offering price of $13.00 per share and the application of the net proceeds from the sale, having deducted underwriting discounts and commissions and estimated offering expenses.

You should read this table in conjunction with the consolidated financial statements and related notes that are included in this prospectus.

	AS OF MARCH 31, 2001		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Cash and cash equivalents	$ 58,756	$ 58,756	$111,353
Certificates of deposit	$ 99,400	$ 99,400	$ 99,400
Current portion of term debt and revolving loan commitment	44,125	44,125	4,125
Total short-term debt	$143,525	$143,525	$103,525
Long-term debt, excluding current portion:			
Certificates of deposit	$ 20,300	$ 20,300	$ 20,300
Term debt	148,450	148,450	87,625
Subordinated notes	102,000	102,000	102,000
Total long-term debt	270,750	270,750	209,925
Series A cumulative convertible preferred stock, $0.01 par value; 120 shares authorized, issued and outstanding, actual; none issued or outstanding, pro forma and pro forma as adjusted	119,400	--	--
Stockholders' equity:			
Common stock, $0.01 par value; 200,000 shares authorized, actual, pro forma and pro forma as adjusted; 47,662 shares issued and outstanding, actual; 57,936 shares issued and outstanding, pro forma; 70,936 shares issued and outstanding, pro forma as adjusted	477	580	710
Additional paid-in capital	227,829	347,126	500,418
Retained earnings	16,423	16,423	14,923
Accumulated other comprehensive loss	(11,906)	(11,906)	(11,906)
Total stockholders' equity	232,823	352,223	504,145
Total capitalization	$622,973	$622,973	$714,070

At the closing of this offering, as set forth in an agreement between us and JCP Telecom Systems, Inc., a holder of a warrant to purchase 167,084 shares of our common stock, we will purchase the unexercised warrant from JCP Telecom Systems at a purchase price equal to the initial public offering price set forth on the cover page of this prospectus less the exercise price of $9.00 per share. Assuming an initial offering price of $13.00 per share, that would result in a payment to JCP Telecom Systems at closing of approximately $668,000. There are no other warrants outstanding to purchase our common stock.

We estimate that there will be 70,936,136 shares of common stock outstanding immediately after this offering. In addition to the shares of common stock to be outstanding after this offering, we may issue additional shares of common stock.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma consolidated financial information is based on the historical financial statements of Alliance Data Systems Corporation and Utilipro, Inc. The unaudited pro forma adjustments are based upon certain assumptions that we believe are reasonable. The unaudited pro forma consolidated financial information and accompanying notes should be read in conjunction with the historical financial statements of Alliance Data Systems Corporation and Utilipro, Inc., the respective notes to those statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus.

The data contained in the pro forma columns give effect to the Utilipro acquisition, accounted for under the purchase method of accounting, as if that acquisition had been consummated on January 1, 2000.

The unaudited pro forma consolidated financial information does not purport to be indicative of the results that would have been obtained had the transactions been completed as of the assumed dates and for the periods presented or that may be obtained in the future. The unaudited pro forma consolidated financial information is included in this prospectus for informational purposes, and while we believe that it may be helpful in understanding our combined operations for the periods indicated, you should not unduly rely on the information.

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2000
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31, 2000			
	ADSC	UTILIPRO(1)	ADJUSTMENTS	PRO FORMA
Total revenue	$678,195	$ 17,732	$ --	$695,927
Cost of operations	547,985	24,620	--	572,605
General and administrative	32,201	--	--	32,201
Depreciation and other amortization	26,265	1,261	--	27,526
Amortization of purchased intangibles	49,879	--	1,681 (2)	51,560
Total operating expenses	656,330	25,881	1,681	683,892
Operating income (loss)	21,865	(8,149)	(1,681)	12,035
Other non-operating expense	2,477	--	--	2,477
Interest expense	38,870	1,122	650 (3)(4)	40,642
Income tax expense (benefit)	1,841	(3,539)	(464)(5)	(2,162)
Loss from continuing operations	$(21,323)	$ (5,732)	$ (1,867)	$(28,922)
Loss per share from continuing operations--basic and diluted	$ (0.60)			$ (0.76)
Weighted average shares used in computing per share amounts--basic and diluted	47,538			47,538

See the accompanying notes on page 25.

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2001
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31, 2001				
	ADSC	UTILIPRO(1)	SUBTOTAL	ADJUSTMENTS	PRO FORMA
Total revenue	$180,692	$4,140	$184,832	$ --	$184,832
Cost of operations	143,258	4,017	147,275	--	147,275
General and administrative	9,333	--	9,333	--	9,333
Depreciation and other amortization	6,367	374	6,741	--	6,741
Amortization of purchased intangibles	11,113	--	11,113	280 (2)	11,393
Total operating expenses	170,071	4,391	174,462	280	174,742
Operating income (loss)	10,621	(251)	10,370	(280)	10,090
Interest expense	9,635	437	10,072	(142)(3)(4)	9,930
Income tax benefit (expense)	933	(260)	673	(62)(5)	611
Income (loss) from continuing operations	$ 53	$ (428)	$ (375)	$ (76)	$ (451)
Earnings (loss) per share from continuing operations--basic and diluted	$ (0.04)				$ (0.05)
Weighted average shares used in computing per share amounts--basic	47,568				47,568

See the accompanying notes on page 25.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED
FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS)

The Unaudited Pro Forma Consolidated Statements of Operations for the year ended December 31, 2000 and the three months ended March 31, 2001 reflect the following adjustments:

(1) Represents operating activity for Utilipro for the year ended September 30, 2000 and the three months ended December 31, 2000. Prior to its acquisition Utilipro had no significant transactions other than normal operations.

(2) Represents pro forma adjustments to goodwill and amortization of other purchased intangibles' resulting from the preliminary purchase accounting treatment of the Utilipro acquisition. The preliminary amortization period for Utilipro is 10 years.

(3) Represents the elimination of interest expense from debt we are not assuming as part of the acquisition.

(4) Represents the pro forma interest expense at an assumed 8.75% from the incremental borrowing for the purchase price.

(5) Represents the tax effect of pro forma adjustments for the Utilipro acquisition.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

We are the result of a 1996 merger of two entities acquired by Welsh, Carson, Anderson & Stowe--J.C. Penney's transaction services business, BSI Business Services, Inc., and The Limited's credit card bank operation, World Financial. Prior to December 31, 1998, our fiscal year was based on a 52/53 week fiscal year ending on the Saturday closest to January 31. We have since changed our fiscal year end to December 31. The following table sets forth our summary historical financial information for the periods ended and as of the dates indicated. Full-year information is derived from financial statements that were audited by Deloitte & Touche LLP. The selected consolidated financial data for the three months ended March 31, 2000 and 2001 have been derived from our unaudited consolidated financial statements, which are included in this prospectus and which, in our opinion, reflect all adjustments, consisting only of adjustments of a normal and recurring nature, necessary for a fair presentation. Results for the three months ended March 31, 2001 are not necessarily indicative of results for the full year. You should read the following historical financial information along with the information contained throughout this prospectus, including the financial statements and related notes that are included in this prospectus.

	FISCAL					FOR THE THREE MONTHS ENDED MARCH 31,	
	1996(1)	1997(2)	1998(3)	1999(4)	2000(5)	2000	2001
	(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)					(UNAUDITED)	
INCOME STATEMENT DATA							
Total revenue	$ 280,935	$ 353,399	$ 410,913	$ 583,082	$ 678,195	$ 165,547	$ 180,692
Cost of operations	221,511	273,145	335,804	466,856	547,985	134,571	143,258
General and administrative expenses	12,080	15,302	17,589	35,971	32,201	7,505	9,333
Depreciation and other amortization	6,318	7,402	8,270	16,183	26,265	5,997	6,367
Amortization of purchased intangibles	15,900	28,159	43,766	61,617	49,879	13,795	11,113
Total operating expenses	255,809	324,008	405,429	580,627	656,330	161,868	170,071
Operating income	25,126	29,391	5,484	2,455	21,865	3,679	10,621
Other non-operating expenses(6)	--	--	--	--	2,477	2,476	--
Interest expense	5,649	15,459	27,884	42,785	38,870	8,776	9,635
Income (loss) from continuing operations before income taxes	19,477	13,932	(22,400)	(40,330)	(19,482)	(7,573)	986
Income tax expense (benefit)	5,704	5,236	(4,708)	(6,538)	1,841	716	933
Income (loss) from continuing operations	13,773	8,696	(17,692)	(33,792)	(21,323)	(8,289)	53
Income (loss) from discontinued operations, net of taxes	(3,823)	(8,247)	(300)	7,688	--	--	--
Loss on disposal of discontinued operations, net of taxes	--	--	--	(3,737)	--	--	--
Net income (loss)	$ 9,950	$ 449	$ (17,992)	$ (29,841)	$ (21,323)	$ (8,289)	$ 53
Earnings (loss) per share from continuing operations--basic and diluted	$ 0.38	$ 0.24	$ (0.42)	$ (0.78)	$ (0.60)	$ (0.21)	$ (0.04)
Earnings (loss) per share--basic and diluted	$ 0.27	$ 0.01	$ (0.43)	$ (0.70)	$ (0.60)	$ (0.21)	$ (0.04)
Weighted average shares used in computing per share amounts--basic and diluted	36,521	36,612	41,729	47,498	47,538	47,529	47,568

	FISCAL					FOR THE THREE MONTHS ENDED MARCH 31,	
	1996(1)	1997(2)	1998(3)	1999(4)	2000(5)	2000	2001
	(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)					(UNAUDITED)	
OTHER FINANCIAL DATA							
Calculation of operating EBITDA:							
Operating income	$ 25,126	$ 29,391	$ 5,484	$ 2,455	$ 21,865	3,679	10,621
Depreciation and other amortization	6,318	7,402	8,270	16,183	26,265	5,997	6,367
Amortization of purchased intangibles	15,900	28,159	43,766	61,617	49,879	13,795	11,113
EBITDA	47,344	64,952	57,520	80,255	98,009	23,471	28,101
Plus change in deferred revenue	--	--	20,729	91,149	40,845	10,794	13,244
Less change in redemption settlement assets	--	--	11,838	63,472	18,357	3,337	6,163
Operating EBITDA(7)	$ 47,344	$ 64,952	$ 66,411	$ 107,932	$ 120,497	$ 30,928	$ 35,182
Operating EBITDA as a percentage of revenue	16.9%	18.4%	16.2%	18.5%	17.8%	18.7%	19.5%
Cash flows from operating activities	$ 67,696	$ (30,678)	$ 9,311	$ 251,638	$ 87,183	$ 14,872	$ 10,997
Cash flows from investing activities	(148,721)	(103,746)	(145,386)	(309,451)	(24,457)	15,194	(37,175)
Cash flows from financing activities	82,011	104,870	163,282	74,929	1,144	(18,351)	(20,278)
SEGMENT OPERATING DATA							
Transactions processed	881,316	929,274	1,073,040	1,839,857	2,519,535	566,275	629,131
Statements generated(8)	126,114	113,940	117,672	132,817	127,217	34,333	31,921
Average securitized portfolio	$1,261,833	$1,615,196	$1,905,927	$2,004,827	$2,073,574	$2,139,647	$2,214,044
Credit sales	$2,402,881	$3,001,029	$2,866,062	$3,132,520	$3,685,069	$ 755,114	$ 780,429
Air Miles reward miles issued	--	--	611,824	1,594,594	1,927,016	432,252	524,237
Air Miles reward miles redeemed	--	--	158,281	529,327	781,823	162,312	192,023

	AS OF					
	FEBRUARY 1, 1997	JANUARY 31, 1998	DECEMBER 31, 1998	DECEMBER 31, 1999	DECEMBER 31, 2000	MARCH 31, 2001
	(AMOUNTS IN THOUSANDS)					
BALANCE SHEET DATA						
Cash and cash equivalents	$ 50,149	$ 20,595	$ 47,036	$ 56,546	$ 116,941	$ 58,756
Credit card receivables and seller's interest	161,686	144,440	139,458	150,804	137,865	125,013
Redemption settlement assets, restricted	--	--	70,178	133,650	152,007	158,171
Intangibles and goodwill, net	103,261	93,909	362,797	493,609	444,549	457,011
Total assets	498,355	619,901	1,091,008	1,301,263	1,420,606	1,304,832
Deferred revenue--service and redemption	--	--	158,192	249,341	290,186	303,430
Certificates of deposit and other receivables funding debt	68,400	50,900	49,500	116,900	139,400	119,700
Short-term debt	80,811	82,800	98,484	--	--	--
Long-term and subordinated debt	50,000	180,000	332,000	318,236	296,660	294,575
Total liabilities	294,144	415,145	796,203	921,791	1,058,215	952,609
Series A preferred stock	--	--	--	119,400	119,400	119,400
Total stockholders' equity	204,211	204,756	294,805	260,072	242,991	232,823

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(1) Fiscal 1996 represents the operating results of World Financial Network Holding Corporation and BSI Business Services, Inc. for the 52 weeks ended February 1, 1997.

(2) Fiscal 1997 represents the operating results of the merged entities under current management for the 53 weeks ended January 1, 1998 and Financial Automation Limited for two months.

(3) Fiscal 1998 represents the operating results of the merged entities under current management for the 11 months ended December 31, 1998, Loyalty for five months, and Harmonic Systems for three months.

(4) Fiscal 1999 represents the operating results of the merged entities under current management for the year ended December 31, 1999, and SPS for six months.

(5) Fiscal 2000 represents the operating results for the year ended December 31, 2000.

(6) Other expenses represent a non-operating loss on disposal of equity securities.

(7) Operating EBITDA is equal to operating income plus depreciation and amortization and the change in deferred revenue less the change in redemption settlement assets. We have presented operating EBITDA because we use it to monitor compliance with the financial covenants in our amended credit agreement, such as debt-to-operating EBITDA, interest coverage ratios and minimum operating EBITDA. We also use operating EBITDA as an integral part of our internal reporting to measure the performance and liquidity of our reportable segments. In addition, operating EBITDA eliminates the uneven effect across all segments of considerable amounts of non-cash amortization of purchased intangibles recognized in business combinations accounted for under the purchase method. Operating EBITDA is not intended to be a performance measure 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 the statement of cash flows as a measure of liquidity. In addition, operating EBITDA is 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 generally accepted accounting principles. The operating EBITDA measure presented in this prospectus may not be comparable to similarly titled measures presented by other companies.

(8) Statements generated represents the number of billing statements generated for the cardholder and customer accounts we service.

FORMATION OF ALLIANCE DATA SYSTEMS CORPORATION

Although our predecessor companies have long operating histories, we have largely been built by acquisition and therefore have a relatively short operating history as a combined entity. 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 The Limited's credit card bank operation, World Financial. Since then, we have made the following significant acquisitions, each accounted for as a purchase, with the results of operations of the acquired businesses included from their respective closing dates:

- in July 1998, we acquired Loyalty Management Group Canada Inc.;
- in September 1998, we acquired Harmonic Systems Incorporated; and
- in July 1999, we acquired the network services business of SPS Payment Systems, Inc., a wholly owned subsidiary of Associates First Capital Corporation.

RECENT DEVELOPMENTS

Effective February 28, 2001, we acquired substantially all of the operating assets of Utilipro, Inc., a subsidiary of AGL Resources, Inc., for $20.3 million in cash. Utilipro is an account processing and servicing provider to the de-regulated utility sector. Utilipro provides these services to three clients serving approximately 500,000 utility customers.

FISCAL YEAR

In order to have more consistent reporting periods, we changed our year end to a calendar year end basis during 1998. Prior to December 31, 1998, we operated on a 52/53 week fiscal year that ended on the Saturday nearest January 31. Accordingly, fiscal 1998 represents the 11 months ended December 31, 1998, fiscal 1999 represents the year ended December 31, 1999 and fiscal 2000 represents the year ended December 31, 2000. In addition to discussing the results of operations on a historical basis, we are also providing a discussion of our results of operations on a recast basis for the year ended December 31, 1998 compared to the year ended December 31, 1999.

REVENUE AND EXPENSES

TRANSACTION SERVICES. Our Transaction Services segment primarily generates revenue based on the number of transactions processed, statements mailed and customer calls handled. Operating costs include salaries and employee benefits, processing and servicing expense, such as data processing, postage, telecommunications, and equipment lease expense.

CREDIT SERVICES. We utilize a securitization program to finance substantially all of the credit card receivables that we underwrite. Our securitization trusts allow us to sell credit card receivables to the trusts on a daily basis. As a result, our Credit Services segment derives its revenue from the servicing fees and net financing income it receives from the securitization trusts.

We record gains or losses on the securitization of credit card receivables on the date of sale based on the estimated fair value of assets retained and liabilities incurred in the sale. Gains represent the present value of the anticipated cash flows we have retained over the estimated outstanding period of the receivables. This anticipated excess cash flow essentially represents an interest only strip, consisting of the excess of finance charges and past-due fees net of the sum of the return paid to certificateholders, estimated contractual servicing fees and credit losses. The interest only strip is carried at fair value, with changes in the fair value reported as a component of cumulative other comprehensive loss. Factors outside our control influence estimates inherent in the determination of

fair value of the interest only strip, and as a result, such estimates could materially change in the near term. Net financing charges include the gains on securitizations and other income from securitizations.

Credit Services also receives merchant discount fees from clients, which are determined based on a percentage of credit sales charged to our private label card accounts.

Operating expenses for this segment include salaries and employee benefits, processing and servicing expense, which includes credit bureau, postage, telephone and data processing expense, and a portion of interest expense. A portion of our interest expense relates to the funding of our seller's interest in credit card receivables and other securitization assets.

MARKETING SERVICES. Our Marketing Services segment generates the majority of its revenue from our Air Miles reward miles program. Under this program, we receive proceeds from our sponsors based on the number of Air Miles reward miles issued to collectors. The proceeds from issuances of Air Miles reward miles are allocated into two components based on the relative fair value of the related element: the redemption element and the service element.

- Redemption element: the redemption element is the larger of the two components. For this component, we recognize revenue at the time an Air Mile reward mile is redeemed, or, for those 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 direct marketing and administrative services provided to sponsors, we recognize revenue ratably over the estimated life of an Air Miles reward mile.

On certain of our contracts, a portion of the proceeds is paid at the issuance of Air Miles reward miles and a portion is paid at the time of redemption. The proceeds received at issuance are initially deferred as service revenue and the revenue is recognized ratably over the estimated life of an Air Miles reward mile.

In addition to our Air Miles reward miles program described above, we generate database and direct marketing revenue from building and maintaining marketing databases, as well as managing and marketing campaigns or projects we perform for our clients.

Operating costs for this segment include salaries and employee benefits, redemption costs of the Air Miles reward program, marketing, data processing and postage.

INTER-SEGMENT SALES. Our Transaction Services segment performs card processing and servicing activities related to 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 market rates for similar services. This fee represents an operating cost to our Credit Services segment and a corresponding revenue for Transaction Services.

USE OF EBITDA. We evaluate operating performance based on several factors of which the primary financial measure is operating income plus depreciation and amortization, or "EBITDA." EBITDA is presented because it is an integral part of our internal reporting and performance evaluation for senior management. EBITDA eliminates the uneven effect across all segments of considerable amounts of non-cash amortization of purchased intangibles recognized in business combinations accounted for under the purchase method. In addition, we use operating EBITDA to monitor compliance with the financial covenants in our amended credit agreement such as debt-to-operating EBITDA, interest coverage ratios and minimum operating EBITDA. We also use operating EBITDA to measure the performance and liquidity of our reportable segments. EBITDA and operating EBITDA are not intended to be a performance measure 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 the statement of cash flows as a measure of liquidity. In addition, 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 generally accepted accounting principles. The EBITDA and operating EBITDA measures presented in this prospectus may not be comparable to similarly titled measures presented by other companies.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2000 (UNAUDITED) COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2001 (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,					
	REVENUE		EBITDA		OPERATING INCOME	
	2000	2001	2000	2001	2000	2001
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$108,748	$118,168	$13,558	$14,512	$ 3,277	$ 4,540
Credit Services	69,903	73,810	8,601	8,363	8,286	7,961
Marketing Services	39,451	44,291	1,312	5,226	(7,884)	(1,880)
Other and eliminations	(52,555)	(55,577)	--	--	--	--
Total	$165,547	$180,692	$23,471	$28,101	$ 3,679	$10,621

	THREE MONTHS ENDED MARCH 31,					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	2000	2001	2000	2001	2000	2001
	(AMOUNTS IN THOUSANDS)					
Transaction Services	65.7%	65.4%	12.5%	12.3%	3.0%	3.8%
Credit Services	42.2	40.9	12.3	11.3	11.9	10.8
Marketing Services	23.8	24.5	3.3	11.8	(20.0)	(4.2)
Other and eliminations	(31.7)	(30.8)	--	--	--	--
Total	100.0%	100.0%	14.2%	15.6%	2.2%	5.9%

REVENUE. Total revenue increased $15.2 million, or 9.1%, to $180.7 million for the three months ended March 31, 2001 from $165.5 million for the comparable period in 2000. The increase was principally due to an 8.7% increase in Transaction Services revenue, a 5.6% increase in Credit Services revenue and a 12.3% increase in Marketing Services revenue as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $9.4 million, or 8.7%, due primarily to an increase in the number of transactions processed. Revenue related to transactions processed increased approximately $4.4 million as a result of an 11.1% increase in the number of transactions processed with a significant portion of the increase occurring among our large volume petroleum clients. Fees related to account processing and servicing increased $6.3 million during the three months ended March 31, 2001 over the comparable period in 2000 due to increased inter-segment sales of $2.2 million during 2001 as a result of increased account processing and servicing for our Credit Services segment, which resulted from an increase in the number of private label cardholders. The remaining portion of the increase resulted from sales related to our utilities sector offset by a decrease in the number of statements generated as a result of a lost client in the petroleum sector. Our utilities sector benefited from the recently acquired Utilipro business, which added approximately 500,000 customer accounts.

- CREDIT SERVICES. Credit Services revenue increased $3.9 million, or 5.6%, due to increases in servicing fees and finance charges, net. Servicing fee income increased by $1.0 million, or 8.8%, during the three months ended March 31, 2001 over the comparable 2000 period due to an

increase in the average outstanding credit card receivables in the securitization trust. Finance charge, net increased $3.7 million during the three months ended March 31, 2001 over the comparable period in 2000 as a result of a 3.5% higher average outstanding securitized portfolio. The yield remained relatively constant between the periods.

- MARKETING SERVICES. Marketing Services revenue increased $4.8 million, or 12.3%, primarily due to an increase in reward revenue related to an 18.3% increase in the redemption of Air Miles reward miles. Additionally, services revenue increased 3.4% as a result of a 21.3% increase in the issuance of Air Miles reward miles and the recognition of deferred revenue balances. As a result of the increased issuance activity, our deferred revenue balance increased 4.6% to $303.4 million at March 31, 2001 from the balance at December 31, 2000.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $10.5 million, or 7.4%, to $152.6 million during the three months ended March 31, 2001 from $142.1 million during the comparable period in 2000. Total EBITDA margin increased to 15.6% for the three months ended March 31, 2001 from 14.2% for the comparable period in 2000. The increase in EBITDA margin is due to an increase in the Marketing Services margin, partially offset by a decrease in the Credit Services margin.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $8.5 million, or 8.9%, to $103.7 million for the three months ended March 31, 2001 from $95.2 million for the comparable period in 2000, and EBITDA margin decreased to 12.3% for the three months ended March 31, 2001 from 12.5% during the comparable period in 2000. The EBITDA margin decrease is primarily related to increased overhead allocation, offset by improved margins at the operating unit level.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $4.1 million, or 6.8%, to $65.4 million for the three months ended March 31, 2001 from $61.3 million for the comparable period in 2000, and EBITDA margin decreased to 11.3% for the three months ended March 31, 2001 from 12.3% during the comparable period in 2000. The decrease in EBITDA margin is the result of increased processing costs from our Transaction Services segment of $2.2 million associated with our larger securitized portfolio and the decrease in yield on the securitized portfolio.

- MARKETING SERVICES. Marketing Services operating expenses, excluding depreciation and amortization, increased $1.0 million, or 2.4%, to $39.1 million for the three months ended March 31, 2001 from $38.1 million for the comparable period in 2000, and EBITDA margin increased to 11.8% for the three months ended March 31, 2001 from 3.3% for the comparable period in 2000. The EBITDA margin in the 2000 period was adversely impacted by the $3.1 million in non-recurring redemption related costs incurred as a result of the transition from Canadian Airlines to Air Canada as a primary reward supplier following their merger. Normally, we are able to purchase airline tickets at a contractually determined discount. Prior to the Air Canada merger, we had a long-term supply contract with Canadian Airlines. During the second quarter of 2000, we entered into a new supply agreement with Air Canada in order to help maintain a supply of airline seats for our collectors of Air Miles reward miles. Prior to signing our supply agreement with Air Canada, our supply of seats was constrained due to the reduction or elimination of some of Canadian Airlines' routes. Based on our new supply agreement and other factors, we do not anticipate incurring redemption costs in 2001 at a level greater than what we have historically experienced. Excluding the $3.1 million of additional redemption costs, EBITDA margin for the three months ended March 31, 2000 would have been 11.2%.

- DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased $2.3 million, or 11.7%, to $17.5 million for the three months ended March 31, 2001 from $19.8 million for the comparable period in 2000 due to increases in capital expenditures in 2001. Amortization of purchased intangibles decreased $2.7 million as a result of a decrease in amortization expense.

OPERATING INCOME. Operating income increased $6.9 million, or 188.7%, to $10.6 million for the three months ended March 31, 2001 from $3.7 million during the comparable period in 2000. Operating income increased from revenue gains, improved EBITDA margins and a decrease in depreciation and amortization.

INTEREST EXPENSE. Interest expense increased $0.9 million, or 9.8%, to $9.7 million for the three months ended March 31, 2001 from $8.8 million for the comparable period in 2000 due to an increase in average debt outstanding.

TAXES. Income tax expense increased $0.2 million, or 30.4%, to $0.9 million for the three months ended March 31, 2001 from $0.7 million in 2000 due to an increase in taxable income.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant and database marketing fees, decreased $300,000, or 3.5%, to $9.6 million for the three months ended March 31, 2001 from $9.9 million for the comparable period in 2000.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000

	YEAR ENDED DECEMBER 31,					
	REVENUE		EBITDA		OPERATING INCOME	
	1999	2000	1999	2000	1999	2000
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 381,027	$ 437,980	$41,828	$54,764	$ 13,014	$ 13,017
Credit Services	247,824	268,183	29,803	25,318	17,743	24,059
Marketing Services	138,310	178,214	8,624	17,927	(28,302)	(15,211)
Other and eliminations	(184,079)	(206,182)	--	--	--	--
Total	$ 583,082	$ 678,195	$80,255	$98,009	$ 2,455	$ 21,865

	YEAR ENDED DECEMBER 31,					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1999	2000	1999	2000	1999	2000
Transaction Services	65.4%	64.6%	11.0%	12.5%	3.4%	3.0%
Credit Services	42.5	39.5	12.0	9.4	7.2	9.0
Marketing Services	23.7	26.3	6.2	10.1	(20.5)	(8.5)
Other and eliminations	(31.6)	(30.4)	--	--	--	--
Total	100.0%	100.0%	13.8%	14.5%	0.4%	3.2%

REVENUE. Total revenue increased $95.1 million, or 16.3%, to $678.2 million for 2000 from $583.1 million for 1999. The increase was due to a 14.9% increase in Transaction Services revenue, an 8.2% increase in Credit Services revenue and a 28.9% increase in Marketing Services revenue as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $57.0 million, or 14.9%, due primarily to an increase in the number of transactions processed. Revenue related to transactions processed increased approximately $30.0 million as a result of a 36.9% increase in the number of transactions processed, partially offset by a decrease in the average price per transaction. The increase in the number of transactions is primarily related to the July 1999 acquisition of SPS with the remaining increase resulting from an increase in the number of transactions processed for existing customers. A significant portion of the increase in transactions processed occurred among the large volume clients in the petroleum industry with a lower price per transaction. Fees related to account processing and servicing increased $26.0 million during 2000 from 1999 primarily due to increased inter-segment sales of

$23.1 million during 2000 as a result of increased account processing and servicing for our Credit Services segment due to an increase in the number of private label cardholders. The remaining portion of the increase resulted from new sales related to our utilities sector offset by a decrease in the number of statements generated as a result of a lost client in the petroleum sector.

- CREDIT SERVICES. Credit Services revenue increased $20.4 million, or 8.2%, due to increases in merchant discount fees, servicing fees and finance charges, net. Servicing fee income increased by $3.5 million, or 10.4%, during 2000 due to an increase in the average outstanding balance of the securitized credit card receivables we service. Finance charges, net, increased $14.3 million, or 10.0%, during 2000 as a result of a 3.4% higher average outstanding securitized portfolio. A liquidating portfolio adversely impacted the average outstanding securitized portfolio. Excluding the effect of the liquidating portfolio, the average outstanding securitized portfolio would have grown by 11.7% in 2000. The net yield for 2000 was 45 basis points higher than in 1999. Private label merchant discount fee income increased by $3.2 million, or 4.7%, during 2000 as a result of increased charge volumes. This increase was offset by a change in a specific program for one of our clients, where merchant discount fee revenue from this client is now recorded as finance charge income.

- MARKETING SERVICES. Marketing Services revenue increased $39.9 million, or 28.9%, primarily due to an increase in reward revenue related to a 39.2% increase in the redemption of Air Miles reward miles. Additionally, services revenue increased 15.5% as a result of a 19.4% increase in the number of Air Miles reward miles issued and the recognition of deferred revenue balances. As a result of the increased issuance activity, our deferred revenue balance increased 16.4% to $290.2 million at December 31, 2000 from the balance at December 31, 1999.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $77.4 million, or 15.4%, to $580.2 million for 2000 from $502.8 million for 1999. Total EBITDA margin increased to 14.5% for 2000 from 13.8% for 1999. The increase in EBITDA margin is due to increases in Transaction Services and Marketing Services margins, partially offset by a decrease in the Credit Services margin.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $44.0 million, or 13.0%, to $383.2 million for 2000 from $339.2 million for 1999, and EBITDA margin increased to 12.5% for 2000 from 11.0% for 1999. The increase in EBITDA margin is primarily the result of operational efficiencies achieved in our network business related to the SPS acquisition.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $24.9 million, or 11.4%, to $242.9 million for 2000 from $218.0 million for 1999, and EBITDA margin decreased to 9.4% for 2000 from 12.0% for 1999. The decrease in EBITDA margin is the result of increased processing costs from our Transaction Services segment of $22.1 million associated with a higher number of private label cardholders. Additionally, the EBITDA margin was adversely impacted by the previously mentioned change in a client's program. The new program is financed off-balance sheet in a securitization trust, which generates lower EBITDA margin than the previous program.

- MARKETING SERVICES. Marketing Services operating expenses, excluding depreciation and amortization, increased $30.6 million, or 23.6%, to $160.3 million for 2000 from $129.7 million for 1999, and EBITDA margin increased to 10.1% for 2000 from 6.2% for 1999. The increase in the margin is attributable to increased revenue and the leveraging of the marketing, payroll and other operating costs in 2000. Non-redemption expenses decreased to 47.8% of revenue for 2000 from 52.9% for 1999. The EBITDA margin increase was offset by the approximate $7.0 million in non-recurring redemption related costs as a result of the transition of primary reward suppliers from Canadian Airlines to Air Canada following their merger. Normally, we are able

to purchase airline tickets at a contractually determined discount. Prior to the Air Canada merger, we had a long-term supply contract with Canadian Airlines. During the second quarter of 2000, we entered into a new supply agreement with Air Canada in order to help maintain a supply of airline seats for our collectors of Air Miles reward miles. Prior to signing our supply agreement with Air Canada, our supply of seats was constrained due to the reduction and/or elimination of some of Canadian Airlines' routes. Based on our new supply agreement and other factors, we do not anticipate incurring redemption costs in 2001 at a level greater than what we have historically experienced. Excluding the $7.0 million of additional redemption costs, EBITDA margin for 2000 would have been 14.0%.

In January 2000, we increased the number of Air Miles reward miles required to redeem some air travel rewards. We periodically review our reward offers to collectors and will continue to seek ways to contain the overall cost of the program and make changes to enhance the program's value to collectors.

EBITDA margin for 1999 was affected by approximately $3.3 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada.

- DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased $1.7 million, or 2.2%, to $76.1 million for 2000 from $77.8 million for 1999 due to a decrease in amortization of purchased intangibles of $11.7 million. This decrease resulted from a decrease in amortization expense for some of the intangibles related to the acquisition of the former J. C. Penney businesses and the premium on a purchased credit card portfolio that was fully amortized, partially offset by amortization related to the SPS acquisition and an increase in capital expenditures in 1999, especially software development costs that have relatively short amortization periods.

OPERATING INCOME. Operating income increased $19.4 million, or 776.0%, to $21.9 million for 2000 from $2.5 million for 1999. Operating income increased primarily from revenue gains with modest expansion of EBITDA margins and a decrease in depreciation and amortization.

INTEREST EXPENSE. Interest expense decreased $3.9 million, or 9.1%, to $38.9 million for 2000 from $42.8 million for 1999 due to a decrease in average debt. This decrease in average debt was primarily due to the termination of a receivable financing program in the fourth quarter of 1999.

TAXES. Income tax expense increased $8.3 million to a $1.8 million income tax expense for 2000 from a $6.5 million income tax benefit in 1999 due to an increase in taxable income.

DISCONTINUED OPERATIONS. During September 1999, we discontinued our subscriber services business when our principal customer for this service was acquired by a third party. For 1999, discontinued operations had income of $4.0 million, net of income tax.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant and database marketing fees, increased $100,000 to $46.7 million for 2000 from $46.6 million for 1999. The increase was primarily the result of increased database marketing fees offset by a small decrease in merchant discount fees.

RECAST YEAR ENDED DECEMBER 31, 1998 (UNAUDITED) COMPARED TO THE YEAR ENDED DECEMBER 31, 1999

	YEAR ENDED DECEMBER 31,					
	REVENUE		EBITDA		OPERATING INCOME	
	1998	1999	1998	1999	1998	1999
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 325,944	$ 381,027	$26,116	$ 41,828	$ (1,641)	$ 13,014
Credit Services	242,377	247,824	37,841	29,803	25,041	17,743
Marketing Services	62,824	138,310	3,341	8,624	(11,861)	(28,302)
Other and eliminations	(179,608)	(184,079)	--	--	--	--
Total	$ 451,537	$ 583,082	$67,298	$ 80,255	$ 11,539	$ 2,455

	YEAR ENDED DECEMBER 31,					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1998	1999	1998	1999	1998	1999
Transaction Services	72.2 %	65.4 %	8.0%	11.0%	(0.5)%	3.4 %
Credit Services	53.7	42.5	15.6	12.0	10.3	7.2
Marketing Services	13.9	23.7	5.3	6.2	(18.9)	(20.5)
Other and eliminations	(39.8)	(31.6)	--	--	--	--
Total	100.0 %	100.0 %	14.9%	13.8%	2.6 %	0.4 %

REVENUE. Total revenue increased $131.6 million, or 29.1%, to $583.1 million for 1999 from $451.5 million for 1998. The increase was principally due to a 16.9% increase in Transaction Services revenue, a 2.2% increase in Credit Services revenue and a 120.2% increase in Marketing Services revenue as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $55.1 million, or 16.9%, due to the acquisitions of Harmonic Systems in 1998 and SPS in 1999. Fees related to servicing of private label credit card statements increased $11.9 million during 1999 due to an 11.7% increase in price per statement, a $4.5 million termination fee from a client and a 1.5% increase in the number of statements processed. The revenue for transaction processing increased 41.4% mainly due to acquisition activity offset by a decrease in average price per transaction.

- CREDIT SERVICES. Credit Services revenue increased $5.4 million, or 2.2%, due to increases in merchant and servicing fees and finance charges, net. Merchant fee income increased $2.5 million, or 3.9%, due to a 2.7% increase in credit sales on our private label credit cards. Additionally, servicing fee income increased by $3.1 million, or 10.1%, during 1999 due to an increase in the average outstanding balance of the securitized credit card receivables we service. Finance charges, net, increased $600,000 during 1999. We recognized a $16.2 million gain on sale of receivables during 1998 related to two securitization transactions with no comparable securitization transactions in 1999. Finance charges, net, increased $16.8 million, or 13.5%, during 1999, excluding the $16.2 million gain on sale of receivables, as a result of a 4.6% higher average outstanding securitized portfolio and an approximate 75 basis point increase in yield.

- MARKETING SERVICES. Marketing Services revenue increased $75.5 million, or 120.2%, due to the acquisition of Loyalty Management Group Canada Inc. on July 24, 1998. Revenue from January 1, 1998 until the date of acquisition was approximately $40.9 million. The remaining increase is primarily related to an increase in Air Miles reward miles issuance and redemption activity, which increased 17.2% and 40.7%, respectively, on a pro forma basis in 1999 compared to 1998.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $118.6 million, or 30.9%, to $502.8 million for 1999 from $384.2 million for 1998. Total EBITDA margin decreased to 13.8% for 1999 from 14.9% for 1998. The decrease in EBITDA margin is due to a decrease in Credit Services margins, partially offset by increases in Marketing Services and Transaction Services margins.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $39.4 million, or 13.1%, to $339.2 million for 1999 from $299.8 million for 1998, and EBITDA margin increased to 11.0% for 1999 from 8.0% for 1998. EBITDA margin increased due to the newly acquired SPS network services business which carries a higher margin than our historical processing business. Additionally, the margin increased due to a shift in the mix of business to higher margin card processing and servicing products.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $13.5 million, or 6.6%, to $218.0 million for 1999 from $204.5 million for 1998, and EBITDA margin decreased to 12.0% for 1999 from 15.6% for 1998 due to a $16.2 million gain on sale of receivables in 1998 related to two securitization transactions, with no comparable securitization transactions in 1999.

- MARKETING SERVICES. Marketing Services operating expenses, excluding depreciation and amortization, increased $70.2 million, or 118.0%, to $129.7 million for 1999 from $59.5 million for 1998, and EBITDA margin increased to 6.2% for 1999 from 5.3% for 1998. The increased margin was partially offset by $3.3 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada during 1999.

- DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased $22.0 million, or 39.4%, to $77.8 million for 1999 from $55.8 million for 1998 due to increases in capital expenditures in 1998 and 1999, especially software development costs that have relatively short amortization periods. Amortization of purchased intangibles increased $14.9 million as a result of recent acquisitions, partially offset by a decrease in amortization expense for some of the intangibles related to the acquisition of the former J.C. Penney business which were fully amortized.

OPERATING INCOME. Operating income decreased $9.0 million, or 78.3%, to $2.5 million for 1999 from $11.5 million for 1998. Operating income decreased primarily from a lower consolidated EBITDA margin and increased depreciation and amortization.

INTEREST EXPENSE. Interest expense increased $13.5 million, or 46.1%, to $42.8 million for 1999 from $29.3 million for 1998 due to an increase in average debt associated with acquisitions and an increase in debt to fund receivables.

TAXES. Income tax benefit increased $3.9 million to $6.5 million for 1999 from $2.6 million for 1998 due to an increase in pre-tax loss.

DISCONTINUED OPERATIONS. In September 1999, we discontinued our subscriber services business when our principal customer for this service was acquired by a third party. As a result of discontinuing our subscriber services, we recognized a loss of $3.7 million, net of income tax, on disposal of discontinued operations. In 1999, discontinued operations had income of $7.7 million, net of income tax, compared to a loss of $3.9 million for 1998. The difference is largely related to additional fees we received in connection with services performed for the former customer upon termination of its contract.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant discount and database marketing fees, increased $3.4 million, or 7.9%, to $46.6 million for 1999 from $43.2 million for 1998. The increase was primarily the result of increased merchant discount fees from increased credit sales activity.

ELEVEN MONTHS ENDED DECEMBER 31, 1998 (FISCAL 1998) COMPARED TO
YEAR ENDED DECEMBER 31, 1999 (FISCAL 1999)

Due to the change in our fiscal year, fiscal 1998 is one month shorter than fiscal 1999.

	HISTORICAL FISCAL PERIODS					
	REVENUE		EBITDA		OPERATING INCOME	
	1998	1999	1998	1999	1998	1999
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 303,186	$ 381,027	$29,825	$ 41,828	$ 4,405	$ 13,014
Credit Services	212,663	247,824	24,297	29,803	12,883	17,743
Marketing Services	60,892	138,310	3,398	8,624	(11,804)	(28,302)
Other and eliminations	(165,828)	(184,079)	--	--	--	--
Total	$ 410,913	$ 583,082	$57,520	$ 80,255	$ 5,484	$ 2,455

	HISTORICAL FISCAL PERIODS					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1998	1999	1998	1999	1998	1999
Transaction Services	73.8 %	65.4 %	9.8%	11.0%	1.5 %	3.4 %
Credit Services	51.8	42.5	11.4	12.0	6.1	7.2
Marketing Services	14.8	23.7	5.6	6.2	(19.4)	(20.5)
Other and eliminations	(40.4)	(31.6)	--	--	--	--
Total	100.0 %	100.0 %	14.0%	13.8%	1.3 %	0.4 %

REVENUE. Total revenue increased $172.2 million, or 41.9%, to $583.1 million for fiscal 1999 from $410.9 million for fiscal 1998. The increase was principally due to a 25.7% increase in Transaction Services revenue, a 16.5% increase in Credit Services revenue and a 127.1% increase in Marketing Services revenue as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $77.8 million, or 25.7%, due to the acquisitions of Harmonic Systems in 1998 and SPS in 1999. Fees related to servicing of private label credit card statements increased $15.7 million during fiscal 1999 due to a 12.9% increase in price per statement, a $4.5 million termination fee from a client and a 7.8% increase in the number of statements processed. The revenue for transaction processing increased 52.7% mainly due to acquisition activity and as a result of fiscal 1998 being one month shorter than fiscal 1999, partially offset by a decrease in average price per transaction.

- CREDIT SERVICES. Credit Services revenue increased $35.2 million, or 16.5%, due to increases in merchant and servicing fees and finance charges, net. Merchant fee income increased $6.3 million, or 10.1%, due to a 9.3% increase in credit sales on our private label credit cards and fiscal 1998 being one month shorter than fiscal 1999. Additionally, servicing fee income increased by $5.8 million, or 20.9%, during fiscal 1999 due to an increase in the average outstanding balance of the securitized credit card receivables we service and fiscal 1998 being one month shorter than fiscal 1999. Finance charges, net, increased $22.6 million during fiscal 1999. We recognized a $7.2 million gain on sale of receivables during fiscal 1998 related to a securitization transaction with no comparable securitization transaction in fiscal 1999.

- MARKETING SERVICES. Marketing Services revenue increased $77.4 million, or 127.1%, due to the acquisition of Loyalty Management Group Canada Inc. on July 24, 1998. Revenue from February 1, 1998 until the date of acquisition was approximately $35.6 million. The remaining increase is primarily related to an increase in Air Miles reward miles activity and fiscal 1998 being one month shorter than fiscal 1999. The increase in Air Miles activity is primarily related to an increase in the number of reward miles collectors.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $149.4 million, or 42.3%, to $502.8 million during fiscal 1999 from $353.4 million for fiscal 1998. Total EBITDA margin decreased to 13.8% for fiscal 1999 from 14.0% for fiscal 1998.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $65.8 million, or 24.1%, to $339.2 million for fiscal 1999 from $273.4 million for fiscal 1998, and EBITDA margin increased to 11.0% for fiscal 1999 from 9.8% for fiscal 1998. EBITDA margin increased due to the newly acquired SPS network services business which carries a higher margin than our historical processing business, as well as a shift in the mix of business to higher margin card processing and servicing products.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $29.6 million, or 15.7%, to $218.0 million for fiscal 1999 from $188.4 million for fiscal 1998, and EBITDA margin increased to 12.0% for fiscal 1999 from 11.4% for fiscal 1998. Fiscal 1998 includes a $7.2 million gain on sale of receivables related to the timing of a securitization transaction with no comparable securitization transaction in fiscal 1999.

- MARKETING SERVICES. Marketing Services operating expenses, excluding depreciation and amortization, increased $72.2 million, or 125.6%, to $129.7 million for fiscal 1999 from $57.5 million for fiscal 1998, and EBITDA margin increased to 6.2% for fiscal 1999 from 5.6% for fiscal 1998. The increased margin was partially offset by $3.3 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada during fiscal 1999.

- DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased $25.8 million, or 49.6%, to $77.8 million for fiscal 1999 from $52.0 million for fiscal 1998 due to increases in capital expenditures for fiscal 1998 and fiscal 1999, especially software development costs that have relatively short amortization periods. Amortization of purchased intangibles increased $17.9 million as a result of recent acquisitions, partially offset by a decrease in amortization expense for some of the intangibles related to the acquisition of the former J.C. Penney business which were fully amortized.

OPERATING INCOME. Operating income decreased $3.0 million, or 54.5%, to $2.5 million for fiscal 1999 from $5.5 million during fiscal 1998. Operating income declined primarily due to lower margins as the result of increased inter-segment charges and increased depreciation and amortization.

INTEREST EXPENSE. Interest expense increased $14.9 million, or 53.4%, to $42.8 million for fiscal 1999 from $27.9 million for fiscal 1998 due to an increase in average debt associated with acquisitions and an increase in debt to fund receivables.

TAXES. Income tax benefit increased $1.8 million, or 38.3%, to $6.5 million for fiscal 1999 from $4.7 million for fiscal 1998 due to an increase in taxable loss.

DISCONTINUED OPERATIONS. In September 1999, we discontinued our subscriber services business when the principal customer for this service was acquired by a third party. As a result of discontinuing our subscriber services, we recognized a loss of $3.7 million, net of income tax, on disposal of discontinued operations. For fiscal 1999, discontinued operations had income of $7.7 million, net of income tax, compared to a loss of $300,000 for fiscal 1998. The difference is largely related to additional fees we received in connection with services performed for the former customer upon termination of its contract.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant discount and database marketing fees, increased $6.0 million, or 14.8%, to $46.6 million for fiscal 1999 from $40.6 million for fiscal 1998. The increase was primarily the result of increased volume of credit sales and database marketing fees.

ASSET QUALITY

Our delinquency and net charge-off rates reflect, among other factors, the credit risk of credit card receivables, the average age of our various credit card account portfolios, the success of our collection and recovery efforts, and general economic conditions. The average age of our credit card portfolio affects the stability of delinquency and loss rates of the portfolio. We continue to focus our resources on refining our credit underwriting standards for new accounts, and on collections and post charge-off recovery efforts to minimize net losses. At March 31, 2001, 19.2% of securitized accounts and 38.6% of securitized loans were less than 24 months old. Accordingly, we believe that our credit card portfolio will experience increasing levels of delinquency and loan losses as the average age of our accounts increases.

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. When an account becomes delinquent, we print a message requesting payment on the cardholder's billing statement. 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. 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 securitized credit card portfolio:

	DECEMBER 31, 1998	% OF TOTAL	DECEMBER 31, 1999	% OF TOTAL	DECEMBER 31, 2000
	(DOLLARS IN THOUSANDS)				
Receivables outstanding	$2,135,340	100%	$2,232,375	100%	$2,319,703
Loan balances contractually delinquent:					
31 to 60 days	52,581	2.5%	59,840	2.7%	62,040
61 to 90 days	29,925	1.4	35,394	1.6	36,095
91 or more days	53,885	2.5	60,025	2.7	64,473
Total	$ 136,391	6.4%	$ 155,259	7.0%	$ 162,608

	% OF TOTAL	MARCH 31, 2001	% OF TOTAL
		(DOLLARS IN THOUSANDS)	
Receivables outstanding	100%	$2,145,500	100%
Loan balances contractually delinquent:			
31 to 60 days	2.7%	54,005	2.5%
61 to 90 days	1.5	33,472	1.6
91 or more days	2.8	62,125	2.9
Total	7.0%	$ 149,602	7.0%

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. Net charge-offs exclude accrued finance charges and fees. The following table presents our net charge-offs for the periods indicated on a securitized basis. Average credit card portfolio outstanding represents the average balance of the securitized receivables at the beginning of each month in the period indicated.

	FISCAL			THREE MONTHS ENDED MARCH 31,	
	1998	1999	2000	2000	2001
	(DOLLARS IN THOUSANDS)				
Average credit card portfolio outstanding	$1,905,927	$2,004,827	$2,073,574	$2,139,647	$2,214,044
Net charge-offs	135,478	143,370	157,351	40,742	43,708
Net charge-offs as a percentage of average loans outstanding (annualized)	7.8%	7.2%	7.6%	7.6%	7.9%

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

AGE OF PORTFOLIO. The following table sets forth, as of March 31, 2001, the number of total accounts and amount of outstanding loans, based upon the age of the securitized accounts:

AGE SINCE ORIGINATION	NUMBER OF ACCOUNTS	PERCENTAGE OF ACCOUNTS	BALANCES OUTSTANDING	PERCENTAGE OF BALANCES OUTSTANDING
			(AMOUNTS IN THOUSANDS)	
0-5 Months	3,197	5.4%	$ 278,967	13.0%
6-11 Months	2,724	4.6	188,839	8.8
12-17 Months	3,079	5.2	208,152	9.7
18-23 Months	2,368	4.0	150,213	7.0
24-35 Months	5,329	9.0	281,113	13.1
36+ Months	42,511	71.8	1,038,616	48.4
Total	59,208	100.0%	$2,145,900	100.0%

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. We generated cash flow from operating activities of $11.0 million for the three months ended March 31, 2001 compared to $14.9 million for the comparable period in 2000. We generated cash flow from operating activities of $87.2 million for 2000 compared to $251.6 million for 1999 and $9.3 million for fiscal 1998. Operating cash flow in 2000 decreased compared to 1999 primarily due to changes in working capital. Working capital changes for 2000 were $54.2 million compared to $250.8 million in 1999. Working capital in 1999 was positively influenced by a large decrease in trade accounts receivable associated with a change in a specific program for one of our clients, whereby the receivables were moved off-balance sheet to a securitization trust. 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 the holidays. We utilize our operating cash flow for ongoing business operations and to pay interest expense.

INVESTING ACTIVITIES. We utilized cash flow from investing activities of $37.2 million for the three months ended March 31, 2001 compared to providing $15.2 million for the comparable period in 2000. We utilized cash flow from investing activities of $24.5 million for 2000 compared to $309.5 million for 1999 and $145.4 million for fiscal 1998. Three significant components of investing activities are as follows:

- ACQUISITIONS. Net cash outlays for acquisitions for the three months ended March 31, 2001 was $18.8 million compared to zero in the comparable period in 2000. Net cash outlays for acquisitions in 2000 was zero compared to $171.4 million for 1999 and $138.8 million for fiscal 1998.

- 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 March 31, 2001, we had over $2.1 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread accounts and additional receivables. The credit enhancement is principally based on the outstanding balances of the private label credit cards in the securitization trust and their related performance. During the period from November to January, we are required to maintain a credit enhancement level of 6% as compared to 4% for the remainder of the year. Accordingly, at December 31, we typically have our highest balance of credit enhancement assets. We intend to utilize our securitization program for the foreseeable future.

- RESERVE FUND. Redemption settlement assets on our balance sheet at March 31, 2001 are related to a reserve fund we established in connection with funding future redemptions by collectors under the Air Miles reward program. We believe the reserve fund is sufficient to meet redemptions for the foreseeable future. We currently intend to set aside a portion of future transaction fees received to fund future redemption obligations. Based on various factors, we may reduce the amount of the reserve fund and utilize future cash flows and excess cash for general corporate purposes.

FINANCING ACTIVITIES. Net cash payments was $18.8 million for the three months ended March 31, 2001 compared to $18.4 million for the comparable period in 2000. Net cash borrowings was $1.0 million for 2000 compared to net cash payments on borrowings of $44.8 million for 1999 and net cash borrowings of $56.2 million for fiscal 1998. Our financing activities relate primarily to funding working capital requirements and the securitization program. We issued $119.4 million of preferred stock to finance a portion of our acquisition of SPS in 1999 and $107.0 million of common stock to fund a portion of our acquisition of the Loyalty Group during fiscal 1998.

LIQUIDITY SOURCES. We have two main sources of liquidity to finance working capital and securitization requirements: certificates of deposit and a credit agreement.

CERTIFICATES OF DEPOSIT. We utilize certificates of deposit to finance the operating activities of our credit card bank subsidiary, World Financial, and to fund securitization requirements. Securitization requirements are generally in the form of credit enhancements and interests in the principal balance of the credit card receivables. From mid-November to late January, we experience increased needs for working capital due to increased credit card usage during the holiday season. For additional credit enhancement during this period, our securitization program requires us to maintain a higher percentage of securitized assets through increased seller's interest or excess funding deposits.

World Financial issues 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 5.45% to 7.45%. As of March 31, 2001, we had $119.7 million of certificates of deposit outstanding. World Financial is limited in the amounts that it can dividend to us. Certificate of deposit borrowings are subject to regulatory capital requirements.

CREDIT AGREEMENT. At March 31, 2001, we had $192.6 million outstanding under our credit facility, consisting of $182.6 million of term loans and $10.0 million under the revolving loan commitment. During 2000, the highest outstanding balance on the revolving loan commitment was $69.0 million. Approximately $34.0 million is due under our term loans on July 1, 2001. Of the amount due on July 1, 2001, approximately $30.0 million relates to the term loan that we will repay in full with the net proceeds from the offering. Interest on our loans is generally payable quarterly. With the exception of a $44.0 million term loan that matures on July 25, 2005, all of our other obligations under the credit facility mature on July 25, 2003.

The credit facility prohibits us from borrowing in excess of four times our operating EBITDA. Based on this covenant, our borrowing capacity at March 31, 2001 was approximately $500.0 million. With outstanding borrowings of $414.5 million at that date, we had additional borrowing capacity of $85.5 million under the revolver. In addition, we had $58.8 million of cash and cash equivalents as of March 31, 2001.

On September 29, 2000 and January 10, 2001, we amended our credit agreement to change the administrative agent and to adjust certain covenants related to consolidated EBITDA, the senior secured leverage ratio, adjusted consolidated net worth and the interest coverage ratio.

Following the $100.8 million debt repayment with the proceeds of this offering, we will record an extraordinary loss on early extinguishment of debt of approximately $1.5 million, net of tax.

We believe that our current level of cash and financing capacity, along with future cash flows from operations, will provide sufficient liquidity to meet the needs of our existing businesses for the foreseeable future. However, we may from time to time seek longer-term financing to support additional cash needs, reduce short-term borrowings or raise funds for acquisitions.

ACQUISITION FINANCING. We have incurred debt to finance our acquisitions. We have $102.0 million of subordinated notes outstanding related to our August 1996 merger and our acquisition of Harmonic Systems. These subordinated notes were issued to affiliates of our stockholders, bear interest at 10% and are due between 2005 and 2008. To finance the Loyalty acquisition, we borrowed $100.0 million under our credit agreement, consisting of a $50.0 million Canadian Term Loan with an effective fixed interest rate of 8.99% and a $50.0 million Canadian Term Loan with a floating rate of London Interbank Offered Rate plus the Euro-dollar margin. Additionally, we issued $107.0 million in common stock to fund the Loyalty acquisition.

To fund the SPS acquisition, we used $50.0 million in working capital and $120.0 million from the issuance of Series A preferred stock. The Series A preferred stock has a 6% dividend rate payable at the discretion of our board of directors or upon conversion.

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 transaction volume and credit card balances during the holiday shopping period in the fourth quarter and, to a lesser extent, during the first quarter as credit card balances are paid down. Similarly, our petroleum related businesses are favorably affected by increased volume in the latter part of the second quarter and the first part of the third quarter as consumers make more frequent purchases of gasoline in connection with summer travel.

REGULATORY MATTERS

World Financial is subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency. 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 capital adequacy guidelines and the regulatory framework for prompt corrective action, World Financial 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.

Quantitative measures established by regulations to ensure capital adequacy require World Financial 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 six percent, a total capital ratio of at least 10 percent and a leverage ratio of at least five percent and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least four percent, a total capital ratio of at least eight percent and a leverage ratio of at least four percent, but three percent is allowed in some cases. Under these guidelines, World Financial is considered well capitalized. As of March 31, 2001, World Financial's Tier 1 capital ratio was 15.8%, total capital ratio was 16.0% and leverage ratio was 52.7%, and World Financial was not subject to a capital directive order.

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 financial instruments used to reduce the interest rate sensitivity of our securitization transactions. We enter into interest rate swap and treasury lock agreements in the management of interest rate exposure. These off-balance sheet financial instruments involve elements of credit and interest rate risk in excess of the amount recognized on our balance sheet. These instruments also result in certain credit, market, legal and operational risks. We have established credit policies for off-balance sheet instruments consistent with those established for on-balance sheet instruments.

INTEREST RATE RISK. Interest rate risk affects us directly in our lending and borrowing activities. Our total interest expense was approximately $161.8 million for 2000. Of this total, $38.9 million of the interest expense for 2000 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 March 31, 2001, approximately 9.2% of our outstanding debt was subject to fixed rates with a weighted average interest rate of 8.3%. An additional 55.3% of our outstanding debt at March 31, 2001 was locked at an effective interest rate of 6.7% through interest rate swap agreements and treasury locks with notional amounts totalling $1.5 billion.

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%. Assuming we do not take any counteractive measures, a 1.0% increase in interest rates would result in a decrease to pretax income of approximately $8.6 million. Conversely, a corresponding decrease in interest rates would result in a comparable improvement 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-off, 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. Although we have entered into cross currency hedges to fix the exchange rate on any Canadian debt repayment due to a U.S. counter party, we do not hedge our net investment exposure in our Canadian subsidiary.

REDEMPTION REWARD RISK. We are exposed to potentially increasing reward costs associated primarily with travel rewards. To minimize the risk of rising travel reward costs, we:

- have a supply agreement with Air Canada;

- are seeking new supply agreements with additional airlines in Canada;

- alter the total mix of rewards available to collectors with the introduction of new merchandise rewards, which are typically lower cost per Air Mile reward mile than air travel; and

- periodically adjust the number of miles required to redeem a reward.

RECENT ACCOUNTING PRONOUNCEMENTS

RECENTLY ISSUED ACCOUNTING STANDARDS. In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities, and requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. If the derivative is designated in a fair-value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated in a cash flow hedge, changes in the fair value of the derivative will be recorded in other comprehensive income and will be recognized in the income statement when the hedged item affects earnings.

SFAS No. 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings. In January 2001, we recorded $882,000 in other comprehensive income as a cumulative translation adjustment for derivatives designated in cash flow-type hedges prior to adopting SFAS No. 133, primarily related to interest rate swaps.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which replaced SFAS No. 125 and revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Disclosures relating to securitization transactions are required for fiscal years ending after December 15, 2000. Management is currently evaluating the impact on our financial position and results of operations when SFAS No. 140 is adopted, but does not anticipate any material changes.

The Emerging Issues Task Force ("EITF") is reviewing an issue, Issue No. 00-22, "Accounting for 'Point' and Other Loyalty Programs," that is closely related to our Air Miles reward program and the way revenue is recognized for these types of programs. We understand that the EITF will provide guidance on this issue sometime in 2001, but a specific date has not been set. When Issue 00-22 is issued, if it requires modification of our present revenue recognition policy, we will adhere to the guidance provided. Without knowing how the EITF will rule on this issue, we are unable to assess the impact of Issue 00-22 at this time.

GENERAL

We are a leading provider of transaction services, credit services and marketing services to retail companies in North America. We focus on facilitating and managing electronic transactions between our clients and their customers through multiple distribution channels including in-store, catalog and the Internet. Our credit and marketing services assist our clients in identifying and acquiring new customers as well as helping to increase the loyalty and profitability of their existing customers.

We target select market sectors that typically involve companies who sell products and services to individual consumers. The market sectors include specialty retailers, petroleum retailers, supermarkets and financial services companies. Additionally, we target markets where there is an increasing acceptance of electronic payments--mass transit, tollways and parking--enabling them to improve customer convenience while at the same time reduce operating expenses. We have also expanded our market sectors to include electric and gas utilities as the demand increases for products and services that help them compete in a newly de-regulated market.

Our client base includes over 300 companies. We generally have long-term relationships with our clients, with contracts typically ranging from three to five years in duration. Our top five clients, based on their contribution to our 2000 consolidated revenue, are:

- the retail affiliates of The Limited, including Victoria's Secret Stores, Victoria's Secret Catalogue, Express, Lane Bryant, Bath and Body Works, Lerner New York, Henri Bendel and Structure;

- Brylane;

- Bank of Montreal;

- Equiva Services, LLC, which is the service provider to Shell-branded locations in the U.S.; and

- CITGO.

OUR HISTORY

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 The Limited's credit card bank operation, World Financial Network National Bank.

In July 1998, we acquired The Loyalty Management Group Canada Inc., which developed and operates the Air Miles reward miles program in Canada. The acquisition expanded our Marketing Services capabilities to include loyalty marketing. In September 1998, we acquired Harmonic Systems Incorporated, which provides network services, on-line loyalty and stored value products to specialty retailers. This acquisition enabled us to expand our transaction services to include specialty retailers. In July 1999, we acquired the network services business of SPS Payment Systems, Inc., a wholly owned subsidiary of Associates First Capital Corporation. This acquisition increased our processing scale and added an additional 180 clients, many in market sectors with an increasing acceptance of electronic payments, such as mass transit, tollway and parking.

PROGRAMS AND PRODUCTS

Our program and product offerings are centered around three core offerings--Transaction Services, Credit Services and Marketing Services.

TRANSACTION SERVICES

Transaction Services is our largest segment representing 49.5% of our 2000 revenue. Primary services within this segment are transaction processing, representing 34.5% of this segment's 2000 revenue, and account processing and servicing, representing 64.3% of this segment's 2000 revenue.

We facilitate and manage transactions between our clients and their customers through our scalable processing systems. Our services include transaction processing and account processing and servicing. Transaction processing is the electronic authorization, capture and financial settlement of sales transactions at the point of sale. Account processing and servicing is the processing of consumer accounts--both private label credit card and utility accounts; billing and payment processing; and the handling of customer service and collection calls associated with those accounts. Through our predecessor company, we have provided transaction services since 1983. Our clients within this segment are made up of specialty retailers and petroleum retailers. Our largest clients within this segment include The Limited and its retail affiliates, representing approximately 28% of this segment's 2000 revenue, and Brylane, representing approximately 10% of this segment's 2000 revenue.

TRANSACTION PROCESSING. We are a leading provider of transaction processing, processing 2.5 billion transactions in 2000 through approximately 138,000 of our point-of-sale terminals. According to the Faulkner and Gray Card Industry report, we were ranked fifth among third-party U.S. payment processors in 1999. We believe that we are the largest transaction processor to the U.S. retail petroleum industry, and we have a significant presence in the specialty retail and transportation industries.

NETWORK SERVICES. We have built a network that enables us to process an array of electronic payment types including credit card, debit card, prepaid card, electronic benefits and fleet and check transactions. Our acquisitions of Harmonic Systems and SPS's network transaction processing business have enabled us to offer our existing products to new market segments, as well as provide additional products to existing clients. In addition to authorization and settlement of transactions, we also provide merchants with on-line, two-way mail messaging between our clients and their individual locations by broadcasting and receiving messages through their terminal devices. We provide clients with a comprehensive help desk, operating 24 hours per day and seven days per week, as well as terminal deployment and servicing.

MERCHANT BANKCARD SERVICES. Our merchant bankcard services include financial settlement of MasterCard, Visa, Discover, American Express and other electronic card transactions, including credit, debit and stored value cards. Through our merchant bankcard services our clients can maintain their current settlement provider or use us as a single processor to streamline their end-to-end transaction processing.

ACCOUNT PROCESSING AND SERVICING. As reported in the Nilson Report, based on the number of accounts on file we were the second largest outsourcer of retail private label card programs in the United States in 1999, with 52.5 million accounts on file. We assist clients in issuing private label credit cards branded with the retailer's name or logo that can be used by customers at the client's store locations. We also provide service and maintenance to our clients' private label card programs and assist our clients in acquiring, retaining and managing valuable repeat customers. Our Transaction Services segment performs account processing and servicing for the Credit Services segment in connection with that segment's private label card programs. These intersegment services accounted for 47.1% of Transaction Services revenue in 2000. Our commercial card processing and servicing capabilities are specifically designed to handle the unique requirements associated with providing a credit card program to businesses. Our services include new account processing, risk management, card embossing, credit authorization, statement and invoice printing and mailing, and customer service. We

also provide billing and payment processing and customer care services in new markets, such as for regulated and de-regulated utility companies.

CARD PROCESSING. We have developed a proprietary private label credit card system designed specifically for retailers with the flexibility to make changes 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 Pre-Screen products to originate new private label credit card accounts. We believe that these products provide an effective marketing advantage over competing services.

QUICK CREDIT. The cornerstone of our ability to cost-effectively acquire customers for our clients is our "Quick Credit" product, which allows us to quickly process new applications at point-of-sale terminals, register devices or web sites.

ON-LINE PRE-SCREEN. For catalog clients, we offer a pre-approved card by soliciting customers when they place an order over the phone. The product, which works similarly to Quick Credit, enables us to extend a credit offer to a catalog customer at the completion of the order process.

Customer service screens have prompts that, based on information from our client and the private label card program, direct the customer service representative to extend a promotional message. We provide credit card production services in a secured environment, embossing 9.5 million new cards in 2000.

BILLING AND PAYMENT PROCESSING. We use automated technology for bill preparation, printing and mailing. Comingling statements, presorting and bar coding allow us to take advantage of postal discounts. We generated on behalf of our clients approximately 127.2 million statements in 2000. In addition, we also process customer payments using image processing technology to maximize efficiency. By doing so, we improve the funds availability for both our clients and for those private label receivables that we own or securitize.

CUSTOMER CARE. Our customer care operations are influenced by our retail heritage. We focus our training programs in all areas on achieving the highest possible standards. We monitor our performance by conducting surveys with our clients and their customers. We have over 5,000 call center seats in 11 locations, and we handled over 115 million customer inquiries in 2000. Our call centers are equipped to handle phone, mail, fax and Internet inquiries. We also provide collection activities on delinquent accounts to support our retail private label credit card programs.

CREDIT SERVICES

Through our Credit Services segment we provide a program that allows our clients to make private label credit cards available for their customers without having to commit financial resources to the funding of the receivables. We are able to finance and operate private label programs more effectively than a typical retailer can operate a stand-alone program, as we are able to fund receivables through our securitization program to achieve lower borrowing costs while having the infrastructure to support a variety of portfolio types and a large number of account holders.

Through World Financial, we underwrite the accounts and fund purchases at 45 private label credit clients, representing 56.2 million cardholders and $2.1 billion of receivables as of March 31, 2001. Tracing back to our predecessor company, we have experience and expertise in successfully managing private label portfolios since 1986. Clients who utilize our credit services are predominantly specialty retailers. Our largest clients within this segment include The Limited and its retail affiliates, representing 59.2% of this segment's 2000 revenue, and Brylane, representing 21.1% of this segment's 2000 revenue.

ACCOUNT UNDERWRITING AND RISK MANAGEMENT. We believe that an effective risk management process is important in both account underwriting and servicing. We use risk-based pricing in establishing

pricing arrangements with our clients. We also 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 obtain a credit report from one of the major credit bureaus based on the applicant's mailing address and the perceived strength of each credit bureau in that geographic region. In our initial credit evaluation process, we use one of our six proprietary scorecards that have been refined to reflect performance of the various retail programs. Credit scoring is based on several factors including delinquency history, number of recent credit inquiries and the amount of credit used and available. We continuously validate, monitor and maintain the scorecards, and we use resulting data to ensure optimal risk performance.

We utilize the capabilities of our Marketing Services segment to develop and execute new account acquisition strategies that support our underwriting guidelines.

We monitor and control the quality of our portfolio on a continuous basis by using behavioral scoring models to score each active account on its monthly cycle date. The behavioral scoring models dynamically evaluate credit limit assignments to determine whether credit limits should be increased, decreased or maintained based on the credit worthiness of the individual cardholder. Our proprietary scoring models consider such factors as how long the account has been on file, credit utilization, shopping patterns and trends, payment history and account delinquency.

MERCHANT PROCESSING. We receive a merchant fee for processing each sales transaction 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 discount fee.

RECEIVABLES FUNDING. 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 master trust. Our Transaction Services segment retains rights to service the securitized accounts. Our securitizations are treated as sales for accounting purposes and, accordingly, the receivable is removed from the 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.

We securitize our receivables by selling them to a master trust. The master trust funds itself by issuing publicly traded bonds or selling notes to bank-sponsored multi-seller conduits who in turn issue commercial paper. The bonds and notes represent undivided interests in all of the receivables in the related master trust and may be split into separate series and classes that have different terms or maturities. The different classes of an individual series are structured to obtain specific credit ratings. Our seller's interest ranks equally in the right to repayment of principal with the most senior bondholders.

Generally, each series involves an initial reinvestment period, which we refer to as a revolving period, in which the principal payments on receivables allocated to such series are returned to us and we reinvest in the trust new receivables from customer accounts. After the revolving period ends, principal payments allocated to the series are used to repay the investors. This period is referred to as the controlled amortization period. We currently have one series that has entered its controlled amortization period. The controlled amortization period is determined by the agreements governing each series. All series set forth early amortization events, which are deemed to occur if portfolio collections, less net charge-offs for bad debt, financing costs and servicing fees, drop below a minimum threshold. Because new receivables in designated accounts cannot be funded by the trust while a series is in early amortization, early amortization would require us to fund any new receivables or establish a new securitization vehicle. We do not have any series in early amortization.

Each month, each series is allocated its share of finance charge collections which is used to pay investors interest on their securities, to reimburse them for their share of losses due to charge-offs and to pay their share of servicing fees. Amounts remaining may be deposited in cash accounts of the trust as additional protection for future losses. Once each of these obligations is fully met, remaining finance charge collections, if any, are returned to us.

We also maintain flexibility in our current securitization program by negotiating with bank-sponsored conduits. These conduits purchase an interest in receivables arising in designated accounts. These transactions also feature a revolving period in which principal payments on receivables allocated to the conduits are returned to us and reinvested in new receivables. These agreements also have early amortization triggers. Finance charge collections are used to pay certain obligations, including servicing fees, interest on the principal amount of the conduit's investment in the applicable receivables, and recouping charge-offs. After such allocation, remaining finance charge collections, if any, are returned to us.

INTEREST ONLY STRIP. We retain a residual interest in the receivables that essentially represents an interest only strip. The fair value of the interest only strip is determined by the present value of the anticipated cash flows over the estimated outstanding period of the receivables. 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 bondholders, contractual servicing fees and credit losses.

A significant factor affecting the level of anticipated cash flows is the rate at which the underlying principal of the securitized credit card receivables is reduced. Prepayments represent principal reductions in excess of the contractually scheduled reductions. Additional assumptions include estimated future credit losses and a discount rate commensurate with the risks involved. The rate of cardholder prepayments 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 prepayments to increase, thereby requiring a write down in the rate of the interest only strips.

Assumptions regarding future prepayments and credit losses are subject to volatility that could materially affect 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 prepayments 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.

MARKETING SERVICES

Our clients are focused on targeting, acquiring and retaining loyal and profitable customers. We create and manage marketing programs that result in securing more frequent and sustained customer purchasing. We utilize the information gathered through our loyalty programs to help our clients design and implement effective marketing programs. Our primary service for this segment is the Air Miles reward miles program, representing 72.2% of this segment's 2000 revenue. Our clients within this segment are specialty retailers, petroleum retailers, supermarkets and financial services providers. Our largest clients are Bank of Montreal, representing approximately 26.8% of this segment's 2000 revenue, and Safeway Canada, representing approximately 10% of this segment's 2000 revenue.

AIR MILES REWARD MILES PROGRAM. We operate what we believe to be the largest loyalty program in Canada. This program, marketed under the Air Miles brand name, 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 miles program. The program has over 100 brand names represented by the program sponsors, including Shell Canada, Canada Safeway, Amex Bank of Canada (American Express), Bank of Montreal, Goodyear Canada and A&P Canada. Air Miles program members or collectors can

redeem reward miles for products and services such as plane tickets, gift certificates for groceries, movie and theater tickets, and free long distance phone calls. We make these reward opportunities available through over 180 rewards suppliers, including Canadian Airlines and Air Canada, the Toronto Blue Jays, Marine Land and A&P Canada. The Air Miles reward miles program has enabled sponsors to use this tool to increase revenues by bringing new customers to the sponsor, retaining existing customers and increasing the amount spent by customers. Based upon the most recent census data available, in 1999 our active participants represented over 58% of all Canadian households. We have issued over seven billion Air Miles reward miles since the program's inception in 1992.

We deal with three primary parties in connection with our Air Miles reward miles program:

- sponsors--our clients who enter the Air Miles reward miles program to build their customers' loyalty and increased sales from those customers;

- collectors--customers of sponsors who enroll in the Air Miles reward miles program and become collectors of Air Miles reward miles; and

- suppliers--suppliers of the rewards that we offer collectors, such as airlines and merchandise providers.

SPONSORS

The size of our collector base provides incentives for current sponsors to remain with the Air Miles reward miles program and prospective sponsors to join the Air Miles reward miles program. A sponsor enters into an agreement with us to secure exclusive rights for its particular region and product or service category, and to reward customers for changing their shopping behavior. Over a number of years, we have been able to develop a membership, or a collector base, of 6.5 million active collectors.

COLLECTORS

The major benefits of the Air Miles reward miles program to collectors are that they:

- receive a common currency from multiple sponsors--Air Miles reward miles;

- are able to generate additional Air Miles reward miles through their choice of sponsors in the Air Miles reward program; and

- can redeem Air Miles reward miles at one location--through us.

The Air Miles reward miles program offers a reward structure that provides a quick and easy way to earn a broad selection of travel, entertainment and other lifestyle rewards by shopping at participating sponsors. By virtue of the increasing number of sponsors who join the Air Miles reward program, collectors are able to accumulate Air Miles reward miles on much of their weekly spending, from gasoline, grocery and department store purchases to bank deposits. To increase the program's attractiveness to collectors and potential collectors, we have developed a variety of rewards and continue to add suppliers to the program.

SUPPLIERS

We enter into supply agreements with suppliers of rewards to the program such as airlines, movie theaters and manufacturers of consumer electronics. These supply agreements allow us to purchase goods at a set price from the suppliers. We make payments to suppliers pursuant to the contractual supply arrangement when a collector redeems the Air Miles reward miles.

DATABASE MARKETING SERVICES. We have built and manage a large database containing information on approximately 85.7 million U.S. consumers. This database contains nearly five years of purchase information as well as details and results of marketing programs conducted over the last five years. In

addition, we provide database management services for our Air Miles reward miles program. This database contains Air Miles collection information for over 6.5 million Canadian households and the results of marketing programs conducted over the last seven years. Using this database, we have developed a suite of data mining and profiling products that enable our clients to better understand their customers and optimize opportunities for developing customer relationships.

ENHANCEMENT SERVICES. We develop programs designed to maintain active customers while generating new revenue streams for our clients by cross-selling products and services to their existing customers. These services include sourcing, promoting and fulfillment of products. These products do not compete with the clients' merchandise offerings and include merchandise, travel clubs and credit life insurance programs.

DIRECT MARKETING. We develop and execute programs designed to acquire and retain customers. We provide total program management using direct mail, telemarketing, in-store and on-line marketing strategies. Our services include strategy development, creative services, production and mailshop coordination. Selected programs include:

- QUICK CREDIT. The cornerstone of our ability to cost-effectively acquire customers for our clients is our "Quick Credit" product, which allows us to quickly process new applications at point-of-sale terminals, cash register devices or web sites. We view this product as a competitive advantage for our private label card processing and servicing.

- SMART STATEMENTS. Through our Smart Statement capabilities, we have transformed the traditional billing statement into a powerful marketing tool by targeting individual customers with billing statements containing personalized messages. Additionally, we can target a particular segment of the customer base and promote specific products and services to them based on customer profiles. Additionally, our "smart insert" function allows us to include a promotional incentive or coupon with the statement.

- ON-LINE PRE-SCREEN. For catalog clients we offer a pre-approved card by soliciting customers when they place an order over the phone. The product, which works similarly to Quick Credit, enables us to extend a credit offer to a catalog customer at the completion of the order process.

ONE-TO-ONE LOYALTY. We have developed a number of one-to-one, real-time electronic loyalty programs that enable our clients to increase the frequency of customer purchasing. Through our programs, our clients can recognize, acknowledge and reward good customers with instant reward programs that can be implemented at the point of sale. Using the retailer's existing point-of-sale terminal or cash register and our network services, we can capture points, communicate program status and issue awards to the consumer at the point of sale. Our stored value product, electronic gift certificates and prepaid cards also encourage consumer loyalty, especially among cash customers. The retailer issues stored value and prepaid cards that prominently display their logo and can only be used at their retail locations.

OUR MARKET OPPORTUNITY AND GROWTH STRATEGY

The increasing acceptance of electronic payment systems, including credit, debit and stored value cards, generates transaction data on individual consumers, while the dramatic proliferation of technology has enabled companies to capture, access and easily use this information.

While companies recognize the benefit of capturing and using purchasing data, many lack the economies of scale and core competencies necessary to support their own transaction processing infrastructure and card operations, including the extension of credit. In addition, many companies look externally for the expertise to develop and manage their marketing services. Thus, companies that provide the infrastructure to create, manage and facilitate electronic payment systems can create a

database of valuable information on the purchasing behavior of consumers that is critical for developing more targeted and effective marketing programs. For example, the use of private label credit cards creates an opportunity for retailers to strengthen consumer brand loyalty by encouraging repeat purchases through discounts and other special promotions.

We will capitalize on our market opportunities by:

INCREASING THE PENETRATION OF OUR PRODUCTS AND SERVICES TO EXISTING CLIENTS. We plan to further increase the number and types of products and services we provide to our existing client base.

EXPANDING OUR CLIENT BASE IN OUR EXISTING MARKET SECTORS. We plan to acquire new clients in our traditional markets by continuing to distinguish ourselves as a provider of integrated transaction services, credit services and marketing services. We will benefit by what we believe will be a continued trend toward outsourcing as our existing clients and potential new clients have increasing needs for new technology and new skill sets.

CONTINUING TO EXPAND OUR SERVICES AND CAPABILITIES TO HELP OUR CLIENTS SUCCEED IN MULTI-CHANNEL COMMERCE. We plan to help our clients in all channels they choose for distribution--whether in-store, catalog or the Internet. Our current client base is comprised predominantly of traditional storefront and catalog distribution channels. We can apply the systems and marketing programs we have built to support our store and catalog clients using the Internet.

CONSIDERING FOCUSED, STRATEGIC ACQUISITIONS AND ALLIANCES. As we identify new opportunities or product gaps, we may consider focused acquisitions and alliances to enhance our competencies or increase our scale.

CLIENT CASE STUDY

Victoria's Secret provides an example of our ability to integrate our products and services to assist our clients in facilitating transactions and communications with their customers, whether in stores, through catalogs or through web sites. We provide transaction services, credit services and marketing services to Victoria's Secret. The Victoria's Secret private label credit card that we issue allows us to capture a customer's name and address, as well as transaction data in any channel the customer chooses to shop. We deliver the information to our marketing database, which is supplemented with additional data from Victoria's Secret as well as from external sources. This gives us a detail-rich database that we, together with Victoria's Secret, use in developing customer acquisition strategies and managing customer relationships. We also utilize the information that we collect and manage for the private label credit card program to enhance our billing, payment processing and customer care services.

SAFEGUARDS TO OUR BUSINESS

DISASTER AND CONTINGENCY PLANNING. We have a number of safeguards to protect us 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 facilities for our data centers. We operate two data processing centers. In the event we experience an outage in one of our two data centers, we can move all processing to the other data center. Additionally, we have contracted with a third party to provide disaster and contingency planning in the event that both data centers experience an outage.

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 do not currently hold any patents nor do we have any patent applications pending.

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. 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 believe that our 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 data processing companies, credit card issuers and traditional and online marketing companies, as well as with the in-house staffs of our current and potential clients.

TRANSACTION SERVICES. The payment processing industry is highly competitive, especially among the five largest payment processors in the United States, which processed approximately 17.0 billion transactions during 1999. We are a leading provider of transaction services, processing 2.5 billion transactions in 2000 through approximately 138,000 of our point-of-sale terminals. According to the Faulkner and Gray Card Industry report, we were ranked fifth among U.S. payment processors in 1999. Our top three competitors have built their businesses by focusing on merchant banking relationships, while our focus has been on industry segments characterized by companies with large customer bases, detail-rich data and high transaction volumes. Our focus on specific market sectors allows us to develop and deliver solutions targeted to 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 payment processors by providing solutions that help our clients leverage investments they have made in their payment systems by using these systems for electronic marketing programs.

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 database 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, MasterCard and American Express, as well as cash, checks and debit cards.

MARKETING SERVICES. As a provider of marketing services, we generally compete with advertising and other promotional and loyalty programs, both traditional and online, 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 reward miles 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 will make it more difficult for us to do this. For our database marketing services, our ability to continue to capture detailed transaction data on consumers is critical in providing effective customer relationship management strategies for our clients.

REGULATION

PRIVACY LEGISLATION. The enactment of legislation or industry regulations arising from public concern over consumer privacy issues could have a material adverse impact on our marketing services. Restrictions could be placed upon the collection and use of information, in which case our cost of collecting some kinds of data might be materially increased. 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' expectations.

The Gramm-Leach-Bliley Act, which became law in November 1999, requires financial institutions to comply with various notice procedures in order to disclose nonpublic personal information about their consumers to nonaffiliated third parties and restricts their ability to share account numbers. The requirements of this law also apply to the disclosure of any list, description or other grouping of consumers derived from nonpublic personal information. This law makes it more difficult to collect and use information that has been legally available and may increase our costs of collecting some data. This law also requires us to disclose our privacy policies and practices to consumers. New regulations under the Gramm-Leach-Bliley Act that take effect in July 2001 will give credit card customers the ability to opt out of having information generated by their credit card purchases shared with other parties or the public.

On April 13, 2000, the Canadian federal government and Minister of Industry of Canada enacted the Personal Information Protection and Electronic Documents Act. This act, which became effective on January 1, 2001, comprises comprehensive private sector privacy legislation that applies to organizations engaged in any commercial activities in Canada. It enacted into law 10 privacy principles from the Canadian Standards Association's Model Privacy Code. This act requires organizations to obtain consent to the collection, use or disclosure of personal information. The nature of the required consent will depend on the sensitivity of the personal information and will permit personal information to be used only for the purposes for which it was collected. The Province of Quebec has had similar privacy legislation applicable to the private sector in that province since 1994 and other provinces are considering further privacy legislation. We have taken steps with the Air Miles reward miles program to comply with the new law.

FAIR CREDIT REPORTING ACT. The Fair Credit Reporting Act regulates consumer reporting agencies. Under this Act, an entity risks becoming a consumer reporting agency if it furnishes consumer reports to third parties. A consumer report is a communication of information which bears on a consumer's creditworthiness, credit capacity, credit standing or certain other characteristics and which is collected or used or expected to be used to determine the consumer's eligibility for credit, insurance, employment or certain other purposes. The Fair Credit Reporting Act explicitly excludes from the definition of consumer report a report containing information solely as to transactions or experiences between the consumer and the entity making the report. An entity may share consumer reports with any of its affiliates so long as that entity provides consumers with an appropriate disclosure and an opportunity to opt out of this affiliate sharing.

Our objective is to conduct our operations in a manner that would fall outside the definition of a consumer reporting agency under the Fair Credit Reporting Act. If we were deemed to be a consumer

reporting agency, however, we would be subject to a number of complex and burdensome regulatory requirements and restrictions. These restrictions could have a significant adverse economic impact on us.

INTERSTATE TAXATION. Several states have passed legislation that attempts to tax the income from interstate financial activities, including credit cards, derived from accounts held by local state residents. We believe that this legislation will not materially affect us. Our belief is based upon the enforceability of such legislation, prior court decisions and the volume of business we conduct in states that have passed this legislation.

REGULATION OF THE BANK. World Financial is a limited purpose credit card bank chartered as a national banking association and a member of the Federal Reserve System. The Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation, insures the deposits of World Financial. World Financial is subject to regulation and examination by the Office of the Comptroller of the Currency, its primary regulator, and is also subject to regulation by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, as back-up regulators. World Financial is not a "bank" as defined under the Bank Holding Company Act; instead, it is a credit card bank 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 extensions of credit;

- it maintains only one office that accepts deposits; and

- it does not engage in the business of making commercial loans.

If World Financial failed to meet the credit card bank criteria described above, World Financial would be a "bank" as defined by the Bank Holding Company Act, subjecting us to the provisions, requirements and restrictions of the Bank Holding Company Act as a bank holding company. We believe that becoming a bank holding company would significantly harm us, as we would be required to either divest our non-banking activities or cease all activities that are not permissible for a bank holding company and its affiliates.

INVESTMENT IN OUR COMPANY AND WORLD FINANCIAL NETWORK NATIONAL BANK. Because of our ownership of World Financial, certain acquisitions of our common stock may be subject to regulatory approval or notice under Federal law. Investors are responsible for insuring that they do not directly or indirectly acquire our common stock in excess of the amount that can be acquired without regulatory approval.

EXPORTATION OF INTEREST RATES AND FEES. National banks such as World Financial may charge interest at the rate allowed by the laws of the state where the bank is located, and may "export" those interest rates on loans to borrowers in other states, without regard to the laws of such other states. In 1996, the United States Supreme Court ruled that national banks may also impose fees material to a determination of the interest rate allowed by the laws of the state where the national bank is located on borrowers in other states, without regard to the laws of such other states. The Supreme Court based its opinion largely on its deference to a regulation adopted by the Office of the Comptroller of the Currency that includes certain fees, including late fees, over limit fees, annual fees, cash advance fees and membership fees, within the term "interest" under the provision of the National Bank Act that has been interpreted to permit national banks to export interest rates. As a result, national banks such as World Financial may export such fees.

DIVIDENDS AND TRANSFERS OF FUNDS. Federal law limits the extent to which World Financial can finance or otherwise supply funds to us and our affiliates through dividends, loans or otherwise. These limitations include:

- minimum regulatory capital requirements; and

- restrictions concerning the payment of dividends out of net profits or surplus and Sections 23A and 23B of the Federal Reserve Act governing transactions between a bank and its affiliates.

In general, Federal law prohibits a national bank such as World Financial from making dividend distributions on common stock if the dividend would exceed currently available undistributed profits. In addition, World Financial must get prior approval from the Office of the Comptroller of the Currency for a dividend if the distribution would exceed current year net income combined with retained earnings from the prior two years less dividends paid cumulatively in the last two years and the current fiscal year. World Financial cannot make a dividend payment if the distribution would cause it to fail to meet applicable capital adequacy standards.

COMPTROLLER OF THE CURRENCY

SAFETY AND SOUNDNESS. The Federal Deposit Insurance Corporation Improvement Act of 1991 requires banking agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation. This act also provides that regulatory action may be taken against a bank that does not meet such standards.

CAPITAL ADEQUACY. World Financial 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 our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, World Financial 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.

Quantitative measures established by regulation to ensure capital adequacy require World Financial 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 six percent, a total capital ratio of at least 10 percent and a leverage ratio of at least five percent and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least four percent, a total capital ratio of at least eight percent and a leverage ratio of at least four percent, but three percent is allowed in some cases. Under these guidelines, World Financial is considered well capitalized. As of March 31, 2001, World Financial's Tier 1 capital ratio was 15.8%, total capital ratio was 16.0% and leverage ratio was 52.7%, and World Financial was not subject to a capital directive order.

The Office of the Comptroller of the Currency's risk-based capital standards explicitly consider a bank's exposure to a decline in the economic value of its capital due to changes in interest rates when evaluating a bank's capital adequacy. Interest rate risk is the exposure of a bank's current and future earnings and equity capital arising from adverse movements in interest rates. This evaluation is made as a part of World Financial's regular safety and soundness examination.

FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT OF 1991. The Improvement Act requires the Federal Deposit Insurance Corporation to implement a system of risk-based premiums for deposit insurance. Pursuant to this system, the premiums paid by a depository institution will be based on the probability that the FDIC will incur a loss in respect of that institution. The FDIC has adopted a

system that imposes insurance premiums based upon a matrix that takes into account a bank's capital level and supervisory rating. Due to its capital level and supervisory rating, World Financial currently pays the lowest rate on deposit insurance premiums.

Under the Improvement Act, only "well capitalized" and "adequately capitalized" banks may accept brokered deposits. "Adequately capitalized" banks, however, must first obtain a waiver from the FDIC before accepting brokered deposits and these deposits may not pay rates that significantly exceed the rates paid on deposits of similar size and maturity accepted from the bank's normal market area or the national rate on deposits of comparable maturity, as the FDIC determines, for deposits from outside the bank's normal market area. World Financial issues certificates of deposit in amounts of $100,000 or greater.

LENDING ACTIVITIES. World Financial's activities as a credit card lender are also subject to regulation under various Federal consumer protection laws including the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Community Reinvestment Act, the Soldiers' and Sailors' Civil Relief Act and state consumer protection laws. Regulators are authorized to impose penalties for violations of these statutes and, in certain cases, to order banks such as World Financial to pay restitution to injured cardholders. Cardholders may also bring actions for violations of these regulations. Federal and state bankruptcy and debtor relief laws also affect World Financial's ability to collect outstanding balances owed by cardholders who seek relief under these laws.

For the purposes of the Office of the Comptroller of the Currency's Community Reinvestment Act regulations, World Financial has applied for and received a limited purpose designation. The regulations subject banks receiving such a designation to a community development test for evaluating required Community Reinvestment Act compliance. The community development performance of a limited purpose bank is evaluated pursuant to various criteria involving qualified investments and community development services. As of March 31, 2001, World Financial was in full compliance with its responsibilities under the Act.

CONSUMER AND DEBTOR PROTECTION LAWS. From time to time legislation has been proposed in Congress to limit interest rates and fees that could be charged on credit card accounts or otherwise restrict practices of credit card issuers. If this or similar legislation is proposed and adopted, our ability to collect on account balances or maintain previous levels of finance charges and other fees could be adversely affected. Additionally, changes have been proposed to the Federal bankruptcy laws. Changes in Federal bankruptcy laws and any changes to state debtor relief and collection laws could adversely affect us if these changes result in, among other things, accounts being charged off as uncollectible and additional administrative expenses. It is unclear at this time whether and in what form any legislation will be adopted or, if adopted, what its impact on us would be. Congress may in the future consider other legislation that would materially affect the credit card and related fee-based services industries.

Existing laws and regulations may permit class action lawsuits on behalf of customers in the event of violations of applicable laws, and these lawsuits can be very expensive to defend, even without any violation. If a class action were determined adversely, it might have a material adverse effect on us.

EMPLOYEES

As of March 31, 2001, we had approximately 6,500 employees in the United States, Canada and New Zealand.

LEGAL PROCEEDINGS

From time to time, we are involved in various claims and lawsuits incidental to our business, including claims and lawsuits alleging breaches of contractual obligations.

Service Merchandise, Inc., which is in voluntary Chapter 11 bankruptcy, and its subsidiary Service Credit Corp., as plaintiffs, have filed an action against World Financial in U.S. Bankruptcy Court for the Middle District of Tennessee. The plaintiffs are alleging claims of breach of contract, anticipatory breach of contract, and violations of the automatic stay provisions of the U.S. Bankruptcy Code. The action centers around claims that World Financial violated various contractual provisions of a private label credit card program agreement for Service Merchandise that World Financial entered into with Service Merchandise and Service Credit Corp. Plaintiffs allege that World Financial violated the agreement, by among other things, unilaterally revising the credit standards applicable to existing cardholders and withholding monthly program payments from Service Credit Corp. In April 2000, we moved to dismiss the amended complaint. On November 9, 2000, the Bankruptcy Court issued an order dismissing a portion of the counts of the amended complaint, but allowing plaintiffs to go forward with other claims for breach of contract, anticipatory breach of contract and violation of the automatic stay. On January 5, 2001, we answered the plaintiffs' complaint, denying their material allegations and asserting affirmative defenses. We were granted leave by the Bankruptcy Court to file counterclaims against both plaintiffs. Through these counterclaims, we are seeking to recover from Service Merchandise and Service Credit various amounts, cumulatively exceeding $30.0 million, that we contend are due and owing to us. Service Merchandise and Service Credit Corp. filed a joint answer with affirmative defenses on April 26, 2001. Neither Service Merchandise nor Service Credit Corp. have specified the amount of damages that they are seeking from us but do claim, among other things, that World Financial's conduct caused the plaintiffs to suspend, and later terminate, the private label card program agreement. The plaintiffs generally claim they suffered damages through unpaid amounts that they allege World Financial owes them, lost sales and profits, the loss of the economic benefits of the World Financial credit card program, and a loss of enterprise value. Given the early stage of the litigation, we are unable to determine whether the ultimate resolution of the claims by and against World Financial will have a material effect on our business, financial condition or operating results. We intend to defend World Financial's interests vigorously.

On November 16, 2000, in the United States District Court, Southern District of Florida, Miami Division, a group of World Financial cardholders filed a putative class action complaint against World Financial. The plaintiffs, individually and on behalf of all others similarly situated, commenced the action alleging that World Financial engaged in a systematic program of false, misleading, and deceptive practices to improperly bill and collect consumer debts from thousands of cardholders. The suit stems from World Financial's practices involved in calculating finance charges and in crediting cardholder payments on the next business day if received after 6:30 a.m. The plaintiffs contend that such practices are deceptive and result in the imposition of excessive finance charges and other penalties to cardholders. The plaintiffs allege that World Financial, through such practices, has violated several federal and Florida state consumer protection statutes and breached cardholder contracts. The plaintiffs have not specified an amount of damages, but have requested, individually and on behalf of a putative class, monetary and punitive damages for the alleged stated claims and permanent injunctions for alleged statutory violations. World Financial believes these allegations are without merit and intends to defend this matter vigorously.

PROPERTIES

The following table sets forth information with respect to our principal facilities.

LOCATION	SEGMENT	CURRENT MONTHLY BASE LEASE RENT	APPROXIMATE SQUARE FOOTAGE	LEASE EXPIRATION DATE
Northglenn, Colorado.....	Transaction Services	$ 37,104	65,000	August 31, 2007
Kennesaw, Georgia.....	Transaction Services	$ 22,560	20,068	October 8, 2006
Buffalo Grove, Illinois.....	Transaction Services	$ 35,669	24,320	February 29, 2010
Lenexa, Kansas.....	Transaction Services	$ 45,244	65,000	January 31, 2008
Minneapolis, Minnesota.....	Marketing Services and Transaction Services	$ 31,997	28,442	August 31, 2004
Voorhees, New Jersey.....	Transaction Services	$ 75,431	67,050	January 1, 2005
Columbus, Ohio.....	Transaction Services	$ 36,536	103,161	January 31, 2008
Columbus, Ohio.....	Transaction Services and Credit Services	$ 74,928	100,800	May 31, 2006
Columbus, Ohio.....	Transaction Services	$ 14,400	57,600	August 31, 2004
Columbus, Ohio.....	Marketing Services, Transaction Services and Credit Services	$ 40,733	54,615	August 31, 2007
Reno, Ohio.....	Credit Services	$ 11,128	12,140	April 30, 2002
Zanesville, Ohio.....	Credit Services	$ 5,850	5,400	April 1, 2006
Johnson City, Tennessee.....	Transaction Services	$ 44,925	45,000	October 19, 2010
Dallas, Texas.....	Marketing Services and Transaction Services	$ 114,228	114,419	November 30, 2009
Dallas, Texas.....	Transaction Services and Credit Services	$ 121,000	114,419	October 10, 2010
Dallas, Texas.....	Marketing Services, Transaction Services and Credit Services	$ 57,479	61,750	July 31, 2007
Dallas, Texas.....	Transaction Services	$ 18,224	72,897	April 30, 2006
San Antonio, Texas.....	Transaction Services	$ 47,692	67,540	January 31, 2002
Mississauga, Ontario, Canada.....	Marketing Services	$ 36,850	39,027	August 31, 2009
Toronto, Ontario, Canada....	Marketing Services	$ 228,700	137,411	September 16, 2007
Montreal, Quebec, Canada.....	Marketing Services	$ 5,846	6,093	June 30, 2009
Calgary, Alberta, Canada....	Marketing Services	$ 9,313	8,120	December 31, 2004
Auckland, New Zealand.....	Transaction Services	$ 12,041	11,700	September 13, 2005
Total.....		$1,127,878	1,281,972	

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.

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth the name, age and positions of each of our executive officers, business unit presidents and directors as of the date of this prospectus:

NAME	AGE	POSITION
J. Michael Parks	50	Chairman of the Board of Directors, Chief Executive Officer and President
Ivan M. Szeftel	47	Executive Vice President and President, Retail Credit Services
John W. Scullion	44	President and Chief Executive Officer, The Loyalty Group
Michael A. Beltz	45	Executive Vice President and President, Transaction Services Group
Edward J. Heffernan	38	Executive Vice President and Chief Financial Officer
Dwayne H. Tucker	44	Executive Vice President and Chief Administrative Officer
Steven T. Walensky	43	Executive Vice President and Chief Information Officer
Carolyn S. Melvin	48	Senior Vice President, Secretary and General Counsel
Robert P. Armiak	39	Vice President and Treasurer
Michael D. Kubic	45	Vice President, Corporate Controller and Chief Accounting Officer
Richard E. Schumacher, Jr.	34	Vice President, Tax
Bruce K. Anderson	61	Director
Roger H. Ballou	50	Director
Anthony J. deNicola	36	Director
Daniel P. Finkelman	45	Director
Kenneth R. Jensen	57	Director
Robert A. Minicucci	49	Director
Bruce A. Soll	43	Director

J. MICHAEL PARKS, chairman of the board of directors, chief executive officer and president, joined us in March 1997. Before joining us, Mr. Parks was president of First Data Resources, the credit card processing and billing division of First Data Corporation, from December 1993 to July 1994. Mr. Parks joined First Data Corporation in July 1976 where he gained increased responsibility for sales, service, operations and profit and loss management during his 18 years of service. Mr. Parks holds a Bachelor's degree from the University of Kansas.

IVAN M. SZEFTEL, executive vice president and president of our Retail Credit Services business unit, joined us in May 1998. Before joining us, he served as chief operating officer of Forman Mills, Inc. from November 1996 to April 1998. Prior to that, he served as a director and executive vice president and chief financial officer of Charming Shoppes, Inc. from November 1981 to February 1996. Mr. Szeftel holds Bachelor's and post graduate degrees from the University of Cape Town and is a Certified Public Accountant in the State of Pennsylvania.

JOHN W. SCULLION, president and chief executive officer of Loyalty Management Group Canada Inc., joined The Loyalty Group in October 1993. Prior to becoming president, he served as chief financial officer for The Loyalty Group. Prior to that, he served as chief financial officer of The Rider Group from September 1988 to October 1993. Mr. Scullion holds a Bachelor's degree from the University of Toronto.

MICHAEL A. BELTZ, executive vice president and president of our Transaction Services Group, joined us in May 1997. From May 1997 to January 2001, he served as executive vice president and then president of business development and planning. He is responsible for transaction services, U.S. based marketing services, new market identification and acquisitions. Before joining us, he served as executive vice president of sales and acquisitions of First Data Corporation from July 1983 to April 1997. Mr. Beltz holds a Bachelor's degree from the University of Nebraska.

EDWARD J. HEFFERNAN, executive vice president and chief financial officer, joined us in May 1998. Before joining us, he served as vice president, mergers and acquisitions for First Data Corporation from October 1994 to May 1998. Prior to that he served as vice president, mergers and acquisitions for Citicorp from July 1990 to October 1994, and prior to that he served in corporate finance at Credit Suisse First Boston Corporation from June 1986 until July 1990. He holds a Bachelor's degree from Wesleyan University and an MBA from Columbia Business School.

DWAYNE H. TUCKER, executive vice president and chief administrative officer, joined us in June 1999. He is responsible for human resources, facilities, legal services, corporate communications and corporate marketing. Before joining us, he served as vice president of human resources for Northwest Airlines from February 1998 to February 1999 and as senior vice president of human resources for First Data Corporation from March 1990 to February 1998. Mr. Tucker holds a Bachelor's degree from Tennessee State University.

STEVEN T. WALENSKY, executive vice president and chief information officer, joined us in July 1998. He is responsible for management of the corporate information services organization. Before joining us, he served as senior vice president of data center services for First Data Corporation from October 1995 to June 1998. Prior to that, he held management positions with Visa International and Sprint. Mr. Walensky holds a Bachelor's degree from Rockhurst College.

CAROLYN S. MELVIN, senior vice president of legal services, general counsel and secretary, joined us in September 1995 as vice president, general counsel and secretary of World Financial. She is responsible for legal, internal audit and compliance. Before joining us, she served as vice president and counsel for National City Corporation from December 1982 until September 1995. Ms. Melvin holds a Bachelor's degree from Dickinson College and a J.D. from Ohio State University College of Law.

ROBERT P. ARMIAK, vice president and treasurer, joined us in February 1996. He is responsible for cash management, hedging strategy, risk management and capital structure. Before joining us, he held several positions, including most recently, treasurer, at FTD Inc. from August 1990 to February 1996. He holds a Bachelor's degree from Michigan State University and an MBA from Wayne State University.

MICHAEL D. KUBIC, vice president, corporate controller and chief accounting officer, joined us in October 1999. Before joining us, he served as vice president of finance for Kevco, Inc. from March 1999 to October 1999. Prior to that he served as vice president and corporate controller for BancTec, Inc. from September 1993 to February 1998. Mr. Kubic holds a Bachelor's degree from the University of Massachusetts and is a Certified Public Accountant in the State of Texas.

RICHARD E. SCHUMACHER, JR., vice president of tax, joined us in October 1999. He is responsible for corporate tax affairs. Before joining us, he served as tax senior manager for Deloitte & Touche LLP from 1989 to October 1999 where he was responsible for client tax services and practice management and was in the national tax practice serving the banking and financial services industry.

Mr. Schumacher holds a Bachelor's degree from Ohio State University and a Master's from Capital University Law and Graduate School and is a Certified Public Accountant in the State of Ohio.

BRUCE K. ANDERSON has served as a director since our merger in August 1996. Since March 1979, he has been a partner and co-founder of the investment firm, Welsh, Carson, Anderson & Stowe. Prior to that, he spent nine years with ADP where, as executive vice president and a member of the board of directors, he was active in corporate development and general management. Before joining ADP, Mr. Anderson spent four years in computer marketing with IBM and two years in consulting. Mr. Anderson is currently a director of Amdocs Limited. He holds a Bachelor's degree from the University of Minnesota.

ROGER H. BALLOU has served as a director since February 2001. Mr. Ballou has been a self-employed consultant since October 2000. Before that time, Mr. Ballou had served as chairman and chief executive officer of Global Vacation Group, Inc. from April 1998 to September 2000. Prior to that, he was a senior advisor for Thayer Capital Partners from September 1997 to April 1998. From April 1995 to August 1997, he served as vice chairman and chief marketing officer, then as president and chief operating officer, of Alamo Rent-a-Car, Inc. Mr. Ballou is currently chairman of the U.S. National Tourism Organization, and served as chairman of the Government Affairs Council from 1995 to 1997. Mr. Ballou is currently a director of American Medical Security Group, Inc. Mr. Ballou holds a Bachelor's degree from the Wharton School of the University of Pennsylvania and an MBA from the Tuck School of Business at Dartmouth.

ANTHONY J. DENICOLA has served as a director since our merger in August 1996. Mr. deNicola is a partner with Welsh, Carson, Anderson & Stowe, joining the firm in April 1994. Prior to that, he spent four years with William Blair & Company, financing middle market buy-outs from July 1990 to February 1994. Mr. deNicola is currently a director of Centennial Cellular Corp. and NTELOS Inc. He holds a Bachelor's degree from DePauw University and an MBA from Harvard Business School.

DANIEL P. FINKELMAN has served as a director since January 1998. Mr. Finkelman is senior vice president of The Limited, Inc. and is responsible for all brand and business planning for that specialty retailer. He has been employed with The Limited since August 1996. Before joining The Limited, he was self-employed as a consultant from February 1996 to August 1996 and he served as executive vice president of marketing for Cardinal Health, Inc. from May 1994 to February 1996. Prior to that, he was a partner with McKinsey & Company where he was co-leader of the firm's marketing practice, focusing on loyalty and customer relationship management. Mr. Finkelman holds a Bachelor's degree from Grinnell College and graduated as a Baker Scholar at Harvard Business School.

KENNETH R. JENSEN became a director in February 2001. Mr. Jensen has been executive vice president, chief financial officer, treasurer, assistant secretary and a director of Fiserv, Inc., a public company engaged in data processing outsourcing, since July 1984. He was named senior executive vice president of Fiserv in 1986. Mr. Jensen holds a Bachelor's degree from Princeton University in Economics, an MBA from the University of Chicago in Accounting, Economics and Finance and a Ph.D. from the University of Chicago in Accounting, Economics and Finance.

ROBERT A. MINICUCCI has served as a director since our merger in August 1996. Mr. Minicucci is a partner with Welsh, Carson, Anderson and Stowe, joining the firm in August 1993. Before joining Welsh, Carson, Anderson & Stowe, he served as senior vice president and chief financial officer of First Data Corporation from December 1991 to August 1993. Mr. Minicucci is currently a director of Amdocs Limited. Mr. Minicucci holds a Bachelor's degree from Amherst College and an MBA from Harvard Business School.

BRUCE A. SOLL has served as a director since February 1996. Mr. Soll is senior vice president and counsel of The Limited, where he has been employed since September 1991. Before joining The Limited, he served as the Counsellor to the Secretary of Commerce in the Bush Administration from February 1989 to September 1991 where he was a senior policy official, focusing on international trade, telecommunications and technology. Mr. Soll holds a Bachelor's degree from Claremont McKenna College and a J.D. from the University of Southern California Law School.

CLASSES OF BOARD OF DIRECTORS

Our certificate of incorporation authorizes there to be between six and 12 directors. Our board of directors currently consists of eight members. Kenneth R. Jensen and Roger H. Ballou were elected as independent directors in February 2001, and we intend to designate one additional independent director after consummation of this offering. Our board is divided into three classes that serve staggered three-year terms, as follows:

CLASS	EXPIRATION OF TERM	MEMBERS
Class I	2004	Anthony J. deNicola, Bruce A. Soll, Kenneth R. Jensen
Class II	2002	Bruce K. Anderson, Daniel P. Finkelman Roger H. Ballou
Class III	2003	Robert A. Minicucci, J. Michael Parks

Newly elected directors and any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. There are no family relationships among any of our directors, executive officers or division presidents.

COMMITTEES OF THE BOARD OF DIRECTORS

Our board of directors presently has three committees, consisting of the audit committee, the compensation committee and the capital budget committee.

The audit committee, which consists of Kenneth R. Jensen, Roger H. Ballou and Anthony J. deNicola, will review the scope and approach of the annual audit, our financial statements and related auditors' report and the auditors' comments relative to the adequacy of our system of internal controls and financial reporting. The audit committee will also recommend to our board of directors the appointment of independent public accountants for the following year. In accordance with New York Stock Exchange regulations, the members of the audit committee are independent directors who are financially literate, at least one of whom has significant experience in accounting or finance matters. Our audit committee has adopted and will periodically review a written charter that will specify the scope of its responsibilities.

The compensation committee, which consists of Robert A. Minicucci and Daniel P. Finkelman and will include a third nonemployee director, will review management compensation levels and provide recommendations to our board of directors regarding salaries and other compensation for our executive officers, including bonuses and incentive plans, and administer specific matters with respect to our stock option plan.

The capital budget committee, which currently consists of Anthony J. deNicola and Bruce A. Soll, has the power and authority of the board of directors to adopt our capital expenditure budget and to evaluate and authorize any and all capital expenditures that exceed $1 million.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Prior to this offering, our board of directors or the compensation committee made decisions relating to the compensation of Mr. Parks and the executive officers reporting directly to him. During this time, Mr. Parks participated in all discussions concerning compensation of the executive officers reporting directly to him, except that Mr. Parks was excluded from discussions regarding his own compensation. None of our executive officers served as a member of the board of directors or the

compensation committee of any entity that has one or more executive officers serving on our board of directors or on the compensation committee of our board of directors.

DIRECTOR COMPENSATION

All directors are reimbursed for reasonable out-of-pocket expenses incurred while serving on the board of directors and any committee of the board of directors. Our non-employee directors currently participate in our amended and restated stock option and restricted stock plan. Individuals who are non-employee directors on the closing date of this offering will have a choice of receiving either (1) a nonqualified stock option to purchase 42,000 shares of our common stock at an exercise price equal to the initial public offering price or (2) a nonqualified stock option to purchase 28,500 shares of our common stock, at an exercise price equal to the fair market value at the date of grant, plus cash compensation of $15,000 annually, $1,000 for each board meeting attended and $500 for each committee meeting attended. Non-employee directors who are elected after this offering will make this choice of compensation alternatives upon becoming directors and will receive the nonqualified stock options on the date that they first become directors.

EXECUTIVE COMPENSATION

The following table sets forth the annual and long-term compensation for the year ended December 31, 2000 for our chief executive officer, our four other most highly compensated executive officers and one additional executive officer who would have been one of our four most highly compensated executive officers if he had continued to be employed with us as of December 31, 2000. These six individuals are referred to as the named executive officers.

	ANNUAL COMPENSATION		LONG-TERM COMPENSATION		
NAME AND PRINCIPAL POSITION	SALARY ($)	BONUS(1)	RESTRICTED STOCK AWARDS($)(2)	SECURITIES UNDERLYING OPTIONS, SARS (#)	ALL OTHER COMPENSATION
J. Michael Parks..... Chairman of the Board, Chief Executive Officer and President	$475,000	$372,000	$1,800,000	230,000	$ 33,482
Ivan M. Szeftel..... Executive Vice President and President, Retail Credit Services	$335,000	$179,800	$ 525,000	80,000	$ 21,135
Michael A. Beltz..... Executive Vice President and President, Transaction Services Group	$260,000	$198,200	$ 525,000	80,000	$ 15,503
John W. Scullion(3)..... President and Chief Executive Officer, The Loyalty Group	$255,104	$134,006	$ 525,000	80,000	$ 11,993
Edward K. Mims(4)..... Executive Vice President and Chief Financial Officer	$214,077	$113,377	$ 525,000	80,000	$290,787
James E. Anderson(5)..... Executive Vice President and President, Utilities Services	$233,692	$117,500	$ 525,000	80,000	$ 17,176

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(1) Bonuses represent amounts earned by each executive officer during the referenced year, although paid in the following year. Bonuses are determined based upon the achievement of operating income, various financial and operational objectives and individual objectives.

(2) Amounts in this column represent the value of the following performance-based restricted stock awards issued in September 2000 at $15.00 per share: 120,000 shares to Mr. Parks and 35,000 shares to each of Messrs. Szeftel, Beltz, Scullion, Mims and Anderson. The value of the restricted stock awards, based upon an assumed initial public offering price of $13.00 per share, is $1,560,000 for Mr. Parks and $455,000 for each of Messrs. Szeftel, Beltz, Scullion, Mims and Anderson. These awards will not vest unless specific performance measures tied to either EBITDA or return on stockholders' equity are met. If these performance measures are met, some of these restricted shares will vest at the end of a five year period, but some can vest on a more accelerated basis if certain annual EBITDA performance targets are met. Twenty percent of each participant's award vested on February 6, 2001 based on our EBITDA in 2000.

(3) Mr. Scullion's salary, bonus and all other compensation are paid in Canadian dollars. Amounts reflected are converted to U.S. dollars at an average conversion rate for the year of $0.67.

(4) Mr. Mims commenced employment with us in February 1998 and resigned effective October 11, 2000. All other compensation includes the lump-sum payment of $269,923 received in 2000 by Mr. Mims as part of his severance agreement.

(5) Mr. Anderson commenced employment with us in May 1997 and resigned effective December 31, 2000.

All other compensation amounts include our matching contributions to the 401(k) and Retirement Savings Plan, the Supplemental Executive Retirement Plan, the life insurance premiums we pay on behalf of each executive officer and long-term disability expenses as follows:

	401(K) PLAN	LIFE INSURANCE PREMIUMS	SERP	LONG-TERM DISABILITY	SEVERANCE
J. Michael Parks	$11,580	$ 172	$21,730	$ --	$ --
Ivan M. Szeftel	$11,580	$ 149	$ 9,406	$ --	$ --
Michael A. Beltz	$ 9,980	$ 115	$ 5,408	$ --	$ --
John W. Scullion	$ --	$4,221	$ --	$7,722	$ --
Edward K. Mims	$13,180	$ 108	$ 7,577	$ --	$269,923
James E. Anderson	$11,580	$ 103	$ 5,493	$ --	$ --

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth certain information concerning option grants made to the named executive officers during 2000 pursuant to our stock option plan.

	INDIVIDUAL GRANTS					
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)	PERCENTAGE OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(1)	EXERCISE PRICE ($/SH)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM ($)(2) 5%	10%
J. Michael Parks	230,000	8.7%	$15.00	9/1/10	$2,169,686	$5,498,411
Ivan M. Szeftel	80,000	3.0%	$15.00	9/1/10	$ 754,674	$1,912,491
Michael A. Beltz	80,000	3.0%	$15.00	9/1/10	$ 754,674	$1,912,491
John W. Scullion	80,000	3.0%	$15.00	9/1/10	$ 754,674	$1,912,491
Edward K. Mims(3)	80,000	3.0%	$15.00	9/1/10	$ 754,674	$1,912,491
James E. Anderson(4)	80,000	3.0%	$15.00	9/1/10	$ 754,674	$1,912,491

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(1) In 2000, we granted options to purchase a total of 19,331 shares of common stock at an exercise price of $11.25 per share and options to purchase a total of 2,629,145 shares of common stock at an exercise price of $15.00 per share.

(2) In accordance with SEC rules, the amounts shown on this table represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on the assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date and do not reflect our estimates or projections of the future price of our common stock. The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on stock option exercises will depend on the future performance of our common stock, the option holder's continued employment through the option period, and the date on which the options are exercised.

(3) Under Mr. Mims' severance agreement, options that were vested as of the date of his resignation may be exercised by Mr. Mims for a period of up to six months after that date. One-third of Mr. Mims' unvested options will vest on August 31, 2001 and be exercisable thereafter for a period of six months.

(4) Under Mr. Anderson's severance agreement, options that were vested as of the date of his resignation may be exercised through February 2002. One-third of Mr. Anderson's unvested options will vest on August 31, 2001 and be exercisable thereafter for a period of six months.

OPTION EXERCISES IN LAST FISCAL YEAR

The following table sets forth certain information concerning all unexercised options held by the named executive officers as of December 31, 2000. No options were exercised by the named executive officers during 2000.

	NUMBER OF UNEXERCISED OPTIONS AT FISCAL YEAR-END(#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END($)(1)	
NAME	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
J. Michael Parks	298,609	348,056	$1,175,686	$415,974
Ivan M. Szeftel	61,111	152,222	$ 239,444	$273,889
Michael A. Beltz	72,221	141,110	$ 271,384	$216,941
John W. Scullion	41,667	121,666	$ 129,168	$129,165
Edward K. Mims(2)	36,111	132,777	$ 131,944	$183,609
James E. Anderson(3)	43,055	125,832	$ 159,720	$155,829

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(1) Value for "in-the-money" options represents the positive spread between the respective exercise prices of outstanding options and the anticipated initial public offering price of $13.00 per share.

(2) Under Mr. Mims' severance agreement, options that were vested as of the date of his resignation may be exercised by Mr. Mims for a period of up to six months after that date. One-third of Mr. Mims' unvested options will vest on August 31, 2001 and be exercisable thereafter for a period of six months.

(3) Under Mr. Anderson's severance agreement, options that were vested as of the date of his resignation may be exercised through February 2002. One-third of Mr. Anderson's unvested options will vest on August 31, 2001 and be exercisable thereafter for a period of six months.

EMPLOYMENT, SEVERANCE AND INDEMNIFICATION AGREEMENTS

We generally do not to enter into employment agreements with our employees. However, as part of some of our acquisitions, we have entered into agreements with selected key individuals to ensure the success of the integration of the acquisition and long-term business strategies. In addition, we have entered into employment agreements with Mr. Parks and Mr. Szeftel.

J. MICHAEL PARKS. Mr. Parks entered into an employment agreement effective March 10, 1997 to serve as our chairman of the board and chief executive officer. The agreement provides that Mr. Parks will receive a minimum annual base salary of $475,000. Mr. Parks is entitled to an annual incentive bonus of $400,000 based on the achievement of our annual financial goals. Under the agreement, Mr. Parks was granted options to purchase 333,332 shares of our common stock at an exercise price of $9.00 per share, all of which have vested. Additionally, Mr. Parks was granted options to purchase 83,333 shares of our common stock at an exercise price of $9.90 per share in 1999. Of these options, options to purchase 41,666 shares are vested. Mr. Parks was also granted options to purchase 230,000 shares of our common stock at an exercise price of $15.00 per share in 2000, none of which are vested. Additionally, Mr. Parks is entitled to participate in our 401(k) and Retirement Savings Plan, our Incentive Compensation Plan and any other employee benefits as provided to other senior executives. Mr. Parks is entitled to 18 months base salary if terminated.

IVAN M. SZEFTEL. Mr. Szeftel entered into an employment agreement dated May 4, 1998 to serve as the president of our retail services division. The agreement provides that Mr. Szeftel is entitled to

receive a minimum annual base salary of $325,000, subject to increases based on annual reviews. Mr. Szeftel is entitled to an annual incentive bonus of $200,000 based on the achievement of our annual financial goals. Under the agreement, we granted Mr. Szeftel options to purchase 111,111 shares of our common stock at an exercise price of $9.00 per share. Of these options, options to purchase 83,332 shares have vested. Mr. Szeftel was also granted options to purchase 22,222 shares of our common stock at an exercise price of $9.90 per share in 1999. Of these options, options to purchase 5,556 shares are currently vested. Mr. Szeftel was also granted options to purchase 80,000 shares of our common stock at an exercise price of $15.00 per share in 2000, none of which are vested. Mr. Szeftel is entitled to participate in our 401(k) and Retirement Savings Plan, our Incentive Compensation Plan and any other employee benefits as provided to other senior executives. Under the agreement, Mr. Szeftel is entitled to severance payments if we terminate his employment without cause or if Mr. Szeftel terminates his employment for good reason. In such cases, Mr. Szeftel will be entitled to 12 months base salary.

EDWARD K. MIMS. In connection with Mr. Mims' resignation as Chief Financial Officer effective as of October 11, 2000 and his resignation as an employee effective as of October 31, 2000, we entered into a severance agreement under which we paid Mr. Mims a lump sum severance payment of $269,923. The severance agreement provides that Mr. Mims is entitled to outplacement benefits, reimbursement of continuing professional educational expenses and professional fees through 2001. The severance agreement also provided that Mr. Mims was entitled to a payment under the 2000 Incentive Compensation Plan, the amount of which was later set at $113,377. In addition, options that were vested as of the date of Mr. Mims' resignation may be exercised by Mr. Mims for a period of up to six months after that date. One-third of Mr. Mims' unvested options will vest on August 31, 2001 and be exercisable thereafter for a period of six months. Mr. Mims received a lump sum cash payment pursuant to restricted stock awards that vested on February 6, 2001.

JAMES E. ANDERSON. In connection with the resignation of Mr. Anderson as an officer and an employee effective December 31, 2000, we entered into a severance agreement with Mr. Anderson that provides for severance pay equal to 52 weeks of his former annual base salary payable in 26 equal installments. The severance agreement provides that Mr. Anderson is entitled to an incentive compensation payment pursuant to the 2000 Incentive Compensation Plan in the amount of $117,500 and a relocation payment of up to $80,000 if he is relocated and such costs of relocation are not paid in full by a subsequent employer. In addition, options that were vested as of the date of Mr. Anderson's resignation may be exercised through February 2002. One-third of Mr. Anderson's unvested options will vest on August 31, 2001 and be exercisable thereafter for a period of six months. Mr. Anderson received a lump sum cash payment pursuant to restricted stock awards that vested on February 6, 2001.

AMENDED AND RESTATED STOCK OPTION AND RESTRICTED STOCK PLAN

We adopted the Amended and Restated Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Plan in April 2001. This plan provides for grants of incentive stock options, nonqualified stock options and restricted stock awards to selected employees, officers, directors and other persons performing services for us or any of our subsidiaries. We have reserved a total of 8,753,000 shares of common stock for issuance pursuant to this plan. As of March 31, 2001, there were 4,384,576 shares of common stock subject to outstanding options at a weighted average exercise price of $12.43 per share.

Under the plan, we may grant incentive stock options to any person employed by us or any of our subsidiaries. We may grant nonqualified stock options and restricted stock awards to any of our stockholders, any employees of our stockholders that perform services for us and any person employed by, or performing services for, us or any of our subsidiaries, including our directors and officers. Our non-employee directors currently participate in our stock option plan as described in "--Director Compensation" above. The exercise price for incentive stock options granted under the plan may not

be less than 100% of the fair market value of the common stock on the option grant date. If an incentive stock option is granted to an employee who owns more than 10% of our common stock, the exercise price of that option may not be less than 110% of the fair market value of the common stock on the option grant date. The exercise price for nonqualified stock options granted under the plan may be equal to, more than or less than 100% of the fair market value of the common stock on the option grant date. The options granted under both the current plan and our prior plan terminate on the tenth anniversary of the date of grant.

The plan also provides for the granting of performance-based restricted stock awards to our chief executive officer, officers that report directly to him and certain other officers. The plan gives our committee administering the plan the sole discretion to determine the vesting provisions for performance-based restricted stock awards. As of March 31, 2001 performance-based restricted awards representing an aggregate of 570,000 shares had been granted to 28 officers. The restricted shares subject to these grants will not vest unless specified performance measures tied to either EBITDA or return on stockholders' equity are met. If these performance targets are met, some of these restricted shares will vest over a five year period. However, some of the restricted shares will vest on a more accelerated basis if certain annual EBITDA performance targets are met. Our board of directors accepted the 2000 EBITDA results and accelerated vesting for 114,000 shares based on strong contributions from management to our company in 2000.

We implemented a program whereby we make loans available to recipients of restricted stock awards in amounts sufficient to cover any tax liability resulting from the vesting of those awards. The amount that any participant can borrow under the program is limited to 50% of the value of the vested shares. Participants in the program are required to pledge their vested restricted shares to us as collateral, until the loans are repaid.

The plan provides that our board of directors will administer the plan. Our board of directors may delegate all or a portion of its authority under the plan to the compensation committee. The board of directors or the compensation committee may further delegate all or a portion of its authority under the plan to our chief executive officer, except with respect to grants of options or awards to officers and directors who are subject to Section 16(b) of the Securities Exchange Act of 1934.

The plan gives our board of directors discretion to determine the vesting provisions of each individual stock option. In the event of a change of control, our plan provides that our board of directors may provide for accelerated vesting of options. Options granted on or after September 1, 2000 vest over a three year period from the date of grant. The normal vesting provision for options granted under our prior plan provides for vesting of 33 1/3% of the options each year over a three-year period, beginning on the first day of February of the eighth year after the options have been awarded. However, if we meet the annual operating income goal as determined by our board of directors, vesting for these options granted under our prior plan can be accelerated. Our board of directors designates a percentage of these options that will vest in this accelerated manner if we meet the annual operating income goal. Historically, this designated percentage has been equal to 25% of the options granted.

On the date of the public offering, all exempt employees and specific employees in Canada and New Zealand will receive a one-time grant of options, ranging from amounts of 100 to 6,700 shares. These options will vest in thirds over a three-year period beginning on the first anniversary of the date of grant.

ALLIANCE DATA SYSTEMS 401(K) AND RETIREMENT SAVINGS PLAN

The Alliance Data Systems 401(k) and Retirement Savings Plan is a defined contribution plan that is qualified under Section 401(k) of the Internal Revenue Code of 1986. Contributions made by employees or by us to the plan, and income earned on these contributions, are not taxable to employees until withdrawn from the plan. The plan covers U.S. employees of ADS Alliance Data Systems, Inc., our wholly owned subsidiary, and any other subsidiary or affiliated organization that

adopts this plan. We and all of our U.S. subsidiaries are currently covered under the plan. All employees who are at least 21 years old and who we have employed for at least 30 days are eligible to participate.

Under this plan, we make regular matching contributions on the first 3% of each participant's contributions. An additional matching contribution on the second 3% of each participant's contributions may be made annually at the discretion of our board of directors. Each of our matching contributions vests 20% over five years for employees with less than five years of service. All contributions vest immediately if the participating employee retires at age 65, becomes disabled, dies or is terminated without cause. In addition to matching contributions, we make a non-discretionary retirement contribution based on the participant's age and years of service with us. The retirement contributions become 100% vested once the participant has served five years with us.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

We adopted the ADS Alliance Data Systems, Inc. Supplemental Executive Retirement Plan in May 1999 to help certain key individuals maximize their pre-tax savings and company contributions that are otherwise restricted due to tax limitations. Eligibility under the plan requires an individual to: (1) be a regular, full-time U.S. employee of ADS Alliance Data Systems, (2) receive compensation equal to or greater than the IRS compensation limit as of December 31 of the previous calendar year and (3) be a participant in the Alliance Data Systems 401(k) and Retirement Savings Plan.

This plan allows the participant to contribute:

- up to 16% of eligible compensation on a pre-tax basis;

- any 401(k) contributions that would otherwise be returned because of reaching the statutory limit; and

- any retirement savings plan contributions for compensation in excess of the statutory limits.

The participant is 100% vested in his or her own contributions. A participant becomes 100% vested in the retirement savings plan contributions after five continuous years of service. The contributions accrue interest at a rate of 8% a year, which may be adjusted periodically by the 401(k) and Retirement Savings Plan Investment Committee.

The participant does not have access to any of the contributions or interest while actively employed with us, unless the participant experiences an unforeseeable financial emergency. Loans are not available under this plan. If the participant ceases to be actively employed, retires or becomes disabled, the participant will receive the value of his or her account within 60 days of the end of the quarter in which he or she became eligible for the distribution. A distribution from the plan is taxed as ordinary income and is not eligible for any special tax treatment.

2001 INCENTIVE COMPENSATION PLAN

The Alliance Data Systems 2001 Incentive Compensation Plan provides an opportunity for certain U.S. employees to be eligible for a cash bonus based on achieving certain performance targets. To be eligible under the plan, employees must meet certain eligibility requirements outlined in the plan document.

Under the plan, each participant has an incentive compensation target that is expressed as a percentage of his or her annualized base salary as of October 1, 2001. The participant's incentive compensation target is based on various objectives that are weighted to reflect the participant's contribution to company, business unit and individual goals, which are established at the beginning of the plan year. The company objective is based on our operating income, the business unit objective is based on financial and operational objectives, as well as associate satisfaction scores, and the individual objectives are items of importance to us that the individual can impact. Our executive committee

members and chairman have their incentive compensation target tied to our operating income, revenue (either at the company level or at the business unit level), and associate satisfaction. The amount of compensation a participant receives depends on the percentage of objectives that were achieved. For all objectives except associate satisfaction, 80% of the objectives must be achieved before a participant is eligible for any payout and the maximum payout is equal to 150% of the participant's incentive compensation target. For associate satisfaction, 90% of the target must be achieved before a participant is eligible for any payout, plus there must be improvement from the 2000 base score before a participant is eligible for any payout.

EMPLOYEE STOCK PURCHASE PLAN

We adopted the Alliance Data Systems Corporation and its Subsidiaries Employee Stock Purchase Plan in February 2001. We intend for the plan to qualify under section 423 of the Internal Revenue Code. The plan permits our eligible employees and those of our designated subsidiaries to purchase our common stock at a discount to the market price through payroll deductions. No employee may purchase more than $25,000 in stock under the plan in any calendar year, and no employee may purchase stock under the plan if such purchase would cause the employee to own more than 5% of the voting power or value of our common stock. We have authorized the issuance of up to 1,500,000 shares of common stock under the plan.

The plan provides for three month offering periods, beginning on each January 1, April 1, July 1 and October 1. We anticipate that October 1, 2001 will begin the first offering period, but the plan allows the board of directors to change this date as well as the date, duration and frequency of any future offering period. The plan has a term of ten years, unless terminated sooner by our board of directors pursuant to the provisions of the plan.

On the offering date at the beginning of each offering period, each eligible employee is granted an option to purchase a number shares of common stock, which option is exercised automatically on the purchase date at the end of the offering period. The purchase price of the common stock upon exercise of the options will be 85% of its fair market value on the offering date or purchase date, whichever is lower.

The following table sets forth information with respect to the beneficial ownership of our common stock as of April 30, 2001 by:

(1) each person who is known by us to own beneficially more than 5% of our common stock;

(2) each current director;

(3) each of the named executive officers; and

(4) all directors and executive officers as a group.

Except as indicated in this table and pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name. Percentage of ownership is based on 57,936,136 shares of our common stock outstanding on April 30, 2001, and 70,936,136 shares of our common stock outstanding immediately after this offering, both of which reflect the conversion of all outstanding shares of Series A preferred stock into common shares.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED BEFORE AND AFTER OFFERING(1)	PERCENT OF SHARES BENEFICIALLY OWNED(1)	
		BEFORE OFFERING	AFTER OFFERING
Welsh, Carson, Anderson & Stowe(2) ..... 320 Park Avenue, Suite 2500 New York, New York 10022-6815	43,025,608	74.3%	60.7%
Limited Commerce Corp. ..... Three Limited Parkway Columbus, Ohio 43230	14,663,376	25.3%	20.7%
J. Michael Parks(3).....	398,998	*	*
Ivan M. Szeftel(4).....	101,443	*	*
Michael A. Beltz(5).....	112,553	*	*
John W. Scullion(6).....	69,500	*	*
Edward K. Mims(7).....	58,331	*	*
James E. Anderson(8).....	65,275	*	*
Bruce K. Anderson(9).....	358,085	*	*
Anthony J. deNicola(9).....	34,373	*	*
Robert A. Minicucci(9).....	118,147	*	*
Roger H. Ballou.....	--	*	*
Daniel P. Finkelman.....	--	*	*
Kenneth R. Jensen.....	--	*	*
Bruce A. Soll.....	--	*	*
All directors and executive officers as a group (20 individuals)(10).....	1,463,824	2.5%	2.1%

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* Less than 1%

(1) Beneficial ownership is determined in accordance with the SEC's rules. In computing percentage ownership of each person, shares of common stock subject to options, warrants or convertible preferred stock held by that person that are currently exercisable or convertible, or exercisable or

convertible within 60 days of April 30, 2001, are deemed to be beneficially owned. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of each other person.

(2) Includes 10,273,990 shares issuable upon conversion of Series A preferred stock owned of record by WCAS VIII L.P., WCAS Information Partners, L.P., Patrick J. Welsh, Russell L. Carson, Bruce K. Anderson, Richard H. Stowe, Andrew M. Paul, Thomas E. McInerney, McInerney Gabrielle Family Limited Partnership, Laura M. VanBuren, James B. Hoover, Robert A. Minicucci, Anthony J. deNicola, Paul B. Queally, Lawrence B. Sorrel, Priscilla A. Newman, Rudolph E. Rupert, D. Scott Mackesy, Kenneth Melkus, David F. Bellet, Sean Traynor, John Almeida and Jonathan M. Rather. Also includes:

- 5,555,550 shares of common stock held by Welsh, Carson, Anderson & Stowe VI, L.P.,
- 17,922,447 shares of common stock held by Welsh, Carson, Anderson & Stowe VII, L.P.,
- 7,161,616 shares of common stock held by Welsh, Carson, Anderson & Stowe VIII, L.P.,
- 109,568 shares of common stock held by WCAS Information Partners LP,
- 268,398 shares of common stock held by WCAS Capital Partners II LP,
- 655,555 shares of common stock held by WCAS Capital Partners III LP,
- 193,990 shares of common stock held by Patrick J. Welsh,
- 11,111 shares of common stock held by Carol Ann Welsh FBO Eric Welsh U/A dtd 11/26/84,
- 11,111 shares of common stock held by Carol Ann Welsh FBO Randall Welsh U/A dtd 11/26/84,
- 11,111 shares of common stock held by Carol Ann Welsh FBO Jennifer Welsh U/A dtd 11/26/84,
- 202,352 shares of common stock held by Russell L. Carson,
- 246,039 shares of common stock held by Bruce K. Anderson,
- 62,225 shares of common stock held by Richard H. Stowe,
- 59,835 shares of common stock held by Andrew M. Paul,
- 102,630 shares of common stock held by Thomas E. McInerney,
- 3,914 shares of common stock held by Laura Van Buren,
- 6,820 shares of common stock held by James B. Hoover,
- 81,051 shares of common stock held by Robert A. Minicucci,
- 23,677 shares of common stock held by Anthony J. deNicola,
- 14,250 shares of common stock held by Paul B. Queally,
- 13,573 shares of common stock held by IRA FBO David F. Bellett DLJSC as Custodian IRA Rollover Account,
- 5,050 shares of common stock held by David F. Bellett,
- 1,666 shares of common stock held by Kristin M. Anderson,
- 1,666 shares of common stock held by Daniel B. Anderson,
- 1,666 shares of common stock held by Mark S. Anderson,
- 10,101 shares of common stock held by Lawrence Sorrel,
- 2,020 shares of common stock held by Priscilla Newman,

- 10,101 shares of common stock held by Rudolph Rupert, and

- 2,525 shares of common stock held by D. Scott Mackesy.

(3) Includes options to purchase 374,998 shares of common stock which are exercisable within 60 days of April 30, 2001.

(4) Includes options to purchase 94,443 shares of common stock which are exercisable within 60 days of April 30, 2001.

(5) Includes options to purchase 105,553 shares of common stock which are exercisable within 60 days of April 30, 2001.

(6) Includes options to purchase 62,500 shares of common stock which are exercisable within 60 days of April 30, 2001.

(7) Includes options to purchase 58,331 shares of common stock which are exercisable within 60 days of April 30, 2001.

(8) Includes options to purchase 65,275 shares of common stock which are exercisable within 60 days of April 30, 2001.

(9) The number of shares beneficially owned by Messrs. Bruce K. Anderson, deNicola and Minicucci includes 112,046, 10,696 and 37,096 shares issuable upon conversion of Series A preferred stock, respectively. Each of Messrs. Anderson, deNicola and Minicucci are partners of Welsh, Carson, Anderson & Stowe and certain of its affiliates and may be deemed to be the beneficial owner of the common stock beneficially owned by Welsh Carson and described in note 2 above.

(10) Includes options to purchase an aggregate of 877,618 shares of common stock which are exercisable within 60 days of April 30, 2001 held by Messrs. Parks, Szeftel, Beltz, Mims, James E. Anderson, Armiak, Heffernan, Kubic, Melvin, Schumacher, Scullion, Tucker and Walensky and 159,839 shares issuable upon conversion of Series A preferred stock.

TRANSACTIONS WITH WELSH, CARSON, ANDERSON & STOWE

Welsh, Carson, Anderson & Stowe VI, L.P., Welsh, Carson, Anderson & Stowe VII, L.P., Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Capital Partners II, L.P., WCAS Capital Partners III, L.P., WCAS Information Partners, L.P., WCA Management Corporation and various individuals who are limited partners of the Welsh Carson limited partnerships beneficially owned approximately 74.3% of our outstanding common stock as of April 30, 2001. The individual partners of the Welsh Carson limited partnerships include Bruce K. Anderson, Anthony J. deNicola and Robert A. Minicucci, each of whom is a member of our board of directors.

In July 1999, we sold 120,000 shares of Series A preferred stock to Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Information Partners, L.P. and 20 individuals who are partners of some or all of the Welsh Carson limited partnerships for an aggregate purchase price of $120.0 million. The preferred shares were issued to finance, in part, the acquisition of the network services business of SPS Payment Systems, Inc. As of April 30, 2001, these preferred shares were convertible into 10,273,990 shares of common stock, assuming an initial public offering price of $13.00 per share. Upon consummation of the offering, all of the outstanding shares of Series A preferred stock will be converted into shares of common stock.

In July 1998, we sold 10,101,010 shares of common stock to Welsh, Carson, Anderson & Stowe VIII, L.P., Welsh, Carson, Anderson & Stowe VII, L.P., WCAS Information Partners, L.P., and 16 individuals who are partners of some or all of the Welsh Carson limited partnerships for an aggregate purchase price of $100.0 million. The shares were issued to finance, in part, the acquisition of all outstanding stock of Loyalty.

In August 1998, we sold 30,303 shares of common stock to WCAS Capital Partners II, L.P. for $9.90 per share as consideration for WCAS Capital Partners II, L.P. extending the maturity of a 10% subordinated note we issued to it in January 1996 in the principal amount of $30.0 million and originally due January 24, 2002. Principal on the note is due on October 25, 2005 and interest is payable semi-annually in arrears on each January 1 and July 1. The note was originally issued to finance, in part, the acquisition of BSI Business Services, Inc., now known as ADS Alliance Data Systems, Inc., one of our wholly owned subsidiaries.

In September 1998, we issued 655,555 shares of common stock to WCAS Capital Partners III, L.P. and issued a 10% subordinated note to WCAS Capital Partners III, L.P. in the principal amount of $52.0 million to finance, in part, the acquisition of Harmonic Systems Incorporated, which now operates as part of ADS Alliance Data Systems. Principal on the note is due in two equal installments on September 15, 2007 and September 15, 2008. Interest is payable semi-annually in arrears on each March 15 and September 15.

We paid Welsh, Carson, Anderson & Stowe $2.0 million in 1998 and $1.2 million in 1999 for investment banking services rendered in connection with our acquisitions.

TRANSACTIONS WITH THE LIMITED

Limited Commerce Corp. beneficially owned approximately 25.3% of our common stock as of April 30, 2001. Limited Commerce Corp. is indirectly owned by The Limited, Inc. Therefore, The Limited, Inc., a significant customer of ours, indirectly owns one of our principal stockholders. Pursuant to a stockholders agreement with Welsh Carson and Limited Commerce Corp., Limited Commerce Corp. has the right to designate two members of our board of directors. Mr. Finkelman and Mr. Soll are the current Limited Commerce Corp. designees on our board of directors.

The Limited, Inc. operates through a variety of retail and catalog affiliates that operate under different names, including Bath & Body Works, The Limited Stores, Structure, Henri Bendel, Victoria's

Secret Catalogue, Victoria's Secret Stores, Lerner New York, Lane Bryant and Express. Many of these affiliates have entered into credit card processing agreements with World Financial. These affiliates of The Limited represented approximately 65% of our credit card receivables as of December 31, 2000.

Pursuant to these credit card processing agreements, World Financial provides credit card processing services and issues private label credit cards on behalf of the businesses. World Financial is obligated to issue credit cards to any customer of a Limited affiliate who applies for a credit card, meets World Financial's credit standards, and agrees to the terms and conditions of World Financial's standard form of credit card agreement. World Financial is allowed to change its applicable credit standards and standard form of credit card agreement with the consent of the relevant Limited affiliate. Furthermore, these agreements obligate World Financial to consider, in good faith, requests by a Limited affiliate for variances from World Financial's credit standards and standard form of credit agreement. Under these agreements, World Financial pays the business an amount equal to the amount charged by the business's customers using the private label credit card issued by World Financial, less a discount, which varies among agreements. World Financial assumes the credit risk for these credit card transactions. Payments are also made to World Financial for special programs and reimbursement of certain costs.

Most of these credit card processing agreements were entered into in 1996 and expire in 2006. These agreements give the businesses various termination rights, including the ability to terminate these contracts under certain circumstances after the first six years if World Financial is unable to remain competitive with independent third parties that provide similar services.

In general, World Financial owns information relating to the holders of credit cards issued under these agreements, but World Financial is prohibited from disclosing information about these holders to any third party that The Limited determines competes with The Limited or its affiliated businesses. World Financial is also prohibited from providing marketing services to competitors of The Limited or its affiliated businesses as determined by The Limited. World Financial may provide marketing services to other third parties that are not competitors of The Limited or its affiliated businesses, with the revenue to be shared between World Financial, The Limited and its affiliated businesses as agreed on a program by program basis.

We periodically enter into agreements with various retail affiliates of The Limited to provide database marketing programs and projects. These agreements are generally short-term in nature, ranging from three to six months.

In September 2000, our subsidiary, ADS Alliance Data Systems, Inc., entered into a marketing database services agreement with The Limited, Inc. and one of its affiliates, Intimate Brands, Inc., which wholly owns Victoria's Secret and Bath & Body Works. In this agreement, ADS agreed to provide an information database system capable of capturing certain consumer information when a consumer makes a purchase, excluding purchases for credit or financial products, at Bath & Body Works, The Limited Stores, Structure, Victoria's Secret Stores, Lerner New York, Lane Bryant and Express, and to provide database marketing services. Under the agreement, ADS has the right to sell data provided to ADS by affiliates of The Limited under the agreement, subject to the privacy policies of The Limited and Intimate Brands and their consent. However, ADS is prohibited from disclosing or selling any of this information to third parties who, in the sole judgement of The Limited and Intimate Brands, compete with affiliates or subsidiaries of The Limited. ADS is required to share revenues generated by the sale of such data with The Limited and Intimate Brands. This agreement expires in 2003, but can be terminated earlier by The Limited and Intimate Brands if we fail to meet specified service standards.

We received total revenues directly from The Limited and its retail affiliates of $40.6 million during fiscal 1998, $46.6 million during 1999 and $46.7 million during 2000.

In August 1998, we sold 20,202 shares of common stock to Limited Commerce Corp. for $9.90 per share as consideration for Limited Commerce Corp. extending the maturity of a 10% subordinated note we issued in January 1996 to WCAS Capital Partners II, L.P., which sold the note to Limited Commerce Corp. The note is in the principal amount of $20.0 million and was originally due January 24, 2002. Principal on the note is due on October 25, 2005 and interest is payable semi-annually in arrears on each January 1 and July 1. The note was originally issued to finance, in part, the acquisition of BSI Business Services, Inc., now known as ADS Alliance Data Systems, Inc.

STOCKHOLDERS AGREEMENT WITH WELSH CARSON AND THE LIMITED

In connection with the above sale of shares to the Welsh Carson affiliates and Limited Commerce Corp., we entered into a stockholders agreement, as amended, with Limited Commerce Corp., various Welsh Carson affiliates and various individual stockholders who are partners in some or all of the Welsh Carson limited partnerships. This agreement contains transfer restrictions, various stockholder rights, registration rights, provisions allowing Welsh Carson and Limited Commerce Corp. to designate a portion of our board of directors, provisions relating to the amendment of our certificate of incorporation and bylaws and capital calls. Welsh Carson also has the right to appoint a representative to attend and participate in board and committee meetings. The Welsh Carson affiliates and Limited Commerce Corp. have waived their registration rights in connection with this offering. Upon completion of this offering, this stockholders agreement will be replaced with a new agreement with the Welsh Carson affiliates and Limited Commerce Corp.

Under the new stockholders agreement, the Welsh Carson affiliates and Limited Commerce Corp. will each have two demand registration rights, as well as "piggyback" registration rights. The demand rights will enable the Welsh Carson affiliates and Limited Commerce Corp. to require us to register their shares with the SEC at any time after the consummation of this initial public offering, subject to the 180-day lock-up agreement these entities have entered into in connection with this offering. Piggyback rights will allow the Welsh Carson affiliates and Limited Commerce Corp. to register the shares of our common stock that they purchased along with any shares that we register with the SEC. These registration rights are subject to customary conditions and limitations, including the right of the underwriters of an offering to limit the number of shares.

Under the new stockholders agreement, the size of our board of directors is set at nine. Welsh Carson has the right to designate up to three nominees for election to the board of directors as long as it owns more than 20% of our common stock. Limited Commerce Corp. has the right to designate up to two of the members as long as it owns more than 10% of our common stock and one of the members as long as it owns between 5% and 10% of our common stock.

U.S. LOYALTY PROGRAM

We have evaluated the creation of a loyalty program in the United States similar to our Air Miles reward program in Canada. Because of the significant funding requirements to establish such a program, we have decided not to pursue the program. Instead, stockholders have independently funded the program through a separate company called U.S. Loyalty Corp., which they have funded. We do not and will not have any ownership interest in U.S. Loyalty Corp.

We intend to provide various services to U.S. Loyalty Corp. including management support, accounting, transaction processing, data processing and marketing under various agreements that we plan to enter into with U.S. Loyalty Corp. We contemplate that such agreements will include a management agreement, an employee lease agreement, a processing agreement and a royalty agreement.

The stockholders of U.S. Loyalty Corp. include Welsh Carson, Limited Commerce Corp. and our officers and directors who received stock in U.S. Loyalty as a result of their participation in funding U.S. Loyalty Corp. Robert A. Minicucci, who is a stockholder and one of our directors, is a director,

officer and a stockholder of U.S. Loyalty Corp. The board of directors of U.S. Loyalty Corp. will consist of up to three Welsh Carson designees and up to two designees of The Limited.

We have no rights to share in any profits that might be earned by U.S. Loyalty Corp. Any sums of money received by us from U.S. Loyalty Corp. will be limited to amounts paid to us under the above agreements, which are being negotiated on an arm's-length basis.

INTERCOMPANY INDEBTEDNESS

In December 1998, our subsidiaries issued to us revolving promissory notes, due November 30, 2002, as described below. Principal payments are due on demand. These notes are still outstanding except that the note issued to us by ADS Alliance Data Systems, Inc. in December 1998 was canceled in connection with ADS Alliance Data Systems, Inc. issuing us a new revolving promissory note in January 2000. The notes with our subsidiaries accrue interest at 10% per annum and interest is payable quarterly or upon demand.

	CREDIT LINE	AMOUNT OF PRINCIPAL OUTSTANDING AS OF MARCH 31, 2001
World Financial Network National Bank note	$100,000,000	$ --
ADS Alliance Data Systems, Inc. note	300,000,000	265,000,000
Alliance Data Systems (New Zealand) Limited note	11,250,000	9,750,000
Loyalty Management Group Canada Inc. note	20,000,000	--

DESCRIPTION OF CAPITAL STOCK

Upon the completion of this offering, our authorized capital stock will consist of 200,000,000 shares of common stock, par value $0.01 per share, of which 70,936,136 shares will be issued and outstanding, and 20,000,000 shares of preferred stock, par value $0.01 per share, of which no shares will be outstanding. The following summary of our capital stock is qualified in its entirety by reference to our certificate of incorporation and our bylaws filed as exhibits to this registration statement.

COMMON STOCK

Our common stockholders are entitled to one vote for each share on all matters voted upon by our stockholders, including the election of directors, and do not have cumulative voting rights. Subject to the rights of holders of any then outstanding shares of our preferred stock, our common stockholders are entitled to any dividends that may be declared by our board of directors. Holders of our common stock are entitled to share ratably in our net assets upon our dissolution or liquidation after payment or provision for all liabilities and any preferential liquidation rights of our preferred stock then outstanding. Our common stockholders have no preemptive rights to purchase shares of our stock. The shares of our common stock are not subject to any redemption provisions and are not convertible into any other shares of our capital stock. All outstanding shares of our common stock are, and the shares of common stock to be issued in the offering will be, upon payment therefor, fully paid and nonassessable. The rights, preferences and privileges of holders of our common stock will be subject to those of the holders of any shares of our preferred stock we may issue in the future.

PREFERRED STOCK

Our board of directors may from time to time authorize the issuance of one or more classes or series of preferred stock without stockholder approval. Subject to the provisions of our certificate of incorporation and limitations prescribed by law, our board of directors is authorized to adopt resolutions to issue shares, establish the number of shares, change the number of shares constituting any series, and provide or change the voting powers, designations, preferences and relative rights, qualifications, limitations or restrictions on shares of our preferred stock, including dividend rights, terms of redemption, conversion rights and liquidation preferences, in each case without any action or vote by our stockholders.

One of the effects of undesignated preferred stock may be to enable our board of directors to discourage an attempt to obtain control of our company by means of a tender offer, proxy contest, merger or otherwise. The issuance of preferred stock may adversely affect the rights of our common stockholders by, among other things:

- restricting dividends on the common stock;
- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; or
- delaying or preventing a change in control without further action by the stockholders.

SERIES A PREFERRED STOCK

Upon consummation of the offering, all of the outstanding shares of Series A preferred stock will be converted into shares of common stock and there will be no Series A preferred stock outstanding. The shares of Series A preferred stock will convert into a number of common shares equal to the per share dividend preference amount plus accrued dividends, divided by the lesser of (1) $13.50 and (2) the initial public offering price.

EFFECTS OF AUTHORIZED BUT UNISSUED STOCK

Upon consummation of the offering there will be 200,000,000 authorized shares of our common stock, 129,063,864 of which will be unissued, and 20,000,000 shares of preferred stock available for our

future issuance without stockholder approval. Of the shares of common stock available for future issuance, 8,753,000 shares have been reserved for issuance under our stock option and restricted stock plan and 1,500,000 shares have been reserved for issuance under our employee stock purchase plan.

Shares of common stock and preferred stock available for future issuance may be utilized for a variety of corporate purposes, including to facilitate acquisitions or future public offerings to raise additional capital. We do not currently have any plans to issue additional shares of common stock or preferred stock, other than shares of common stock issuable under our stock option plan and restricted stock plan and our employee stock purchase plan.

ANTI-TAKEOVER CONSIDERATIONS AND SPECIAL PROVISIONS OF THE CERTIFICATE OF INCORPORATION, BYLAWS AND DELAWARE LAW

CERTIFICATE OF INCORPORATION AND BYLAWS. A number of provisions of our certificate of incorporation and bylaws concern matters of corporate governance and the rights of our stockholders. Provisions such as those that provide for the classification of our board of directors and that grant our board of directors the ability to issue shares of preferred stock and to set the voting rights, preferences and other terms thereof may have an anti-takeover effect by discouraging takeover attempts not first approved by our board of directors, including takeovers which may be considered by some stockholders to be in their best interests. To the extent takeover attempts are discouraged, temporary fluctuations in the market price of our common stock, which may result from actual or rumored takeover attempts, may be inhibited. Such provisions also could delay or frustrate the removal of incumbent directors or the assumption of control by stockholders, even if such removal or assumption would be beneficial to our stockholders. These provisions also could discourage or make more difficult a merger, tender offer or proxy contest, even if they could be favorable to the interests of stockholders, and could potentially depress the market price of our common stock. Our board of directors believes that these provisions are appropriate to protect our interests and the interests of our stockholders.

CLASSIFIED BOARD OF DIRECTORS. Our certificate of incorporation divides our board of directors into three classes. The directors in each class serve in terms of three years and until their successors are duly elected and qualified. The terms of directors are staggered by class. The classification system of electing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of our company and may maintain the incumbency of our board of directors, as this structure generally increases the difficulty of, or may delay, replacing a majority of the directors. Our bylaws provide that directors may be removed only for cause by the holders of a majority of the shares entitled to vote at an election of directors. A majority of the directors then in office may elect a successor to fill any vacancies or newly created directorships.

MEETINGS OF STOCKHOLDERS. Our bylaws provide that annual meetings of our stockholders may take place at the time and place established by our board of directors, provided that the date is not more than 120 days after the end of our fiscal year. A special meeting of our stockholders may be called by our board of directors or our chief executive officer and will be called by our chief executive officer or secretary upon written request by a majority of our board of directors.

ADVANCE NOTICE PROVISIONS. Our bylaws provide that nominations for directors may not be made by stockholders at any annual or special meeting thereof unless the stockholder intending to make a nomination notifies us of its intention a specified number of days in advance of the meeting and furnishes to us certain information regarding itself and the intended nominee. Our bylaws also require a stockholder to provide to our secretary advance notice of business to be brought by such stockholder before any annual or special meeting of our stockholders, as well as certain information regarding the stockholder and any material interest the stockholder may have in the proposed business. These provisions could delay stockholder actions that are favored by the holders of a majority of our outstanding stock until the next stockholders' meeting.

AMENDMENT OF THE BYLAWS. Our bylaws may be altered, amended, repealed or replaced by our board of directors or our stockholders at any annual or regular meeting, or at any special meeting if notice of the alteration, amendment, repeal or replacement is given in the notice of the meeting.

DELAWARE ANTI-TAKEOVER LAW. We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. This section prevents certain Delaware corporations, under certain circumstances, from engaging in a "business combination" with:

- a stockholder who owns 15% or more of our outstanding voting stock (otherwise known as an "interested stockholder"),

- an affiliate of an interested stockholder, or

- an associate of an interested stockholder,

for three years following the date that the stockholder became an "interested stockholder." A "business combination" includes a merger or sale of more than 10% of our assets.

However, the above provisions of Section 203 do not apply if:

- our board approves the transaction that made the stockholder an "interested stockholder," prior to the date of that transaction;

- after the completion of the transaction that resulted in the stockholder becoming an "interested stockholder," that stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding shares owned by our officers and directors; or

- on or subsequent to the date of the transaction, the business combination is approved by our board and authorized at a meeting of our stockholders by an affirmative vote of at least two-thirds of the outstanding voting stock not owned by the "interested stockholder."

This statute could prohibit or delay mergers or other change in control attempts, and thus may discourage attempts to acquire us.

LIMITATIONS ON LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS

Our certificate of incorporation includes a provision that eliminates the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, to the fullest extent permitted by Delaware law.

Our certificate of incorporation and bylaws provide that:

- we must indemnify our directors, officers, employees and agents to the fullest extent permitted by applicable law; and

- we must advance expenses, as incurred, to our directors and executive officers in connection with a legal proceeding to the fullest extent permitted by Delaware law, subject to very limited exceptions.

Prior to the consummation of this offering, we intend to obtain directors' and officers' insurance for our directors, officers and some employees for specified liabilities.

The limitation of liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. They may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though an action of this kind, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholders' investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. However, we believe that these indemnification provisions are necessary to attract and retain qualified directors and officers.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is EquiServe Trust Company, N.A.

SHARES ELIGIBLE FOR FUTURE SALE

Future sales of a substantial number of shares of our common stock in the public market could adversely affect trading prices prevailing from time to time. As of April 30, 2001, principal stockholders held 57,733,984 shares, representing 99.6% of the outstanding shares of our common stock. Immediately after this offering, we will have 70,936,136 shares of our common stock outstanding. Of these shares, all shares sold in the offering, other than shares, if any, purchased by our affiliates, will be freely tradable. Of the remaining 57,936,136 shares, 72,013 shares will be freely transferable and 57,864,123 shares will be "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted shares may be sold in the public market only if such sale is registered under the Securities Act or if such sale qualifies for an exemption from registration, such as the one provided by Rule 144. Sales of the restricted shares in the open market, or the availability of such shares for sale, could adversely affect the trading price of our common stock.

LOCK-UP AGREEMENTS

Executive officers, directors and other stockholders who hold in the aggregate approximately 57,640,717 shares of our common stock and options to purchase approximately 2,819,635 shares of our common stock, have agreed not to sell or otherwise dispose of any shares of our common stock for a period of 180 days after the date of this prospectus, without the prior written consent of Bear, Stearns & Co. Inc. The underwriters do not intend to release the executive officers, directors or other stockholders, including Welsh Carson and Limited Commerce Corp., from the lock-up agreements; however, the underwriters, in their sole discretion, may release any of these stockholders from the lock-up agreements prior to expiration of the 180-day period without notice.

RULE 144

In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, who has beneficially owned restricted shares for at least one year following the later of the date of the acquisition of such shares from the issuer or from an affiliate of the issuer would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding; or
- the average weekly trading volume of our common stock during the four calendar weeks preceding the sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and the availability of current public information about us.

RULE 144(K)

Under Rule 144(k), a person who is not deemed to have been our affiliate at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years following the later of the date of the acquisition of such shares from the issuer or an affiliate of the issuer, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

RULE 701

In general, under Rule 701, subject to the lock-up agreements described above, employees or directors who purchase shares from us in connection with our stock option and restricted stock plan or other written agreements are eligible to resell these shares 90 days after the date of this offering in reliance on Rule 144, without compliance with certain restrictions contained in Rule 144, including the holding period.

We intend to file a registration statement on Form S-8 to register shares of common stock reserved for issuance under our stock option and restricted stock plan. This registration statement would permit the resale of shares issued under the stock option and restricted stock plan and the employee stock purchase plan by non-affiliates in the public market without restriction, subject to the lock-up agreements.

UNDERWRITING

UNDERWRITING AGREEMENT. Subject to the terms and conditions set forth in an underwriting agreement among us and the underwriters, each of the underwriters named below, for whom Bear, Stearns & Co. Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse First Boston Corporation are acting as representatives, has severally agreed to purchase from us the number of shares of common stock set forth opposite its name below:

UNDERWRITER	NUMBER OF SHARES
Bear, Stearns & Co. Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Credit Suisse First Boston Corporation	
Total	13,000,000

The obligations of the underwriters under the underwriting agreement are several and not joint. This means that each underwriter is obligated to purchase from us only the number of shares of common stock set forth opposite its name in the table above. Except in limited circumstances set forth in the underwriting agreement, an underwriter has no obligation in relation to the shares of common stock which any other underwriter has agreed to purchase.

The underwriting agreement provides that the obligations of the several underwriters are subject to approval of various legal matters by their counsel and to various other conditions including delivery of legal opinions by our counsel, the delivery of a letter by our independent auditors and the accuracy of the representations and warranties made by us in the underwriting agreement. Under the underwriting agreement, the underwriters are obliged to purchase and pay for all of the above shares of common stock if any are purchased.

PUBLIC OFFERING PRICE AND DEALERS CONCESSION. The underwriters propose initially to offer the shares of common stock offered by this prospectus to the public at the initial public offering price per share set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and these dealers may reallow, concessions not in excess of $ per share on sales to certain other dealers. After commencement of this offering, the offering price, concessions and other selling terms may be changed by the underwriters. No such change will alter the amount of proceeds to be received by us as set forth on the cover page of this prospectus.

OVER-ALLOTMENT OPTION. We have granted the underwriters an option, which may be exercised within 30 days after the date of this prospectus, to purchase up to 1,950,000 additional shares of common stock to cover over-allotments, if any, at the initial public offering price less the underwriting discount, each as set forth on the cover page of this prospectus. If the underwriters exercise this option in whole or in part, each of the underwriters will be severally committed, subject to certain conditions, to purchase these additional shares of common stock in proportion to their respective purchase commitments as indicated in the preceding table and we will be obligated to sell these additional shares to the underwriters. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the shares of common stock offered by this prospectus. These additional shares will be sold by the underwriters on the same terms as those on which the shares offered by this prospectus are being sold.

UNDERWRITING COMPENSATION. The following table summarizes the compensation to be paid to the underwriters by us in connection with this offering:

	TOTAL	
PER SHARE	WITHOUT EXERCISE OF THE OVER-ALLOTMENT OPTION	WITH EXERCISE OF THE OVER-ALLOTMENT OPTION
Underwriting discounts.....		

INDEMNIFICATION AND CONTRIBUTION. In the underwriting agreement, we have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in connection with these liabilities.

DISCRETIONARY ACCOUNTS. The underwriters have informed us that they do not intend to confirm sales to any account over which they exercise discretionary authority.

LOCK-UP AGREEMENTS. We, all of our directors and executive officers and other stockholders, including Welsh Carson and Limited Commerce Corp., holding an aggregate of approximately 57,640,717 shares of our common stock, and options to purchase approximately 2,819,635 shares of our common stock, have agreed not to sell or offer to sell or otherwise dispose of any shares of our common stock, subject to certain exceptions, for a period of 180 days after the date of this prospectus, without the prior written consent of Bear, Stearns & Co. Inc. The underwriters do not intend to release the executive officers, directors or other stockholders, including Welsh Carson and Limited Commerce Corp., from the lock-up agreements; however, any of these stockholders could be released from the lock-up agreements prior to expiration without notice.

DETERMINATION OF OFFERING PRICE. Prior to this offering, there has been no market for our common stock. Accordingly, the initial public offering price for the common stock will be determined by negotiation between us and the representatives of the underwriters. Among the factors to be considered in these negotiations will be:

- the results of our operations in recent periods;
- our financial condition;
- estimates of our future prospects and of the prospects for the industry in which we compete;
- an assessment of our management;
- the general state of the securities markets at the time of this offering; and
- the prices of similar securities of companies considered comparable to us.

Our common stock has been approved for listing, subject to official notice of issuance, on the New York Stock Exchange under the symbol "ADS". There can be no assurance, however, that an active or orderly trading market will develop for our common stock or that our common stock will trade in the public markets after this offering at or above the initial offering price.

RESERVED SHARE PROGRAM. The underwriters have reserved for sale, at the initial public offering price, up to 650,000 shares of our common stock for our employees, directors and other persons or entities with whom we have a business relationship. The number of shares available for sale to the general public in the offering will be reduced to the extent those persons purchase these reserved shares. Purchases of reserved shares are to be made through accounts at Merrill Lynch, Pierce, Fenner & Smith Incorporated or, with regard to sales made in Canada, through accounts at Merrill Lynch Canada Inc., in accordance with their procedures for opening accounts and effecting transactions in securities. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares offered in this offering.

PROSPECTUS IN ELECTRONIC FORMAT. CSFBDIRECT Inc., an affiliate of Credit Suisse First Boston Corporation, is making a prospectus in electronic format available on its Internet Web site. The

underwriters have agreed to allocate shares to CSFBDIRECT Inc. for sale to its qualified brokerage account holders. Other than the prospectus in electronic format, the information on such web site is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved or endorsed by us or any underwriter in such capacity and should not be relied on by prospective investors.

STABILIZATION AND OTHER TRANSACTIONS. In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum price.

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

NYSE UNDERTAKING. Bear, Stearns & Co. Inc., on behalf of the underwriters, has undertaken with the New York Stock Exchange to meet the New York Stock Exchange distribution standards of 2,000 round lot holders with 100 shares or more, with at least 1.1 million shares outstanding and a minimum public market value of $60.0 million.

LEGAL MATTERS

The validity of the shares of our common stock offered hereby will be passed upon for us by Akin, Gump, Strauss, Hauer & Feld, L.L.P. Legal matters in connection with this offering will be passed upon for the underwriters by Gibson, Dunn & Crutcher LLP, Los Angeles, California.

EXPERTS

The consolidated financial statements of Alliance Data Systems Corporation and subsidiaries as of December 31, 1999 and 2000 and for the eleven months ended December 31, 1998 and the years ended December 31, 1999 and 2000, included in this prospectus and the related financial statement schedules included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Utilipro, Inc. and subsidiaries as of September 30, 1999 and September 30, 2000 and for the years ended September 30, 1999 and September 30, 2000, included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act for the common stock sold in this offering. This prospectus does not contain all of the information set forth in the registration statement and the accompanying exhibits and schedules. For further information about us and our common stock, we refer you to the registration statement and the accompanying exhibits and schedules. Statements contained in this prospectus regarding the contents of any contract or any other document to which we refer are not necessarily complete. In each instance, reference is made to the copy of the contract or document filed as an exhibit to the registration statement, and each statement is qualified in all respects by that reference. Copies of the registration statement and the accompanying exhibits and schedules may be inspected without charge at the public reference facilities maintained by the Securities and Exchange Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the regional offices of the Securities and Exchange Commission located at Seven World Trade Center, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of these materials may be obtained at prescribed rates from the Public Reference Room of the Securities and Exchange Commission Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of the site is http://www.sec.gov.

After this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act. As a result, we will file periodic reports, proxy statements and other information with the Securities and Exchange Commission.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ALLIANCE DATA SYSTEMS CORPORATION

ALLIANCE DATA SYSTEMS CORPORATION
INDEPENDENT AUDITORS' REPORT

To the Stockholders of
Alliance Data Systems Corporation

We have audited the accompanying consolidated balance sheets of Alliance Data Systems Corporation and subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the eleven months ended December 31, 1998 and the years ended December 31, 1999 and 2000. Our audits also include the financial statement schedule listed in the Index at Item 16. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the companies as of December 31, 1999 and 2000, and the results of their operations and their cash flows for the respective stated periods 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.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP

Columbus, Ohio
February 2, 2001 (February 28, 2001 as to Note 21)

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	11 MONTHS ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000
Revenues			
Transaction and marketing services	$264,928	$368,026	$415,792
Redemption revenue	17,000	59,017	87,509
Financing charges, net	119,352	141,947	156,349
Other income	9,633	14,092	18,545
Total revenue	410,913	583,082	678,195
Operating expenses			
Cost of operations	335,804	466,856	547,985
General and administrative	17,589	35,971	32,201
Depreciation and other amortization	8,270	16,183	26,265
Amortization of purchased intangibles	43,766	61,617	49,879
Total operating expenses	405,429	580,627	656,330
Operating income	5,484	2,455	21,865
Other non-operating expense	--	--	2,477
Interest expense	27,884	42,785	38,870
Loss from continuing operations before income taxes	(22,400)	(40,330)	(19,482)
Income tax expense (benefit)	(4,708)	(6,538)	1,841
Loss from continuing operations	(17,692)	(33,792)	(21,323)
Income (loss) from discontinued operations, net of income taxes	(300)	7,688	--
Loss on disposal of discontinued operations, net of income taxes	--	(3,737)	--
Net loss	$(17,992)	$(29,841)	$(21,323)
Loss per share from continuing operations--basic and diluted	$ (0.42)	$ (0.78)	$ (0.60)
Loss per share--basic and diluted	$ (0.43)	$ (0.70)	$ (0.60)
Weighted average shares--basic and diluted	41,729	47,498	47,538

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31,	
	1999	2000
ASSETS		
Cash and cash equivalents	$ 56,546	$ 116,941
Due from card associations	44,919	125,083
Trade receivables less allowance for doubtful accounts ($1,079 and $3,876 at December 31, 1999 and 2000, respectively)	46,724	86,153
Credit card receivables and seller's interest less allowance for doubtful accounts ($3,657 and $3,657 at December 31, 1999 and 2000, respectively)	150,804	137,865
Deferred tax asset, net	26,416	22,365
Other current assets	45,209	35,368
Total current assets	370,618	523,775
Redemption settlement assets, restricted	133,650	152,007
Property and equipment, net	89,231	92,178
Deferred tax asset, net	38,201	55,366
Other non-current assets	31,470	18,753
Due from securitizations	144,484	133,978
Intangible assets and goodwill, net	493,609	444,549
Total assets	$1,301,263	$1,420,606
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 55,921	$ 63,570
Accrued expenses	75,646	80,547
Merchant settlement obligations	61,674	149,271
Other liabilities	11,321	36,725
Debt, current portion	118,225	161,725
Total current liabilities	322,787	491,838
Other liabilities	32,752	1,856
Deferred revenue--service	84,474	88,931
Deferred revenue--redemption	164,867	201,255
Long-term and subordinated debt	316,911	274,335
Total liabilities	921,791	1,058,215
Commitments and contingencies		
Series A cumulative convertible preferred stock, $0.01 par value; 120 shares authorized, issued and outstanding	119,400	119,400
Stockholders' equity:		
Common stock, $0.01 par value; authorized 66,667 shares (December 31, 1999), and 200,000 shares (December 31, 2000), issued and outstanding, 47,529 shares (December 31, 1999) and 47,545 shares (December 31, 2000)	475	475
Additional paid-in capital	226,174	226,323
Retained earnings	37,693	16,370
Accumulated other comprehensive income (loss)	(4,270)	(177)
Total stockholders' equity	260,072	242,991
Total liabilities and stockholders' equity	$1,301,263	$1,420,606

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL COMPREHENSIVE LOSS	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT					
JANUARY 31, 1998	36,619	$ 366	$118,864	$ 85,526	$ --		$204,756
Net loss				(17,992)		$(17,992)	(17,992)
Other comprehensive income, net of tax:							
Unrealized gain on securities available-for-sale, net					1,207	1,207	1,207
Foreign currency translation adjustments					(208)	(208)	(208)
Other comprehensive income					999		
Total comprehensive loss						$(16,993)	
Common stock issued	10,868	109	106,933				107,042
DECEMBER 31, 1998	47,487	475	225,797	67,534	999		294,805
Net loss				(29,841)		$(29,841)	(29,841)
Other comprehensive loss, net of tax:							
Unrealized loss on securities available-for-sale, net					(4,684)	(4,684)	(4,684)
Foreign currency translation adjustments					(585)	(585)	(585)
Other comprehensive loss					(5,269)		
Total comprehensive loss						$(35,110)	
Common stock issued	42	--	377				377
DECEMBER 31, 1999	47,529	475	226,174	37,693	(4,270)		260,072
Net loss				(21,323)		$(21,323)	(21,323)
Other comprehensive income, net of tax:							
Unrealized gain on securities available for sale, net					3,774	3,774	3,774
Foreign currency translation adjustments					319	319	319
Other comprehensive income					4,093		
Total comprehensive loss						$(17,230)	
Common stock issued	16	--	149				149
DECEMBER 31, 2000	47,545	$ 475	$226,323	$ 16,370	$ (177)		$242,991

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS)

	11 MONTHS ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss from continuing operations	$ (17,692)	$ (33,792)	$ (21,323)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Income (loss) from discontinued operations	(300)	7,688	--
Loss on disposal of discontinued operations	--	(3,737)	--
Depreciation and amortization	52,036	77,800	76,144
Deferred income taxes	(12,372)	(37,600)	(13,114)
Impairment of assets	4,000	--	--
Accretion of deferred income	(9,395)	(5,950)	(5,967)
Provision (credit) for doubtful accounts	(3,383)	(3,540)	(2,797)
Change in operating assets and liabilities, net of acquisitions:			
Change in trade accounts receivables	(20,868)	81,276	(43,845)
Change in merchant settlement activity	--	10,480	17,148
Change in other assets	(16,686)	33,449	20,056
Change in accounts payable and accrued expenses	6,076	37,187	12,550
Change in deferred revenue	15,520	91,149	40,845
Change in other liabilities	12,099	11,621	475
Other operating activities	276	(14,393)	7,011
Net cash provided by operating activities	9,311	251,638	87,183
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in redemption settlement assets	(14,704)	(63,976)	(18,357)
Purchase of credit card receivables	--	(33,817)	--
Change in due from securitizations	5,470	(26,404)	14,280
Net cash paid for corporate acquisition	(138,825)	(171,423)	--
Proceeds from sale of credit card receivable portfolios	94,091	--	--
Change in seller's interest	(76,975)	22,471	12,703
Capital expenditures	(14,443)	(36,302)	(33,083)
Net cash used in investing activities	(145,386)	(309,451)	(24,457)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under debt agreements	382,043	249,625	148,546
Repayment of borrowings	(325,803)	(294,473)	(147,551)
Proceeds from issuance of preferred stock	--	119,400	--
Proceeds from issuance of common stock	107,042	377	149
Net cash provided by financing activities	163,282	74,929	1,144
Effect of exchange rate changes	(766)	(7,606)	(3,475)
Change in cash and cash equivalents	26,441	9,510	60,395
Cash and cash equivalents at beginning of period	20,595	47,036	56,546
Cash and cash equivalents at end of period	$ 47,036	$ 56,546	$ 116,941
SUPPLEMENTAL CASH FLOW DISCLOSURE:			
Interest paid	$ 33,695	$ 43,215	$ 38,078
Income taxes paid	$ 12,406	$ 25,242	$ 14,498

See accompanying notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND ACQUISITIONS

DESCRIPTION OF THE BUSINESS--Alliance Data Systems Corporation ("ADSC" or, including its wholly owned subsidiaries, the "Company") is a leading provider of transaction services, credit services and marketing services in the United States and Canada. The Company facilitates and manages transactions between its clients and their customers through multiple distribution channels including in-store, catalog and the Internet. 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: Transaction Services, Credit Services and Marketing Services. Transaction Services encompasses transaction processing, including network services and bank card settlement and account processing and servicing, such as card processing, billing and payment processing and customer care. Credit Services provides private label receivables financing. Credit Services generally securitizes the credit card receivables that it underwrites from its private label programs. Marketing Services provides for loyalty programs, such as Air Miles reward miles, database marketing, direct marketing and enhancement services.

BASIS OF PRESENTATION--During fiscal 1998, the Company changed its year end to a calendar year end basis. Prior to December 31, 1998, the Company had a 52/53 week fiscal year that ended on the Saturday nearest January 31. Accordingly, fiscal 1998 represents the 11 months ended December 31, 1998, fiscal 1999 represents the year ended December 31, 1999 and fiscal 2000 represents the year ended December 31, 2000.

ACQUISITIONS--World Financial Network Holding Corporation ("WFNHC") provided private label credit card services and database marketing for The Limited. On January 24, 1996, Business Services Holdings, Inc. ("BSH") purchased J.C. Penney's credit card transaction service business, BSI Business Services, Inc. ("BSI"). On August 30, 1996, BSH was merged into WFNHC in a transaction accounted for as a reorganization of entities under common control. Prior to the merger, WFNHC and BSH were under common ownership and common management. Subsequent to the merger, WFNHC changed its name to Alliance Data Systems Corporation and BSI changed its name to ADS Alliance Data Systems, Inc. ("ADSI").

In July 1998, the Company acquired the stock of Loyalty Management Group Canada Inc. ("Loyalty") for approximately $183.0 million of net cash financed through a capital infusion of $100.0 million from stockholders and a bank loan of $100.0 million. The acquisition was accounted for using the purchase method of accounting, and the excess purchase price over the fair value of the net identifiable assets acquired, approximately $182.0 million, was allocated to goodwill and is being amortized over 25 years using a straight-line basis. The results of operations of Loyalty have been included in the consolidated financial statements since July 1998.

In September 1998, the Company acquired the stock of Harmonic Systems Incorporated ("HSI") for approximately $51.3 million of net cash financed through subordinated notes of $52.0 million. The acquisition was accounted for using the purchase method of accounting, and the excess purchase price over the fair value of the net identifiable assets acquired, approximately $38.4 million, was allocated to goodwill and is being amortized over 25 years using a straight-line basis. The results of operations of HSI have been included in the consolidated financial statements since September 1998.

In July 1999, the Company acquired the network services business of SPS Payment Systems, Inc. ("SPS"), a wholly owned subsidiary of Associates First Capital Corporation, for approximately $170.0 million, which was financed by $120.0 million of Series A Cumulative Convertible Preferred Stock and $50.0 million of working capital. This transaction was accounted for using the purchase method of accounting, and the excess purchase price over the fair value of the net identifiable assets,

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND ACQUISITIONS (CONTINUED)
approximately $142.5 million, was allocated to goodwill and other intangibles and is being amortized over periods ranging from three to 25 years using a straight-line basis. The results of operations of SPS have been included in the consolidated financial statements since July 1999.

2. SUMMARY OF SIGNIFICANT 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 network servicing and associated settlement activities. Due from card associations is generated from credit card transactions, such as Mastercard, Visa and American Express, at merchant locations. The Company records corresponding settlement obligations for amounts payable to merchants.

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.

REDEMPTION SETTLEMENT ASSETS--These securities relate to the redemption fund for the Air Miles reward miles program and are held in trust for the benefit of funding redemptions by collectors. These securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of cumulative other comprehensive income. Debt securities for which 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 are computed on a straight-line basis, using estimated lives ranging from 3 to 15 years. Leasehold improvements are amortized over the remaining useful lives of the respective leases or the remaining useful lives of the improvements, whichever are 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 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 POLICY

TRANSACTION AND MARKETING SERVICES--The Company earns transaction fees, which are principally based on the number of transactions processed and statements generated and are recognized as such services are performed.

AIR MILES REWARD MILES 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 its service elements.

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)
This service element consists of direct marketing and support services provided to sponsors (the "Service element").

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).

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 reward miles that the Company estimates will go unused by the collector base ("breakage").

FINANCING CHARGES, NET--Financing charges, net, represents gains and losses on securitization of credit card receivables and interest income on seller's interest less a provision (credit) for doubtful accounts of $(3.4 million), $(3.7 million) and $(4.9 million) and related interest expense of $8.4 million, $10.4 million and $6.2 million for fiscal 1998, 1999 and 2000, respectively.

The Company records gains or losses on the securitization of credit card receivables on the date of sale based on the estimated fair value of assets sold and retained and liabilities incurred in the sale. Gains represent the present value of estimated future cash flows the Company has retained over the estimated outstanding period of the receivables. This excess cash flow essentially represents an interest only ("I/O") strip, consisting of the excess of finance charges and past-due fees over the sum of the return paid to certificate holders and credit losses. The I/O strip is carried at fair value, with changes in the fair value reported as a component of cumulative other comprehensive income. The I/O strip is amortized over the life of the credit card receivables. Certain estimates inherent in the determination of fair value of the I/O strip are influenced by factors outside the Company's control and, as a result, such estimates could materially change in the near term. The gains on securitizations and other income from securitizations are included in finance charges, net.

GOODWILL AND OTHER INTANGIBLES--Goodwill represents the excess of purchase price over the fair value of net assets acquired arising from business combinations and is being amortized on a straight-line basis over estimated useful lives ranging from 20 to 25 years. Other intangibles primarily represent identified intangible assets acquired in business combinations and are being amortized over estimated useful lives ranging from 27 months to 20 years.

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 common equivalent shares, dilutive stock options or other dilutive securities outstanding during the year. However, as the Company generated net losses, common equivalent shares, composed of incremental common shares issuable upon exercise of stock options and warrants and upon conversion of Series A preferred stock, are not included in diluted net loss per share because such shares are anti-dilutive.

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated (in thousands, except per share data):

	FISCAL		
	1998	1999	2000
NUMERATOR			
Loss from continuing operations	$(17,692)	$(33,792)	$(21,323)
Preferred stock dividends	--	(3,377)	(7,200)
Loss from continuing operations available to common stockholders	(17,692)	(37,169)	(28,523)
Income (loss) from discontinued operations	(300)	7,688	--
Loss on disposal of discontinued operations	--	(3,737)	--
Net loss available to common stockholders	$(17,992)	$(33,218)	$(28,523)
DENOMINATOR			
Weighted average shares	41,729	47,498	47,538
Weighted average effect of dilutive securities:			
Net effect of dilutive stock options	--	--	--
Net effect of dilutive stock warrants	--	--	--
Denominator for diluted calculation	41,729	47,498	47,538
Loss per share from continuing operations--basic and diluted	$ (0.42)	$ (0.78)	$ (0.60)
Income (loss) per share from discontinued operations--basic and diluted	(0.01)	0.08	--
Net loss per share--basic and diluted	$ (0.43)	$ (0.70)	$ (0.60)

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. 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 (loss).

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, goodwill 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

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)
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.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS--The nature and composition of some of the Company's assets and liabilities and off-balance sheet items expose the Company to interest rate risk. To mitigate this risk, the Company enters into interest rate swap agreements. All of the Company's interest rate swaps are designated and effective as hedges of specific existing or anticipated assets, liabilities or off-balance sheet items. The Company's foreign currency denominated assets and liabilities expose it to foreign currency exchange rate risk. The Company has entered into cross-currency hedges to fix the exchange rate on Canadian debt. The Company does not hedge its net investment in its Canadian subsidiary. The Company does not hold or issue derivative financial instruments for trading purposes.

Swap agreements involve the periodic exchange of payments over the life of the agreements. Amounts to be paid or received are recorded on an accrual basis as an adjustment to the related income or expense of the item to which the agreements are designated. As of December 31, 1999 and 2000, the related amount payable to counterparties was $1.5 million and $1.4 million, respectively. Changes in the fair value of interest rate swaps are not reflected in the accompanying financial statements where designated to existing or anticipated assets, liabilities or off-balance sheet items and where swaps effectively modify or reduce interest rate sensitivity.

Realized and unrealized gains or losses at the time of maturity, termination, sale or repayment of a derivative contract are recorded in a manner consistent with its original designation. Amounts are deferred and amortized as an adjustment to the related income or expense over the original period of exposure, provided the designated asset, liability or off-balance sheet item continues to exist, or in the case of anticipated transactions, is probable of occurring. Realized and unrealized changes in the fair value of swaps designated with items that no longer exist or are no longer probable to occur are recorded as a component of the gain or loss arising from the disposition of the designated item.

Interest rate and foreign currency exchange rate risk management contracts are generally expressed in notional principal or contract amounts that coincide with the notional amount of the item being hedged. However, the notional amounts of these contracts are much larger than the amounts potentially at risk for nonperformance by counterparties. In the event of nonperformance by the counterparties, the Company's credit exposure on derivative financial instruments is limited to the value of the contracts that have become favorable to the Company. The Company actively monitors the credit ratings of its counterparties. Under the terms of certain swaps, each party may be required to pledge collateral if the market value of the swaps exceeds an amount set forth in the agreement or in the event of a change in its credit rating.

RECENTLY ISSUED ACCOUNTING STANDARDS--In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities, and requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. If the derivative is designated in a fair-value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated in a cash flow hedge, changes in the fair value of the derivative will be recorded in other comprehensive income ("OCI") and will be recognized in the income statement when the hedged item affects earnings. SFAS No. 133 defines new requirements for designation and documentation of hedging

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings. In January 2001 the Company recorded $882,000 in OCI as a cumulative translation adjustment for derivatives designated in cash flow-type hedges prior to adopting SFAS No. 133, primarily related to interest rate swaps.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which replaced SFAS No. 125 and revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Disclosures relating to securitization transactions are required for fiscal years ending after December 15, 2000. Management is currently evaluating the impact on its financial position and results of operations when SFAS No. 140 is adopted, but does not anticipate any material changes.

The Emerging Issues Task Force ("EITF") is reviewing an issue, Issue No. 00-22, "Accounting for 'Point' and Other Loyalty Programs," that is closely related to our Air Miles reward program and the way revenue is recognized for these types of programs. We understand that the EITF will provide guidance on this issue sometime in 2001, but a specific date has not been set. When Issue 00-22 is issued, if we require modification of our present revenue recognition policy, we will adhere to the guidance provided. Without knowing how the EITF will rule on this issue, we are unable to assess the impact of Issue 00-22 at this time.

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

3. REDEMPTION SETTLEMENT ASSETS

Redemption settlement assets consist of cash and cash equivalents and securities available-for-sale and are designated for settling the Company's redemptions by collectors under its Air Miles reward program in Canada under certain contractual relationships with its sponsors. 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, 1999				DECEMBER 31, 2000			
		UNREALIZED				UNREALIZED		
	COST	GAINS	LOSSES	FAIR VALUE	COST	GAINS	LOSSES	FAIR VALUE
	(IN THOUSANDS)							
Cash and cash equivalents	$ 69,571	$ --	$ --	$ 69,571	$115,309	$--	$ --	$115,309
Government	29,981	--	(1,368)	28,613	16,278	35	(457)	15,856
Corporate	11,884	9	(540)	11,353	21,134	18	(355)	20,797
Equity securities	25,385	3,171	(4,443)	24,113	35	10	--	45
Total	$136,821	$3,180	$(6,351)	$133,650	$152,756	$63	$(812)	$152,007

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
Software development and conversion costs	$ 55,156	$ 75,450
Computer equipment and purchased software	28,236	30,131
Furniture and fixtures	40,632	47,127
Leasehold improvements	31,593	34,455
Construction in progress	6,624	4,542
Total	162,241	191,705
Accumulated depreciation	(73,010)	(99,527)
Property and equipment, net	$ 89,231	$ 92,178

During fiscal 1998, the Company recorded an impairment of $4.0 million on computer equipment and software related to the Marketing Services segment. The related computer equipment and software was deemed by management to be inadequate. The related charge is included in processing and servicing expenses in the consolidated statements of operations.

5. SECURITIZATION OF CREDIT CARD RECEIVABLES

The Company regularly securitizes its credit card receivables. 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 each month to the investors or held in an account until it accumulates to the total amount, at which time it is paid to the investors in a lump sum. We currently have one series that has entered its controlled amortization period. We do not have any series in early amortization. The receivables associated with the customer accounts are in a different trust from all of the Company's other receivables; therefore, those proceedings will not affect the other trusts. The Company's outstanding securitizations are scheduled to begin their amortization or accumulation periods at various times between 2001 and 2003.

"Due from securitizations" consists of spread deposits, I/O strips and excess funding deposits as shown in the table below:

	DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
Spread deposits	$104,222	$100,807
I/O strips	20,289	33,171
Excess funding deposits	19,973	--
	$144,484	$133,978

The spread deposits, I/O strips and excess funding deposits 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 prepayment, 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 receivable pools. Based on this analysis, assumptions are validated or revised as deemed necessary, the amounts and the timing of cash flows are estimated and fair value is determined. The Company has one collateral type, private label credit cards.

5. SECURITIZATION OF CREDIT CARD RECEIVABLES (CONTINUED)

At December 31, 2000, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in the assumptions are as follows:

	ASSUMPTION	IMPACT ON FAIR VALUE OF 10% CHANGE	IMPACT ON FAIR VALUE OF 20% CHANGE
		(DOLLARS IN THOUSANDS)	
Fair value of retained interest	$ 31,971		
Weighted average life	7 months		
Discount rate	14.0%	$ 998	$ 1,112
Expected yield, net of dilution	21.6%	14,729	25,089
Interest expense	7.0%	4,648	8,272
Net charge-offs rate	7.0%	5,620	10,234

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 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 reality, 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 losses related to securitized credit card receivables if those losses exceed the available net cash flows arising from the securitized credit card receivables. 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 3.25% of credit card receivables in the trust, other than with respect to the trust in early amortization, for which all excess funds are required to be deposited. 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, 2000.

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

	FISCAL	
	1999	2000
	(IN MILLIONS)	
Proceeds from collections reinvested in previous credit card securitizations	$4,070.0	$4,235.7
Servicing fees received	$ 37.4	$ 39.6
Other cash flows received on retained interests	$ 124.1	$ 146.8

5. SECURITIZATION OF CREDIT CARD RECEIVABLES (CONTINUED)

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

	AT DECEMBER 31,	
	1999	2000
	(IN MILLIONS)	
Total principal of credit card receivables managed.....	$2,258.6	$2,331.0
Less credit card receivables securitized.....	2,232.4	2,319.7
Credit card receivables held.....	$ 26.2	$ 11.3
Principal amount of credit card receivables 90 days or more past due.....	$ 60.0	$ 64.5

	YEAR ENDED DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
Net charge-offs.....	$143,370	$157,351

The Company is required to maintain minimum interests ranging from 3% to 6% 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.

6. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill consist of the following:

	DECEMBER 31,		AMORTIZATION LIFE AND METHOD
	1999	2000	
	(IN THOUSANDS)		
Premium on purchased credit card portfolio...	$ 38,536	$ 1,936	3 years--straight line
Customer contracts and lists.....	46,700	46,700	3-20 years--straight line
Noncompete agreement.....	2,300	2,300	5 years--straight line
Goodwill.....	411,009	407,833	20-25 years--straight line
Deferred incentives.....	11,086	10,753	27 months--straight line
Sponsor contracts.....	39,495	38,306	5 years--declining balance
Collector database.....	48,503	47,043	15%--declining balance
Total.....	597,629	554,871	
Accumulated amortization.....	(104,020)	(110,322)	
Intangible assets and goodwill, net.....	$ 493,609	$ 444,549	

7. DEFERRED REVENUE

A reconciliation of deferred revenue--service, and deferred revenue--redemption, for the Air Miles program is as follows:

	FISCAL	
	1999	2000
	(IN THOUSANDS)	
DEFERRED REVENUE--SERVICE		
Beginning balance	$ 64,609	$ 84,474
Cash proceeds	51,916	55,091
Revenue recognized	(36,409)	(47,098)
Other	4,358	(3,536)
Ending balance	$ 84,474	$ 88,931
DEFERRED REVENUE--REDEMPTION		
Beginning balance	$ 93,583	$164,867
Cash proceeds	94,620	90,889
Revenue recognized	(30,911)	(49,597)
Other	7,575	(4,904)
Ending balance	$164,867	$201,255

The Company currently estimates breakage to be one-third of miles issued.

8. DEBT

Debt consists of the following:

	DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
Certificates of deposit	$ 116,900	$ 139,400
Subordinated notes	102,000	102,000
Credit agreement	120,361	92,910
Term loans	95,875	91,750
Line of credit	--	10,000
	435,136	436,060
Less: current portion	(118,225)	(161,725)
Long term portion	$ 316,911	$ 274,335

CERTIFICATES OF DEPOSIT--Terms of the certificates of deposit range from three months to 24 months with annual interest rates ranging from 5.4% to 6.9% at December 31, 1999 and from 5.5% to 7.5% at December 31, 2000. Interest is paid monthly and at maturity.

SUBORDINATED NOTES--The Company has outstanding subordinated notes with its two largest stockholders in the aggregate principal amount of $50.0 million. Such notes bear interest at 10% payable semiannually. These notes were issued at an aggregate discount of approximately $3.6 million, and such discount is accreted into interest expense using the effective rate of approximately 12% over

8. DEBT (CONTINUED)

the life of the notes. The notes are to be repaid on October 25, 2005. The Company may, at its option, prepay the notes at their face amount.

The Company has outstanding a subordinated note with an affiliate in the principal amount of $52.0 million. Such note bears interest at 10% payable semi-annually. This note was issued at a discount of approximately $6.5 million, and such discount is accreted into interest expense using the effective rate of approximately 12% over the life of the note. The discount was issued in the form of 5.9 million shares of common stock issued to the affiliate. The note is to be repaid in two equal installments in September 2007 and September 2008. The Company may, at its option, prepay the note at its face amount.

CREDIT AGREEMENT--In fiscal 1997, the Company entered into a credit agreement to borrow $130.0 million. Funds borrowed under this facility bear interest at the higher of (i) the prime rate for such day or (ii) the sum of 1/2 of 1% plus the Federal funds rate for a base rate loan or (iii) the sum of the Euro-dollar margin plus the LIBOR rate applicable to such period for each Euro-dollar loan. Interest is payable quarterly in arrears. The effective interest rates were 8.0% and 8.8% at December 31, 1999 and 2000, respectively. Funds borrowed under the credit agreement are to be repaid in installments of $10.0 million on July 28, 2000, $30.0 million on July 27, 2001, $40.0 million on August 2, 2002 and the remaining balance on July 25, 2003. The Company's obligations under the credit agreement are secured by substantially all of its assets.

TERM LOANS--The Company has outstanding two separate term loan facilities each in the amount of $50.0 million. The first term loan is payable in four separate annual installments of $3.1 million commencing July 30, 1999 with a final lump sum payment of $37.5 million due July 25, 2003. The second term loan is payable in six separate annual installments of $1.0 million commencing July 30, 1999 with a final lump sum payment of $44.0 million due July 25, 2005. Both loans bear interest at the higher of (i) the prime rate for such day or (ii) the sum of 1/2 of 1% plus the Federal funds rate for a base rate loan or (iii) the sum of the Euro-dollar margin plus the LIBOR rate applicable to such period for each Euro-dollar loan. Interest is payable quarterly in arrears. The effective interest rates on the two term loans were 8.1% and 9.3%, respectively, at December 31, 2000.

LINE OF CREDIT--The Company has available borrowings under a line of credit agreement of $100.0 million. The line of credit bears interest at the higher of (i) the prime rate for such day or (ii) the sum of 1/2 of 1% plus the Federal funds rate for a base rate loan or (iii) the sum of the Euro-dollar margin plus the LIBOR rate applicable to such period for each Euro-dollar loan. The agreement matures on July 25, 2003. The effective interest rate was 10.6% at December 31, 2000.

Any outstanding balances, including interest, related to the credit agreement will become payable immediately if the Company consummates a public offering of equity securities. The Company has agreed to comply with certain covenants as part of all non-subordinated debt agreements.

8. DEBT (CONTINUED)

Debt at December 31, 2000 matures as follows (in thousands):

2001	$161,725
2002	67,925
2003	59,410
2004	1,000
2005	94,000
Thereafter	52,000
	$436,060

9. INCOME TAXES

The Company files a consolidated Federal income tax return. Components of the provision (credit) for income taxes are as follows:

	FISCAL		
	1998	1999	2000
	(IN THOUSANDS)		
CURRENT			
Federal	$ 5,789	$ 18,827	$ (1,100)
State	98	483	2,424
Foreign	1,777	9,610	13,631
Total current	7,664	28,920	14,955
DEFERRED			
Federal	(4,839)	(15,081)	7,227
State	(808)	1,182	(669)
Foreign	(6,725)	(21,559)	(19,672)
Total deferred	(12,372)	(35,458)	(13,114)
Tax (benefit) expense related to continuing operations	(4,708)	(6,538)	1,841
Tax (benefit) expense related to discontinued operations	(159)	2,127	--
Total income tax provision (benefit)	$ (4,867)	$ (4,411)	$ 1,841

9. INCOME TAXES (CONTINUED)

A reconciliation of recorded federal income tax expenses (benefit) to the expected expense computed by applying the federal statutory rate of 35% for all periods to income from continuing operations before income taxes is as follows:

	FISCAL		
	1998	1999	2000
	(IN THOUSANDS)		
Expected (benefit) expense at statutory rate.....	$(7,840)	$(14,115)	$(6,819)
Increase (decrease) in income taxes resulting from:			
State and foreign income taxes.....	63	296	1,552
Non-deductible foreign losses.....	832	623	1,339
Non-deductible acquired goodwill and other intangibles.....	2,134	11,254	3,187
Change in valuation allowance.....	--	(3,266)	2,635
Other--net.....	103	(1,330)	(53)
Total.....	$(4,708)	$ (6,538)	$ 1,841

Deferred tax assets and liabilities consist of the following:

	DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
DEFERRED TAX ASSETS		
Deferred income.....	$13,410	$ 9,506
Deferred revenue.....	23,299	42,955
Allowance for doubtful accounts.....	1,405	2,380
Intangible assets.....	20,008	18,506
Net operating loss carryforwards.....	11,966	13,458
Depreciation.....	2,875	3,046
Discontinued operations.....	2,186	826
Other.....	3,935	5,836
Total deferred tax assets.....	79,084	96,513
DEFERRED TAX LIABILITIES		
Servicing rights.....	8,120	10,990
Accrued expenses.....	468	(400)
Other.....	348	26
Total deferred tax liabilities.....	8,936	10,616
Net deferred tax asset.....	70,148	85,897
Valuation allowance.....	(5,531)	(8,166)
Net deferred tax asset.....	$64,617	$77,731

9. INCOME TAXES (CONTINUED)

At December 31, 2000, the Company had approximately $15.6 million of Federal net operating loss carryforwards, which expire at various times through 2013. In addition, the Company has approximately $196 million of state net operating loss carryforwards, which expire at various times through 2016. The utilization of the Federal NOL's are subject to limitations under Section 382 of the Internal Revenue Code on account of changes in the equity ownership. NOL's for both financial reporting and tax reporting purposes are subject to a valuation allowance established for the tax benefit associated with their respective unrealizable federal and state NOL's. In 2000, the Company increased the valuation allowance by $2.6 million. The valuation allowance relates primarily to state NOL's and reduces deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized.

10. PREFERRED STOCK

In July 1999, the Company entered into a preferred stock purchase agreement and issued 120,000 shares of its Series A Cumulative Convertible Preferred Stock for proceeds of $120.0 million to an affiliate. The terms of the preferred stock purchase agreement include, among other things, the following:

- Dividends are payable by the Company upon declaration by the Board of Directors. Dividends are cumulative and dividends not paid currently will accrue and compound quarterly at an annual rate of 6.0%. Dividends in arrears at December 31, 2000 were approximately $11.0 million.

- Each share is convertible into common shares at a conversion rate based on the lesser of $13.50 or the initial public offering price, at the option of the holder, at any time following issuance. Upon a $75.0 million or greater initial public offering, shares will be mandatorily convertible into common stock at the stated conversion price.

- The shares have an aggregate liquidation preference equal to the face amount plus all accrued and unpaid dividends.

- Each share may be voted together with the common stock on an as-converted basis.

- All issued and outstanding shares are redeemable on July 12, 2007 at a per share redemption price as defined in the agreement.

11. STOCKHOLDERS' EQUITY

As part of consideration for the BSI acquisition, the seller received warrants to purchase up to 167,084 shares of the Company's common stock at $9.00 per share. The warrants and any stock issued upon exercise of the warrants contain or will contain transfer restrictions. The Company assigned a fair value of $9.00 per warrant or $1,503,756 which was included in the acquisition purchase price. The warrants expire in January 2008. The fair value of the warrants was determined based on the fair value of the Company at the time of acquisition.

During July 1999, the stockholders approved an increase in the number of authorized shares from 50,000,000 shares to 66,666,667 shares.

During March 2000, the stockholders approved an increase in the number of authorized shares from 66,666,667 shares to 200,000,000 shares.

12. STOCK COMPENSATION PLANS

Certain of the Company's employees have been granted stock options under the Company's Stock Option and Restricted Stock Purchase Plan (the "Plan"), as amended and restated. The purpose of the Plan is to benefit and 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. The stock options generally vest over a three year period, beginning on the first day of February of the eighth year after the date of grant and expire 10 years after the date of grant. Terms of all awards are determined by the Board of Directors at the time of award.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	FISCAL		
	1998	1999	2000
Expected dividend yield	--	--	--
Risk-free interest rate	6.0%	7.0%	7.0%
Expected life of options (years)	4.0 yrs	4.0 yrs	4.0 yrs
Assumed volatility	0.01%	0.01%	0.01%
Weighted average fair value	$ 2.79	$ 2.43	$ 6.68

The following table summarizes stock option activity under the Plan:

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
BALANCE AT JANUARY 31, 1998	1,156	$ 9.00
Granted	912	9.45
Exercised	(57)	9.00
Cancelled	(194)	9.00
BALANCE AT DECEMBER 31, 1998	1,817	9.18
Granted	644	10.14
Exercised	(42)	9.00
Cancelled	(71)	9.09
BALANCE AT DECEMBER 31, 1999	2,348	9.54
Granted	2,648	14.98
Exercised	(17)	9.09
Cancelled	(96)	10.39
BALANCE AT DECEMBER 31, 2000	4,883	$12.45

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2000 (in thousands, except per share amounts):

	OUTSTANDING			EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS	REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
$9.00 to $12.00	2,257	7.39	$ 9.52	1,232	$9.31
$12.01 to $15.00	2,626	9.68	$15.00	--	--

12. STOCK COMPENSATION PLANS (CONTINUED)

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Plan. The effect of determining compensation cost for the Company's stock-based compensation plan based on the fair value at the grant dates for awards under the Plan consistent with the methods of SFAS No. 123 is disclosed in the following pro forma information (in thousands, except per share amounts):

	FISCAL		
	1998	1999	2000
Pro forma net income (loss)	$(18,629)	$(30,331)	$(25,708)
Basic and diluted pro forma earnings per share	$ (0.45)	$ (0.71)	$ (0.69)

13. EMPLOYEE BENEFIT PLANS

The Company sponsors separate defined contribution pension plans for World Financial Network National Bank ("WFNNB") and ADSI that cover qualifying employees based on service and age requirements. The Company makes matching (WFNNB) or discretionary (ADSI) contributions as determined by the Board of Directors.

14. COMMITMENTS AND CONTINGENCIES

The Company has entered into certain contractual arrangements that result in a fee being billed to the sponsors upon redemption of Air Miles reward miles. The Company has obtained revolving letters of credit from certain of these sponsors that expire at various dates. These letters of credit total $53.4 million at December 31, 2000, which exceeds the estimated amount of the obligation to provide travel and other rewards.

The Company currently has an obligation to fund redemption of Air Miles reward miles as they are redeemed by collectors. The Company believes that the redemption settlement assets are sufficient to meet that obligation.

The Company leases certain office facilities and equipment under noncancellable operating leases and is generally responsible for property taxes and insurance. Future annual minimum rental payments required under noncancellable operating leases, some of which contain renewal options, as of December 31, 2000 are (in thousands):

YEAR:	
2001	$ 38,846
2002	23,570
2003	14,595
2004	11,707
2005	9,775
Thereafter	29,320
Total	$127,813

WFNNB is subject to various regulatory capital requirements administered by the federal banking agencies. 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

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)
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.

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 (as defined) 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 six percent, a total capital ratio of at least 10 percent and a leverage ratio of at least five percent and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least four percent, a total capital ratio of at least eight percent and a leverage ratio of at least four percent, but three percent is allowed in some cases. Under these guidelines, WFNNB is considered well capitalized. As of December 31, 2000, WFNNB's Tier 1 capital ratio was 14.1%, total capital ratio was 14.4% and leverage ratio was 44.8%, and WFNNB was not subject to a capital directive order.

Holders of credit cards issued by the Company have available lines of credit, which vary by accountholder, 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, 2000, WFNNB had approximately 29.2 million active accountholders, having an unused line of credit averaging $673 per account.

The Company has entered into certain long-term arrangements to purchase tickets from its airline and other suppliers. These long-term arrangements allow the Company to make purchases at set prices. At December 31, 2000, the Company had no material minimum purchase commitments with these suppliers.

SIGNIFICANT CONCENTRATION OF CREDIT RISK--The Company's Credit Services segment is active in originating private label 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. Card holders reside throughout the United States and are not significantly concentrated in any one area.

15. 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, interest rate swaps and futures contracts. 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 normal amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

15. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS--The estimated fair values of the Company's financial instruments were as follows:

	DECEMBER 31			
	1999		2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN THOUSANDS)			
FINANCIAL ASSETS				
Cash and cash equivalents	$ 56,546	$ 56,546	$116,941	$116,941
Redemption settlement assets	133,650	133,650	152,007	152,007
Trade receivables	69,085	69,085	115,727	115,727
Credit card receivables and seller's interest, net	150,804	150,804	137,865	137,865
Due from securitizations	144,484	144,484	133,978	133,978
FINANCIAL LIABILITIES				
Accounts payable	55,921	55,921	63,570	63,570
Debt	435,136	447,861	436,060	427,125
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Interest swaps	$725,000	$ (6,083)	$351,750	$ (5,478)

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

CASH AND CASH EQUIVALENTS--The carrying amount approximates fair value due to the short maturity of the cash investments.

TRADE RECEIVABLES--The carrying amount approximates fair value due to the short maturity and the average interest rates approximate current market origination rates.

CREDIT CARD RECEIVABLES--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 carrying amount of the securitization spread account approximates its fair value due to the relatively short maturity period and average interest rates which approximate current market rates.

ACCOUNTS PAYABLE--Due to the relatively short maturity periods, the carrying amount approximates the fair value.

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

INTEREST SWAPS--The fair value was estimated based on the cost to the Company to terminate the agreements.

16. INTEREST SWAPS

INTEREST SWAPS--In March 1997, WFNNB entered into an interest rate swap agreement with J.P. Morgan Company ("Morgan") with a notional amount totaling $200.0 million. This interest rate swap effectively changed WFNNB's interest rate exposure on $200.0 million of securitized credit card receivables to a fixed rate of approximately 6.72%. On January 30, 1998, WFNNB entered into an interest rate swap agreement with Morgan with a notional amount of $300.0 million. This interest rate swap effectively changed WFNNB's interest rate exposure on $300.0 million of securitized accounts receivable to a variable rate based on LIBOR. The notional amount of the swap, $60 million at December 31, 2000, will decrease with a corresponding decrease of the related securitized credit card receivables. In October 1998, Loyalty entered into two cross-currency interest rate swap agreements with Morgan with notional amounts totaling $100.0 million. One of the interest rate swaps effectively changed Loyalty's interest rate exposure on $50 million of notes payable (decreasing with principal payments) from a variable rate based on Canadian Bankers Acceptance to a fixed rate of 9.3%. The other interest rate swap effectively changed Loyalty's interest rate exposure on $50 million of notes payable (decreasing with principal payments) from a variable rate based on Canadian Bankers Acceptance to a variable rate based on LIBOR. The following briefly outlines the terms of each swap agreement:

NOTIONAL AMOUNT	SWAP PERIOD	FIXED/VARIABLE RATE RECEIVED	FIXED/VARIABLE RATE PAID
$200,000,000.....	May 15, 1997 through May 15, 2004	USD-LIBOR-BBA	6.720%
$60,000,000.....	January 30, 1998 through March 15, 2003	5.67%	USD-LIBOR-BBA
$43,750,000.....	October 26, 1998 through July 25, 2003	USD-LIBOR-BBA+2.00%	CAD-BA-CDOR+2.26%
$48,000,000.....	October 26, 1998 through July 25, 2005	USD-LIBOR-BBA+3.25%	9.265%

In fiscal 1995, the Company entered into five-year and seven-year forward rate locks to mitigate the impact of interest rate fluctuations of the five and seven year Asset-Backed Securities ("ABS") issued in a public offering in connection with the securitization of certain credit card receivables. At the forward rate lock hedge determination date, the Company was in a favorable position and received $17.7 million (five year) and $16.8 million (seven year) which was recorded as deferred income and is being amortized ratably over five and seven year periods, respectively. The hedging reduced the effective interest rate of the five year ABS's from approximately 6.7% to 6.0% and reduced the effective interest rate of the seven year ABS's from approximately 7.0% to 6.2%.

17. PARENT ONLY FINANCIAL STATEMENTS

ALLIANCE DATA SYSTEMS CORPORATION
(PARENT COMPANY ONLY)
CONDENSED FINANCIAL INFORMATION

BALANCE SHEETS	DECEMBER 31, 1999	DECEMBER 31, 2000
	(IN THOUSANDS)	
Assets:		
Cash and cash equivalents	$ --	$ 7
Investment in subsidiaries	350,285	351,270
Loans to subsidiaries	181,750	274,750
Receivables from subsidiaries	66,179	
Trade receivables	--	--
Other	12,867	3,976
Total assets	$611,081	$630,003
Liabilities:		
Long-term and subordinated debt	$222,361	$195,975
Borrowings from subsidiaries	--	6,659
Other	10,432	6,180
Total liabilities	232,793	208,814
Stockholders' equity	378,288	421,189
Total liabilities and stockholders' equity	$611,081	$630,003

STATEMENTS OF INCOME	FISCAL 1998	FISCAL 1999	FISCAL 2000
	(IN THOUSANDS)		
Interest from loans to subsidiaries	$17,907	$23,962	$24,648
Dividends from subsidiary	--	40,000	32,000
Processing and servicing fees	4,457	3,404	--
Other income	156	149	--
Total revenue	22,520	67,515	56,648
Interest expense	21,165	25,981	24,296
Other expense	153	256	970
Total expense	21,318	26,237	25,266
Income before income taxes	1,202	41,278	31,382
Income tax expense	486	720	540
Net income	$ 716	$40,558	$30,842

Note: Alliance Data Systems Corporation accounts for its investments in subsidiaries under the cost method.

17. PARENT ONLY FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CASH FLOWS	FISCAL 1998	FISCAL 1999	FISCAL 2000
	(IN THOUSANDS)		
Net cash provided by (used in) operating activities.....	$ (78,260)	$ 115,555	$ 99,338
Investing activities:			
Net cash paid for corporate acquisitions.....	(151,500)	(169,322)	10,925
Loans to subsidiaries.....	--	--	(93,000)
Net cash used in investing activities.....	(151,500)	(169,322)	(82,075)
Financing Activities:			
Borrowings from subsidiaries.....	17,490	41,331	--
Issuance of long-term and subordinated debt.....	327,159	320,624	391,000
Repayment of long-term and subordinated debt.....	(221,676)	(428,854)	(408,405)
Net proceeds from preferred stock.....	--	119,400	--
Net proceeds from issuances of common stock.....	107,042	377	149
Net cash provided by (used in) financing activities.....	230,015	52,878	(17,256)
Increase (decrease) in cash and cash equivalents.....	255	(889)	7
Cash and cash equivalents at beginning of period.....	634	889	--
Cash and cash equivalents at end of period.....	$ 889	$ --	$ 7

18. SEGMENT INFORMATION

Operating segments are defined by SFAS 131 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, which consists of the Chairman of the Board and Chief Executive Officer, Presidents of the divisions; and 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 accounting policies of the operating segments are generally the same as those described in the summary of significant accounting policies. Corporate overhead is allocated to the segments based on a percentage of the segment's revenues. Interest expense and income taxes are not allocated to the segments in the computation of segment operating profit for internal evaluation purposes. Transaction Services performs servicing activities related to Credit Services. For this, Transaction Services receives a fee equal to its direct costs before corporate overhead allocation plus a margin. The margin is based on

18. SEGMENT INFORMATION (CONTINUED)
current market rates for similar services. Revenues are attributed to geographic areas based on the location of the unit processing the underlying transactions.

FISCAL 1998	TRANSACTION SERVICES	CREDIT SERVICES	MARKETING SERVICES	OTHER/ ELIMINATION	TOTAL
	(IN THOUSANDS)				
Revenues	$303,186	$212,663	$ 60,892	$(165,828)	$410,913
Depreciation and amortization	25,419	11,763	14,854	--	52,036
Operating profit	4,405	12,883	(11,804)	--	5,484

FISCAL 1999	TRANSACTION SERVICES	CREDIT SERVICES	MARKETING SERVICES	OTHER/ ELIMINATION	TOTAL
	(IN THOUSANDS)				
Revenues	$381,027	$247,824	$138,310	$(184,079)	$583,082
Depreciation and amortization	28,814	12,060	36,926	--	77,800
Operating profit	13,014	17,743	(28,302)	--	2,455

FISCAL 2000	TRANSACTION SERVICES	CREDIT SERVICES	MARKETING SERVICES	OTHER/ ELIMINATION	TOTAL
	(IN THOUSANDS)				
Revenues	$437,980	$268,183	$178,214	$(206,182)	$678,195
Depreciation and amortization	41,747	1,259	33,138	--	76,144
Operating profit	13,017	24,059	(15,211)	--	21,865

Information concerning principal geographic areas is as follows:

	UNITED STATES	REST OF WORLD(1)	TOTAL
	(IN THOUSANDS)		
Revenues			
Fiscal 1998	$367,588	$ 43,325	$ 410,913
Fiscal 1999	467,629	115,453	583,082
Fiscal 2000	518,839	159,356	678,195
Total assets			
December 31, 1999	834,838	466,425	1,301,263
December 31, 2000	936,849	483,757	1,420,606

- ------------------------

(1) Primarily consists of Canada following the Loyalty acquisition in July 1998.

19. RELATED PARTY TRANSACTIONS

One of the Company's stockholders, Welsh, Carson, Anderson & Stowe and related affiliates ("WCAS"), have provided significant financing to the Company since the initial merger in August 1996. The related transactions are as follows:

- The Company issued a 10% subordinated note to WCAS in January 1996, in the principal amount of $30.0 million. Principal on the note is due on October 25, 2005 and interest is payable semi-annually in arrears on each January 1 and July 1. The note was originally issued to finance, in part, the acquisition of BSI Business Services, Inc., now known as ADSI. Additionally, the Company issued similar notes to The Limited in the amount of $20.0 million.

19. RELATED PARTY TRANSACTIONS (CONTINUED)

- In July 1998, the Company sold 10.1 million shares of common stock to WCAS for $100.0 million. The shares were issued to finance, in part, the acquisition of all outstanding stock of Loyalty.

- In August 1998, the Company sold 30,303 shares of common stock to WCAS for $300,000 and 20,202 shares of common stock to The Limited for $200,000.

- In September 1998, the Company issued 655,556 shares of common stock to WCAS and issued a 10% subordinated note to WCAS, in the principal amount of $52.0 million. Principal on the note is due in two equal installments on September 15, 2007 and September 15, 2008. Interest is payable semi-annually in arrears on each March 15 and September 15. The shares and the note was originally issued to finance, in part, the acquisition of HSI.

The Company paid Welsh, Carson, Anderson & Stowe $2.0 million in fiscal 1998 and $1.2 million in fiscal 1999 for fees related to acquisitions.

The other significant stockholder of the Company, The Limited (through affiliates), is a significant customer. The Company has entered into credit card processing agreements and a database marketing agreement with several affiliates of The Limited. The Company has received fees from The Limited and its affiliates of $40.6 million for fiscal 1998, $46.6 million for fiscal 1999, and $46.7 million for fiscal 2000.

20. DISCONTINUED OPERATIONS

During September 1999, the Board of Directors decided to discontinue the Company's subscriber services business when a major customer was acquired by a third party. The business had revenues of approximately $44.9 million and $43.1 million in fiscal 1998 and 1999, respectively. The net assets of the business were immaterial.

21. SUBSEQUENT EVENTS

Effective February 28, 2001, the Company acquired substantially all of the operating assets of Utilipro, Inc., a subsidiary of AGL Resources, Inc., for $20.3 million in cash. Utilipro is an account processing and servicing provider to the deregulated utility sector. Utilipro provides these services to three clients serving approximately 500,000 customers.

INDEPENDENT AUDITORS' REPORT

Board of Directors of Utilipro, Inc.:

We have audited the accompanying consolidated balance sheets of Utilipro, Inc. and subsidiaries (the "Company") as of September 30, 1999 and 2000, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 1999 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Atlanta, Georgia
February 28, 2001

UTILIPRO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30,		DECEMBER 31,
	1999	2000	2000
			(UNAUDITED)
ASSETS			
Cash	$ 194,405	$ 270,190	$ 521,101
Accounts receivable--affiliate	1,537,259	5,843,621	1,981,022
Accounts receivable--nonaffiliates, net of allowance for doubtful accounts of $957,226, $3,311,590 and $3,505,387 at September 30, 1999 and 2000 and December 31, 2000, respectively	1,372,044	500,000	500,000
Prepaid expenses and other current assets	114,943	283,391	225,764
Current deferred tax asset	575,253	1,316,590	1,360,848
Total current assets	3,793,904	8,213,792	4,588,735
Property and equipment, net	3,770,395	3,443,606	3,485,298
Deferred tax asset		170,962	136,227
Tax receivable from affiliate	1,073,960	3,508,565	3,758,374
Other assets	68,444	118,716	118,716
	$ 8,706,703	$ 15,455,641	$12,087,350
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	$ 1,648,602	$ 313,935	$ 405,154
Accrued salaries and benefits	763,745	673,631	241,643
Other accrued expenses	314,976	1,729,330	691,305
Notes payable to affiliates	4,162,011	16,104,399	14,787,159
Current portion of long-term debt	420,825	850,488	705,171
Total current liabilities	7,310,159	19,671,783	16,830,432
Long-term debt	574,351	1,067,256	968,891
Deferred tax liability	191,848	--	--
Total liabilities	8,076,358	20,739,039	17,799,323
Commitments and contingencies (Notes 3, 8 and 9)			
Redeemable Preferred Stock, Series A Convertible, $1.00 par value 4,200,000 shares authorized, 700,000 issued and outstanding	700,000	700,000	700,000
Stockholders' equity (deficit):			
Common stock, $1.00 par value, 10,000,000 shares authorized, 123,529 shares issued and outstanding as of September 30, 1999 and 62,999 shares issued and outstanding as of September 30, 2000 and December 31, 2000 (unaudited)	123,529	62,999	62,999
Additional paid-in capital	3,500,000	3,378,940	3,378,940
Accumulated other comprehensive loss	(109)	--	--
Accumulated deficit	(3,693,075)	(9,425,337)	(9,853,912)
Total stockholders' equity (deficit)	(69,655)	(5,983,398)	(6,411,973)
Total liabilities and stockholders' equity	$ 8,706,703	$ 15,455,641	$12,087,350

See accompanying notes to consolidated financial statements.

UTILIPRO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
	1999	2000	1999	2000
			(UNAUDITED)	
Revenues				
Affiliate	$ 5,289,008	$ 13,648,089	$ 1,830,195	$4,048,323
Nonaffiliate	3,310,702	4,083,554	1,161,433	91,952
Total revenues	8,599,710	17,731,643	2,991,628	4,140,275
Expenses				
Payroll and employee benefits	5,686,438	12,158,138	2,329,458	2,039,523
Other operating expenses	6,992,762	12,654,070	2,588,909	1,982,309
Depreciation	638,794	1,260,697	273,675	373,989
Total expenses	13,317,994	26,072,905	5,192,042	4,395,821
Operating loss	(4,718,284)	(8,341,262)	(2,200,414)	(255,546)
Interest expense	103,242	1,121,671	182,083	437,243
Other income, net	(58,639)	(191,919)	(70,491)	(4,883)
Loss before income taxes	(4,762,887)	(9,271,014)	(2,312,006)	(687,906)
Income tax benefit	1,842,285	3,538,752	887,500	259,331
Net loss	$(2,920,602)	$ (5,732,262)	$(1,424,506)	$ (428,575)
Foreign currency translation adjustment	(109)	109	--	--
Comprehensive loss	$(2,920,711)	$ (5,732,153)	$(1,424,506)	$ (428,575)

See accompanying notes to consolidated financial statements.

UTILIPRO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL	ACCUMULATED OTHER		
	SHARES OUTSTANDING	AMOUNT	PAID-IN CAPITAL	COMPREHENSIVE (LOSS)	ACCUMULATED DEFICIT	TOTAL
September 30, 1998	123,529	$123,529	$ 700,000	$ --	$ (772,473)	$ 51,056
Capital contribution			2,800,000			2,800,000
Foreign currency translation adjustment				(109)		(109)
Net loss					(2,920,602)	(2,920,602)
September 30, 1999	123,529	123,529	3,500,000	(109)	(3,693,075)	(69,655)
Repurchase of common stock	(60,530)	(60,530)	(121,060)			(181,590)
Foreign currency translation adjustment				109		109
Net loss					(5,732,262)	(5,732,262)
September 30, 2000	62,999	62,999	3,378,940	--	(9,425,337)	(5,983,398)
Net loss (unaudited)					(428,575)	(428,575)
December 31, 2000 (unaudited)	62,999	$ 62,999	$3,378,940	$ --	$(9,853,912)	$(6,411,973)

See accompanying notes to consolidated financial statements.

UTILIPRO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
	1999	2000	1999	2000
			(UNAUDITED)	
OPERATING ACTIVITIES:				
Net loss	$(2,920,602)	$ (5,732,262)	$(1,424,506)	$ (428,575)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	638,794	1,260,697	273,675	373,989
Bad debt expense	957,226	2,354,364		
Deferred taxes	(424,928)	(1,104,147)	(105,817)	(259,332)
Changes in assets and liabilities:				
Accounts receivable	(3,505,233)	(5,788,682)	(536,779)	3,862,599
Prepaid expenses and other current assets	(11,506)	(168,448)	(326,489)	57,627
Other assets	(61,327)	(50,272)		
Accounts payable and accrued expenses	2,220,155	(10,427)	267,185	(1,378,794)
Tax receivable from affiliate	(626,856)	(2,434,605)	--	--
Net cash used in operating activities	(3,734,277)	(11,673,782)	(1,852,731)	2,227,514
INVESTING ACTIVITY--Capital expenditures	(2,785,163)	(933,799)	(207,255)	(415,681)
FINANCING ACTIVITIES				
Increases in note payable to affiliate	4,162,011	11,942,388	1,713,398	(1,317,240)
Borrowings on long-term debt	--	1,798,940	368,115	--
Payments on long-term debt	(298,852)	(876,372)	--	(243,682)
Common stock repurchase	--	(181,590)	--	--
Capital contribution	2,800,000	--	--	--
Net cash provided by financing activities	6,663,159	12,683,366	2,081,513	(1,560,922)
INCREASE IN CASH	143,719	75,785	21,527	250,911
CASH:				
Beginning of period	50,686	194,405	194,405	270,190
End of period	$ 194,405	$ 270,190	$ 215,932	$ 521,101
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:				
Interest paid	--	$ 350,694	--	$ 318,288
NONCASH ACTIVITY				
Property, plant, and equipment acquired under capital leases	$ 1,099,137	$ 2,028,013	$ 1,799,245	$ --

See accompanying notes to consolidated financial statements.

UTILIPRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

The accompanying consolidated financial statements include the accounts of Utilipro, Inc. and its wholly owned subsidiaries, which are collectively referred to as the "Company." All significant intercompany accounts and transactions have been eliminated.

The Company engages in the sale of integrated customer care solutions and billing services to energy marketers. The Company was formed on June 17, 1997 and on December 10, 1997 AGL Investments, Inc. ("AGL Investments"), a wholly owned subsidiary of AGL Resources, Inc. ("AGL Resources"), acquired 700,000 shares of the Company's convertible preferred stock. The Company is based in Atlanta, Georgia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTERIM FINANCIAL DATA (UNAUDITED)--The financial statements as of December 31, 2000 and for the three months ended December 31, 1999 and 2000 are unaudited. In the opinion of management, these financial statements reflect all adjustments necessary for a fair presentation of the financial statements for such periods. These adjustments consist of normal, recurring items. The results of operations for the three months ended December 31, 2000 are not necessarily indicative of the results of operations that may be expected for the full year.

USE OF 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

PROPERTY AND EQUIPMENT--Purchases of property and equipment are recorded at cost. Depreciation on property is computed on a straight-line basis using the following estimated useful lives:

Computer and telecommunications equipment	5 years
Computer software	4 to 5 years
Furniture and fixtures	5 to 7 years
Leasehold improvements	The life of the lease

IMPAIRMENT OF LONG-LIVED ASSETS--The Company reviews long-lived assets and certain intangibles for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and any impairment losses are reported in the period in which the recognition criteria are first applied based on the fair value of the asset.

INCOME TAXES--Deferred tax assets and liabilities are recorded for all significant temporary differences between the carrying amounts and the tax bases of assets and liabilities. The operating results of the Company are included in the consolidated federal income tax return of AGL Resources and income taxes are allocated to the Company for the tax effects of its income and deductions included in the consolidated return.

DERIVATIVE INSTRUMENTS--In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 133, as amended by SFAS No. 138, ACCOUNTING FOR CERTAIN DERIVATIVE INSTRUMENTS AND CERTAIN HEDGING ACTIVITIES, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
requires that an entity record all derivatives as either assets or liabilities in the balance sheet measured at fair value. The Company adopted SFAS No. 133 on October 1, 2000. The impact of the adoption of SFAS No. 133 on the Company's consolidated financial statements at October 1, 2000 was immaterial.

REVENUE RECOGNITION--The Company recognizes revenues using the accrual method. As services are performed, they are billed to the Company's customers and recorded as revenue.

RECLASSIFICATIONS--Certain prior year amounts have been reclassified for comparative purposes. Those reclassifications did not affect consolidated net loss for the years presented.

3. CONCENTRATION OF CREDIT RISK

At September 30, 2000, one nonaffiliated customer comprised all of the Company's accounts receivable--nonaffiliates, and at September 30, 1999, three nonaffiliated customers comprised 73%, 12%, and 11%, respectively of the Company's accounts receivable--non-affiliate balance. For the year ended September 30, 2000, no nonaffiliate customer represented more than 10% of nonaffiliate revenues. For the year ended September 30, 1999, three nonaffiliated customers comprised 24%, 8%, and 4% of nonaffiliate revenues, respectively.

On October 26, 1999, Peachtree Natural Gas, LLC ("Peachtree"), one of the Company's nonaffiliated customers, filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. As of the date of Peachtree's bankruptcy filing, Peachtree owed the Company $2,063,769. The amount owed to the Company as of September 30, 2000 was fully reserved for in the accompanying balance sheet.

4. PROPERTY AND EQUIPMENT

Property and equipment are as follows:

	AS OF SEPTEMBER 30,	
	1999	2000
Computer and telecommunications equipment	$3,347,907	$ 3,425,108
Computer software	697,350	1,215,750
Furniture and fixtures	350,056	385,323
Leasehold improvements	65,034	341,044
	4,460,347	5,367,225
Accumulated depreciation	(689,952)	(1,923,619)
	$3,770,395	$ 3,443,606

5. LONG-TERM DEBT

Long-term debt as of September 30, 1999 and 2000 consists of capital lease obligations related to computer equipment, telephone equipment, and computer software with interest rates of 8%, maturing at various dates through 2003. The cost of the assets recorded under the capital lease obligations is $3,151,765. Accumulated amortization related to assets recorded under capital leases is $242,026 and

5. LONG-TERM DEBT (CONTINUED)
$490,441 at September 30, 1999 and 2000, respectively. The balance of the capital lease obligations as of September 30, 1999 and 2000 was $995,176 and $1,917,744, respectively.

Total aggregate minimum lease payments under capital leases at September 30, 2000 are as follows:

2001	$1,008,682
2002	1,114,684
2003	35,472
	2,158,838
Less: amounts representing interest	(241,094)
	$1,917,744

6. INCOME TAXES

The components of income tax benefit are as follows:

	YEAR ENDED SEPTEMBER 30,	
	1999	2000
Current:		
Federal	$1,209,957	$2,078,320
State	207,400	356,285
	1,417,357	2,434,605
Deferred:		
Federal	362,749	942,564
State	62,179	161,583
	424,928	1,104,147
Income tax benefit	$1,842,285	$3,538,752

The reconciliation of the Company's effective tax rate to the statutory tax rate is as follows:

	YEAR ENDED SEPTEMBER 30,			
	1999		2000	
	RATE	AMOUNT	RATE	AMOUNT
Computed tax expense benefit	35.0%	$(1,667,059)	35.0%	$(3,244,894)
State taxes, net of federal benefit	3.7	(175,226)	3.6	(336,614)
Other			(0.4)	42,756
Income tax benefit	38.7%	$(1,842,285)	38.2%	$(3,538,752)

6. INCOME TAXES (CONTINUED)

On a pro forma basis, had the Company used the separate return basis for its income tax provision, no income tax benefit would have been recorded in the years ended September 30, 1999 and 2000.

The tax effects of temporary differences comprising the net deferred tax asset are as follows (a valuation reserve was not considered necessary):

	AS OF SEPTEMBER 30,	
	1999	2000
Allowance for doubtful accounts	$ 370,255	$1,280,899
Property	(191,848)	131,138
Accrued bonus and vacation	185,658	35,691
Other	19,340	39,824
Net deferred tax asset	$ 383,405	$1,487,552

7. STOCKHOLDERS' EQUITY

On December 10, 1997, Utilipro entered into a Series A Convertible Preferred Stock Purchase Agreement whereby 700,000 shares of Convertible Series A Preferred Stock ("Preferred Stock") were issued to AGL Investments for $700,000. Concurrently with the issuance of the Preferred Stock, 123,529 shares of common stock were issued to certain shareholders. The Preferred Stock is convertible into common stock at the option of AGL Investments at a conversion price of $1 per share. Furthermore, AGL Investments has the option to require the Company to redeem any or all outstanding shares of the Preferred Stock on December 10, 2004 at an amount equal to the sum of the original purchase price per share plus any declared and accrued but unpaid dividends on the shares. If the Company fails to redeem the Preferred Stock on December 10, 2004, the conversion price of the Preferred Stock will decrease at the rate of 10% per quarter. As of September 30, 1999 and 2000, no dividends had been declared.

During the year ended September 30, 2000, the Company acquired common stock held by two shareholders. The shares, which were acquired for $181,590, were retired.

On May 22, 1998, the Company entered into a Capital Contribution Agreement with AGL Resources whereby AGL Investments agreed to contribute up to a maximum of $3,500,000 in additional capital to the Company. As of September 30, 2000, AGL Investments had contributed $3,500,000 in additional capital.

8. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES--The Company leases certain buildings and equipment under noncancelable operating leases which expire at various dates through 2006.

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following is a schedule of future minimum lease payments under operating leases as of September 30, 2000:

2001	$1,407,130
2002	1,229,051
2003	801,158
2004	572,214
2005	319,959
Thereafter	354,306
	$4,683,818

Rent expense for the years ended September 30, 1999 and 2000 was $418,052 and $1,418,324, respectively.

9. LITIGATION

During the year ended September 30, 2000, Peachtree commenced litigation against the Company seeking damages in excess of $50 million as a result of an alleged breach of contract by the Company. If the Company were to suffer an adverse outcome in this litigation, it could have a material adverse effect on the Company's consolidated financial statements. While management believes that the Company has valid defenses to this litigation, management cannot predict the outcome of the litigation.

The Company is involved in litigation arising in the normal course of business. Management believes that the ultimate resolution of that litigation will not have a material adverse effect on the Company's consolidated financial statements.

10. RELATED PARTY TRANSACTIONS

ACCOUNTS RECEIVABLE-AFFILIATE--Accounts receivable-affiliate at September 30, 1999 and 2000 of $1,537,259 and $5,843,621, respectively, consists of amounts due from SouthStar Energy Services, LLC ("SouthStar"), a joint venture in which AGL Resources is a member, for services rendered by the Company.

REVENUE-AFFILIATE--Revenue-affiliate consists of revenue from SouthStar for services rendered by the Company.

TAX RECEIVABLE FROM AFFILIATE--The receivable from affiliate at September 30, 1999 and 2000 of $1,073,960 and $3,508,565, respectively, consists primarily of amounts due from AGL Resources for income tax benefits.

NOTES PAYABLE TO AFFILIATE--The notes payable to affiliates at September 30, 1999 of $4,162,000 included $2,947,000 owed to AGL Investments and $1,215,000 owed to AGL Propane, Inc., a wholly owned subsidiary of AGL Resources Inc. in accordance with a Note Agreement dated April 16, 1999 (the "AGL Propane Note"). Interest accrues at rates from 8.075% to 8.105% annually with a maturity date of June 1, 2000. The AGL Propane Note was repaid during the year ended September 30, 2000.

10. RELATED PARTY TRANSACTIONS (CONTINUED)

The amount payable to AGL Investments is pursuant to a Note Agreement dated August 13, 1999, as amended (the "Original AGL Investments Note"), with interest accruing at LIBOR plus 250 basis points. The Company and AGL Investments entered into a Note Agreement dated January 1, 2000, with interest accruing at LIBOR plus 300 basis points, whereby the outstanding balance as of January 1, 2000 of the Original AGL Investments Note was refinanced. During the year ended September 30, 1999, interest rates ranged from 7.7% to 7.9%. During the year ended September 30, 2000, interest rates ranged from 8.8% to 9.7%. At September 30, 2000, notes payable to AGL Investments totaled $16,104,399. Interest expense recognized during the years ended September 30, 1999 and 2000 was $47,011 and $882,822, respectively. Accrued and unpaid interest at September 30, 1999 and 2000 was $47,011 and $532,128, respectively.

11. SUBSEQUENT EVENTS

In January 2001, the Company acquired and retired all of the outstanding common stock held by the Company's minority shareholder for $188,997. As a result, all of the capital stock of the Company is now held by AGL Investments.

On February 28, 2001, the Company extinguished its capital lease obligations in the amount of $2,094,999.

Effective February 28, 2001, Alliance Data Systems, Inc. purchased from AGL Investments the property and equipment and assumed certain working capital related liabilities of the Company.

PROSPECTIVE INVESTORS MAY RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. NEITHER ALLIANCE DATA SYSTEMS CORPORATION NOR ANY UNDERWRITER HAS AUTHORIZED ANYONE TO PROVIDE PROSPECTIVE INVESTORS WITH DIFFERENT OR ADDITIONAL INFORMATION. THIS PROSPECTUS IS NOT AN OFFER TO SELL NOR IS IT SEEKING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF THE DELIVERY OF THIS PROSPECTUS OR ANY SALE OF THESE SECURITIES.

NO ACTION IS BEING TAKEN IN ANY JURISDICTION OUTSIDE THE UNITED STATES TO PERMIT A PUBLIC OFFERING OF THE COMMON STOCK OR POSSESSION OR DISTRIBUTION OF THIS PROSPECTUS IN ANY OF THESE JURISDICTIONS. PERSONS WHO COME INTO POSSESSION OF THIS PROSPECTUS IN JURISDICTIONS OUTSIDE THE UNITED STATES ARE REQUIRED TO INFORM THEMSELVES ABOUT AND TO OBSERVE THE RESTRICTIONS OF THAT JURISDICTION RELATED TO THIS OFFERING AND THE DISTRIBUTIONS OF THIS PROSPECTUS.

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Dealer Prospectus Delivery Obligation:

Until , 2001 (25 days after the date of this prospectus), all dealers that buy, sell or trade these shares of common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

[LOGO]

13,000,000 SHARES

COMMON STOCK

PROSPECTUS

BEAR, STEARNS & CO. INC.
MERRILL LYNCH & CO.
CREDIT SUISSE FIRST BOSTON

, 2001

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13--OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The estimated expenses in connection with the issuance and distribution of the securities being registered, other than underwriting discounts and commissions are set forth in the following table. The Company will pay all expenses of issuance and distribution. Each amount, except for the SEC, NASD and New York Stock Exchange fees, is estimated.

SEC registration fees	$ 79,200
NASD filing fees	30,500
New York Stock Exchange application listing fee	335,000
Transfer agent's and registrar's fees and expenses	20,000
Printing and engraving expenses	900,000
Legal fees and expenses	900,000
Accounting fees and expenses	800,000
Blue sky fees and expenses	5,000
Miscellaneous	10,300
Total	$3,080,000

ITEM 14--INDEMNIFICATION OF DIRECTORS AND OFFICERS

Alliance Data Systems Corporation's Certificate of Incorporation provides that it shall, to the fullest extent permitted by Section 145 of the Delaware General Corporation Law, indemnify all persons whom it may indemnify under Delaware law.

Section 145 of the Delaware General Corporation Law permits a corporation, under specified circumstances, to indemnify its directors, officers, employees or agents against expenses (including attorneys' fees), judgments, fines and amounts paid in settlements actually and reasonably incurred by them in connection with any action, suit or proceeding brought by third parties by reason of the fact that they were or are directors, officers, employees or agents of the corporation, if such directors, officers, employees or agents acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reason to believe their conduct was unlawful. In a derivative action, i.e., one by or in the right of the corporation, indemnification may be made only for expenses actually and reasonably incurred by directors, officers, employees or agents in connection with the defense or settlement of an action or suit, and only with respect to a matter as to which they shall have acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made if such person shall have been adjudged liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine upon application that the defendant directors, officers, employees or agents are fairly and reasonably entitled to indemnity for such expenses despite such adjudication of liability.

Alliance Data Systems Corporation's Bylaws provide for indemnification by it of its directors, officers and certain non-officer employees under certain circumstances against expenses (including attorneys' fees, judgments, fines and amounts paid in settlement) reasonably incurred in connection with the defense or settlement of any threatened, pending or completed legal proceeding in which any such person is involved by reason of the fact that such person is or was an officer or employee of Alliance Data Systems Corporation if such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of Alliance Data Systems Corporation, and, with respect to criminal actions or proceedings, if such person had no reasonable cause to believe his or her conduct was unlawful. Alliance Data Systems Corporation's Certificate of Incorporation also provides that, to the fullest extent

permitted by the Delaware General Corporation Law, no director shall be personally liable to Alliance Data Systems Corporation or its stockholders for monetary damages resulting from breaches of their fiduciary duty as directors.

Expenses for the defense of any action for which indemnification may be available may be advanced by Alliance Data Systems Corporation under certain circumstances. The general effect of the foregoing provisions may be to reduce the circumstances which an officer or director may be required to bear the economic burden of the foregoing liabilities and expenses. Directors and officers will be covered by liability insurance indemnifying them against damages arising out of certain kinds of claims which might be made against them based on their negligent acts or omissions while acting in their capacity as such.

ITEM 15--RECENT SALES OF UNREGISTERED SECURITIES

Since January 1998, Alliance Data Systems Corporation has issued and sold the following unregistered securities:

(1) In July 1998, 9,634,265 shares of common stock were sold to various Welsh, Carson, Anderson & Stowe limited partnerships and a total of 466,744 shares of common stock were sold to a total of 16 individuals who are partners of some or all of the Welsh Carson limited partnerships for $100.0 million to finance, in part, the acquisition of all of the outstanding capital stock of the Loyalty Management Group Canada Inc.

(2) In August 1998, 30,303 shares of common stock were sold to WCAS Capital Partners II, L.P. at a value of $9.90 per share as consideration for extending the maturity on a 10% subordinated note, issued to WCAS Capital Partners II, originally due January 24, 2002 to October 25, 2005 and 20,202 shares were sold to Limited Commerce Corp. at a value of $9.90 per share as consideration for extending the maturity on a 10% subordinated note, issued to Limited Commerce Corp., originally due January 24, 2002 to October 25, 2005.

(3) In September 1998, 655,555 shares of common stock were issued to WCAS Capital Partners III, LP at a value of $9.90 per share to finance, in part, the acquisition of Harmonic Systems Incorporated.

(4) In July 1999, a total of 120,000 shares of Series A preferred stock were sold to Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Information Partners, L.P. and 20 individuals who are also partners of some or all of the Welsh Carson limited partnerships for $120 million. The shares of Series A preferred stock were issued to finance, in part, the acquisition of the network transaction processing business of SPS Payment Systems, Inc.

Since October 1996, Alliance Data Systems Corporation has granted stock options to purchase shares of its common stock under its stock option and restricted stock plan covering an aggregate of 5,441,909 shares, at exercise prices ranging from $9.00 to $15.00 per share. Since January 1998 Alliance Data Systems Corporation has issued 133,152 shares of Alliance Data Systems Corporation's common stock pursuant to the exercise of stock options. Since October 1996, 957,652 stock options have lapsed without being exercised. As of March 31, 2001, performance-based restricted awards representing an aggregate of 699,000 shares had been granted under the stock option and restricted stock plan, 129,000 of which have been forfeited.

The sales and issuances of securities in the transactions described above were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act, Regulation D promulgated thereunder or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving any public offering or transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in such transactions. All recipients had adequate access, through their relationship with Alliance Data Systems, to information about the Company.

ITEM 16--EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) EXHIBITS

EXHIBIT NO.	EXHIBITS
1	Form of Underwriting Agreement.
*2.1	Agreement and Plan of Merger, dated as of August 30, 1996, by and between Business Services Holdings, Inc. and World Financial Network Holding Corporation.
*2.2	Agreement and Plan of Merger, dated as of August 14, 1998, by and among Alliance Data Systems Corporation, HSI Acquisition Corp., and Harmonic Systems Incorporated.
*2.3	Stock Purchase Agreement, dated June 8, 1998, by and between SPS Payment Systems, Inc., Alliance Data Systems Corporation, SPS Commercial Services, Inc., and ADS Network Services, Inc., amended July 12, 1999.
*2.4	Agreement for the Purchase of all the Shares of Loyalty Management Group Canada Inc., June 26, 1998, by and between Air Miles International Group B.V., certain other shareholders and option holders and Alliance Data Systems Corporation as amended July 14, 1998.
*2.5	Asset Purchase Agreement by and between Utilipro, Inc., AGL Resources, Inc., and Alliance Data Systems Corporation, dated as of February 12, 2001, as amended March 2, 2001.
*3.1	Second Amended and Restated Certificate of Incorporation of the Registrant.
*3.2	Second Amended and Restated Bylaws of the Registrant.
3.3	First Amendment to the Second Amended and Restated Bylaws of the Registrant.
*4	Specimen Certificate for shares of Common Stock of the Registrant.
*5	Opinion of Akin, Gump, Strauss, Hauer & Feld, L.L.P.
*10.1	Credit Card Processing Agreement between World Financial Network National Bank, Bath and Body Works, Inc. and Tri-State Factoring, Inc., dated January 31, 1996.
*10.2	Credit Card Processing Agreement between World Financial Network National Bank, Victoria's Secret Catalogue, Inc., and Far West Factoring Inc., dated January 31, 1996 (assigned by Victoria's Secret Catalogue, Inc. to Victoria's Secret Catalogue, LLC, May 2, 1998).
*10.3	Credit Card Processing Agreement between World Financial Network National Bank, Victoria's Secret Stores, Inc., and Lone Mountain Factoring, Inc., dated January 31, 1996.

EXHIBIT NO.	EXHIBITS
*10.4	Credit Card Processing Agreement between World Financial Network National Bank, Lerner New York, Inc., and Nevada Receivable Factoring, Inc., dated January 31, 1996.
*10.5	Credit Card Processing Agreement between World Financial Network National Bank, Express, Inc., and Retail Factoring, Inc., dated January 31, 1996.
*10.6	Credit Card Processing Agreement between World Financial Network National Bank, The Limited Stores, Inc., and American Receivable Factoring, Inc., dated January 31, 1996.
*10.7	Credit Card Processing Agreement between World Financial Network National Bank, Structure, Inc., and Mountain Factoring, Inc., dated January 31, 1996.
*10.8	Credit Card Processing Agreement between World Financial Network National Bank, Lane Bryant, Inc., and Sierra Nevada Factoring, dated January 31, 1996.
*10.9	Credit Card Processing Agreement between World Financial Network National Bank, Henri Bendel, Inc., and Western Factoring, Inc., dated January 31, 1996 and amended May 13, 1998.
*10.10	Alliance Data Systems Corporation and its Subsidiaries Employee Stock Purchase Plan.
*10.11	Lease between Deerfield and Weiland Office Building, L.L.C. and ADS Alliance Data Systems, Inc., dated July 30, 1999.
*10.12	Indenture of Sublease between J.C. Penney Company, Inc. and BSI Business Services, Inc., dated January 11, 1996.
*10.13	Build-to-Suit Net Lease between Opus South Corporation and ADS Alliance Data Systems, Inc., dated January 29, 1998, as amended.
*10.14	Industrial Lease Agreement between CIBC Development Corporation and Loyalty Management Group Canada Inc., dated October 19, 1998, amended January 26, 1999.
*10.15	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.
*10.16	Deed of Lease between Boswell International Marine (PTE) Limited and Financial Automation Limited, dated August 3, 1999.
*10.17	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.
*10.18	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.
*10.19	Lease Agreement by and between Americana Parkway Warehouse Limited and World Financial Network National Bank, dated June 28, 1994.
*10.20	Lease Agreement by and between Morrison Taylor II, Ltd. and ADS Alliance Data Systems, Inc., dated June 18, 1998, and amended June 18, 1998.
*10.21	Lease Agreement between Morrison Taylor, Ltd. and ADS Alliance Data Systems, Inc. dated July 1, 1997, and amended June 18, 1998.

EXHIBIT NO.	EXHIBITS
*10.22	Commercial Lease Agreement between Waterview Parkway, L.P. and ADS Alliance Data Systems, Inc., dated July 16, 1997.
*10.23	Preferred Stock Purchase Agreement by and between Alliance Data Systems Corporation and several persons named in Schedule I thereto, dated July 12, 1999.
*10.24	Amended and Restated Stockholder Agreement, by and between World Financial Network Holding Corporation, Limited Commerce Corp., Welsh, Carson, Anderson, and Stowe VII, L.P., and the several other investors named in Annex 1 thereto dated August 30, 1996, and amended July 24, 1998, August 31, 1998 and July 12, 1999.
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*10.41	Registration Rights Agreement dated as of January 24, 1996 between Business Services Holdings, Inc. and Welsh Carson, Andersen, and Stowe VII, L.P., WCAS Information Partners, L.P., WCA Management Corporation, Patrick J. Welsh, Russell L. Carson, Bruce K. Anderson, Richard H. Stowe, Andrew M. Paul, Thomas E. McInerney, Laura VanBuren, James B. Hoover, Robert A. Minicucci, Anthony J. deNicola, and David Bellet.
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*10.48	Form of Business Solutions Master Agreement between ADS Alliance Data Systems, Inc. and certain affiliates of The Limited, Inc.
*10.49	Second Amendment to Amended and Restated Credit Agreement, dated as of September 29, 2000, by and among Alliance Data Systems Corporation, Loyalty Management Group Canada Inc., Morgan Guaranty Trust Company of New York and Harris Trust and Savings Bank.
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*10.58	First Amendment to Lease between Deerfield & Weiland Office Building, L.L.C. and ADS Alliance Data Systems, Inc., dated as of June 27, 2000.
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23.1	Consent of Deloitte & Touche LLP with regard to Alliance Data Systems Corporation.
*23.2	Consent of Akin, Gump, Strauss, Hauer & Feld, L.L.P. (included in its opinion filed as Exhibit 5 hereto).
23.3	Consent of Deloitte & Touche LLP with regard to Utilipro, Inc.
*24	Power of Attorney (included on the signature page hereto).

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* Previously filed.

\+ Portions of Exhibit have been omitted and filed separately with the commission pursuant to a request for confidential treatment.

(b) Financial Statement Schedules

Schedule II--Valuation and qualifying accounts

ITEM 17--UNDERTAKINGS

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or

(4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas, on May 4, 2001.

ALLIANCE DATA SYSTEMS CORPORATION

By: /s/ J. MICHAEL PARKS
J. Michael Parks
CHIEF EXECUTIVE OFFICER AND PRESIDENT

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on May 4, 2001:

NAME	TITLE
/s/ J. MICHAEL PARKS J. Michael Parks	Chairman of the Board, Chief Executive Officer and President (principal executive officer)
/s/ EDWARD J. HEFFERNAN Edward J. Heffernan	Executive Vice President and Chief Financial Officer (principal financial officer)
* Michael D. Kubic	Vice President, Corporate Controller and Chief Accounting Officer (principal accounting officer)
* Bruce K. Anderson	Director
* Roger H. Ballou	Director
* Anthony J. deNicola	Director
* Daniel P. Finkelman	Director
* Kenneth R. Jensen	Director
* Robert A. Minicucci	Director
* Bruce A. Soll	Director

*By: /s/ J. MICHAEL PARKS
J. Michael Parks
ATTORNEY-IN-FACT

SCHEDULE II

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	INCREASES	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for Doubtful Accounts--Trade receivables:				
11 months ended December 31, 1998.....	$2,561	$ 8,151	$ (7,136)	$3,576
Year ended December 31, 1999.....	3,576	5,814	(8,311)	1,079
Year ended December 31, 2000.....	1,079	3,565	(768)	3,876
Allowance for Doubtful Accounts--Credit Card receivables:				
11 months ended December 31, 1998.....	$4,617	$15,352	$(15,081)	$4,888
Year ended December 31, 1999.....	4,888	14,951	(16,182)	3,657
Year ended December 31, 2000.....	3,657	13,828	(13,828)	3,657

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
1	Form of Underwriting Agreement.
*2.1	Agreement and Plan of Merger, dated as of August 30, 1996, by and between Business Services Holdings, Inc. and World Financial Network Holding Corporation.
*2.2	Agreement and Plan of Merger, dated as of August 14, 1998, by and among Alliance Data Systems Corporation, HSI Acquisition Corp., and Harmonic Systems Incorporated.
*2.3	Stock Purchase Agreement, dated June 8, 1998, by and between SPS Payment Systems, Inc., Alliance Data Systems Corporation, SPS Commercial Services, Inc., and ADS Network Services, Inc., amended July 12, 1999.
*2.4	Agreement for the Purchase of all the Shares of Loyalty Management Group Canada Inc., June 26, 1998, by and between Air Miles International Group B.V., certain other shareholders and option holders and Alliance Data Systems Corporation as amended July 14, 1998.
*2.5	Asset Purchase Agreement by and between Utilipro, Inc., AGL Resources, Inc., and Alliance Data Systems Corporation, dated as of February 12, 2001, as amended March 2, 2001.
*3.1	Second Amended and Restated Certificate of Incorporation of the Registrant.
*3.2	Second Amended and Restated Bylaws of the Registrant.
3.3	First Amendment to the Second Amended and Restated Bylaws of the Registrant.
*4	Specimen Certificate for shares of Common Stock of the Registrant.
*5	Opinion of Akin, Gump, Strauss, Hauer & Feld, L.L.P.
*10.1	Credit Card Processing Agreement between World Financial Network National Bank, Bath and Body Works, Inc. and Tri-State Factoring, Inc., dated January 31, 1996.
*10.2	Credit Card Processing Agreement between World Financial Network National Bank, Victoria's Secret Catalogue, Inc., and Far West Factoring Inc., dated January 31, 1996 (assigned by Victoria's Secret Catalogue, Inc. to Victoria's Secret Catalogue, LLC, May 2, 1998).
*10.3	Credit Card Processing Agreement between World Financial Network National Bank, Victoria's Secret Stores, Inc., and Lone Mountain Factoring, Inc., dated January 31, 1996.
*10.4	Credit Card Processing Agreement between World Financial Network National Bank, Lerner New York, Inc., and Nevada Receivable Factoring, Inc., dated January 31, 1996.
*10.5	Credit Card Processing Agreement between World Financial Network National Bank, Express, Inc., and Retail Factoring, Inc., dated January 31, 1996.
*10.6	Credit Card Processing Agreement between World Financial Network National Bank, The Limited Stores, Inc., and American Receivable Factoring, Inc., dated January 31, 1996.
*10.7	Credit Card Processing Agreement between World Financial Network National Bank, Structure, Inc., and Mountain Factoring, Inc., dated January 31, 1996.
*10.8	Credit Card Processing Agreement between World Financial Network National Bank, Lane Bryant, Inc., and Sierra Nevada Factoring, dated January 31, 1996.

EXHIBIT NO.	DESCRIPTION
*10.9	Credit Card Processing Agreement between World Financial Network National Bank, Henri Bendel, Inc., and Western Factoring, Inc., dated January 31, 1996 and amended May 13, 1998.
*10.10	Alliance Data Systems Corporation and its Subsidiaries Employee Stock Purchase Plan.
*10.11	Lease between Deerfield and Weiland Office Building, L.L.C. and ADS Alliance Data Systems, Inc., dated July 30, 1999.
*10.12	Indenture of Sublease between J.C. Penney Company, Inc. and BSI Business Services, Inc., dated January 11, 1996.
*10.13	Build-to-Suit Net Lease between Opus South Corporation and ADS Alliance Data Systems, Inc., dated January 29, 1998, as amended.
*10.14	Industrial Lease Agreement between CIBC Development Corporation and Loyalty Management Group Canada Inc., dated October 19, 1998, amended January 26, 1999.
*10.15	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.
*10.16	Deed of Lease between Boswell International Marine (PTE) Limited and Financial Automation Limited, dated August 3, 1999.
*10.17	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.
*10.18	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.
*10.19	Lease Agreement by and between Americana Parkway Warehouse Limited and World Financial Network National Bank, dated June 28, 1994.
*10.20	Lease Agreement by and between Morrison Taylor II, Ltd. and ADS Alliance Data Systems, Inc., dated June 18, 1998, and amended June 18, 1998.
*10.21	Lease Agreement between Morrison Taylor, Ltd. and ADS Alliance Data Systems, Inc. dated July 1, 1997, and amended June 18, 1998.
*10.22	Commercial Lease Agreement between Waterview Parkway, L.P. and ADS Alliance Data Systems, Inc., dated July 16, 1997.
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EXHIBIT 1

13,000,000 SHARES OF COMMON STOCK

ALLIANCE DATA SYSTEMS CORPORATION

UNDERWRITING AGREEMENT

May __, 2001

BEAR, STEARNS & CO. INC.
MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED
CREDIT SUISSE FIRST BOSTON CORPORATION
as Representatives of the
several Underwriters named in
Schedule I attached hereto
c/o Bear, Stearns & Co. Inc.
245 Park Avenue
New York, New York 10167

Dear Sirs:

Alliance Data Systems Corporation, a corporation organized and existing under the laws of the State of Delaware (the "COMPANY"), proposes, subject to the terms and conditions stated herein, to issue and sell to the several underwriters named in Schedule I hereto (the "UNDERWRITERS") an aggregate of 13,000,000 shares (the "FIRM SHARES") of its common stock, par value $0.01 per share (the "COMMON STOCK") and, for the sole purpose of covering over-allotments in connection with the sale of the Firm Shares, at the option of the Underwriters, up to an additional 1,950,000 shares (the "ADDITIONAL SHARES") of Common Stock. The Firm Shares and any Additional Shares purchased by the Underwriters are referred to herein as the "SHARES". The Shares are more fully described in the Registration Statement referred to below.

The Company and the Underwriters agree that up to 650,000 Shares to be purchased by the Underwriters (the "RESERVED SHARES") shall be reserved for sale by Merrill Lynch & Co. ("MERRILL LYNCH") to certain eligible employees and persons having business relationships with the Company, as part of the distribution of the Shares by the Underwriters, subject to the terms of this Agreement, the applicable rules, regulations and interpretations of the National Association of Securities Dealers, Inc. (the "NASD") and all other applicable laws, rules and regulations. To the extent that such Reserved Shares are not orally confirmed for purchase by such eligible employees and persons having business relationships with the Company by the end of the first business day after the date of this Agreement, such Reserved Shares may be offered to the public as part of the public offering contemplated hereby.

1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to, and agrees with, each of the Underwriters that:

(a) The Company has filed with the Securities and Exchange Commission (the "COMMISSION") a registration statement, and has filed amendments thereto, on Form S-1 (No. 333-94623), for the registration of the Shares under the Securities Act of 1933, as amended (the "ACT"). Such registration statement, including the prospectus, financial statements and schedules, exhibits and all other documents filed as a part thereof, as amended at the time of effectiveness of the registration statement, including any information deemed to be a part thereof as of the time of effectiveness pursuant to paragraph (b) of Rule 430A or Rule 434 of the Rules and Regulations of the Commission under the Act (the "REGULATIONS"), and any additional registration statement increasing the size of the offering filed pursuant to Rule 462(b) of the Regulations with respect to the Shares ("462(b) REGISTRATION STATEMENT"), is herein called the "REGISTRATION STATEMENT," and the prospectus, in the form first filed with the Commission pursuant to Rule 424(b) of the Regulations or filed as part of the Registration Statement at the time of effectiveness if no Rule 424(b) or Rule 434 filing is required, is herein called the "PROSPECTUS." The term "PRELIMINARY PROSPECTUS" as used herein means a preliminary prospectus as described in Rule 430 of the Regulations.

(b) At the time of the effectiveness of the Registration Statement or any 462(b) Registration Statement or the effectiveness of any post-effective amendment to the Registration Statement, when the Prospectus is first filed with the Commission pursuant to Rule 424(b) or Rule 434 of the Regulations, when any supplement to or amendment of the Prospectus is filed with the Commission and at the Closing Date and the Additional Closing Date, if any (as hereinafter respectively defined), the Registration Statement, any 462(b) Registration Statement and the Prospectus and any amendments thereof and supplements thereto complied or will comply in all material respects with the applicable provisions of the Act and the Regulations and do not or will not contain an untrue statement of a material fact and do not or will not omit to state any material fact required to be stated therein or necessary in order to make the statements therein (i) in the case of the Registration Statement, not misleading and (ii) in the case of the Prospectus, in light of the circumstances under which they were made, not misleading, and the Prospectus, any preliminary prospectus and any supplement thereto or prospectus wrapper prepared in connection therewith, at their respective times of issuance and at the Closing Date, complied and will comply in all material respects with any applicable laws or regulations of foreign jurisdictions in which the Prospectus and such preliminary prospectus, as amended or supplemented, if applicable, are distributed in connection with the offer and sale of Reserved Shares. When any related preliminary prospectus was first filed with the Commission (whether filed as part of the registration statement for the registration of the Shares or any amendment thereto or pursuant to Rule 424(a) of the Regulations) and when any amendment thereof or supplement thereto was first filed with the Commission, such preliminary prospectus and any amendments thereof and supplements thereto complied in all material respects with the applicable provisions of the Act and the Regulations and did not contain an untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein in light of the circumstances under which they were made not misleading. No representation and warranty is made in this subsection (b), however, with respect to any information contained in or omitted from the Registration Statement or the Prospectus or any related preliminary prospectus or any amendment thereof or supplement

thereto in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter through you as herein stated expressly for use in connection with the preparation thereof. If Rule 434 is used, the Company will comply with the requirements of Rule 434.

(c) Deloitte & Touche LLP, who have certified the financial statements and supporting schedules included in the Registration Statement, are independent public accountants as required by the Act and the Regulations.

(d) Since the respective dates as of which information is given in the Registration Statement and Prospectus, except as disclosed or specifically contemplated therein, there has been no material adverse change or any development involving a prospective material adverse change in the business, properties, operations, condition (financial or other) or results of operations of the Company and its subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business (a "MATERIAL ADVERSE EFFECT"), and since the date of the latest balance sheet presented in the Registration Statement and the Prospectus, neither the Company nor any of its subsidiaries has incurred or undertaken any liabilities or obligations, direct or contingent, which are material to the Company and its subsidiaries taken as a whole, except for liabilities or obligations which are reflected in the Registration Statement and the Prospectus.

(e) This Agreement and the transactions contemplated herein have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement has been duly and validly executed and delivered by the Company and constitutes the valid and binding agreement of the Company, enforceable against it in accordance with its terms, subject to any bankruptcy or other law affecting the enforcement of creditors rights generally and any general principles of equity.

(f) The execution and delivery of this Agreement by the Company and the performance of this Agreement by the Company and the consummation of the transactions contemplated hereby will not (i) conflict with or result in a breach of any of the terms and provisions of, or constitute a default (or an event which with notice or lapse of time, or both, would constitute a default) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, any indenture, mortgage, deed of trust, agreement, instrument, franchise, license or permit to which the Company or any of its subsidiaries is a party or by which any of such corporations or their respective properties or assets may be bound and which is material to the business of the Company or its subsidiaries or (ii) violate or conflict with any provision of the certificate of incorporation, bylaws or other organizational documents of the Company or any of its subsidiaries or any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of its subsidiaries or any of their respective properties, assets or businesses. No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of its subsidiaries or any of their respective properties, assets or businesses is required for the execution, delivery and performance of this Agreement by the Company or the consummation of the transactions contemplated hereby, including the issuance, sale and delivery of the Shares to

be issued, sold and delivered by the Company hereunder, except (A) the registration under the Act of the Shares, (B) such consents, approvals, authorizations, orders, registrations, filings, qualifications, licenses and permits as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters, (C) such as have been obtained under the laws and regulations of jurisdictions outside the United States in which the Reserved Shares are offered and (D) those which have been duly obtained at or prior to the Closing Date.

(g) None of the Company or its subsidiaries is in violation or default of any provision of its certificate of incorporation or bylaws, or other organizational documents, and is not in breach of or default with respect to any provision of any agreement, judgment, decree, order, mortgage, deed of trust, lease, franchise, license, indenture, permit or other instrument to which it is a party or by which it or any of its properties are bound except as would not reasonably be expected to result in a Material Adverse Effect; and there does not exist any state of facts which constitutes an event of default on the part of the Company or its subsidiaries nor, to the Company's knowledge, any other party as defined in such documents or which, with notice or lapse of time or both, would constitute such an event of default except as would not reasonably be expected to result in a Material Adverse Effect.

(h) All of the outstanding shares of Common Stock are duly authorized and validly issued, fully paid and nonassessable, were issued in compliance with federal and state securities laws and the Delaware General Corporation Law and were not issued and are not now in violation of or subject to any preemptive rights. The Shares have been duly authorized for issuance and sale to the Underwriters and, when issued, delivered and paid for in accordance with this Agreement, will be validly issued, fully paid and nonassessable, and will not have been issued in violation of or be subject to any preemptive rights. The Company had, as of March 31, 2001, an authorized and outstanding capitalization as set forth in the Registration Statement and the Prospectus. The Common Stock conforms, and when issued, delivered and paid for in accordance with this Agreement, the Firm Shares and the Additional Shares will conform, to the descriptions thereof contained in the Registration Statement and the Prospectus. Except as disclosed in or specifically contemplated by the Prospectus, the Company has no outstanding options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations. The description of the Company's stock option and other stock plans or arrangements, and the options or other rights granted and exercised thereunder, set forth in the Prospectus accurately and fairly presents in all material respects the information required to be shown with respect to such plans, arrangements, options and rights. The Company has all requisite corporate power to enter into and perform its obligations under this Agreement. No further approval or authority of the stockholders or the Board of Directors of the Company will be required for the issuance and sale of the Shares to be sold by the Company to the Underwriters as contemplated herein.

(i) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation. Each of the Company and its subsidiaries is duly qualified and in good standing as a foreign corporation in each jurisdiction in which the character or location of its properties (owned, leased or licensed) or the nature or conduct of its business makes such

qualification necessary, except for those failures to be so qualified or in good standing which will not in the aggregate have a Material Adverse Effect. Each of the Company and its subsidiaries has all requisite corporate power and authority, and all necessary consents, approvals, authorizations, orders, registrations, qualifications, licenses and permits of and from all public, regulatory or governmental agencies and bodies, to own, lease and operate its properties and conduct its business as now being conducted and as described in the Registration Statement and the Prospectus, and no such consent, approval, authorization, order, registration, qualification, license or permit contains a materially burdensome restriction not disclosed as required by the Act or the Regulations in the Registration Statement and the Prospectus; and, to the knowledge of the Company, the Company has not received any notice of a proceeding instituted in any jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification which, either singly or in the aggregate, could have a Material Adverse Effect. Other than its ownership of all of the outstanding capital stock or other equity interests of each of the entities set forth on Schedule II hereto, the Company does not own or control, either directly or indirectly, any corporation, partnership, limited liability company, association or other entity. All of the issued shares of capital stock of each of the entities listed on Schedule II hereto have been duly authorized and validly issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equitable claims or other adverse claims, except for liens under the Company's Amended and Restated Credit Agreement, dated July 24, 1998, as amended.

(j) Except as described in the Prospectus, there is no litigation or governmental proceeding to which the Company or any of its subsidiaries is a party or to which any property of the Company or any of its subsidiaries is subject or which is pending or, to the knowledge of the Company, threatened against the Company or any of its subsidiaries which might result in a Material Adverse Effect or which is required to be disclosed in the Registration Statement and the Prospectus. There are no statutes or regulations that are required to be described in the Registration Statement or Prospectus that are not described as required by the Act or the Regulations. There are no contracts or other documents required to be described in the Registration Statement or to be filed as exhibits to the Registration Statement which have not been described or filed as required by the Act or the Regulations. The contracts so described in the Prospectus are in full force and effect on the date hereof.

(k) The Company has not taken and will not take, directly or indirectly, any action designed to cause or result in, or which constitutes or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the shares of Common Stock to facilitate the sale or resale of the Shares.

(l) The consolidated financial statements, including the notes thereto, and supporting schedules included in the Registration Statement and the Prospectus present fairly the consolidated financial position of the Company and its subsidiaries as of the dates indicated and the results of their operations, stockholders' equity and cash flows for the periods specified; said financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods involved; and the supporting schedules included in the Registration Statement, if any, present fairly in accordance with GAAP the information required to be stated therein. Pro forma financial information included in the Prospectus under the captions "Summary Consolidated Financial Data" and

"Unaudited Pro Forma Consolidated Financial Information" has been prepared in accordance with the applicable requirements of Rules 11-01 and 11-02 of Regulation S-X under the Act, and the necessary pro forma adjustments have been properly applied to the historical amounts in the compilation of such information, and, in the opinion of the Company, the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein. Except as included in the Registration Statement, no other financial statements or schedules are required by Form S-1 to be included in the Registration Statement.

(m) Except as described in the Prospectus, no holder of securities of the Company has any rights to the registration of securities of the Company because of the filing of the Registration Statement or otherwise in connection with the sale of the Shares contemplated hereby. All holders of any such rights to the registration of securities of the Company have duly and validly waived all such rights in writing prior to the date hereof.

(n) None of the Company or any of its subsidiaries is, and upon consummation of the transactions contemplated hereby and at all times up to and including the application of net proceeds as described in the Prospectus none of such entities will be, subject to registration as an "investment company" under the Investment Company Act of 1940, as amended.

(o) The Company and its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(p) Each of the Company and its subsidiaries has good and marketable title to all the properties and assets reflected as owned by them in the financial statements hereinabove described (or elsewhere in the Registration Statement or Prospectus), subject to no lien, mortgage, pledge, charge or encumbrance of any kind except (i) those, if any, reflected in such financial statements (or elsewhere in the Registration Statement or the Prospectus) or (ii) those which would not, singly or in the aggregate, have a Material Adverse Effect. Each of the Company and its subsidiaries holds its leased properties under valid and binding leases, with such exceptions as would not have a Material Adverse Effect. Except as disclosed in the Prospectus, the Company and its subsidiaries own or lease all such properties as are necessary to their operations as now conducted or as proposed to be conducted.

(q) Since the respective dates as of which information is given in the Registration Statement and Prospectus, except as disclosed or specifically contemplated therein, (i) neither the Company nor any of its subsidiaries has entered into any material agreement or other transaction which is not in the ordinary course of business; (ii) the Company has not purchased any of its outstanding capital stock, nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock other than dividends accruing to the holders of the

Company's Series A Cumulative Convertible Preferred Stock, $0.01 par value per share (the "SERIES A PREFERRED STOCK"); (iii) neither the Company nor any of its subsidiaries has sustained any material loss or interference with its business or properties from fire, flood, windstorm, accident or other calamity, whether or not covered by insurance; (iv) neither the Company nor any of its subsidiaries is in default in the payment of principal or interest on any outstanding debt obligations; and (v) there has not been any change in the capital stock (other than upon the sale of the Common Stock hereunder, upon the conversion of Series A Preferred Stock and upon the exercise of options or warrants described in the Registration Statement) or indebtedness material to the Company.

(r) The Company has acquired on commercially reasonable terms sufficient trademarks, trade names, patent rights, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), licenses, approvals and governmental authorizations necessary to carry on its business as now conducted and as proposed to be conducted in the Prospectus, except where the failure to own or possess such rights, either singly or in the aggregate, would not reasonably be expected to have a Material Adverse Effect; and (i) the Company has no knowledge of any infringement by it of trademark, trade name rights, patent rights, copyrights, licenses, trade secret or other similar rights of others and (ii), to the Company's knowledge, there is no claim being made against the Company regarding trademark, trade name, patent, copyright, license, trade secret or other infringement which would, in either case, whether singly or in the aggregate, reasonably be expected to have a Material Adverse Effect, nor is the Company aware of any reasonable grounds for the same.

(s) Each of the Company and its subsidiaries has filed all federal, state and local income tax returns or extensions therefor which have been required to be filed and has paid or accrued all taxes required to be paid and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except, in all cases, for any such tax, assessment, fine or penalty that is being contested in good faith. The Company has no knowledge of any tax deficiency which has been or might be asserted or threatened against the Company which would reasonably be expected to result in a Material Adverse Effect.

(t) The Company has not distributed and will not distribute prior to the Closing Date any offering material in connection with the offering and sale of the Shares and the Reserved Shares other than the Prospectus, the Registration Statement and correspondence in connection with the Reserved Share program, in substantially the form as filed supplementally by the Company with the Commission, and the other materials permitted by the Act.

(u) The Company and its subsidiaries maintain insurance of the types and in the amounts generally deemed reasonable and customary for their respective businesses and all other risks customarily insured against, all of which insurance is in full force and effect. None of the Company nor any of its subsidiaries has been refused any insurance coverage sought or applied for; and the Company has no reason to believe that it and its subsidiaries will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue their respective businesses.

(v) Neither the Company, any of its subsidiaries nor, to the Company's knowledge, any of its employees or agents has at any time during the last five years (i) made any unlawful contribution to any candidate for foreign office, or failed to disclose fully any contribution in violation of law or (ii) made any payment to any federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States of any jurisdiction thereof.

(w) No labor disturbance by the employees of the Company or any of its subsidiaries exists or, to the knowledge of the Company, is threatened; and the Company is not aware of any existing or threatened labor disturbance by the employees of any of its or its subsidiaries' principal suppliers, vendors or original equipment manufacturers that would reasonably be expected to result in a Material Adverse Effect. No collective bargaining agreement exists with any of the Company's or its subsidiaries' employees and, to the Company's knowledge, no such agreement is imminent.

(x) The Common Stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance.

(y) Except as set forth in the Registration Statement and Prospectus, (i) the Company and its subsidiaries are in compliance with all rules, laws and regulations relating to the use, treatment, storage and disposal of toxic substances and protection of health or the environment ("ENVIRONMENTAL LAWS") which are applicable to their respective business, (ii) neither the Company nor any of its subsidiaries has received notice from any governmental authority or third party of an asserted claim under Environmental Laws which, under Regulation S-K, is required to be disclosed in the Registration Statement and the Prospectus, (iii) the Company and its subsidiaries will not be required to make future material capital expenditures to comply with Environmental Laws, (iv) no property which is owned, leased or occupied by the Company or one of its subsidiaries has been designated as a Superfund site pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Section 9601, et seq.) ("CERCLA"), or otherwise designated as a contaminated site under applicable state or local law, (v) neither the Company nor any of its subsidiaries has disposed of any "hazardous substances" as defined by CERCLA on any property which is or was owned, leased or occupied by the Company or one of its subsidiaries; (vi) neither the Company nor any of its subsidiaries has disposed or arranged for disposal of any "hazardous substances" as defined by CERCLA on any third party property, except as would not, either singly or in the aggregate, have a Material Adverse Effect; and (vii) neither the Company nor any of its subsidiaries has agreed to assume, undertake or provide indemnification for any liability of any other person under any Environmental Law, including any obligation for cleanup or remedial action.

(z) There are no outstanding loans, advances (except normal advances for business expenses in the ordinary course of business) or guarantees of indebtedness by the Company to or for the benefit of any of the executive officers or directors of the Company or any of the members of the families of any of them of the sort required to be disclosed in the Registration Statement and Prospectus, except as disclosed therein. No relationship, direct or indirect, exists between or among the Company or any of its subsidiaries on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company or its subsidiaries, on the other hand, which is required to be described in the Prospectus which is not so described.

(aa) The Company has not offered, or caused the Underwriters to offer, Shares to any person pursuant to the Reserved Share program with the specific intent to unlawfully influence (i) a customer or supplier of the Company or its subsidiaries to alter the customer's or supplier's level or type of business with the Company or its subsidiaries, or (ii) a trade journalist or publication to write or publish favorable information about the Company or its business.

(bb) Each of the Company and its subsidiaries is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"); no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company or any of its subsidiaries would have any liability.

(cc) The deposit accounts and investment certificates of World Financial Network National Bank, a wholly owned subsidiary of the Company (the "BANK"), are duly and adequately insured by the Federal Deposit Insurance Corporation (the "FDIC") to the full extent of FDIC insurance limits. No charge, investigation or proceeding for the termination or revocation of the Bank's charter, good standing or FDIC insurance is pending or, to the best knowledge of the Company, threatened.

(dd) Neither the Company nor the Bank is subject to any order of the Federal Reserve Board (the "FEDERAL RESERVE"), the FDIC, the Office of the Comptroller or the Currency (the "OCC") or any state or foreign banking departments with jurisdiction over the Bank or its operations, nor is the Company or the Bank subject to any agreement or consent related to compliance with banking laws and regulations with, or board resolution adopted at the instigation of, any such regulatory authorities. The Bank has conducted and is conducting its business so as to comply in all material respects with all applicable federal, foreign and state laws, rules, regulations, decisions, directives and orders of the Federal Reserve, the FDIC, the OCC and any state or foreign banking departments with jurisdiction over the Bank or its operations. No material charge, investigation or proceeding with respect to, or relating to, the Bank is pending or, to the best knowledge of the Company, threatened, by or before any regulatory, administrative or governmental agency, body or authority.

(ee) The Bank is in compliance with all applicable capital requirements. The Bank is "well capitalized" as defined in FDIC regulations, with capital ratios as set forth in the Registration Statement and the Prospectus.

(ff) Neither the Company nor any of its subsidiaries is a "bank holding company" within the meaning of the Bank Holding Company Act of 1956, as amended.

(gg) Except as would not reasonably be expected to have a Material Adverse Effect, whether singly or in the aggregate, the credit card accounts (the "ACCOUNTS") originated by the Bank, whether securitized by the Bank or retained as seller's interest for the Bank's own account, have been created, maintained by the Bank and serviced in compliance with applicable federal and state laws and regulations and the standard policies and procedures of the Bank relating to the administration of the Accounts including, but not limited to, the solicitation,

credit approval, processing, servicing, collection and other administration and management of the Accounts, as such policies and procedures may have been modified from time to time.

(hh) The interest rates, fees and charges in connection with the Accounts comply in all material respects with applicable federal and state laws and regulations and, except as would not reasonably be expected to have a Material Adverse Effect, whether singly or in the aggregate, with each agreement between the Bank and a cardholder containing the terms and conditions of the Account.

(ii) All applications for Accounts have been conducted and evaluated and applicants notified in a manner which is in compliance, in all material respects, with all provisions of the Equal Credit Opportunity Act and its implementing regulations, as amended. All disclosures made in connection with the Accounts are and have been in compliance, in all material respects, with the provisions of the Consumer Credit Protection Act and its implementing regulations, as amended.

2. PURCHASE, SALE AND DELIVERY OF THE SHARES.

(a) On the basis of the representations, warranties, covenants and agreements herein contained, but subject to the terms and conditions herein set forth, the Company agrees to issue and sell to the Underwriters and the Underwriters, severally and not jointly, agree to purchase from the Company, at a purchase price per share of $_____, the number of Firm Shares set forth opposite the respective names of the Underwriters in Schedule I hereto plus any additional number of Shares which such Underwriter may become obligated to purchase pursuant to the provisions of Section 9 hereof.

(b) Payment of the purchase price for, and delivery of certificates for, the Shares shall be made at the office of Gibson, Dunn & Crutcher LLP, 200 Park Avenue, 48th Floor, New York, New York, or at such other place as shall be agreed upon by Bear, Stearns & Co. Inc. ("BEAR STEARNS") and the Company, at 10:00 A.M. on the third or fourth business day (as permitted under Rule 15c6-1 under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT")) (unless postponed in accordance with the provisions of Section 9 hereof) following the date of the effectiveness of the Registration Statement (or, if the Company has elected to rely upon Rule 430A of the Regulations, the third or fourth business day (as permitted under Rule 15c6-1 under the Exchange Act) after the determination of the initial public offering price of the Shares), or such other time not later than ten business days after such date as shall be agreed upon by Bear Stearns and the Company (such time and date of payment and delivery being herein called the "CLOSING DATE"). Payment shall be made to the Company by wire transfer in same day funds, against delivery to you for the respective accounts of the Underwriters of certificates for the Shares to be purchased by them. Certificates for the Firm Shares shall be registered in such name or names and in such authorized denominations as you may request in writing at least two full business days prior to the Closing Date. The Company will permit you to examine and package such certificates for delivery at least one full business day prior to the Closing Date. If you so elect, delivery of the Firm Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by you.

(c) In addition, the Company hereby grants to the Underwriters the option to purchase up to 1,950,000 Additional Shares at the same purchase price per share to be paid by the Underwriters to the Company for the Firm Shares as set forth in this Section 2, for the sole purpose of covering over-allotments in the sale of Firm Shares by the Underwriters. This option may be exercised from time to time and at any time, in whole or in part, on or before the 30th day following the date of the Prospectus, by written notice by Bear Stearns to the Company. Such notice shall set forth the aggregate number of Additional Shares as to which the option is being exercised and the date and time, as reasonably determined by Bear Stearns, when the Additional Shares are to be delivered (such date and time being herein sometimes referred to as the "ADDITIONAL CLOSING Date"); PROVIDED, HOWEVER, that, unless otherwise agreed to by Bear Stearns and the Company, the Additional Closing Date shall not be earlier than the Closing Date or earlier than the second full business day after the date on which the option shall have been exercised nor later than the eighth full business day after the date on which the option shall have been exercised (unless such time and date are postponed in accordance with the provisions of Section 9 hereof). Certificates for the Additional Shares shall be registered in such name or names and in such authorized denominations as you may request in writing at least two full business days prior to the Additional Closing Date. The Company will permit you to examine and package such certificates for delivery at least one full business day prior to the Additional Closing Date. If you so elect, delivery of any Additional Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by you.

The number of Additional Shares to be sold to each Underwriter shall be the number which bears the same ratio to the aggregate number of Additional Shares being purchased as the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto (or such number increased as set forth in Section 9 hereof) bears to 13,000,000, subject, however, to such adjustments to eliminate any fractional shares as Bear Stearns in its sole discretion shall make.

Payment for the Additional Shares shall be made by wire transfer in same day funds at the offices of Gibson, Dunn & Crutcher LLP, 200 Park Avenue, 48th Floor, New York, New York, or such other location as may be mutually acceptable, upon delivery of the certificates for the Additional Shares to you for the respective accounts of the Underwriters.

3. OFFERING. Upon the Company's authorization of the release of the Firm Shares, the Underwriters propose to offer the Shares for sale to the public upon the terms set forth in the Prospectus.

4. COVENANTS OF THE COMPANY. The Company covenants and agrees with the Underwriters that:

(a) The Company will use its best efforts to cause any amendments to the Registration Statement to become effective as promptly as possible, and if Rule 430A is used or the filing of the Prospectus is otherwise required under Rule 424(b) or Rule 434, the Company will file the Prospectus (properly completed if Rule 430A has been used) pursuant to Rule 424(b) or Rule 434 within the prescribed time period and will provide evidence satisfactory to you of such timely filing. If the Company elects to rely on Rule 434, the Company will prepare and file a term sheet that complies with the requirements of Rule 434.

The Company will notify you immediately (and, if requested by you, will confirm such notice in writing) (i) when the Registration Statement and any amendments thereto (including any post-effective amendments) become effective, (ii) of any request by the Commission for any amendment of or supplement to the Registration Statement or the Prospectus or for any additional information, (iii) of the mailing or the delivery to the Commission for filing of any amendment of or supplement to the Registration Statement or the Prospectus, (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto or of the initiation, or the threatening, of any proceedings therefor, (v) of the receipt of any comments from the Commission and (vi) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for that purpose. If the Commission shall propose or enter a stop order at any time, the Company will make every reasonable effort to prevent the issuance of any such stop order and, if issued, to obtain the lifting of such order as soon as possible. The Company will not file any amendment to the Registration Statement or any amendment of or supplement to the Prospectus (including the prospectus required to be filed pursuant to Rule 424(b) or Rule 434 of the Regulations) that differs from the prospectus on file at the time of the effectiveness of the Registration Statement before or after the effective date of the Registration Statement to which you shall reasonably object in writing after being timely furnished in advance a copy thereof.

(b) If at any time when a prospectus relating to the Shares is required to be delivered under the Act any event shall have occurred as a result of which the Prospectus as then amended or supplemented would, in the judgment of the Underwriters or the Company, include an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it shall be necessary at any time to amend or supplement the Prospectus or Registration Statement to comply with the Act or the Regulations, the Company will notify you promptly and prepare and file with the Commission an appropriate amendment or supplement (in form and substance reasonably satisfactory to you) which will correct such statement or omission and will use its best efforts to have any amendment to the Registration Statement declared effective as soon as possible.

(c) The Company will promptly deliver to you four signed copies of the Registration Statement, including exhibits and all amendments thereto, and the Company will promptly deliver to each of the Underwriters such number of copies of any preliminary prospectus, the Prospectus, the Registration Statement and all amendments of and supplements to such documents, if any, as you may reasonably request. The Company will use its reasonable best efforts to cause to be delivered to the Underwriters, in New York City or such other locations in the United States as directed by the Underwriters, by 2:00 p.m. New York City time on the business day next succeeding the date of this Agreement, copies of the Prospectus in such quantities as you may reasonably request.

(d) The Company will endeavor in good faith, in cooperation with you, at or prior to the time of effectiveness of the Registration Statement, to qualify the Shares for offering and sale under the securities laws relating to the offering or sale of the Shares of such jurisdictions (foreign and domestic) as you may designate and to maintain such

qualification in effect for so long as required for the distribution thereof; except that in no event shall the Company be obligated in connection therewith to qualify as a foreign corporation or to execute a general consent to service of process.

(e) The Company will make generally available (within the meaning of Section 11(a) of the Act) to its security holders and to you as soon as practicable, but not later than 45 days after the end of its fiscal quarter in which the first anniversary date of the effective date of the Registration Statement occurs, an earnings statement (in form complying with the provisions of Rule 158 of the Regulations) covering a period of at least 12 consecutive months beginning after the effective date of the Registration Statement.

(f) During the period of 180 days from the date of the Prospectus, the Company will not, without the prior written consent of Bear Stearns, issue, sell, offer or agree to sell, grant any option for the sale of, pledge, make any short sale or maintain any short position, establish or maintain a "put equivalent position" (within the meaning of Rule 16a-1(h) under the Exchange Act), enter into any swap, derivative transaction or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock (whether any such transaction is to be settled by delivery of Common Stock, other securities, cash or other consideration) or otherwise dispose of, any Common Stock (or any securities convertible into, exercisable for or exchangeable for Common Stock) or interest therein of the Company, and the Company will obtain the written undertaking, the form of which shall be subject to the approval of Bear Stearns, of each of its executive officers and directors and such of its stockholders and other officers as have been heretofore designated by you and listed on Schedule III attached hereto not to engage in any similar transactions on their own behalf. The foregoing sentence shall not apply to (i) the Shares to be sold hereunder, (ii) the issuance by the Company of shares of Common Stock upon the exercise of options or warrants or the conversion of a security outstanding on the date hereof which is described in the Registration Statement or the Prospectus or (iii) the grant of options or share purchase rights by the Company pursuant to the option plans described in the Registration Statement or Prospectus, provided, such options are not exercisable for 180 days after the date of the Prospectus, or if such options are exercisable within such period, such options are subject to lockup provisions substantially the same as those set forth in this Section 4(f). The Company further agrees that, with respect to any and all Common Stock that is pledged to the Company or is otherwise delivered to the Company for a similar purpose, if such Common Stock is subject to the lockup contemplated by this Section 4(f), such Common Stock when acquired by the Company due to the foreclosure by the Company or other similar action with respect to such Common Stock shall continue to be governed by, and the Company shall comply with, the lockup provision that applied to the pledgee or other person from whom the Company acquired such Common Stock.

(g) During a period of three years from the effective date of the Registration Statement, the Company will furnish or make available to you copies of (i) all reports to its stockholders; and (ii) all reports, financial statements and proxy or information statements filed by the Company with the Commission or any national securities exchange.

(h) The Company will apply the proceeds from the sale of the Shares as set forth under "Use of Proceeds" in the Prospectus.

(i) The Company will use its best efforts to cause the Shares to be listed on the New York Stock Exchange.

(j) The Company will comply with Rule 463 of the Regulations.

(k) The Company hereby agrees that it will ensure that the Reserved Shares will be restricted as required by the NASD or the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of this Agreement. Merrill Lynch will notify the Company as to which persons will need to be so restricted. At the request of the Underwriters, the Company will direct the transfer agent to place a stop transfer restriction upon such securities for such period of time. Should the Company release, or seek to release, from such restrictions any of the Reserved Shares, the Company agrees to reimburse the Underwriters for any reasonable expenses (including, without limitation, legal expenses) they incur in connection with such release.

(l) The Company shall cause to be prepared and delivered, at its expense, within one business day from the effective date of this Agreement, to the Underwriters an "electronic Prospectus" to be used by the Underwriters in connection with the offering and sale of the Shares. As used herein, the term "ELECTRONIC PROSPECTUS" means a form of Prospectus, and any amendment or supplement thereto, that meets each of the following conditions: (i) it shall be encoded in an electronic format, reasonably satisfactory to Bear Stearns, that may be transmitted electronically by Bear Stearns and the other Underwriters to offerees and purchasers of the Shares for at least during the period when the Prospectus is required to be delivered under the Act or the Exchange Act (the "PROSPECTUS DELIVERY PERIOD"); (ii) it shall disclose the same information as the paper Prospectus and Prospectus filed pursuant to EDGAR, except to the extent that graphic and image material cannot be disseminated electronically, in which case such graphic and image material shall be replaced in the electronic Prospectus with a fair and accurate narrative description or tabular representation of such material, as appropriate; and (iii) it shall be in or convertible into a paper format or an electronic format, reasonably satisfactory to Bear Stearns, that will allow investors to store and have continuously ready access to the Prospectus at any future time, without charge to investors (other than any fee charged for subscription to the system as a whole and for on-line time). Such electronic Prospectus may consist of a Rule 434 preliminary prospectus, together with the applicable term sheet, provided that it otherwise satisfies the format and conditions described in the immediately preceding sentence. The Company hereby confirms that it has included or will include in the Prospectus filed pursuant to EDGAR or otherwise with the Commission and in the Registration Statement at the time it was declared effective an undertaking that, upon receipt of a request by an investor or his or her representative within the Prospectus Delivery Period, the Company shall transmit or cause to be transmitted promptly, without charge, a paper copy of the Prospectus.

5. PAYMENT OF EXPENSES. Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Company hereby agrees to pay all costs and expenses incident to the performance of the obligations of the Company hereunder, including those in connection with (i) preparing, printing, duplicating, filing and distributing the Registration Statement, as originally filed and all amendments thereof (including all exhibits thereto), any preliminary prospectus, the Prospectus and any amendments or supplements thereto (including, without limitation, fees and expenses of the Company's

accountants and counsel), the underwriting documents (including this Agreement, the Agreement Among Underwriters and the Master Selling Agreement) and all other documents related to the public offering of the Shares (including those supplied to the Underwriters in quantities as hereinabove stated), (ii) the issuance, transfer and delivery of the Shares to the Underwriters, including any transfer or other taxes payable thereon, (iii) the qualification of the Shares under state or foreign securities or Blue Sky laws, including the costs of printing and mailing a preliminary and final "Blue Sky Survey" and the fees of counsel for the Underwriters and such counsel's disbursements in relation thereto, (iv) listing of the Shares on the New York Stock Exchange, (v) filing fees of the Commission and the National Association of Securities Dealers, Inc.; (vi) the cost of printing certificates representing the Shares; (vii) the cost and charges of any transfer agent or registrar and (viii) all costs and expenses of the Underwriters, including the fees and disbursements of counsel for the Underwriters with respect to the Reserved Share program, incurred by the Underwriters in connection with the Reserved Share program, and stamp duties, similar taxes or duties or other taxes, if any, incurred by the Underwriters in connection with the Reserved Share program.

6. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the Underwriters to purchase and pay for the Firm Shares and the Additional Shares, as provided herein, shall be subject to the accuracy of the representations and warranties of the Company herein contained, as of the date hereof and as of the Closing Date (for purposes of this Section 6, "CLOSING DATE" shall refer to the Closing Date for the Firm Shares and any Additional Closing Date, if different, for the Additional Shares), to the absence from any certificates, opinions, written statements or letters furnished to you or to Gibson, Dunn & Crutcher LLP ("UNDERWRITERS' COUNSEL") pursuant to this Section 6 of any misstatement or omission, to the performance by the Company of its obligations hereunder, and to the following additional conditions:

(a) The Registration Statement shall have become effective not later than 5:30 P.M., New York City time, on the date of this Agreement, or at such later time and date as shall have been consented to in writing by you; if the Company shall have elected to rely upon Rule 430A or Rule 434 of the Regulations, the Prospectus shall have been filed with the Commission in a timely fashion in accordance with Section 4(a) hereof; and, at or prior to the Closing Date no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereof shall have been issued and no proceedings therefor shall have been initiated or threatened by the Commission.

(b) At the Closing Date you shall have received the opinion of Akin, Gump, Strauss, Hauer & Feld, L.L.P., counsel for the Company, dated the Closing Date addressed to the Underwriters and in form and substance satisfactory to Underwriters' Counsel, to the effect that:

(i) Each of the Company and its subsidiaries is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation. Each of the Company and its subsidiaries is duly qualified and in good standing as a foreign corporation in each jurisdiction listed on Schedule II attached hereto. Each of the Company and its subsidiaries has all requisite corporate power to own, lease and license its respective properties and conduct its business as now being conducted and as

described in the Registration Statement and the Prospectus, and, with respect to the Company, to enter into the Underwriting Agreement. All of the issued and outstanding capital stock of each subsidiary have been duly authorized and validly issued and are fully paid and nonassessable and were not issued in violation of preemptive rights granted under such subsidiary's certificate of organization or under the corporate laws of the jurisdiction of its incorporation and are owned directly or indirectly by the Company, free and clear of any lien, encumbrance, claim, security interest, restriction on transfer, stockholders' agreement, voting trust or other defect of title whatsoever, except for liens under the Company's Amended and Restated Credit Agreement, dated July 24, 1998, as amended. Except as disclosed in or specifically contemplated by the Prospectus, to the knowledge of such counsel, the Company has no outstanding options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations.

(ii) The authorized capital stock of the Company (including the Common Stock) as of December 31, 2000 conforms to the description thereof set forth in the Registration Statement and the Prospectus. All of the outstanding shares of Common Stock have been duly authorized and validly issued, are fully paid and nonassessable and were not issued in violation of any preemptive rights created under the Company's certificate of incorporation or under the Delaware General Corporation Law. The Shares to be delivered on the Closing Date have been duly authorized and, when issued and delivered by the Company in accordance with this Agreement, will be validly issued, fully paid and nonassessable and will not have been issued in violation of or subject to any preemptive rights created under the Company's certificate of incorporation or under the Delaware General Corporation Law. The Common Stock, the Firm Shares and the Additional Shares conform to the descriptions thereof contained in the Registration Statement and the Prospectus.

(iii) The Shares have been approved for listing on the New York Stock Exchange, subject to official notice of issuance.

(iv) The execution and delivery of this Agreement by the Company has been duly authorized by all necessary corporate action on the part of the Company, and this Agreement has been duly and validly executed and delivered by the Company.

(v) To the knowledge of such counsel, there is no litigation or governmental or other action, suit, proceeding or investigation before any court or before or by any public, regulatory or governmental agency or body pending or threatened against, or involving the properties or business of, the Company or any of its subsidiaries, which is of a character required to be disclosed in the Registration Statement and the Prospectus which has not been properly disclosed therein.

(vi) The execution and delivery of this Agreement by the Company do not and the performance of this Agreement by the Company and the consummation of the transactions contemplated hereby by the Company will not (A) conflict with or result in a breach of any of the terms and provisions of, or constitute a default (or an event which

with notice or lapse of time, or both, would constitute a default) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, any material agreement, instrument, franchise, license or permit known to such counsel to which the Company or any of its subsidiaries is a party or by which any of such corporations or their respective properties or assets may be bound or (B) violate or conflict with any provision of the certificate of incorporation or bylaws of the Company or any of its subsidiaries, or, to the best knowledge of such counsel, any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of its subsidiaries or any of their respective properties or assets, except that such counsel shall express no opinion in clause (A) above with respect to breaches or violations of or defaults under any covenant, restriction or provision with respect to financial ratios, or tests, or any aspect of the financial condition or results of operations of any party.

(vii) No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any court or any public, governmental, or regulatory agency or body having jurisdiction over the Company or any of its subsidiaries or any of their respective properties or assets is required for the execution, delivery and performance of this Agreement by the Company or the consummation of the transactions contemplated hereby, except for (1) such as may be required under any foreign securities laws, including such as have been obtained under the laws and regulations of jurisdictions outside the United States in which the Reserved Shares are offered, or state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters (as to which such counsel need express no opinion) and (2) such as have been made or obtained under the Act, (3) the clearance of the offering by the NASD and (4) such consents, approvals, authorizations and orders as have been duly obtained on or prior to the date hereof and are in full force and effect.

(viii) The Registration Statement and the Prospectus and any amendments thereof or supplements thereto (other than the financial statements and schedules and other financial data included or incorporated by reference therein, as to which no opinion need be rendered) comply as to form in all material respects with the requirements of the Act and the Regulations.

(ix) The Registration Statement is effective under the Act, and, to the best knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereof has been issued by the Commission and no proceedings therefor have been initiated or threatened by the Commission and all filings required by Rule 424(b) of the Regulations have been made in the manner and within the time period required thereby.

(x) The Company is not in violation or default of its certificate of incorporation or bylaws, and to the best of such counsel's knowledge, is not in breach of or default of any agreement, judgment, decree, order, mortgage, deed of trust, lease, franchise, license, indenture, permit or other instrument to which it is a party or by which it or any of its properties are bound except as would not have a Material Adverse Effect;

and to the best of such counsel's knowledge, there does not exist any state of facts which constitutes an event of default on the part of the Company as defined in such documents or which, with notice or lapse of time or both, would constitute such an event of default except as would not have a Material Adverse Effect.

(xi) To the knowledge of such counsel, there are no contracts or other documents required to be described in the Registration Statement or to be filed as exhibits to the Registration Statement or by the Regulations which have not been accurately and completely described or filed as required.

(xii) The statements (i) in the Prospectus under the captions:

(a) Risk Factors--If our bank subsidiary fails to meet credit card 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 business activities and thus cause a drastic reduction in our profits and revenue,

(b) Risk Factors--Delaware law and our charter documents could prevent a change of control that might be beneficial to you,

(c) Risk Factors--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,

(d) Risk Factors--Current and proposed regulation and legislation relating to our credit services could limit our business activities, product offerings and fees charged,

(e) Risk Factors--We may face damages as a result of litigation in connection with the bankruptcy proceedings of one of our former customers, Service Merchandise, and a class action suit filed on behalf of a group of World Financial cardholders,

(f) Business--Regulation,

(g) Business--Legal Proceedings,

(h) Management--Employment, Severance and Indemnification Agreements,

(i) Management--Amended and Restated Stock Option and Restricted Stock Plan,

(j) Management--Alliance Data Systems 401(k) and Retirement Savings Plan,

(k) Management--Supplemental Executive Retirement Plan,

(l) Management--2000 Incentive Compensation Plan,

(m) Management--Employee Stock Purchase Plan,

(n) Certain Relationships and Related Transactions--Transactions with Welsh, Carson, Anderson & Stowe,

(o) Certain Relationships and Related Transactions--Transactions with The Limited,

(p) Certain Relationships and Related Transactions--Stockholders Agreement with Welsh Carson and The Limited,

(q) Description of Capital Stock and

(r) Shares Eligible for Future Sale, and

(ii) in Item 14 and Item 15 of Part II of the Registration Statement, insofar as such statements constitute a summary of the legal matters, documents or proceedings referred to therein, fairly present, in all material respects, the information called for with respect to such legal matters, documents and proceedings.

(xiii) The form of certificate used to evidence the Shares is in due and proper form and complies in all material respects with all applicable statutory requirements under the laws of the State of Delaware.

(xiv) The Company has duly authorized and reserved a number of shares of Common Stock for issuance upon the exercise of options under the Company's Stock Option Plan which is not less than the number of options issuable under such plan, as of the Closing Date.

(xv) Other than as described in the Prospectus, no stockholder of the Company or any other person has any preemptive right of first refusal or other similar right to subscribe for or purchase securities of the Company (i) arising by operation of the certificate of incorporation or bylaws of the Company or the general corporation law of the State of Delaware or (ii) arising from any contract or agreement filed as an exhibit to the Registration Statement (including without limitation any transaction document entered into in connection with any of the Company's preferred stock financings) or otherwise known to such counsel.

(xvi) In addition, such opinion shall also contain a statement that such counsel has participated in conferences with officers and representatives of the Company, representatives of the independent public accountants for the Company and the Underwriters at which the contents and the Prospectus and related matters were discussed and, no facts have come to the attention of such counsel which would lead such counsel to believe that either the Registration Statement at the time it became effective (including the information deemed to be part of the Registration Statement at the time of effectiveness pursuant to Rule 430A(b) or Rule 434, if applicable), or any amendment thereof made prior to the Closing Date as of the date of such amendment, contained an untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus as of its date (or any amendment thereof or supplement thereto made prior to the Closing Date as of the date of such amendment or supplement) and as of the Closing Date contained or contains an untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (it

being understood that such counsel need express no belief or opinion with respect to the financial statements and schedules and other financial data included or incorporated by reference therein).

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws other than the laws of the United States and jurisdictions in which they are admitted, to the extent such counsel deems proper and to the extent specified in such opinion, if at all, upon an opinion or opinions (in form and substance reasonably satisfactory to Underwriters' Counsel) of other counsel reasonably acceptable to Underwriters' Counsel, familiar with the applicable laws; (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and certificates or other written statements of officers of departments of various jurisdictions having custody of documents respecting the corporate existence or good standing of the Company and its subsidiaries, provided that copies of any such statements or certificates shall be delivered to Underwriters' Counsel.

(c) All proceedings taken in connection with the sale of the Firm Shares and the Additional Shares as herein contemplated shall be satisfactory in form and substance to you and to Underwriters' Counsel, and the Underwriters shall have received from said Underwriters' Counsel a favorable opinion, dated as of the Closing Date with respect to the issuance and sale of the Shares, the Registration Statement and the Prospectus and such other related matters as you may reasonably require, and the Company shall have furnished to Underwriters' Counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(d) At the Closing Date you shall have received a certificate of the Company executed on its behalf by its Chief Executive Officer and Chief Financial Officer, dated the Closing Date to the effect that (i) the condition set forth in subsection (a) of this Section 6 has been satisfied, (ii) as of the date hereof and as of the Closing Date the representations and warranties of the Company set forth in Section 1 hereof are accurate, (iii) as of the Closing Date the obligations of the Company to be performed hereunder on or prior thereto have been duly performed and (iv) subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, the Company and its subsidiaries have not sustained any material loss or interference with their respective businesses or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding, and there has not been any material adverse change, or any development involving a prospective material adverse change, in the properties, operations, condition (financial or otherwise), or results of operations of the Company as presently conducted or as proposed to be conducted and its subsidiaries taken as a whole, except in each case as described in or contemplated by the Prospectus.

(e) At the time this Agreement is executed and at the Closing Date, you shall have received a letter, from Deloitte & Touche LLP, independent public accountants for the Company, dated, respectively, as of the date of this Agreement and as of the Closing Date, addressed to the Underwriters and in form and substance reasonably satisfactory to you, to the effect that: (i) they are independent certified public accountants with respect to the Company within the meaning of the Act and the Regulations and stating that the answer to Item 10 of the Registration Statement is correct insofar as it relates to them; (ii) stating that, in their opinion, the

financial statements and schedules of the Company included in the Registration Statement and the Prospectus and covered by their opinion therein comply as to form in all material respects with the applicable accounting requirements of the Act and the applicable published rules and regulations of the Commission thereunder; (iii) on the basis of procedures consisting of a reading of the latest available unaudited interim consolidated financial statements of the Company, and its subsidiaries, a reading of the minutes of meetings and consents of the stockholders and boards of directors of the Company and its subsidiaries and the committees of such boards subsequent to December 31, 2000, inquiries of officers and other employees of the Company and its subsidiaries who have responsibility for financial and accounting matters of the Company and its subsidiaries with respect to transactions and events subsequent to December 31, 2000 and other specified procedures and inquiries to a date not more than five days prior to the date of such letter, nothing has come to their attention that would cause them to believe that: (A) the unaudited consolidated financial statements and schedules of the Company presented in the Registration Statement and the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and, if applicable, the Exchange Act and the applicable published rules and regulations of the Commission thereunder or that such unaudited consolidated financial statements are not fairly presented in conformity with GAAP applied on a basis substantially consistent with that of the audited consolidated financial statements included in the Registration Statement and the Prospectus; (B) with respect to the period subsequent to December 31, 2000 there were, as of the date of the most recent available monthly consolidated financial statements of the Company and its subsidiaries, if any, and as of a specified date not more than five days prior to the date of such letter, any changes in the capital stock or long-term indebtedness of the Company or any decrease in the net current assets or stockholders' equity of the Company, in each case as compared with the amounts shown in the most recent balance sheet presented in the Registration Statement and the Prospectus, except for changes or decreases which the Registration Statement and the Prospectus disclose have occurred or may occur or which are set forth in such letter or (C) that during the period from January 1, 2001 to the date of the most recent available monthly consolidated financial statements of the Company and its subsidiaries, if any, and to a specified date not more than five days prior to the date of such letter, there was any decrease, as compared with the corresponding period in the prior fiscal year, in total revenues, or total or per share net income, except for decreases which the Registration Statement and the Prospectus disclose have occurred or may occur or which are set forth in such letter; and (iv) stating that they have compared specific dollar amounts, numbers of shares, percentages of revenues and earnings, and other financial information pertaining to the Company and its subsidiaries set forth in the Registration Statement and the Prospectus, which have been specified by you prior to the date of this Agreement, to the extent that such amounts, numbers, percentages, and information may be derived from the general accounting and financial records of the Company and its subsidiaries or from schedules furnished by the Company, and excluding any questions requiring an interpretation by legal counsel, with the results obtained from the application of specified readings, inquiries, and other appropriate procedures specified by you set forth in such letter, and found them to be in agreement. In addition, such letter shall state that the pro forma financial information and the historical recast financial information included in the Registration Statement and the Prospectus comply as to form in all material respects with the applicable accounting requirements of the Act, including Rule 11-02 of Regulation S-X, and that the pro forma adjustments have been properly applied to historical amounts in the compilation of such pro forma financial information.

(f) Prior to the Closing Date the Company shall have furnished to you such further information, certificates and documents as you may reasonably request.

(g) You shall have received from each person who is a director or officer of the Company, and each stockholder as has been heretofore designated by you and listed on Schedule III hereto, an agreement, in the form set forth on Schedule IV hereto, to the effect that such person will not, directly or indirectly, without the prior written consent of Bear Stearns, on behalf of the Underwriters, issue, sell, offer or agree to sell, grant any option for the sale of, pledge, make any short sale or maintain any short position, establish or maintain a "put equivalent position" (within the meaning of Rule 16a-1(h) under the Exchange Act), enter into any swap, derivative transaction or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock (whether any such transaction is to be settled by delivery of Common Stock, other securities, cash or other consideration) or otherwise dispose of, any Common Stock (or any securities convertible into, exercisable for or exchangeable for Common Stock) or interest therein of the Company or of any of its subsidiaries, other than the transfer by the stockholder of any Common Stock to any member of the stockholder's immediate family, or to a revocable trust for the benefit of the stockholder or any member of the stockholder's immediate family, provided that any such member or transferee agrees to be bound by all of the terms and conditions contained in such agreement, for a period of 180 days after the date of the Prospectus.

(h) At the Closing Date, the Shares shall have been approved for listing on the New York Stock Exchange upon official notice of issuance.

If any of the conditions specified in this Section 6 shall not have been fulfilled when and as required by this Agreement, or if any of the certificates, opinions, written statements or letters furnished to you or to Underwriters' Counsel pursuant to this Section 6 shall not be in all material respects reasonably satisfactory in form and substance to you and to Underwriters' Counsel, all obligations of the Underwriters hereunder may be canceled by you at, or at any time prior to, the Closing Date and the obligations of the Underwriters to purchase the Additional Shares may be canceled by you at, or at any time prior to, the Additional Closing Date. Notice of such cancellation shall be given to the Company in writing, or by telephone, telex or telegraph, confirmed in writing.

7. INDEMNIFICATION.

(a) The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, against any and all losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Act, the Exchange Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement for the registration of the Shares, as originally filed or any amendment

thereof, or any related preliminary prospectus or the Prospectus, or in any supplement thereto or amendment thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; PROVIDED, HOWEVER, that the Company will not be liable in any such case to the extent, but only to the extent, that any such loss, liability, claim, damage or expense arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through you expressly for use therein; and PROVIDED, FURTHER, that this indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, liabilities, claims, damages or expenses purchased Shares, or any person controlling such Underwriter, if a copy of the Prospectus (as then amended or supplemented if the Company shall have furnished any such amendments or supplements thereto) was not sent or given by or on behalf of such Underwriter to such person, if such is required by law, at or prior to the written confirmation of the sale of such Shares to such person and if the Prospectus (as so amended or supplemented) would have corrected the defect giving rise to such loss, liability, claim, damage or expense or (ii)(A) the violation of any applicable laws or regulations of foreign jurisdictions where Reserved Shares have been offered and (B) any untrue statement or alleged untrue statement of a material fact included in the supplement or prospectus wrapper material distributed in Canada or New Zealand in connection with the reservation and sale of the Reserved Shares to participants in the Reserved Share program, or the omission or alleged omission therefrom of a material fact necessary to make the statements therein, when considered in conjunction with the Prospectus or preliminary prospectus, not misleading. This indemnity agreement will be in addition to any liability which the Company may otherwise have including under this Agreement.

(b) Each Underwriter severally, and not jointly, agrees to indemnify and hold harmless the Company, each of the directors of the Company, each of the officers of the Company who shall have signed the Registration Statement, and each other person, if any, who controls the Company or any of its subsidiaries within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, against any losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Act, the Exchange Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement for the registration of the Shares, as originally filed or any amendment thereof, or any related preliminary prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that any such loss, liability, claim, damage or expense arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through you expressly for use therein; PROVIDED, HOWEVER, that in no case shall any Underwriter be liable or responsible for any amount in excess of the

underwriting discount applicable to the Shares purchased by such Underwriter hereunder. This indemnity will be in addition to any liability which any Underwriter may otherwise have including under this Agreement. The Company acknowledges that the statements set forth in the last two paragraphs of the cover page and under the captions "Underwriting--Public Offering Price and Dealers Concession," "Underwriting--Discretionary Accounts," "Underwriting--Prospectus in Electronic Format," "Underwriting--Stabilization and Other Transactions" and "Underwriting--NYSE Undertaking" in the Prospectus constitute the only information furnished in writing by or on behalf of any Underwriter expressly for use in the registration statement relating to the Shares as originally filed or in any amendment thereof, any related preliminary prospectus or the Prospectus or in any amendment thereof or supplement thereto, as the case may be.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify each party against whom indemnification is to be sought in writing of the commencement thereof (but the failure so to notify an indemnifying party shall not relieve it from any liability which it may have under this Section 7 to the extent the indemnifying party is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability that such indemnifying party may have otherwise than on account of this indemnity agreement). In case any such action is brought against any indemnified party, and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein, and to the extent it may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party. Notwithstanding the foregoing, the indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless (i) the employment of such counsel shall have been authorized in writing by one of the indemnifying parties in connection with the defense of such action, (ii) the indemnifying parties shall not have employed counsel to have charge of the defense of such action within a reasonable time after notice of commencement of the action, or (iii) such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to one or all of the indemnifying parties (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the indemnifying parties. Anything in this subsection to the contrary notwithstanding, an indemnifying party shall not be liable for any settlement of any claim or action effected without its written consent; PROVIDED, HOWEVER, that such consent was not unreasonably withheld.

(d) In connection with the offer and sale of the Reserved Shares, the Company agrees, promptly upon a request in writing to indemnify and hold harmless the Underwriters from and against any and all losses, liabilities, claims, damages and expenses incurred by them as a result of the failure of participants in the Reserved Share program to pay for and accept delivery of Reserved Shares which, by the end of the first business day following the date of this Agreement, were subject to a properly confirmed agreement to purchase.

8. CONTRIBUTION. In order to provide for contribution in circumstances in which the indemnification provided for in Section 7 hereof is for any reason held to be unavailable from any indemnifying party or is insufficient to hold harmless a party indemnified thereunder, the Company and the Underwriters shall contribute to the aggregate losses, claims, damages, liabilities and expenses of the nature contemplated by such indemnification provision (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting in the case of losses, claims, damages, liabilities and expenses suffered by the Company and its subsidiaries any contribution received by the Company or its subsidiaries from persons, other than the Underwriters, who may also be liable for contribution, including persons who control the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, officers of the Company who signed the Registration Statement and directors of the Company) as incurred to which the Company and one or more of the Underwriters may be subject, in such proportions as is appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other hand, from the offering of the Shares or, if such allocation is not permitted by applicable law or indemnification is not available as a result of the indemnifying party not having received notice as provided in Section 7 hereof, in such proportion as is appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company, on the one hand, and the Underwriters, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Underwriters shall be deemed to be in the same proportion as (x) the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and (y) the underwriting discounts and commissions received by the Underwriters, respectively, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company, on the one hand, and of the Underwriters, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 8 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above.

Notwithstanding the provisions of this Section 8, (i) in no case shall any Underwriter be liable or responsible for any amount in excess of the underwriting discount applicable to the Shares purchased by such Underwriter hereunder, and (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Notwithstanding the provisions of this Section 8 and the preceding sentence, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. For purposes of this Section 8, each person, if any, who controls an Underwriter within the meaning

of Section 15 of the Act or Section 20(a) of the Exchange Act shall have the same rights to contribution as such Underwriter, and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, subject in each case to clauses (i) and (ii) of this Section 8. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties, notify each party or parties from whom contribution may be sought, but the omission to so notify such party or parties shall not relieve the party or parties from whom contribution may be sought from any obligation it or they may have under this Section 8 or otherwise. No party shall be liable for contribution with respect to any action or claim settled without its consent; PROVIDED, HOWEVER, that such consent was not unreasonably withheld. The Underwriters' respective obligations to contribute pursuant to this Section 8 are several in proportion to the number of Firm Shares set forth opposite their respective names in Schedule I hereto and not joint.

9. DEFAULT BY AN UNDERWRITER.

(a) If any Underwriter or Underwriters shall default in its or their obligation to purchase Firm Shares or Additional Shares hereunder, and if the Firm Shares or Additional Shares with respect to which such default relates do not (after giving effect to arrangements, if any, made by you pursuant to subsection (b) below) exceed in the aggregate 10% of the number of Firm Shares or Additional Shares, to which the default relates shall be purchased by the non-defaulting Underwriters in proportion to the respective proportions which the numbers of Firm Shares set forth opposite their respective names in Schedule I hereto bear to the aggregate number of Firm Shares set forth opposite the names of the non-defaulting Underwriters.

(b) In the event that such default relates to more than 10% of the Firm Shares or Additional Shares, as the case may be, you may in your discretion arrange for yourself or for another party or parties (including any non-defaulting Underwriter or Underwriters who so agree) to purchase such Firm Shares or Additional Shares, as the case may be, to which such default relates on the terms contained herein. In the event that within 5 calendar days after such a default you do not arrange for the purchase of the Firm Shares or Additional Shares, as the case may be, to which such default relates as provided in this Section 9, this Agreement or, in the case of a default with respect to the Additional Shares, the obligations of the Underwriters to purchase and of the Company to sell the Additional Shares shall thereupon terminate, without liability on the part of the Company with respect thereto (except in each case as provided in Section 5, 7(a) and 8 hereof) or the Underwriters, but nothing in this Agreement shall relieve a defaulting Underwriter or Underwriters of its or their liability, if any, to the other Underwriters and the Company for damages occasioned by its or their default hereunder.

(c) In the event that the Firm Shares or Additional Shares to which the default relates are to be purchased by the non-defaulting Underwriters, or are to be purchased by another party or parties as aforesaid, you or the Company shall have the right to postpone the Closing Date or Additional Closing Date, as the case may be for a period, not exceeding five business days, in order to effect whatever changes may thereby be made necessary in the

Registration Statement or the Prospectus or in any other documents and arrangements, and the Company agrees to file promptly any amendment or supplement to the Registration Statement or the Prospectus which, in the opinion of Underwriters' Counsel, may thereby be made necessary or advisable. The term "UNDERWRITER" as used in this Agreement shall include any party substituted under this Section 9 with like effect as if it had originally been a party to this Agreement with respect to such Firm Shares and Additional Shares.

10. SURVIVAL OF REPRESENTATIONS AND AGREEMENTS. All representations and warranties, covenants and agreements of the Underwriters and the Company contained in this Agreement, including the agreements contained in Section 5, the indemnity agreements contained in Section 7 and the contribution agreements contained in Section 8, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any controlling person thereof or by or on behalf of the Company, any of its officers and directors (including any person who, with his or her consent, is named in the Registration Statement as about to become, and does become, a director of the Company) or any controlling person thereof, and shall survive delivery of and payment for the Shares to and by the Underwriters. The representations contained in Section 1 and the agreements contained in Sections 5, 7, 8 and 11(d) hereof shall survive the termination of this Agreement, including termination pursuant to Section 9 or 11 hereof.

11. EFFECTIVE DATE OF AGREEMENT; TERMINATION.

(a) This Agreement shall become effective, upon the later of when (i) you and the Company shall have received notification of the effectiveness of the Registration Statement or (ii) the execution of this Agreement. If either the initial public offering price or the purchase price per Share has not been agreed upon prior to 5:00 P.M., New York City time, on the fifth full business day after the Registration Statement shall have become effective, this Agreement shall thereupon terminate without liability to the Company or the Underwriters except as herein expressly provided. Until this Agreement becomes effective as aforesaid, it may be terminated by the Company by notifying you or by you notifying the Company. Notwithstanding the foregoing, the provisions of this Section 11 and of Sections 1, 5, 7 and 8 hereof shall at all times be in full force and effect.

(b) You shall have the right to terminate this Agreement at any time prior to the Closing Date or the obligations of the Underwriters to purchase the Additional Shares at any time prior to the Additional Closing Date, as the case may be, if (A) any domestic or international event or act or occurrence has materially disrupted, or in your opinion will in the immediate future materially disrupt, the market for the Company's securities or securities in general; or (B) if trading on the New York or American Stock Exchanges or the Nasdaq National Market System shall have been suspended, or minimum or maximum prices for trading shall have been fixed, or maximum ranges for prices for securities shall have been required, on the New York or American Stock Exchanges or the Nasdaq National Market System by such entities or by order of the Commission or any other governmental authority having jurisdiction; or (C) if a banking moratorium has been declared by a state or federal authority or if any new restriction materially adversely affecting the distribution of the Firm Shares or the Additional Shares, as the case may be, shall have become effective; or (D) (i) if the United States becomes engaged in hostilities or there is an escalation of hostilities involving the United States or there is a

declaration of a national emergency or war by the United States or (ii) if there shall have been such change in political, financial or economic conditions if the effect of any such event in (i) or (ii) as in your judgment makes it impracticable or inadvisable to proceed with the offering, sale and delivery of the Firm Shares or the Additional Shares, as the case may be, on the terms contemplated by the Prospectus.

(c) Any notice of termination pursuant to this Section 11 shall be by telephone, telex, or telegraph, confirmed in writing by letter.

(d) If this Agreement shall be terminated pursuant to any of the provisions hereof (otherwise than pursuant to (i) notification by you as provided in Section 11(a) hereof or (ii) Section 9(b) or 11(b) hereof), or if the sale of the Shares provided for herein is not consummated because any condition to the obligations of the Underwriters set forth herein is not satisfied or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof, the Company will, subject to demand by you, reimburse the Underwriters for all out-of-pocket expenses (including the fees and expenses of their counsel), incurred by the Underwriters in connection herewith.

12. NOTICES. All communications hereunder, except as may be otherwise specifically provided herein, shall be in writing and , if sent to any Underwriter, shall be mailed, delivered, or telexed or faxed and confirmed in writing, to such Underwriter c/o Bear, Stearns & Co. Inc., 245 Park Avenue, New York, NY 10167, Attention: Syndicate Department, with a copy to Gibson, Dunn & Crutcher LLP, Attention: Kenneth M. Doran, 333 S. Grand Avenue, Los Angeles, CA 90071; if sent to the Company, shall be mailed, delivered, or telexed or faxed and confirmed in writing to the Company, 17655 Waterview Parkway, Dallas, TX 75252, Attention: J. Michael Parks, with a copy to Akin, Gump, Strauss, Hauer & Feld, L.L.P., Attention: Terry M. Schpok, P.C., 1700 Pacific Avenue, Suite 4100, Dallas, TX 75201.

13. PARTIES. This Agreement shall inure solely to the benefit of, and shall be binding upon, the Underwriters and the Company and the controlling persons, directors, officers, employees and agents referred to in Sections 7 and 8, and their respective successors and assigns, and no other person shall have or be construed to have any legal or equitable right, remedy or claim under or in respect of or by virtue of this Agreement or any provision herein contained. The term "successors and assigns" shall not include a purchaser, in its capacity as such, of Shares from any of the Underwriters.

14. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, but without regard to principles of conflicts of law.

15. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.

16. HEADINGS. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

If the foregoing correctly sets forth the understanding between you and the Company, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among us.

Very truly yours,

ALLIANCE DATA SYSTEMS CORPORATION

By:

Name:
Title:

Accepted as of the date first above written
BEAR, STEARNS & CO. INC.
MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED
CREDIT SUISSE FIRST BOSTON CORPORATION

By:

Name:
Title:

On behalf of themselves and the other
Underwriters named in Schedule I hereto.

SCHEDULE I

NAME OF UNDERWRITER	NUMBER OF FIRM SHARES TO BE PURCHASED
Bear, Stearns & Co. Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Credit Suisse First Boston Corporation	
Total	13,000,000

SCHEDULE II

DIRECT AND INDIRECT SUBSIDIARIES

SUBSIDIARY NAME	OWNERSHIP	JURISDICTION OF INCORPORATION	JURISDICTIONS WHERE QUALIFIED TO DO BUSINESS
ADS Alliance Data Systems, Inc.	100%	Delaware	Alabama, Arizona, Arkansas, California, Colorado, Connecticut, District of Columbia, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming
Harmonic Technology Licensing, Inc.	100%	Minnesota	None
Alliance Recovery Management, Inc.	100%	Delaware	None
World Financial Network National Bank	100%	National Banking Association	None
WFN Credit Company, LLC	100%	Delaware	None
Alliance Data Systems (New Zealand) Limited	100%	New Zealand	None
Financial Automation Limited	100%	New Zealand	None
Financial Automation Marketing Limited	100%	New Zealand	None
Loyalty Management Group Canada, Inc.	100%	Ontario, Canada	Toronto, Quebec, Alberta, British Columbia
LMG Travel Services Ltd	100%	Ontario, Canada	None
ADS Reinsurance Ltd.	100%	Bermuda	None
ADS Commercial Services, Inc.	100%	Delaware	California, Illinois, Michigan, Nevada, North Dakota, Tennessee, Vermont

SCHEDULE III

PERSONS TO ENTER INTO LOCK-UP AGREEMENTS

1% AND GREATER HOLDERS (AND RELATED ENTITIES)
WCAS VII L.P.
Limited Commerce Corp.
WCAS VIII L.P.
Welsh Carson Anderson & Stowe VI L.P.
WCAS Capital Partners III L.P.
WCAS Capital Partners II L.P.
WCAS Information Partners L.P.
OFFICERS
J. Michael Parks
Ivan Szeftel
John Scullion
Michael A. Beltz
Edward Heffernan
Dwayne H. Tucker
Steven T. Walensky
Carolyn S. Melvin
Robert P. Armiak
Michael D. Kubic
Richard E. Schumacher, Jr.
DIRECTORS
Bruce K. Anderson
Roger Ballou
Anthony J. deNicola
Daniel P. Finkelman
Kenneth R. Jensen
Robert A. Minicucci
Bruce A. Soll

OTHER INDIVIDUALS (RELATED TO WC)
Russell L. Carson
Patrick J. Welsh
Thomas E. McInernay
Andrew M. Paul

OTHER ADS OPTIONHOLDERS
Daniel Groomes
Bryan Pearson
Bruce McClary
John Tomsho
Bruce Kerr
John Wright
Frank Kersanty
Joseph P. Rochford
Pieto Satriano
James B. Sullivan
Robert W. Trammell
Sidney Pinhas
David L. Judy
Theodore J. Palesky
William Salamy
Gerald Schaefer
Lori Russell
Patrick Cummiskey
John Jackson
Walter Roberts III
Gavin Welbourne
Craig Underwood

OTHER STOCKHOLDERS
Richard H. Stowe
Bruce Turkett

SCHEDULE IV

FORM OF LOCK-UP AGREEMENT

_____ __, 2001

BEAR, STEARNS & CO. INC.
MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED
CREDIT SUISSE FIRST BOSTON CORPORATION
as Representatives of the
several Underwriters
c/o Bear, Stearns & Co. Inc.
245 Park Avenue
New York, New York 10167

Re: ALLIANCE DATA SYSTEMS CORPORATION

Ladies and Gentlemen:

In consideration of the agreement of the several Underwriters (the "UNDERWRITING AGREEMENT"), for which Bear, Stearns & Co. Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse First Boston Corporation intend to act as Representatives, to underwrite a proposed public offering (the "OFFERING") of shares of common stock (the "COMMON STOCK") of Alliance Data Systems Corporation, a corporation organized under the laws of the State of Delaware (the "COMPANY"), as contemplated by a registration statement filed with the Securities and Exchange Commission on Form S-1, the undersigned hereby (i) agrees that the undersigned will not, directly or indirectly, during a period of one hundred eighty (180) days from the date of the final prospectus for the Offering (the "LOCK-UP PERIOD"), without the prior written consent of Bear, Stearns & Co. Inc., issue, sell, offer or agree to sell, grant any option for the sale of, pledge, make any short sale or maintain any short position, establish or maintain a "put equivalent position" (within the meaning of Rule 16a-1(h) under the Securities Exchange Act of 1934, as amended), enter into any swap, derivative transaction or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock (whether any such transaction is to be settled by delivery of Common Stock, other securities, cash or other consideration) or otherwise dispose of, any Common Stock (or any securities convertible into, exercisable for or exchangeable for Common Stock) or interest therein of the Company or of any of its subsidiaries, other than the transfer by the undersigned of any Common Stock to [any member of the undersigned's immediate family or to a revocable trust for the benefit of the undersigned or any member of the undersigned's immediate family, provided that any such transferee agrees to be bound by such conditions] [any affiliate of Limited Commerce Corp. that is wholly owned, directly or indirectly, by The Limited, Inc.], and (ii) authorizes the Company during the Lock-Up Period to cause the transfer agent to decline to transfer and/or to note stop transfer restrictions on the transfer books and records of the Company with respect to any shares of Common Stock and any

securities convertible into or exercisable or exchangeable for Common Stock for which the undersigned is the record holder and, in the case of any such share or securities for which the undersigned is the beneficial but not the record holder, agrees to cause the record holder to cause the transfer agent to decline to transfer and/or to note stop transfer restrictions on such books and records with respect to such shares or securities.

The undersigned further agrees, from the date hereof until the end of the Lock-Up Period, that the undersigned will not exercise and will waive his, her or its rights, if any, to require the Company to register its Common Stock and to receive notice thereof.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into the agreements set forth herein, and that, upon request, the undersigned will execute any additional documents necessary in connection with enforcement hereof. It is further understood that, if either the Underwriting Agreement is not executed or does not become effective, or if the Underwriting Agreement (other than the provisions thereof which survive termination) shall terminate or be terminated prior to payment for and delivery of the Common Stock, the undersigned will be immediately released without any further action on their or its part from their or its obligations under this letter agreement. Any obligations of the undersigned shall be binding upon the successors and assigns of the undersigned.

Very truly yours,

Name:

EXHIBIT 3.3

FIRST AMENDMENT TO THE SECOND AMENDED AND RESTATED BYLAWS OF ALLIANCE DATA SYSTEMS CORPORATION

Section 2.1 of the Amended and Restated Bylaws of Alliance Data Systems Corporation is amended and restated to read in its entirety as follows:

Section 2.1 ANNUAL MEETINGS. Annual meetings of stockholders shall be held on such date, at such time and at such place as shall be designated by the Board and stated in the notice of the meeting, at which the stockholders shall elect the directors of the Company and transact such other business as may properly be brought before the meeting.

EXHIBIT 10.34

AMENDED AND RESTATED
ALLIANCE DATA SYSTEMS CORPORATION AND ITS SUBSIDIARIES
STOCK OPTION AND RESTRICTED STOCK PLAN

Effective April 25, 2001

AMENDED AND RESTATED
ALLIANCE DATA SYSTEMS CORPORATION AND ITS SUBSIDIARIES
STOCK OPTION AND RESTRICTED STOCK PLAN

Section 1. PURPOSE. The purpose of the Amended and Restated Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Plan (the "Plan") is to promote the interests of Alliance Data Systems Corporation, a Delaware corporation (the "Company"), and any Subsidiary thereof and the interest of the Company's stockholders by providing an opportunity to stockholders and selected employees, officers, directors and other persons performing services for the Company or any Subsidiary thereof as of the date of the adoption of the Plan or at any time thereafter to purchase Common Stock of the Company. By encouraging such stock ownership, the Company seeks to attract, retain and motivate such employees and other persons and to encourage such employees and other persons to devote their best efforts to the business and financial success of the Company. It is intended that this purpose will be effected by the granting of "non-qualified stock options" and/or "incentive stock options" to acquire the Common Stock of the Company and/or by the granting of rights to purchase or receive (upon satisfaction of certain conditions) the Common Stock of the Company on a "restricted stock" basis. Under the Plan, the Committee shall have the authority (in its sole discretion) to grant "incentive stock options" within the meaning of Section 422(b) of the Code, "non-qualified stock options" as described in Treasury Regulation Section 1.83-7 or any successor regulation thereto, or "restricted stock" awards.

The Plan is an amendment and restatement of the Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restated Stock Purchase Plan (the "Prior Plan"). All Options and Awards granted prior to the Effective Date hereof shall be deemed granted pursuant to the terms of the Prior Plan (except to the extent provisions of this Plan are expressly made applicable). Options and Awards granted prior to the Effective Date may be granted only to the extent shares are available for issuance under the terms of the Prior Plan. As of the Effective Date all Options and Awards granted shall be granted under the terms and limitations of this Plan.

Section 2. DEFINITIONS. For purposes of the Plan, the following terms used herein shall have the following meanings, unless a different meaning is clearly required by the context:

2.1 "Award" shall mean an award of (i) the right to purchase Common Stock granted under the provisions of Section 7 of the Plan or (ii) a grant of Common Stock subject to specified restrictions.

2.2 "Board of Directors" shall mean the Board of Directors of the Company.

2.3 "Cause" shall mean either the failure to perform in a competent manner or the willful failure to perform the assigned duties of one's position, as determined by the Company in its sole discretion.

2.4 "Change of Control Value" means, for the purposes of Section 8, the amount determined in Clause (i), (ii) or (iii), whichever is applicable, as follows: (i) the per share price offered to stockholders of the Company in any merger, consolidation, sale of assets or

dissolution transaction, (ii) the price per share offered to stockholders of the Company in any tender offer or exchange offer whereby a Corporate Change takes place or (iii) if a Corporate Change occurs other than as described in Clause (i) or Clause (ii), the Fair Market Value per share determined by the Committee as of the date determined by the Committee to be the date of cancellation and surrender of an Option or Award. If the consideration offered to stockholders of the Company in any transaction described in this definition or Section 8 consists of anything other than cash, the Committee shall determine the fair cash equivalent of the portion of the consideration offered which is other than cash.

2.5 "Code" shall mean the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder.

2.6 "Committee" shall mean the Board of Directors or a delegate, as provided for in Section 5 hereof.

2.7 "Common Stock" shall mean the Common Stock, $0.01 par value, of the Company.

2.8 "Corporate Change" mans one of the following events: (i) the merger, consolidation or other reorganization of the Company in which the outstanding Common Stock is converted into or exchanged for a different class of securities of the Company, a class of securities of any other issuer (except a direct or indirect wholly owned subsidiary of the Company), cash or other property, (ii) the sale, lease or exchange of all or substantially all of the assets of the Company to any other corporation or entity (except a direct or indirect wholly owned subsidiary of the Company), (iii) the adoption by the stockholders of the Company of a plan of liquidation and dissolution, (iv) the acquisition (other than any acquisition pursuant to any other clause of this definition) by any person or entity, including without limitation a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (whether or not such Act is then applicable to the Company), of beneficial ownership, as contemplated by such Section, of more than twenty percent (20%) (based on voting power) of the Company's outstanding capital stock, or (v) as a result of or in connection with a contested election of directors, the persons who were the directors of the Company before such election shall cease to constitute a majority of the Board of Directors.

2.9 "Eligible Optionee" shall mean, with respect to a Non-Qualified Option and/or Award, any stockholder of the Company, and any person employed by, or performing services for, the Company or any Parent or Subsidiary of the Company including, without limitation, directors and officers of the Company and employees of any stockholder of the Company that is performing services for the Company.

2.10 "Employee" shall mean, with respect to an ISO, any person, including, without limitation, an officer or director of the Company, who, at the time an ISO is granted to such person hereunder, is employed on a full-time basis by the Company or any Parent or Subsidiary of the Company.

2.11 "Effective Date" shall mean the date established by the Board of Directors in connection with its adoption of the Plan, provided the Plan is approved by the requisite

proportion of the stockholders of the Company within twelve (12) months after adoption by the Board of Directors. Options and Awards may be granted under the Plan prior to such approval by stockholders, provided that Options and Awards may not vest or be exercised prior to such approval and all such Options and Awards shall expire if the stockholders fail to timely approve the Plan.

2.12 "Excluded Group" shall mean the group including (a) the Executive (as defined in Section 5.1), (b) any person who is included in the Executive Committee, (c) any person with respect to his or her compensation as a director; and (d) any Insider.

2.13 "Fair Market Value" shall mean, with respect to Grants on the date of the initial public offering of the Company, the opening value on the New York Stock Exchange, and thereafter the average of the high and low prices on the New York Stock Exchange during the trading hours of the New York Stock Exchange. Prior to the initial public offering, the Committee shall make a good faith determination of the Fair Market Value of the Company.

2.14 "Grant" shall mean an Award or an Option.

2.15 "Insider" shall mean all officers and directors of the Company (and its affiliates) who are subject to Section 16b of the Securities Exchange Act of 1934, as amended.

2.16 "ISO" shall mean an Option that constitutes an incentive stock option under Section 422(b) of the Code.

2.17 "Non-Qualified Option" shall mean an Option granted to a Participant pursuant to the Plan that is intended to be, and qualifies as, a "non-qualified stock option" as described in Treasury Regulation Section 1.83-7 or any successor regulation thereto and that shall not constitute or be treated as an ISO.

2.18 "Option" shall mean any ISO or Non-Qualified Option granted to an Employee or Eligible Optionee pursuant to the Plan.

2.19 "Participant" shall mean any Employee or Eligible Optionee to whom an Award and/or an Option is granted under the Plan.

2.20 "Parent" of the Company shall have the meaning set forth in Section 424(e) of the Code.

2.21 "Percentile within the Standard & Poor 500" shall mean the percentile determined by taking every company that was in the Standard & Poor 500 for the entire measurement period for the Performance Based Restricted Stock, that continues to be publicly traded at the end of the measurement period and ranking their cumulative total shareholder return at the end of the measurement period.

2.22 "Performance Based Restricted Stock" means an Award of Common Stock subject to specified restrictions that cause such Common Stock to vest upon attainment of specified financial goals by the Company.

2.23 "Pooling Transaction" means an acquisition of the Company in a transaction which is intended to be treated as a "pooling of interests" under generally accepted accounting principles.

2.24 "Retired" or "Retirement" shall mean that a Participant has attained at least age 60 and completed at least 60 months of service with the Company, a Parent or a Subsidiary. The Participant shall receive credit for his first and last month of service with the Company, Parent or a Subsidiary without regard to whether he was actually employed by the Company or Parent, or a Subsidiary on every day of the month.

2.25 "Subsidiary" of the Company shall have the meaning set forth in Section 424(f) of the Code.

Section 3. ELIGIBILITY. Awards and/or Options may be granted to any Employee or Eligible Optionee; provided however, that an ISO may only be granted to an Employee. The Committee shall have the sole authority to select the persons to whom Awards and/or Options are to be granted hereunder, and to determine whether a person is to be granted a Non-Qualified Option, an ISO or an Award or any combination thereof; provided that the granting of Performance Based Restricted Stock Awards will be upon the recommendation of the Chief Executive Officer of the Company for approval by a committee of members of the Board of Directors as described in Section 5.1. No person shall have any right to participate in the Plan unless selected for participation by the Committee. Any person selected by the Committee for participation during any one period will not by virtue of such participation have the right to be selected as a Participant for any other period.

Section 4. COMMON STOCK SUBJECT TO THE PLAN.

4.1 NUMBER OF SHARES. The total number of shares of Common Stock for which Options and/or Awards may be granted under the Plan shall not exceed in the aggregate eight million seven hundred fifty-three thousand shares (8,753,000) of Common Stock (subject to adjustment as provided in Section 8 hereof); provided, however, that all shares issued or to be issued pursuant to Options or Awards granted under the Prior Plan shall be counted against such aggregate share limit. The maximum number shares of Common Stock for which Options or Awards can be granted to an individual in a calendar year is four million (4,000,000); provided, however, that the maximum number of shares of Common Stock that may be granted as a Performance Based Stock Award to any one individual in a single year is 150,000.

4.2 REISSUANCE. The shares of Common Stock that may be subject to Options and/or Awards granted under the Plan may be either authorized and unissued shares or shares reacquired at any time and now or hereafter held as treasury stock as the Committee may determine. In the event that an outstanding Option expires or is terminated for any reason, the shares allocable to the unexercised portion of such Option may again be subject to an Option and/or Award granted under the Plan. If any shares of Common Stock issued or sold pursuant to an Award or the exercise of an Option shall have been repurchased by the Company, then such shares may again be subject to an Option and/or Award granted under the Plan.

4.3 SPECIAL ISO LIMITATIONS.

(a) The aggregate Fair Market Value (determined as of the date an ISO is granted) of the shares of Common Stock with respect to which ISOs are exercisable for the first time by an Employee during any calendar year (under all incentive stock option plans of the Company or any Parent or Subsidiary of the Company) shall not exceed $100,000.

(b) If any Option intended to be an ISO fails to qualify as such, it shall be treated as a Non-Qualified Option.

(c) No ISO shall be granted to an Employee who, at the time the ISO is granted, owns (actually or constructively under the provisions of Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary of the Company, unless (i) the option price is at least 110% of the Fair Market Value (determination as of the time the ISO is granted) of the shares of Common Stock subject to the ISO and (ii) the ISO by its terms is not exercisable more than five years from the date it is granted.

4.4 LIMITATIONS NOT APPLICABLE TO NON-QUALIFIED OPTIONS OR AWARDS. Notwithstanding any other provision of the Plan, the provisions of Section 4.3(a) and (b) shall not apply, nor shall be construed to apply, to any Non-Qualified Option or Award granted under the Plan.

Section 5. Administration of the Plan

5.1 ADMINISTRATION. The Plan shall be administered by the Board of Directors; provided, however, that the Board of Directors may, subject to the other express provisions of the Plan, delegate all or a portion of its responsibilities and authority under the Plan to a committee consisting of no less than three members of the Board of Directors. Any such committee shall act by a majority of its members at the time in office and eligible to vote on a particular matter, and such action may be taken either by a vote at a meeting (including, without limitation, a telephone conference) or in writing without a meeting. The Board of Directors may remove any member of such a committee at any time, and a member of such a committee may resign upon notice to the Board of Directors. Either the Board of Directors or such a committee may further delegate all or a portion of its responsibilities and authority under the Plan to the Chief Executive Officer of the Company; provided, however, that the Chief Executive Officer shall not have, or be delegated, any authority with respect to the grant of Options or Awards to Insiders. Subject to the provisions of this Section 5.1, the Board of Directors shall be responsible for making all determinations with respect to (i) all matters under the Plan pertaining to (a) Participants who are members of the Executive Committee of the Company (the "Executive Committee") which shall include for purposes of the Plan all Participants who are subject to Code Section 162(m) and (b) members of the Excluded Group, and (ii) the number of shares available under the Plan for Options. The Committee shall be responsible for and make all determinations with respect to Award grants to Participants who are not members of the Excluded Group. Notwithstanding the foregoing, the Chief Executive Officer of the Company (the "Executive") shall have the authority, be responsible for, make all determinations with respect to and constitute the Committee for all matters under the Plan pertaining to Participants

who are not members of the Excluded Group other than (i) the making of Plan amendments, and (ii) Performance Based Restricted Stock Awards. References herein to the "Committee" shall mean the Board of Directors, any committee described in this Section 5.1 and the Chief Executive Officer to the extent of any responsibilities or authority assigned or delegated to any of them under or pursuant to the Plan. The provisions of this Section 5.1 shall also govern Options and Awards granted under the Prior Plan.

5.2 Grant of Options/Awards.

(a) OPTIONS. Except as provided in Subsection (c) hereunder, the Committee shall have the sole authority and discretion under the Plan (i) to select the Employees and Eligible Optionees who are to be granted Options hereunder; (ii) to designate whether any Option to be granted hereunder is to be an ISO or a Non-Qualified Option; (iii) to establish the number of shares of Common Stock that may be subject to each Option; (iv) to determine the time and the conditions subject to which Options may be exercised in whole or in part; (v) to determine the amount (not less than the par value per share) and the form of the consideration that may be used to purchase shares of Common Stock upon exercise of any Option (including, without limitation, the circumstances under which issued and outstanding shares of Common Stock that have been held by a Participant for at least six months may be used by the Participant to exercise an Option); (vi) to impose restrictions and/or conditions with respect to shares of Common Stock acquired upon exercise of an Option; (vii) to determine the circumstances under which shares of Common Stock acquired upon exercise of any Option may be subject to repurchase by the Company; (viii) to determine the circumstances and conditions subject to which shares acquired upon exercise of an Option may be sold or otherwise transferred, including, without limitation, the circumstances and conditions subject to which a proposed sale of shares of Common Stock acquired upon exercise of an Option may be subject to the Company's right of first refusal (as well as the terms and conditions of any such right of first refusal); (ix) to establish a vesting provision for any Option relating to the time when (or the circumstances under which) the Option may be exercised by a Participant, including, without limitation, vesting provisions that may be contingent upon (A) the Company's meeting specified financial goals, (B) a Corporate Change of the Company or (C) the occurrence of other specified events; (x) to accelerate the time when outstanding Options may be exercised, including, without limitation, accelerations to a date or dates within six months of the date of grant; provided, however, that the exercise of any ISOs may be "accelerated" solely within the meaning of Section 424(h) of the Code; and (xi) to establish any other terms, restrictions and/or conditions applicable to any Option not inconsistent with the provisions of the Plan. For purposes of this subsection, an Option shall be deemed granted on the date the Committee selects an individual to be an Optionee, determine the number of Shares to be issued pursuant to such Option, and specify the terms and conditions of such Option. Notwithstanding the general discretionary nature of the grant of Options hereunder, (i) every exempt employee within the meaning of the Fair Labor Standards Act may receive a Grant on the date of the initial public offering of the Company, with an exercise price equal to the Fair Market Value of the Common Stock on the date of Grant, and (ii) every individual who has accepted an offer of employment with the Company as an exempt employee within the meaning of the Fair Labor Standards Act and who first performs an hour of service with the Company within thirty (30) days of the initial public offering of the Company may receive a Grant with an exercise price equal to the Fair Market

Value of the Common Stock on the date such employee first performs an hour of service with the Company.

(b) AWARDS. Subject to Section 3 and Section 5.1, the Committee shall have the sole authority and discretion under the Plan (i) to select the Employees and Eligible Optionees who are to be granted Awards hereunder; (ii) to determine the consideration (which may be cash, property or services rendered) to be paid by a Participant to acquire shares of Common Stock pursuant to an Award, which amount may be equal to, more than or less than 100% of the Fair Market Value of such shares on the date the Award is granted (but in no event less than the par value of such shares); (iii) to determine the time or times, and the conditions subject to which, Awards may be made; (iv) to determine the time or times and the conditions subject to which the shares of Common Stock subject to an Award are to become vested and/or no longer subject to repurchase by the Company; (v) to establish transfer restrictions and the terms and conditions on which any such transfer restrictions with respect to shares of Common Stock acquired pursuant to an Award shall lapse; (vi) to establish vesting provisions with respect to any shares of Common Stock subject to an Award, including, without limitation, vesting provisions which may be contingent upon (A) the Company's meeting financial goals specified by the Committee, (B) a Corporate Change with respect to the Company or (C) the occurrence of other specified events; (vii) to determine the circumstances under which shares of Common Stock acquired pursuant to an Award may be subject to repurchase by the Company; (viii) to determine the circumstances and conditions subject to which any shares of Common Stock acquired pursuant to an Award may be sold or otherwise transferred, including, without limitations, the circumstances and conditions subject to which a proposed sale of shares of Common Stock acquired pursuant to an Award may be subject to the Company's right of first refusal (as well as the terms and conditions of any such right of first refusal); (ix) to determine the form of consideration that may be used to purchase shares of Common Stock pursuant to an Award (including, without limitation, the circumstances under which issued and outstanding shares of Common Stock that have been held by a Participant for at least six months may be used by the Participant to purchase the Common Stock subject to an Award); (x) to accelerate the time at which any or all restrictions imposed with respect to any shares of Common Stock subject to an Award will lapse, including, without limitation, accelerations to a date or dates within six months of the date of grant; and (xi) to establish any other terms, restrictions and/or conditions applicable to any Award not inconsistent with the provisions of the Plan.

(c) FORMULA AWARDS. Subject to the provisions below, each non-employee member of the Board of Directors on the date of the initial public offering of the Company shall receive a Non-Qualified Option for 42,000 shares of Common Stock, with an exercise price equal to the Fair Market Value of a share of Common Stock on the date of the initial public offering of the Company; provided, however, that, notwithstanding the foregoing, if such director has elected in writing, on a form provided by the Committee, by the date of the initial public offering of the Company to receive his director compensation from the Company in the form of cash and Non-Qualified Options the aforementioned Non-Qualified Option shall be for 28,500 shares instead of 42,000 shares of Common Stock. Subject to the provisions below, every individual who becomes a non-employee member of the Board of Directors after the initial public offering shall receive on the date he becomes such a director a Non-Qualified Option for 42,000 shares of Common Stock, with an exercise price equal to the Fair Market Value of a share of Common Stock on such date; provided, however, that notwithstanding the foregoing, if

such director has elected in writing, on a form provided by the Committee, by the date he becomes such a director to receive all of his director compensation from the Company in the form of cash and Non-Qualified Options, the aforementioned Non-Qualified Option shall be for 28,500 shares instead of 42,000 shares of Common Stock.

A non-employee director receiving a formula Grant under this Section 5.2(c) shall not be precluded from receiving additional Grants under the Plan.

The vesting schedule and other terms of the Grants to directors under this Section 5.2(c) shall be set forth in agreements with the directors.

(d) BONA FIDE OFFER TO PURCHASE SHARES. This subsection shall lapse and be of no further force or effect upon completion of an initial public offering of the Common Stock of the Company. If a Participant shall at any time prior to the date on which an underwritten public offering of the Company's Common Stock, registered under the Securities Act of 1933, as amended (a "Public Offering"), desire to sell all or any of the Common Stock acquired by the Participant pursuant to an Option or an Award ("Plan Shares") and obtains a bona fide written offer which Participant desires to accept (referred to in this Section as the "Offer") to purchase all, or a portion of the Participant's Plan Shares the Participant shall transmit copies of the Offer to the Company within five (5) business days after Participant's receipt of the Offer. Except as provided below, prior to a Public Offering a Participant may sell Plan Shares only for cash. The Offer shall set forth its date, the proposed price per share of Common Stock, the number of shares of Common Stock being sold, and the other terms and conditions upon which the purchase is proposed to be made, as well as the name and address of the prospective purchaser. Transmittal of the Offer to the Company by Participant shall constitute an offer by Participant to sell all of the Plan Shares which are subject to the Offer to the Company at a price equal to the cash consideration plus the Fair Market Value of the non-cash consideration specified in the Offer for such Common Stock (the "Purchase Price") and upon the other terms set forth in the Offer, except as hereinafter provided. For a period of sixty (60) days after the submission of the Offer to the Company, the Company shall have the option, exercisable by notice to Participant, to accept Participant's offer as to all, but not less than all, of the Plan Shares that are the subject of the Offer. If the Company does not exercise its option to purchase within the specified 60 day period or if the Company waives, in writing, the 60 day period, the Participant may then, and only then, accept the offer from the prospective purchaser. Any sale of Plan Stock which occurs without complying with the provisions of this Section 5.2(d) is null and void.

(e) PERFORMANCE BASED RESTRICTED STOCK. The measurement period for the financial goals that are part of any Performance Based Restricted Stock Awards will be five complete fiscal years. Such Awards will be made at the beginning of the measurement period; provided, however, that notwithstanding the foregoing, Participants who are hired within the first two years of a measurement period may be granted such an Award with such modifications as are deemed appropriate by the Committee.

5.3 INTERPRETATION. The Committee shall be authorized to interpret the Plan and may, from time to time, adopt such rules and regulations, not inconsistent with the provisions of the Plan, as it may deem advisable to carry out the purposes of the Plan.

5.4 FINALITY. The interpretation and construction by the Committee of any provision of the Plan, any Grant, or any factual matter pertaining thereto under or any agreement evidencing any such Grant shall be final and conclusive upon all parties.

5.5 EXPENSES, ETC. All expenses and liabilities incurred by the Committee in the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants or other persons in connection with the administration of the Plan. The Company, and its officers and directors, shall be entitled to rely upon the advice, opinions or valuations of any such persons. No member of the Committee shall be liable for any action, determination or interpretation taken or made in good faith with respect to the Plan or any Option and/or Award granted hereunder.

5.6 AUTHORITY OF THE BOARD OF DIRECTORS. Notwithstanding any provision of this Plan to the contrary, the Board of Directors may independently exercise any and all powers of the Committee or the Executive or allocate their respective responsibilities to others under the Plan, including retaining any of them for itself, with respect to any and all aspects of the Plan in the sole discretion of the Board of Directors. The Committee and the Executive shall have no authority or obligation with respect to any matters in connection with the Plan over which the Board of Directors chooses to act.

Section 6. TERMS AND CONDITIONS OF OPTIONS.

6.1 ISOs. The terms and conditions of each ISO granted under the Plan shall be specified by the Committee and shall be set forth in a written ISO agreement between the Company and the Participant in such form as the Committee shall approve. The terms and conditions of each ISO shall be such that each ISO issued hereunder shall constitute and shall be treated as an "incentive stock option" as defined in Section 422(b) of the Code. The terms and conditions of any ISO granted hereunder need not be identical to those of any other ISO granted hereunder. If any portion of an Option designated as an ISO is determined for any reason not to qualify as an incentive stock option within the meaning of Section 422 of the Code, such Option shall be treated as a Non-Qualified Option for all purposes under the provisions of the Plan.

The terms and conditions of each ISO shall include the following:

(a) The option price shall be fixed by the Committee but shall in no event be less than 100% (or 110% in the case of an Employee referred to in Section 4.3(c) hereof) of the Fair Market Value of the shares of Common Stock subject to the ISO on the date the ISO is granted.

(b) ISOs, by their terms, shall not be transferable otherwise than by will or the laws of descent and distribution, and, during a Participant's lifetime, an ISO shall be exercisable only by the Participant or by the guardian or legal representative of the Participant acting in a fiduciary capacity on behalf of the Participant under state law and court supervision. The Committee may in its discretion, require a Participant's guardian or legal representative to supply it with such evidence as the Committee deems necessary to establish the authority of the guardian or legal representative to act on behalf of the Participant.

(c) The Committee shall fix the term of all ISOs granted pursuant to the Plan (including, without limitation, the date on which such ISO shall expire and terminate); provided, however, that such term shall in no event exceed ten years from the date on which such ISO is granted (or, in the case of an ISO granted to an Employee referred to in Section 4.3(c) hereof, such term shall in no event exceed five years from the date on which such ISO is granted). Each ISO shall be exercisable in such amount or amounts, under such conditions and at such times or intervals or in such installments as shall be determined by the Committee in its sole discretion; provided, however, that, subject to Section 5.2(a)(x) hereof, in no event shall any ISO be granted to any director or officer of the Company or an affiliate who is an Insider that is exercisable, in whole or in part, prior to the date that is six months after the date such ISO is granted to such director or officer.

(d) To the extent that the Company or any Parent or Subsidiary of the Company is required to withhold any Federal, state or local taxes (including FICA) in respect of any compensation income realized by any Participant as a result of the exercise of an ISO (if any) a "disqualifying disposition" of any shares of Common Stock acquired upon exercise of an ISO granted hereunder, the Company shall deduct from any payments of any kind otherwise due to such Participant the aggregate amount of such minimum Federal, state or local taxes required to be so withheld or, if such payments are insufficient to satisfy such Federal, state or local taxes required to be withheld, such Participant will be required to pay to the Company, or make other arrangements satisfactory to the Company regarding payment to the Company of, the aggregate amount of any such taxes. All matters with respect to the total amount of taxes to be withheld in respect of any such compensation income shall be determined by the Committee, in its sole discretion. If the Committee determines that withholding for FICA purposes is required upon exercise of an ISO, it will withhold in accordance with this subsection. In order to effect the withholding described in this subsection on a disqualifying disposition, the Optionee shall, within ten (10) days of such disposition, notify the Company in writing as provided in Section 18 hereof.

(e) In the sole discretion of the Committee the terms and conditions of any ISO may include any or all of the following provisions:

(i) In the event that the Company or any Parent or Subsidiary of the Company terminates a Participant's employment for Cause, the unexercised portion of any ISO held by such Participant at that time may only be exercised within one month after the date on which the Participant ceased to be so employed, and only to the extent that the Participant could have otherwise exercised such ISO as of the date on which he ceased to be so employed. In the event that a Participant terminates his employment with the Company or any Parent or Subsidiary of the Company, for any reason whatsoever other than as a result of his death or "disability" (within the meaning of Section 22(e)(3) of the Code), the unexercised portion of any ISO held by such person shall cease to be exercisable after his termination date. For purposes of this subsection, a Participant who transfers to a Subsidiary or Parent shall not be regarded as having terminated employment, but if a Subsidiary is sold, exchanged or otherwise disposed of by the Company, a Participant who continues in the employ of the Subsidiary shall be regarded as having terminated his or her employment.

Notwithstanding the foregoing and anything else herein to the contrary, if the Committee determines, after full consideration of the facts presented on behalf of the Company and the Participant, that the Participant has been engaged in disloyalty to the Company or any of its affiliates, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty in the course of his employment or service, or has disclosed trade secrets or confidential information of the Company or of an affiliate, any unexercised ISO previously granted to the Participant shall terminate immediately and the Participant shall forfeit all shares of Common Stock for which the Company has not yet delivered the share certificates upon refund by the Company of the option price. The Company may also withhold delivery of share certificates pending the resolution of any inquiry that could lead to a finding resulting in a forfeiture.

(ii) In the event a Participant shall cease to be employed by the Company or any Parent or Subsidiary of the Company on a full-time basis as a result of the termination of such Participant's employment by such entity other than for Cause or as a result of his death or "disability" (within the meaning of Section 22(e)(3) of the Code), the unexercised portion of any ISO held by such Participant at that time may only be exercised within three (3) months after the date on which the Participant ceased to be so employed, and only to the extent that the Participant could have otherwise exercised such ISO as of the date on which he ceased to be so employed. The foregoing notwithstanding, however if the Participant's cessation of employment pursuant to this Section 6.1(e)(ii) is by reason of the Participant's Retirement, "one year" shall be substituted for "three (3)" months in the preceding sentence, except that the Participant shall not be entitled to treat any portion of an Option as an ISO if it is exercised more than three (3) months after Participant's cessation of employment by reason of Retirement.

(iii) In the event a Participant shall cease to be employed by the Company or any Parent or Subsidiary of the Company on a full-time basis by reason of his "disability" (within the meaning of Section 22(e)(3) of the Code), the unexercised portion of any ISO held by such Participant at that time may only be exercised within one year after the date on which the Participant ceased to be so employed, and only to the extent that the Participant could have otherwise exercised such ISO as of the date on which he ceased to be so employed.

(iv) In the event a Participant shall die while in the employ of the Company or a Parent or Subsidiary of the Company (or within a period of one month after ceasing to be an Employee for any reason other than his "disability" (within the meaning of Section 22(e)(3) of the Code) or within a period of one year after ceasing to be an Employee by reason of such "disability"), the unexercised portion of any ISO held by such Participant at the time of his death may only be exercised within one year after the date of such Participant's death, and only to the extent that the Participant could have otherwise exercised such ISO at the time of his death. In such event, such ISO may be exercised by the executor or administrator of the Participant's estate or by any person or persons who shall have acquired the ISO directly from the Participant by bequest or inheritance or, if the Committee so provides, by the person or persons designated by the Participant as a beneficiary hereunder.

6.2 NON-QUALIFIED OPTIONS. The terms and conditions of each Non-Qualified Option granted under the Plan shall be specified by the Committee, in its sole discretion, and shall be set forth in a written Non-Qualified Option agreement between the Company and the

Participant in such form as the Committee shall approve. The terms and conditions of each Non-Qualified Option will be such (and each Non-Qualified Option agreement shall expressly so state) that each Non-Qualified Option issued hereunder shall not constitute nor be treated as an "incentive stock option" as defined in Section 422(b) of the Code, but will be a "non-qualified stock option" for Federal, state and local income tax purposes. The terms and conditions of any Non-Qualified Option granted hereunder need not be identical to those of any other Non-Qualified Option granted hereunder.

The terms and conditions of each Non-Qualified Option agreement shall include the following:

(a) The option (exercise) price shall be fixed by the Committee and may be equal to, more than or less than 100% of the Fair Market Value of the shares of Common Stock subject to the Non-Qualified Option on the date such Non-Qualified Option is granted.

(b) The Committee shall fix the term of all Non-Qualified Options granted pursuant to the Plan (including, without limitation, the date on which such Non-Qualified Option shall expire and terminate). Such term may be more than ten years from the date on which such Non-Qualified Option is granted. Each Non-Qualified Option shall be exercisable in such amount or amounts, under such conditions (including, without limitation, provisions governing the rights to exercise such Non-Qualified Option), and at such times or intervals or in such installments as shall be determined by the Committee in its sole discretion; provided, however, that, subject to Section 5.2(a)(x) hereof, in no event shall any Non-Qualified Option be granted to any director or officer of the Company or an affiliate who is an Insider that is exercisable, in whole or in part, prior to the date that is six months after the date such Non-Qualified Option is granted to such director or officer.

(c) Except as otherwise provided in this Section 6.2(c), no Non-Qualified Option shall be transferable otherwise than by will or the laws of descent and distribution, and during a Participant's lifetime a Non-Qualified Option shall be exercisable only by the Participant or by the guardian or legal representative of the Participant acting in a fiduciary capacity on behalf of the Participant under state law and court supervision. The Committee may in its discretion, require a Participant's guardian or legal representative to supply it with such evidence as the Committee deems necessary to establish the authority of the guardian or legal representative to act on behalf of the Participant. Notwithstanding the foregoing, a Non-Qualified Option shall be transferable pursuant to a "domestic relations order" as defined in the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder, and also shall be transferable, without payment of consideration, to (a) immediate family members of the holder (I.E., optionee, spouse or former spouse, parents, issue including adopted and "step" issue, or siblings), (b) trusts for the benefit of immediate family members, (c) partnerships whose only partners are such family members, and (d) to any other transferee permitted by a rule adopted by the Committee in an individual case. Any transferee will be subject to all of the conditions set forth in the Non-Qualified Option prior to its transfer.

(d) To the extent that the Company is required to withhold any Federal, state or local taxes in respect of any compensation income realized by any Participant in respect of any Non-Qualified Option granted hereunder or in respect of any shares of Common Stock

acquired upon exercise of a Non-Qualified Option, the Company shall deduct from any payments of any kind otherwise due to such Participant the aggregate minimum amount of such Federal, state or local taxes required to be so withheld or, if such payments are insufficient to satisfy such Federal, state or local taxes, or if no such payments are due or to become due to such Participant, then, such Participant will be required to pay to the Company, or make other arrangements satisfactory to the Company regarding payment to the Company of the aggregate amount of any such taxes. All matters with respect to the total amount of taxes to be withheld in respect of any such compensation income shall be determined by the Board of Directors, in its sole discretion.

(e) In the sole discretion of the Committee the terms and conditions of any Non-Qualified Option may include provisions similar to any of the provisions set forth in Subsection 6.1(e) hereof.

Section 7. TERMS AND CONDITIONS OF AWARDS. The terms and conditions of each Award granted under the Plan shall be specified by the Committee, in its sole discretion, and shall be set forth in a written agreement between the Participant and the Company, in such form as the Committee shall approve. The terms and provisions of any Award granted hereunder need not be identical to those of any other Award granted hereunder.

(a) The consideration (which may be cash, property or services rendered) to be paid by a Participant to acquire the shares of Common Stock pursuant to an Award shall be fixed by the Committee and may be equal to, more than or less than 100% of the Fair Market Value of the shares of Common Stock subject to the Award on the date the Award is granted (but in no event less than the par value of such shares).

(b) Each Award shall contain such vesting provisions, such transfer restrictions and such other restrictions and conditions as the Committee, in its sole discretion, may determine, including, without limitation, the circumstances under which the Company shall have the right and option to repurchase shares of Common Stock acquired pursuant to an Award; provided, however, that, subject to Section 5.2(b)(x) hereof, in no event shall any portion of any Award be granted to an officer or director of the Company or an affiliate who is an Insider that is exercisable, in whole or in part, prior to the date that is six months after the date such Award (or portion thereof) is granted to such director or officer.

(c) Stock certificates representing Common Stock acquired pursuant to an Award shall bear a legend referring to any restrictions imposed on such Stock and such other matters as the Committee may determine.

(d) To the extent that the Company or any Parent or Subsidiary is required to withhold any Federal, state or local taxes (including FICA) in respect of any compensation income realized by the Participant in respect of any compensation income realized by the Participant in respect of an Award granted hereunder, in respect of any shares acquired pursuant to an Award, or in respect of the vesting of any such shares of Common Stock, then the Company shall deduct from any payments of any kind otherwise due to such Participant the aggregate amount of such minimum Federal, state or local taxes required to be so withheld, or if such payments are insufficient to satisfy such Federal, state or local taxes, or if no such payments are due or to become due to such Participant, then such Participant will be required to pay to the

Company, or make other arrangements satisfactory to the Company regarding payment to the Company of, the aggregate amount of any such taxes. All matters with respect to the total amount of taxes to be withheld in respect of any such compensation income shall be determined by the Committee, in its sole discretion.

Section 8. RECAPITALIZATION OR REORGANIZATION.

(a) Except as hereinafter otherwise provided, Options and Awards and any agreements evidencing Options and Awards shall be subject to adjustment by the Committee at its discretion as to the number and price of shares of Common Stock or other consideration subject to Options or Awards in the event of changes in the outstanding Common Stock by reason of stock dividends, stock splits, reverse stock-splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant of any Options or Awards.

(b) The existence of the Plan and the Options or Awards granted hereunder shall not affect in any way the right or power of the Board of Directors or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities having any priority or preference with respect to or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(c) The shares with respect to which Options and Awards may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an Option or Award theretofore granted, the Company shall effect a subdivision or consolidation or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock subject to an Award or with respect to which Options may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased.

(d) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise of an Option theretofore granted the Optionee shall be entitled to purchase under such Option, in lieu of the number of shares of Common Stock as to which such Option shall then be exercisable, the number and class of shares of stock and securities and the cash and other property to which the Optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Optionee had been the holder of record of the number of shares of Common Stock then covered by such Option.

(e) In the event of a Corporate Change, then no later than (i) two business days prior to any Corporate Change referenced in Clause (i), (ii), (iii) or (v) of the definition thereof or (ii) ten business days after any Corporate Change referenced in Clause (iv) of the definition thereof, the Committee, acting in its sole discretion without the consent or approval of

any Optionee, shall act to effect one or more of the following alternatives with respect to outstanding Options which acts may vary among individual Optionees, may vary among Options held by individual Optionees and, with respect to acts taken pursuant to Clause (i) above, may be contingent upon effectuation of the Corporate Change; (A) accelerate the time at which Options then outstanding may be exercised so that such Options may be exercised in full for a limited period of time on or before a specified date (before or after such Corporate Change) fixed by the Committee, after which specified date all unexercised Options and all rights of Optionees thereunder shall terminate; (B) require the mandatory surrender to the Company by selected Optionees of some or all of the outstanding Options held by such Optionees (irrespective of whether such Options are then exercisable under the provisions of the Plan) as of a date (before or after such Corporate Change) specified by the Committee, in which event the Committee shall thereupon cancel such Options and pay to each Optionee an amount of cash per share equal to the excess, if any, of the Change of Control Value of the shares subject to such Option over the exercise price(s) under such Options for such shares; (C) make such adjustments to Options then outstanding as the Committee deems appropriate to reflect such Corporate Change (provided, however, that the Committee may determine in its sole discretion that no adjustment is necessary to Options then outstanding); (D) provide that thereafter upon any exercise of an Option theretofore granted the Optionee shall be entitled to purchase under such Option, in lieu of the number of shares of Common Stock as to which such Option shall then be exercisable, the number and class of shares of stock or other securities or property (including, without limitation, cash) to which the Optionee would have been entitled pursuant to the terms of the agreement of merger, consolidation or sale of assets or plan of liquidation and dissolution if, immediately prior to such merger, consolidation or sale of assets or any distribution in liquidation and dissolution of the Company, the Optionee had been the holder of record of the number of shares of Common Stock then covered by such Option; or (E) provide, if so negotiated by the Company, for the assumption of the Options by the surviving entity in any Corporate Change.

(f) Plan provisions to the contrary notwithstanding, with respect to any Awards outstanding at the time a Corporate Change occurs, the Committee may, in its discretion, provide (i) for full vesting of all Common Stock awarded to the Participants pursuant to such Awards as of the date of such Corporate Change and (ii) that all restrictions applicable to such Award shall terminate as of such date.

Section 9. EFFECT OF THE PLAN ON EMPLOYMENT RELATIONSHIP. Neither the Plan nor any Option and/or Award granted hereunder to a Participant shall be construed as conferring upon such Participant any right to continue in the employ of (or otherwise provide services to) the Company or any Subsidiary or Parent thereof, or limit in any respect the right of the Company or any Subsidiary or Parent thereof to terminate such Participant's employment or other relationship with the Company or any Subsidiary or Parent, as the case may be, at any time.

Section 10. AMENDMENT OF THE PLAN. The Board of Directors may amend the Plan from time to time as it deems desirable; provided, however, that (i) without the approval of the holders of a majority of the outstanding capital stock of the Company entitled to vote thereon or consent thereto, the Board of Directors may not amend, the Plan (x) to increase (except for increases due to adjustments in accordance with Section 8 hereof) the aggregate number of shares of Common Stock for which Options and/or Awards may be granted hereunder, (y) to decrease the minimum exercise price specified by the Plan in respect of ISOs or (z) to change the class of Employees

eligible to receive ISOs under the Plan and (ii) without the approval of the Participant or Participants adversely effected, the Board of Directors may not amend the Plan in a manner that has an adverse effect on the vested rights of any Participant under any Award or Option theretofore granted under the Plan. Notwithstanding the foregoing, a committee described in Section 5.1 hereof may make any technical or clerical changes to the Plan, and the Board may also delegate to such a committee the right to amend the Plan, or any other responsibility with respect to the Plan, in any respect not described in Section 10(i) above.

Section 11. AMENDMENT OF AN AWARD OR OPTION. Subject to provisions of the Plan, the Committee shall have the right to amend any Option or Award issued to a Participant, subject to the Participant's written consent, in the event such amendment is not favorable to the Participant or if such amendment has the effect of changing an ISO to a Non-Qualified Option; provided, however, that the consent of the Participant shall not be required for any amendment made pursuant to Section 5.2(a)(x) or Section 5.2(b)(x). In elaboration of the foregoing, a Participant is not required to consent to the deemed acceleration of an ISO, unless such deemed acceleration would cause the ISO to be treated as a Non-Qualified Option or otherwise have adverse income tax consequences.

Section 12. TERMINATION OF THE PLAN. The Board of Directors may terminate the Plan at any time. Unless the Plan shall theretofore have been terminated by the Board of Directors, the Plan shall terminate ten years after the Effective Date. No Grant may be made hereunder after termination of the Plan. The termination or amendment of the Plan shall not alter or impair any rights or obligations under any Option and/or Award theretofore granted under the Plan.

Section 13. AWARDS TO FOREIGN NATIONALS AND EMPLOYEES OUTSIDE THE UNITED STATES. To the extent the Committee deems it necessary, appropriate or desirable to comply with foreign law or practice and to further the purpose of this Plan, the Committee may, without amending the Plan, (i) establish rules applicable to Grants to Participants who are foreign nationals or are employed outside the United States, or both, including rules that differ from those set forth in the Plan, and (ii) make Grants to such Participants in accordance with those rules.

Section 14. GOVERNING LAW. To the extent not preempted by Federal law the Plan, and all agreements thereunder, shall be construed in accordance with and governed by the laws of the State of Texas, without regard to its conflicts of law principles.

Section 15. INDEMNIFICATION. Each person who constitutes, or has been a member of, the Committee, or of the Board of Directors, shall be indemnified and held harmless by the Company, Parent, or Subsidiary as applicable against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by such person in a suit, a settlement approved by the Company, or paid by such person in satisfaction of any judgment in any such action, suit, or Proceeding against such person, except in relationship to matters as to which it shall be adjudged in such action, suit or proceeding, that the director or Committee or Committee member is liable for gross negligence or willful misconduct in the performance of his or her duties, provided such person shall give the Company, Parent or Subsidiary, as applicable, an opportunity, at its own

expense, to handle and defend the same before such person undertakes to handle or defend it. The foregoing right of indemnification shall not be exclusive of any rights of indemnification to which such person may be entitled under the Company's Articles of Incorporation or by-laws, as a matter of law, or otherwise, or any other power that the Company may have to indemnify them or hold them harmless.

Section 16. SUCCESSORS. All obligations of the Company under the Plan or an Agreement with respect to Grants hereunder shall be binding upon any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase of all or substantially all of the business and/or assets of the Company, or of a merger, consolidation, or otherwise.

Section 17. EFFECT UPON OTHER COMPENSATION. Nothing contained herein shall preclude the Company, Parent or any Subsidiary from adopting other or additional compensation arrangements for its employees or directors. The effect under any other benefit plan of the Company, Parent, or any Subsidiary of an inclusion in income by virtue of a Grant hereunder shall be determined under such other plan.

Section 18. NOTICE. Notice to the Company pursuant to the Plan shall be deemed given if in writing including, without limitation, facsimile or any other communication transmitted to the general counsel of the Company. Notice to the Grantee or Grantee's estate, if applicable, shall be given by registered mail to such person's last known address.

Section 19. DELIVERY OF THE PLAN. A copy of this Plan shall be delivered to the Secretary of the Company and shall be shown by him to each eligible person making reasonable inquiry concerning it.

Section 20. POOLING TRANSACTION. Notwithstanding anything contained herein to the contrary, in the event of Corporate Change which is also intended to constitute a Pooling Transaction, the Committee is authorized and directed to take such actions, if any, as are specifically recommended by an independent accounting firm retained by the Company to the extent reasonably necessary in order to assure that the Pooling Transaction will qualify as such.

Section 21. GOVERNMENT APPROVALS. Each Grant is subject to the requirement that, if at any time, the Committee determines in its sole discretion, that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, a Grant or the issuance of Shares hereunder, no Grant shall be made or Shares issued, in whole or in part, unless such consent or approval has been effected or obtained free of conditions as acceptable to the Committee.

EXHIBIT 10.56

PORTIONS OF THIS AGREEMENT HAVE BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

SUPPLIER AGREEMENT

BETWEEN

LOYALTY MANAGEMENT GROUP CANADA INC.

and

AIR CANADA

Dated as of April 24, 2000

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SUPPLIER AGREEMENT

THIS AGREEMENT is made as of April 24, 2000 between LOYALTY MANAGEMENT GROUP CANADA INC. and AIR CANADA.

WHEREAS LMGC wishes to purchase airline tickets from Airline, and Airline has agreed to sell airline tickets to LMGC, subject to and in accordance with the terms of this Agreement;

AND WHEREAS terms used herein have the meanings set forth in Schedule A hereto and the principals of interpretation set out therein apply to this Agreement;

NOW THEREFORE, in consideration of the premises and the mutual promises and covenants hereinafter set forth, the parties now agree as follows:

ARTICLE 1
RIGHT TO PURCHASE

1.1 RIGHT TO PURCHASE.

(a) Starting on May 1, 2000 and thereafter throughout the Term, LMGC shall have the right to buy Special Tickets from Airline and each Regional Airline, and Airline will make available, and either cause each of the Regional Airlines to make available or obtain itself from each such Regional Airline and make available, for purchase by LMGC, Special Tickets, at the Special Fares and otherwise on the terms and conditions hereof. Airline shall also use its best efforts to cause CAI (so long as it is not a Regional Airline (and as a result, subject to the previous sentence)) to comply with the terms of this Agreement in all respects (including supplying Special Tickets for Airline Seats at the Special Fares) as if it were a Regional Airline. Any reference herein to the purchase by LMGC of Special Tickets or Airline Seats includes any such purchase by any Subsidiary of LMGC (including LMG Travel) and Airline agrees that any such Subsidiary may purchase Special Tickets hereunder at the Special Fares.

(b) During the Initial Period (but subject to Section 1.2), LMGC may purchase Special Tickets at the Special Fares for any Airline Seats offered by Airline or any Regional Airline. During the Additional Period, however, LMGC may only purchase Special Tickets at the Special Fares for itineraries which (i) include a **** Route or (ii) do not include a **** Route because of the exclusion set out in Schedule I where the segment from Schedule I is part of a larger itinerary that does not have other **** as described in Section 1.9(b).

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1.2 CAPACITY.

(a) Except as otherwise provided herein, during the Initial Period LMGC shall (and shall be entitled to) book Special Tickets in **** Class and shall be entitled to the priority currently associated therewith (not to be lower than that available to any other Person booking into **** Class). Except as otherwise provided herein, during the Additional Period LMGC shall (and shall be entitled to) book Special Tickets in a class to be designated by Airline which may, but need not be, **** Class, and which will satisfy the requirements for the Additional Period set out herein (the "Other Class").

(b) Airline agrees to load and maintain the Special Fares in **** Class during the Initial Period and in the Other Class during the Additional Period, and make such Special Fares accessible in SABRE throughout the Term and to give LMGC and LMG Travel (and no one else outside of Airline or a Regional Airline) access to such fares. No other Person or entity entitled to book into **** Class at any time will have greater rights thereto or to the capacity provided thereby, than LMGC. Airline represents and warrants to LMGC that the following statements regarding **** Class are now true and covenants that such statements will be true (subject to Section 1.2(c) below) throughout the Term: (i) **** Class is loaded such that it is accessible in SABRE and can be viewed by LMGC within SABRE, (ii) it is available on every route of Airline and all Regional Airlines, (iii) it is always initially set to more than **** on each existing route, (iv) it regularly provides an initial availability for a route when set of at least **** percent of the seats available on the route, excluding business class or superior seats, including first class; (v) there are no partitions in such class that would affect LMGC and block bookings are only permitted in such class on an infrequent basis; and (vi) the class is intended for **** and similar Persons, including, as of the date hereof, **** which currently books tickets only into such class, and certain public fares such as youth, student and similar fares. The parties have discussed LMGC's current and projected needs and flight patterns for Airline Seats and a description of such needs is attached as Schedule H hereto. Airline confirms that it is its expectation that LMGC's rights to book into **** Class as contemplated hereby will generally satisfy those needs during the Initial Period, although it gives no warranty as to availability on specific flights or routes, and LMGC confirms that it is its expectation that it will book to its forecasts, as reflected in Schedule H, during the Initial Period, although it gives no warranty as to what actual levels of bookings will be. If, notwithstanding the **** and **** capacity guarantees set out in Section 1.3, LMGC determines that, for a period of at least 60 days during the Initial Period, it is generally not able to meet such needs in respect of itineraries commencing on or after September 1, 2000, it may notify Airline thereof and in such event Airline will determine and implement some other approach that will enable such needs to be generally met, including, if required to resolve the issue, allowing LMGC to book into some other class or creating a separate booking class for LMGC to book into during the Initial Period.

(c) If at any time or from time to time during the Initial Period, Airline changes its booking classes so that **** Class no longer exists or makes any material changes to the parameters associated with such class, Airline shall designate another booking class into which LMGC shall be entitled to book Special Tickets and which will provide LMGC with substantially the same

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parameters as described in Section 1.2(b). For purposes hereof, any such replacement class shall thereafter be referred to as "**** Class".

(d) The parties will meet annually to review the concept of LMGC being permitted access to the capacity provided from time to time by Airline under "web specials" made available on Airline's web site. Such access would be provided in order to permit LMGC to assist Airline in utilizing such capacity, by issuing Special Tickets therefrom to its Collectors. The price payable by LMGC for any Airline Seats booked therefrom shall not be any greater than the applicable Special Fare at such time, but any such Airline Seats shall be subject to the same conditions as provided in the relevant web special. Airline will allow LMGC reasonable access on such basis to book Special Tickets from at least one such web special during the Initial Period, but otherwise Airline has no obligation to provide LMGC such access. LMGC's rights under this Section 1.2(c) are in addition to, and not in limitation of, its capacity entitlements under the balance of this Section 1.3.

1.3 CAPACITY GUARANTEE.

(a) The provisions of Sections 1.3(b) and (c) below shall apply only in respect of itineraries booked by LMGC for the period on or after September 1, 2000 and LMGC acknowledges that Airline cannot commit to such capacity guarantees for itineraries prior thereto. Airline shall however use its commercially reasonable best efforts to ensure that LMGC's needs for capacity are satisfied in respect of itineraries prior thereto.

(b) Subject to Section 1.3(a), Airline shall ensure that, at all times during the Term, for each **** day period which commences at least **** days after such time, the total of:

(i) all Airline Seats of Airline and each Regional Airline on each **** Route which are available to be booked by LMGC at the Special Fares on flights departing in such **** day period, plus

(ii) all Airline Seats of Airline and each Regional Airline on such **** Route which at such time have been booked by LMGC at the Special Fares for flights departing in such **** day period,

is at least **** of the aggregate Airline Seats offered by Airline and the Regional Airlines for such **** day period on such **** Route.

(c) In addition, but again subject to Section 1.3(a), Airline shall also ensure that, at all times during the Term, for each **** day period which commences at least **** days after such time, the total of:

(i) all Airline Seats of Airline and each Regional Airline on each **** Route, and on each **** Route shown in Schedule I, which are available to be booked by LMGC at the Special Fares on flights departing in such **** day period, plus

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(ii) all Airline Seats of Airline and each Regional Airline on such **** Route or such **** Route, as applicable, which at such time have been booked by LMGC at the Special Fares for flights departing in such **** day period,

is at least **** of the aggregate Airline Seats offered by Airline and the Regional Airlines for such **** day period on such **** Route or such **** Route, as applicable. For greater certainty, LMGC acknowledges that during the Additional Period it can only purchase Special Tickets at the Special Fares for the purposes described in the second sentence of Section 1.1(b) and accordingly the capacity guarantee set out in this Section 1.3(c) only applies during the Additional Period with respect to itineraries that meet those requirements.

1.4 INSUFFICIENT CAPACITY. If at any time LMGC, acting reasonably, determines (whether from reviewing the reports Airline provides under Section 1.7, from a review of SABRE or otherwise) that the capacity made available to LMGC on a **** Route or **** Route with respect to a particular **** day period that has not been completed does not comply with Section 1.3, LMGC may notify Airline thereof. If Airline has not remedied the situation to the reasonable satisfaction of LMGC within 72 hours thereafter, LMGC shall be entitled to book Special Tickets on such **** Route or **** Route, as applicable, in any other economy booking classes in order to ensure that it has the capacity required under Section 1.3 with respect to such **** day period, and the fares payable by LMGC for such Special Tickets shall still be the Special Fares. Similarly, if at any time LMGC determines that it was not provided sufficient capacity on a **** Route or **** Route with respect to any particular **** day period that has then been completed, it may notify Airline thereof. If Airline has not remedied the situation to the reasonable satisfaction of LMGC within 72 hours thereafter, LMGC shall be entitled, for the **** day period thereafter and in addition to the capacity otherwise provided hereunder on such **** Route or **** Route, as applicable, to book additional Airline Seats at the Special Fares in any other economy booking classes in a number sufficient to make up the deficiency for that particular **** day period. In selecting other classes to look to for purposes of this Section 1.4, LMGC shall review the available classes in order of priority, starting with the lowest priority as advised to LMGC from time to time by Airline in writing. If, as a result of booking Special Tickets in any such other class for which the Special Fares have not been loaded, LMGC pays an amount therefor greater than the Special Fares, Airline shall promptly make any required adjustments in connection therewith.

1.5 OTHER REQUIREMENTS. Airline shall, and shall ensure that each Regional Airline shall, comply with Schedule D hereto. In addition, the terms of this Agreement will be subject to the reservations, commissions, travel, ticket use and other procedures and requirements as set forth in Schedule C hereto.

1.6 TREATMENT OF PASSENGERS HOLDING TICKETS. Except as described in Schedule C, Airline shall, and shall ensure that each Regional Airline shall, treat and serve each passenger holding a Special Ticket in the same manner as each other economy passenger of Airline or such Regional Airline, as applicable, including as to loading priorities, entitlement to denied boarding

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compensation, flight cancellation compensation, baggage limits, or any disruption or compensation, all in accordance with applicable industry tariffs and conditions of carriage.

1.7 REPORTS AND AUDITS. On or before the 15th day of each month during the Term, Airline shall provide LMGC with a report in mutually agreed upon form showing both projected and historical data and, at a minimum, showing, for at least each of the three months immediately thereafter, (i) those routes for which there is no availability to LMGC in such month, (ii) those routes for which there is low and rapidly diminishing capacity to LMGC in such month, and (iii) those routes for which there is sufficient capacity to LMGC in such month. Availability for this purpose shall be determined by availability in the class or classes into which LMGC is then booking hereunder and based on the aggregate number of Airline Seat available on such routes during such month. LMGC shall have the right, on reasonable notice to Airline and during normal business hours and no more than twice each calendar year, to engage an independent third party to audit Airline's records in order to confirm the accuracy of such reports, and in each case the cost of such audit shall be paid by LMGC unless any such audit reveals that the capacity shown to be available to LMGC in a report was incorrect by more than 5%, in which case Airline shall pay the cost of such audit.

1.8 PROTECTION OF PROGRAM. Title to the Program, AMRM and all rights represented thereby or related thereto, are reserved at all times to LMGC. LMGC may determine, in its sole discretion, the duration, form, scope and content of the Program and may effect termination, addition, deletion or other modification or change thereof or thereto as it may, in its sole discretion, determine. For greater certainty, this Section 1.8 is not intended to give LMGC the right to change the Program in a manner that would reduce its obligations hereunder.

1.9 DETERMINATION OF **** ROUTES AND **** ROUTES.

(a) On each January 1 during the Term, Schedule G setting out the **** Routes shall be deemed amended to consist of each **** Route in respect of which no Air Carrier (other than Airline, CAI or any Regional Airline of either) provides **** (whether or not ****) **** service as of the November 15 immediately prior thereto utilizing planes with seating capacity for at least **** passengers.

(b) On each January 1 during the Term, Schedule I shall be deemed amended to consist of each **** Route in respect of which an Air Carrier (other than Airline, CAI or any Regional Airline of either) provides **** (whether or not ****) **** service as of the November 15 immediately prior thereto utilizing planes with seating capacity for at least **** passengers.

(c) If at any time the parties are unable to agree by December 15th of any year, for purposes of Section 1.9(a) or (b) above, as to the **** Routes to be described in Schedule G or the **** Routes to be described in Schedule I, either party may refer the matter to confidential and binding arbitration under the ARBITRATIONS ACT (Ontario) before a single arbitrator who shall be instructed to provide his or her determination as soon as possible. The cost thereof shall be split equally between the parties. In the event of such a referral, the applicable schedule

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shall only be amended under this Section 1.9 on the date of such determination, and such determination shall be final and binding for purposes of this Section 1.9.

ARTICLE 2
FARES

2.1 SPECIAL FARES.

(a) The Special Fares as of May 1, 2000 are as set out in Part 1 of Schedule B. On January 1, 2001, the Special Fares will be adjusted with respect to all Special Tickets purchased on or after that date to the amounts set out in Part 2 of Schedule B. On ****, the Special Fares will be adjusted with respect to all Special Tickets purchased on or after that date to the amounts set out in Part 3 of Schedule B. Provided Airline has paid to LMGC **** as contemplated in Section 5.3, (i) on **** the Special Fares will be adjusted with respect to all Special Tickets purchased on or after that date to the amounts set out in Part 4 of Schedule B, and (ii) on **** the Special Fares will be adjusted with respect to all Special Tickets purchased on or after that date to the amounts set out in Part 5 of Schedule B. If for any reason whatsoever (including the CCAA Plan not being approved or no amounts being distributed to unsecured creditors thereunder by December 31, 2000), Airline has not paid LMGC **** as contemplated in Section 5.3 by December 31, 2000, the price increases contemplated for **** and **** shall not take place but shall be replaced by a **** price increase from the amounts set out in Part 3 of Schedule B on each such date.

(b) For each Special Ticket purchased by LMGC hereunder, LMGC shall pay Airline the applicable Special Fare. The Special Fares exclude any applicable transportation tax, excess baggage charges, airport taxes, federal inspection fees, passenger facility charges, departure taxes, GST, sales, transfer or use taxes, or any similar taxes, levies or charges, or any other ancillary duties and charges (collectively, "Additional Charges") and LMGC shall either pay or cause its Collectors to pay to Airline any applicable Additional Charges. Infants (i.e. under 2 years old) who do not occupy a separate Airline Seat shall be carried free of charge, except for any applicable Additional Charges and except as otherwise required by applicable law or by regulations or policies applicable to the airline industry.

2.2 ADDITIONAL PAYMENT. As soon as possible, but in any event by July 1, 2000, Airline shall dedicate at least one employee exclusively for the purpose of fulfilling the responsibilities and having the job position and qualifications described in Schedule E hereto. In consideration of Airline fulfilling such responsibility, LMGC shall, within 30 days of such person being hired, pay to Airline an amount (which shall apply in respect of the period from the date of hire up to and including December 31, 2000) determined based on pro rating **** over the period left in the 2000 calendar year from the date of such hire. Within 30 days following commencement of each subsequent calendar year during the Term, LMGC shall pay an additional **** to Airline. The amount so paid by LMGC shall be applied on account of the salary due to such individual and other related expenses of Airline in connection therewith. If the Term ends part way through any calendar year, Airline shall provide LMGC with a proportionate rebate of the amount so paid. In addition, if at any time such position remains vacant during a calendar year for more than 60 days in aggregate or such individual fails to fulfil

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the responsibilities set out in Schedule E, LMGC shall also be entitled to a proportionate rebate of the amount paid based on the total period during which such position remained vacant or during which such individual so failed to fulfil such responsibilities.

ARTICLE 3
TERM

3.1 TERM. This Agreement shall be come into effect as of May 1, 2000 and shall continue in full force and effect thereafter until December 31, 2004, at which time this Agreement shall terminate, provided that Airline shall still be bound to honour any Special Tickets purchased hereunder on or prior to the termination date which have a travel date which occurs thereafter and shall comply with Section 1.6 in connection therewith notwithstanding such termination.

3.2 BREACH. If either party hereto fails to (i) pay any amounts when due and payable hereunder, and such failure continues for a period of fifteen Business Days after written notice of such failure referring to this Section 3.2 is given to such party by the other party; (ii) comply with Section 4.3 and such failure continues for a period of fifteen days after written notice of such failure referring to this Section 3.2 is given by the other party, or (iii) observe or perform any of its other obligations under this Agreement and such failure continues for a period of thirty days after written notice of such failure referring to this Section 3.2 is given by the other party, then without prejudice to any other rights or remedies the other party may have, this Agreement may be terminated by the other party by notice to the defaulting party so long as such failure is still continuing at the time of giving such notice.

3.3 **** SPONSOR. If at any time LMGC permits Collectors to redeem AMRM earned from a **** Sponsor, or from **** as a conversion reward under the **** program operated by **** or any similar points conversion program hereafter introduced by ****, in either case for Airline Seats purchased hereunder at the Special Fares, Airline may notify LMGC thereof in writing referring to this Section 3.3 and demand that such practice cease. If such practice is still continuing 15 days after receipt by LMGC of such notice, Airline may terminate this Agreement on not less than 90 days written notice to LMGC, provided that such notice must be given no later than 90 days following the expiry of such 15 day period. In addition, LMGC agrees that, if at any time **** wishes to offer AMRM as a redemption option under any points conversion program which is promoted by reference to the fact that points earned thereunder can be redeemed for flights on Air Canada, LMGC shall use all reasonable efforts to persuade **** not to proceed therewith. Airline acknowledges, however, that LMGC may not have the right to force **** not to proceed with any such program and shall have no liability if **** does proceed therewith.

3.4 POST-TERMINATION RIGHTS. Notwithstanding any termination of this Agreement, the parties shall continue to be liable for all financial and other monetary obligations respectively incurred by each of them pursuant to this Agreement prior to such termination until the time each of such obligations shall have been fully satisfied, and exercise by either party of its right to terminate under any provision of this Agreement will not affect or impair its right to enforce its

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other rights or remedies under this Agreement. All obligations of each party that have accrued before termination or that are of a continuing nature will survive termination.

ARTICLE 4
CONFIDENTIALITY AND TRADE-MARKS

4.1 CONFIDENTIALITY.

(a) Throughout the Term and for a period of 5 years following the termination of this Agreement, each party will, and will cause each of its Representatives (as defined below) to, hold in strictest confidence and not use in any manner whatsoever and only disclose to those of its Representatives who have a need to know same for purposes of this Agreement, any Confidential Information (as defined below) of the other party, whether provided before or after the date of this Agreement, including any Confidential Information provided by LMGC to Airline in connection with Airline's initial determination of whether to enter into this Agreement; provided that the foregoing will not apply (i) to use by LMGC of its data base; (ii) where disclosure of Confidential Information is required by law or in order to enforce rights under or in connection with this Agreement or the subject matter hereof; (iii) where the Confidential Information which has been disclosed had already ceased to be confidential through no fault of the disclosing party or its Representatives; (iv) to disclosure by LMGC of any terms of this Agreement to its or its Affiliates' actual or prospective financiers or investors or otherwise in connection with a financing, including disclosing to any underwriter, potential purchasers of LMGC's or any of its Affiliate's shares or business and including their respective counsel, or (v) to disclosure by Airline to CAI, unless the CCAA Plan is not approved in which case Airline may not thereafter disclose Confidential Information of LMGC to CAI unless otherwise permitted hereunder. In addition, LMGC may disclose, on a confidential basis, the term of this Agreement, the existence of price increases hereunder and the percentage amount thereof (but not the actual fares), the confidentiality restrictions, termination events and provisions relating to **** Sponsors and **** to existing, future or prospective Sponsors or suppliers, and Airline may disclose, on a confidential basis, the term of this Agreement, the existence of price increases hereunder and the aggregate percentage amount thereof (but not the actual fares), the confidentiality restrictions, termination events and provisions relating to **** Sponsors and **** to ****.

(b) "Confidential Information" of a party means all information and documents, whether on paper, in computer readable format or otherwise, relating to such party's business, which is or is treated by such party as being of a confidential nature (and is known or should have been known by the other party hereto as being of a confidential nature or being so treated) and has been or is from time to time made known to or is otherwise learned by the other party or any of its Representatives as a result of the relationship hereunder, including the terms (but not the existence) of this Agreement (including the pricing hereunder). In the case of LMGC, its Confidential Information will also include all information disclosed to or otherwise learned by Airline concerning the Program, the terms (including pricing) of the Terminated Supplier Agreement and the Short Term CAI Supplier Agreement and the existence or substance of and the background to any discussions among CAI, Airline and/or LMGC with regards to the subject

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matter hereof and termination of the Terminated Supplier Agreement, whether before or after the date hereof. "Representative" means, with respect to any party, any of its directors, officers or employees or outside auditors, lawyers or advertising or p.r. agencies, but for greater certainty, not any other outside consultants or agencies.

(c) If any party is served with a subpoena or other legal process or other governmental request requiring the production or disclosure of any Confidential Information, or for any other reason believes that it is required by law to disclose any Confidential Information of the other party, then that party will, before complying, promptly notify the other party and use all reasonable efforts to permit the other party a reasonable period of time to intervene and contest disclosure or production, and will in any event use all reasonable efforts to ensure confidential treatment of such Confidential Information if so disclosed.

4.2 ANNOUNCEMENTS. Airline acknowledges that LMGC intends to issue a news release forthwith after execution hereof substantially in the form attached as Schedule F, and consents thereto. Subject thereto, neither party shall issue any news releases in respect of the entering into of this Agreement or the background thereto, without the prior written consent of the other party, which consent shall not be unreasonably withheld. In addition, but subject to the exceptions as to confidentiality set forth in clauses (i) through (v) of Section 4.1(a), throughout the Term (i) Airline will refrain, and will use all reasonable efforts to ensure that its Representatives (as defined in Section 4.1) refrain, from making statements to third parties, including the press or regulatory authorities, which denigrate or otherwise refer in an unfavourable manner to the Program or its features or the business relationship between the parties, or otherwise having discussions to such effect with any third parties, and (ii) LMGC will refrain, and will use all reasonable efforts to ensure that its Representatives (as defined in Section 4.1) refrain, from making statements to third parties, including the press, or regulatory authorities which denigrate or otherwise refer in an unfavourable manner to Airline or its business or the business relationship between the parties, or otherwise having discussions to such effect with any third parties.

4.3 TRADE-MARKS.

(a) Except as otherwise provided herein or as required by law, neither LMGC nor Airline shall use any logo or trade-mark of the other without the prior written permission of the other. In addition, during the Initial Period, LMGC may use the name "Air Canada" in advertising or promotional material for purposes of identifying to current, future or potential Collectors or Sponsors the availability of Airline Seats from Airline as a redemption option and subject to the following restrictions (which, in the case of clauses (i) and (ii), shall not apply to displays on web sites): (i) the Air Canada name will not appear on the same page as the name of **** or ****, (ii) it will appear only together with the name of another supplier to the Program, and (iii) LMGC will not permit **** or **** to use such name in their marketing or promotional materials relating to the Program. LMGC may not use such name in such materials during the Additional Period, except as otherwise required by law. For greater certainty, however, the foregoing restrictions shall not prohibit LMGC telephone agents or other representatives from using the name "Air Canada" when discussing availability or bookings for flights with Collectors, and other uses in connection with travel, (e.g. itinerary and tickets). In

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addition, nothing contained herein shall affect LMGC's rights to use trade-marks or logos of CAI in accordance with LMGC's current practices. Upon implementation of the CCAA Plan or any transfer of any of CAI's logos or trade-marks (including the names "Canadian" or "Canadian Airlines") to Airline or any Affiliate of Airline, Airline will ensure that LMGC continues to have the right to use CAI's logos and trade-marks (including the names "Canadian" or "Canadian Airlines") in accordance with its current practice, but only for so long as they continue to be used by either CAI or Airline or any Affiliate thereof.

(b) Notwithstanding the permission to use the name Air Canada as set forth in Section 4.3(a), Airline shall have the right to examine and to approve or disapprove in advance the contents and appearance of any advertising or promotional materials proposed to be used by LMGC which incorporate such name, but (i) Airline shall not unreasonably withhold or delay its approval of such materials, (ii) it shall in any event provide its decision as soon as possible and not later than 7 days after request therefor from LMGC, and (iii) upon providing any approval, no further approval will be required for subsequent materials which have the same or a substantially similar approach to the display of such name.

(c) Neither party shall have any liability for any breach of this Section 4.3 unless such breach continues for a period of fifteen days after written notice thereof referring to this Section 4.3 is given to such party by the other party demanding that such breach cease, and in any event, the maximum aggregate liability of either party for any breach of, or otherwise in connection with, this Section 4.3, whether on one or more than one occasion, is ****.

ARTICLE 5
WARRANTIES AND CCAA PAYMENT

5.1 WARRANTIES. Each of the parties hereto represents and warrants to the other party, that (i) the entering into, execution and delivery of this Agreement and the performance of its obligations hereunder have been duly and validly authorized and approved by all necessary corporate action on its part, (ii) no consent or approval of any other Person or of any court is required to the entry into, execution or delivery of this Agreement or to the performance of its obligations hereunder, except such as have been obtained, (iii) this Agreement has been validly executed and delivered by such party, and is a valid and legally binding obligation of such party enforceable against such party in accordance with its terms, subject to usual exceptions regarding bankruptcy and other laws affecting creditors rights generally and those with respect to specific performance and injunction, and (iv) there are no outstanding claims, litigation, arbitrations, investigations or other proceedings existing or, to the knowledge of each party, pending or threatened which would enjoin, restrict or prohibit performance by such party of its obligations hereunder.

5.2 INDEMNITY. Each party shall indemnify and hold the other party (and in the case of LMGC, any of its Subsidiaries who purchase tickets hereunder) and their respective directors, officers, employees and agents harmless from and against any and all losses, claims, damages, liabilities, costs, fees and other expenses whatsoever (including legal fees on a solicitor and his own client basis) suffered or incurred by the other party which arise from or are caused by the non-performance or improper performance of any obligations of such first party hereunder, or

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any breach or untruth of any of its representations or warranties contained herein, or, in the case of the indemnity in favour of LMGC, any liability of Airline or any Regional Airline to any Person for any injuries or damages which result from the provision or sale of any air transportation or related services and/or merchandise by or through Airline or any Regional Airline, to such Person.

5.3 CCAA PROCESS AND PAYMENT. The parties acknowledge that, by Assignment dated as of the date hereof, LMGC has assigned the Claim to Airline. In consideration of such assignment and the price increases contemplated hereby for **** and ****, Airline shall pay to LMGC, within five Business Days following distribution or payment of any amounts in respect of the Claim, ****. Without limiting Section 6.2, Airline's obligation to pay such amount is absolute and unconditional and applies notwithstanding any of the matters referred to in Section 6.2. If Airline fails to pay such amount to LMGC when due, then, without prejudice to any other rights or remedies LMGC may have, LMGC may set off such amount against any amounts otherwise payable hereunder to Airline, and Airline shall pay interest to LMGC from the due date of such payment until such payment is made in full at **** per annum.

ARTICLE 6
GENERAL

6.1 ENTIRE AGREEMENT. This Agreement together with the Assignment between the parties of even date contains the entire agreement between the parties relating to the subject matter hereof and supersedes all previous agreements, understandings or arrangements, verbal or written, relating thereto. This Agreement may only be modified, superseded or amended by an agreement or modification in writing signed by both of the parties hereto.

6.2 UNCONDITIONAL OBLIGATION. Airline's obligation to comply herewith and provide Airline Seats to LMGC at the Special Fares and otherwise as contemplated thereby, is an independent obligation of Airline which shall apply notwithstanding any matter or thing affecting CAI, including any reorganization, bankruptcy, receivership or other proceeding affecting CAI and including the current proceedings under the CCAA affecting CAI (the "CCAA Proceedings"), the treatment of CAI's obligations in the CCAA Proceedings, the success or lack of success of the CCAA Proceedings, the treatment of the Claim in the CCAA Proceedings, whether or not the Claim is disputed by any other Person or Airline has the right to vote or receive distributions of the Claim in the CCAA Proceedings, and regardless of the amount of any recovery in respect of the Claim.

6.3 RELEASE. LMGC and Airline each release each other and their respective Affiliates, other than, for greater certainty, CAI, from all costs, damages and liability in connection with any matters which have occurred prior to the date of this Agreement with respect to the Terminated Supplier Agreement or any matter relating thereto.

6.4 INJUNCTION. Airline acknowledges that a breach of its obligations under any of Sections 1.1, 1.2, 1.3, 1.4, 1.6, 1.7, 4.1, 4.2 or 4.3 and LMGC acknowledges that a breach of any of its obligations under Sections 4.1, 4.2 or 4.3, will cause irreparable harm to the other party for

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which money damages alone will provide inadequate compensation. Accordingly, the parties agree that injunctive relief to prevent any such breaches or a mandatory order or specific performance requiring continued performance of the provisions in question, as applicable, is appropriate and necessary to prevent the continuation of such a breach.

6.5 SEVERABILITY AND TIME OF ESSENCE. If any provision of this Agreement is held by a court of competent jurisdiction or by any governmental agency or authority to be invalid, such holding shall not have the effect of invalidating the other provisions of this Agreement which shall nevertheless remain binding and effective between the parties. Time is of the essence hereof.

6.6 GOVERNING LAW. This Agreement shall be construed under and governed by the laws of the Province of Ontario and the laws of Canada applicable therein. The Parties hereto attorn to the non-exclusive jurisdiction of the courts of Ontario.

6.7 COSTS AND EXPENSES. Airline shall pay all reasonable out-of-pocket costs and expenses, including legal costs and expenses on a solicitor and his own client basis, incurred by LMGC in connection with the negotiation and documentation of the transactions contemplated in this Agreement, the Terminated Supplier Agreement and/or the Short Term CAI Supplier Agreement as well as those incurred by LMGC in connection with the insolvency proceedings relating to CAI, including those incurred in anticipation thereof and/or to protect LMGC's interests in connection therewith, the whole up to a maximum of **** plus GST, but in any event, not including any such costs or expenses incurred by LMGC prior to December 31, 1999. Subject to the following proviso, Airline shall make such payment promptly following receipt of copies of invoices therefor, provided that LMGC need not provide Airline with the detail from LMGC of the work performed in connection with such invoices including daily work entries, provided further that Airline need not make such payment earlier than the first to occur of (i) five Business Days following distribution or payment of any amounts in respect of the Claim, and (ii) July 15, 2000.

6.8 WAIVER. Any term or condition of this Agreement may be waived at any time by the party which is entitled to the benefit thereof, but such waiver shall only be effective if evidenced by a writing signed by such party. A waiver on one occasion shall not be deemed to be a waiver of the same or of any other breach on any other occasion. Any previous waiver, forbearance, or course of dealing will not affect the right of either party to require strict performance of any provision of this Agreement.

6.9 SUCCESSORS AND ASSIGNS. Neither party may assign its rights or obligations hereunder without the prior written consent of the other, except that either party may, without consent, assign its rights hereunder (i) to any Affiliate either as part of a bona fide corporate reorganization, or a sale of all or substantially all of its assets, but no such assignment shall relieve such party from its obligations hereunder, and (ii) by way of security to any financier; provided that if any **** or **** enforces upon any such security provided by LMGC and operates the Program on its own for more than one month, Airline may, on not less than 20 Business Days prior notice to such **** or **** sent no later than four weeks after the end of such month, elect to terminate this Agreement, in which event, this

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Agreement shall terminate at the end of the period specified in any such notice if, at the end of such period, such **** or **** is still so operating the Program.

6.10 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same instrument. Counterparts may be executed either in original or faxed form and the parties hereto adopt any signatures received by a receiving fax machine as original signatures of the parties; provided, however, that any party providing its signature in such manner shall promptly forward to the other party an original of the signed copy of this Agreement which was so faxed.

IN WITNESS WHEROF the parties have executed this Agreement as of the date and year first above written.

LOYALTY MANAGEMENT GROUP CANADA INC.

By: /s/ John Scullion
Name: John Scullion
Title: President & Chief Executive Officer

AIR CANADA

By: /s/ Calvin Bovinescu
Name: Calvin Bovinescu
Title: Executive Vice President
Corporate Development & Strategy

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SCHEDULE A

DEFINITIONS AND INTERPRETATION

In this Agreement (including the recitals hereto), the following terms shall have the following meanings:

"ADDITIONAL PERIOD" means the period from and including January 1, 2003 to and including December 31, 2004.

"AFFILIATE" has the meaning set out in the CANADA BUSINESS CORPORATIONS ACT.

"AGREEMENT" means this Agreement including the Schedules to this Agreement all as amended or supplemented from time to time.

"AIR CARRIER" means an airline or air carrier, or a Person which otherwise engages in the business of carrying passengers by air.

"AIRLINE" means Air Canada, its successors and permitted assigns.

"AIRLINE SEATS" means seats for travel on flights for any City Pair Served as operated by Airline or any Regional Airline.

**** means ****

"AMRM" means AIR MILES-TM- reward miles.

"BUSINESS DAY" means any day on which banks are open for business in Montreal, Quebec and Toronto, Ontario, excluding Saturdays, Sundays and statutory holidays in those cities.

"CCAA" means the COMPANIES CREDITORS ARRANGEMENT ACT.

"CCAA PLAN" means the proposed plan of compromise and arrangement of Canadian Airlines Corporation and CAI, intended to be filed with the Court of Queens Bench of Alberta on April 25, 2000, or any subsequent plan of compromise and arrangement issued by either or both of such Persons in connection with the CCAA Proceedings.

"CCAA PROCEEDINGS" has the meaning set out in Section 6.2.

"CAI" means Canadian Airlines International Ltd., its successors and permitted assigns.

"CITY PAIR" means two cities or other locations between which any Air Carrier offers scheduled service, whether domestic or international and whether or not non-stop or direct.

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"CITY PAIRS SERVED" means all City Pairs for which Airline or any Regional Airline (or any combination thereof) has, at the time in question, scheduled service, whether domestic or international.

"CLAIM" means the claim of LMGC and its subsidiaries against CAI assigned by LMGC to Airline.

"COLLECTOR" means any Person who is registered with LMGC as a collector of AMRM.

"**** SPONSOR" means, subject to the following sentence, any Sponsor which is (i) a ****, or (ii) a Person whose principal business is the issuance of **** to individuals who do not buy goods or services from such Person or its Affiliates or franchisees. In any event, however, "**** Sponsor" shall not include **** or **** or any successors thereto (whether by amalgamation, purchase of assets or otherwise) or replacements (in whole or in part) thereof as a Sponsor.

"INITIAL PERIOD" means the period from the date hereof to and including December 31, 2002.

"LMGC" means Loyalty Management Group Canada Inc., its successors and permitted assigns.

"LMG TRAVEL" means LMG Travel Services Limited and its successors.

"**** ROUTE" means (i) any two cities or other locations in Canada between which Airline or any Regional Airline has non-stop scheduled service, so long as at least one of the two cities or other locations is not a **** (but in any event not including any City Pair Served described in Schedule I hereto, as such Schedule may be amended from time to time in accordance with Section 1.9), and (ii) any **** Route.

"OTHER CLASS" has the meaning set out in Section 1.2(a).

"PERSON" includes an individual and his or her legal representatives, a corporation, a partnership, a trust, an unincorporated organization, the government of a country or any political subdivision thereof, or any agency or department of any such government.

"PROGRAM" means the AIR MILES-TM- program established by LMGC in Canada.

"REGIONAL AIRLINES" means, at any time, each Affiliate of Airline which, at such time, is an Air Carrier, including for greater certainty, any Air Carrier which hereafter becomes an Affiliate of Airline (effective as of the date it becomes an Affiliate of Airline). Without limiting the foregoing, if the CCAA Plan is approved, CAI shall be deemed to be a Regional Airline, whether or not it is then an Affiliate of Airline.

"**** ROUTES" means each of the City Pairs Served described in Schedule G hereto, as such Schedule may be amended from time to time in accordance with Section 1.9.

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"SHORT TERM CAI SUPPLIER AGREEMENT" means the letter agreement made as of the date hereof between LMGC and CAI providing for the termination of the Terminated Supplier Agreement and a new short term supplier arrangement between LMGC and CAI.

"SPECIAL FARES" means the fares set out in Schedule B.

"SPECIAL TICKETS" means tickets (including electronic tickets) for Airline Seats issued to passengers in connection with the Program.

"SPONSOR" means any Person granted a licence by LMGC or otherwise permitted by LMGC to issue or arrange for the issuance of AMRM.

"SUBSIDIARY" has the meaning set out in the CANADA BUSINESS CORPORATIONS ACT.

"TERM" means the period from the date hereof to the date this Agreement terminates.

"TERMINATED SUPPLIER AGREEMENT" means the Supplier Agreement made as of March 15, 1995 between LMGC and CAI, as amended.

"****" means each of ****, ****, ****, ****, ****, ****, ****, ****, ****, ****, **** and ****, and in each case, their regional airports (such as **** in respect of **** and **** in respect of ****).

"**** ROUTES" means any two cities or other locations between which Airline or any Regional Airline has non-stop scheduled service, so long as both such cities or other locations are ****.

"**** CLASS" means the booking class maintained by Airline currently in the **** of its yield management hierarchy and designated as "**** class", or in the case of any Regional Airline which utilizes different booking classes, a booking class that is comparable in all material respects with **** Class, and in either event, any replacement class therefor established hereunder from time to time.

The division of this Agreement into Articles and Sections, the insertion of headings, and the provision of any table of contents are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. Unless the context requires otherwise, (i) words importing the singular include the plural and vice versa and words importing gender include all genders, and (ii) references in this Agreement to Sections or Schedules are to Sections or Schedules of this Agreement. Except as otherwise expressly provided in the Agreement, all dollar amounts referred to in this Agreement are stated in Canadian dollars. In this Agreement, "including" means "including, without limitation" and "includes" means "includes without limitation".

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SCHEDULE B

SPECIAL FARES

		PART 1		PART 2		PART 3		PART 4		PART 5	
		2000		2001		2002		2003		2004	
		PEAK	OFF PEAK	PEAK	OFF PEAK	PEAK	OFF PEAK	PEAK	OFF PEAK	PEAK	OFF PEAK
Domestic	SH	****	****	****	****	****	****	****	****	****	****
	MH	****	****	****	****	****	****	****	****	****	****
	LH	****	****	****	****	****	****	****	****	****	****
Transborder	SH	****	****	****	****	****	****	****	****	****	****
	MH	****	****	****	****	****	****	****	****	****	****
	LH	****	****	****	****	****	****	****	****	****	****
International		****	****	****	****	****	****	****	****	****	****

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Minimum charge for a Peak Period Flight is **** and for an Off-Peak Period Flight is ****.

For purposes hereof, a flight is "Off Peak" where the first leg of the outbound flight departs after **** and before **** (or before **** for bookings made during the Additional Period), excluding any outbound departures during the period **** to **** inclusive. All other flights are "Peak".

For purposes hereof: (i) an "SH" or "Short Haul Flight" is any flight (other than an International Flight) of **** miles (based on round trip mileage); (ii) a "MH" or "Medium Haul Flight" is any flight of (other than an International Flight) of **** miles (based on round trip mileage); (iii) a "LH" or "Long Haul Flight" is any flight (other than an International Flight) of **** or more miles (based on round trip mileage); (iv) a "domestic flight" is any flight with both origin and destination within Canada, (v) a "transborder flight" is any flight with an origin within either Canada or the continental United States to a destination within either Canada or the continental United States, other than a domestic flight and (vi) an "International Flight" is any flight which entails flying over the Atlantic or Pacific Oceans (including any flights to Hawaii, Mexico, Central and South America) and any other flight which does not have both an origin and a destination within Canada or the continental United States.

Round trip mileage will be as shown in the SABRE Reservation System, and will be based on the distance between origin and destination points, regardless of the segments flown from origin to destination.

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SCHEDULE C

RESERVATIONS, COMMISSIONS AND TRAVEL RESTRICTIONS

1. Reservations, which must include round trip travel, must be made at least 14 days, but not more than 330 days, prior to planned departure date.

2. The return trip must be booked at the time a reservation is made for the outbound segment.

3. All round trip travel must be completed not later than 315 days after the date of reservation.

4. No blackout dates will be applicable for booking.

5. All travel must be on a round trip or an open jaw trip basis.

6. Each Special Ticket, which will not include en route stopovers, must include a Saturday night stayover at destination.

7. Airline shall pay LMGC (or LMG Travel) commissions in respect of sales of all tickets (including tickets for companion seats, but not including Special Tickets purchased hereunder at the Special Fares) on the basis of Airline's standard commission agreement for each calendar year during the Term. LMGC shall not however be entitled to any override in connection with sales of Special Tickets or companion tickets, but shall be entitled to standard travel agency override for sale of other tickets, including all sales by Extra Miles Travel.

8. All Special Tickets and Special Fares are subject to the tariff restrictions and Warsaw Convention Limitations, as applicable, with respect to (but only with respect to) limits of compensation for, damage to Persons or property.

The restrictions in clauses 1, 3, 5 and 6 shall not apply to tickets purchased under web specials as contemplated in Section 1.2(c).

SCHEDULE D

OTHER COMMITMENTS

1. Gold Collectors shall receive a discount of 10% off the cost of any companion tickets purchased through LMGC or any of its Subsidiaries, up to a maximum of **** return trips each calendar year. For purposes hereof, a companion ticket means a ticket purchased in conjunction with the purchase of, and having the same itinerary as, a Special Ticket.

2. During each 12 month period in the Initial Period, Airline shall make available to LMGC, up to **** return trip Airline Seats, either on Airline's or a Regional Airline's flights, as selected by LMGC, to be used in connection with the Canadian Special Olympics. Such Airline Seats shall be made available to LMGC at the Special Fares. These seats are subject to regular availability of inventory as per this Agreement and use thereof by LMGC shall be included in determining bookings made by LMGC for purposes of Section 1.3 (b) and (c).

3. During each 12 month period in the Initial Period, Airline shall provide LMGC with **** return trips on City Pairs Served, either on Airline's or a Regional Airline's flights, to be used in connection with LMGC's Sponsor activities. Ten such return trips shall be provided to LMGC at no cost to LMGC and **** such return trips shall be provided to LMGC at a cost equivalent to AD 75. LMGC and Airline shall mutually agree to the destinations chosen for such return trips.

4. Airline shall make available to LMGC not less than **** AD's (AD 75's) (return trip) for each 12 month period of the Term, of which no less than **** shall be **** Class and the balance shall be **** Class.

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SCHEDULE E

JOB DESCRIPTION FOR LMGC OMBUDSMAN

OBJECTIVE

To maximize the inventory made available to LMGC under this Agreement.

TASKS

- Liasing between LMGC and Air Canada Revenue Management.
- Reporting availability on Air Canada to LMGC.
- Reporting bookings made on Air Canada to LMGC.
- Trouble-shooting specific capacity issues with Air Canada Revenue Management.
- Advising and reporting to LMGC of Air Canada's schedule and capacity planning.
- Identifying capacity opportunities for LMGC.
- Implementing web specials and other potential marketing opportunities for LMGC at Air Canada.

AIR MILES CONTACT

- Speak with Reward Services at LMGC at least once a week.
- Meet with Reward Services at LMGC at least quarterly, at LMGC offices in Toronto.

QUALIFICATIONS

Minimum 3 years experience at Air Canada or Canadian Airlines in revenue management, planning or financial analysis (if possible).

SCHEDULE F

LMGC NEWS RELEASE

FOR IMMEDIATE RELEASE

AIR MILES PROGRAM REACHES AGREEMENT WITH AIR CANADA
COLLECTORS CAN NOW FLY ON CANADIAN AIRLINES AND AIR CANADA

TORONTO, Ontario - April 26, 2000 - The Loyalty Group, operator of the AIR MILES Reward Program, today announced it has reached an agreement with Canadian Airlines and Air Canada that will allow it to offer reward flights on both airlines to AIR MILES Collectors across Canada.

"We are thrilled to be able to continue to offer travel on Canadian Airlines to our 11 million AIR MILES Collectors, and we welcome Air Canada as a new airline supplier to the AIR MILES Reward Program," said John Scullion, President and Chief Executive Officer, The Loyalty Group. "Canadian Airlines has always been a valued supplier to the Program, and we now look forward to extending that partnership with Air Canada," he added.

AIR MILES Collectors can continue to redeem their reward miles and book domestic flights on Canadian Airlines and international flights on our four other airline partners: American Airlines, KLM, Northwest Airlines and United Airlines. Collectors can redeem their reward miles for Air Canada flights beginning in May 2000.

Terms of the agreement are confidential and will not be disclosed. The Loyalty Group's claim in connection with Canadian Airlines' restructuring plan has been assigned to Air Canada as part of the new agreement with Air Canada.

The Loyalty Group launched the AIR MILES Reward Program in March 1992, offering Canadians the opportunity to collect AIR MILES reward miles while shopping for everyday goods and services. There are over 100 participating Sponsors across Canada representing over 12,000 retail locations. In addition to free flights, AIR MILES reward miles can be exchanged for over 100 different rewards from movie passes to attractions to merchandise like electronics, watches and toys.

For further information, contact:

John Wright
Senior Vice President
The Loyalty Group
(416) 228-6614

SCHEDULE G

**** ROUTES

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o The above list is non-directional.

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SCHEDULE H

LMGC PROJECTIONS

Year 2000* - **** round trip Special Tickets
Year 2001 - **** round trip Special Tickets
Year 2002 - **** round trip Special Tickets

*full year

All numbers include the additional **** seats from Schedule D - Section 2.

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SCHEDULE I

****

[TO BE MUTUALLY AGREED UPON BY PARTIES]

**** PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.

EXHIBIT 10.59

February 9, 2000

Mr. Michael Foley
Utilipro, Inc.
5660 New Northside Drive
Suite 350
Atlanta, Georgia 30328

Re: Utilipro, Inc.
Extra Tenant Improvement Costs

Dear Mr. Foley:

Pursuant to the Lease and at the request of the Tenant, Landlord has agreed and provided to Tenant and additional tenant improvement allowance ("Additional TI") for the build out of the premises in the amount of $77,108.00. This amount will be fully amortized at an annual rate of 13% and to be payable each month for 48 months, beginning January, 2000.

Enclosed you will find an invoice for the amortized monthly amount for January and February 2000. Beginning March 2000, this additional TI amount will be reflected on your monthly rental statement.

If you should have any further questions or need additional information, please do not hesitate to call me at 770-514-9793.

Sincerely,

Carol A. Kratsas
Pope & Land Enterprises, Inc.

cc: Mason Zimmerman
Accounting

Enclosure

Pope & Land Enterprises, Inc.
3225 Cumberland Blvd.,
Suite 400
Atlanta, Georgia 30339

FAXED

Date: February 9, 2000

Mr. Michael Foley
Utilipro, Inc.
5660 New Northside Drive
Suite 350
Atlanta, Georgia 30328

Invoice # TI 1/2000

EXTRA AMORTIZED
TENANT IMPROVEMENT

DESCRIPTION	AMOUNT
Total Extra amortized Tenant Improvement	
$77,108.00 amortized over 4 years at 13% / yr=$2,068.61 / mo.	
January 2000	$2,068.61
February 2000	$2,068.61
TOTAL	$4,137.22

Please Note: This is in addition to the tenant improvement charges that you are currently paying

MAKE CHECK TO: Barret Business Center

REMIT TO: Pope & Land Enterprise, Inc.
3225 Cumberland Blvd.,
Suite 400
Atlanta, Georgia 30339

FIRST AMENDMENT TO LEASE

This First Amendment to Lease ("First Amendment") is entered into by and between BARRETT BUSINESS CENTER, LLC., a Georgia limited liability company (hereinafter referred to as "Landlord"), and UTILIPRO, INC. (hereinafter referred to as "Tenant"), as of November 1, 1999.

WITNESSETH:

WHEREAS, Landlord and Tenant entered into that certain Lease having an effective date of May 13, 1999, concerning approximately 21,000 rentable square feet of office space in 100 Barrett Business Center, 2015 Vaughn Road, Kennesaw, Cobb County, Georgia 30144 as more particularly described therein ("Lease");

WHEREAS, the parties hereto desire to amend the Lease to precisely set the square footage of the Premises, as defined in the Lease, at 20,068 rentable square feet, and to amend other terms and conditions as set forth in the Lease;

NOW THEREFORE, for and in consideration of the premises, Ten Dollars ($10.00) in hand paid, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. The preamble herein set forth is hereby incorporated herein by reference as if totally set forth herein.

2. The Lease is hereby amended by deleting "21,000 rentable square feet" in Article 1, Section 1.1-A, and substituting in lieu therefore "20,068 rentable square feet."

3. The Lease is hereby amended by deleting "sixty-eight percent (68%)" as contained in Article 1, Section 1.1 1. and substitute in lieu therefor "sixty-four and 81 / 100 percent (64.81%)".

4. The Lease is hereby amended by adding the following new paragraph to Article 1, Section 1.1-K:

   "In addition to the Base Rent (including any Net Rent Escalation) and Additional Rent, Tenant shall pay monthly to Landlord as additional rent for repayment of additional tenant improvement allowance over and above the amount provided for in Paragraph 2, Section 2.01 of Exhibit "B" the amount of Two Thousand Sixty-Eight and 62/100 Dollars ($2,068.62), which payment shall commence with the rent payment which is due November 1, 1999, and shall continue thereafter on the first day of each succeeding month during the remaining Term of the Lease."

5. The Lease is hereby amended by deleting in their entirety the first two sentences as contained in Article 6, Section 6.1 (A) and by deleting the last sentence in its entirety as contained in Article 6, Section 6.1 (B).

6. The Lease is hereby amended by adding the following new paragraph to Article 8, Section 8.2:

"Notwithstanding the aforesaid paragraph, and without limiting the generality of the foregoing, Tenant shall, during the Term of the Lease, obtain and keep current during the Lease Term a service maintenance contract on the HVAC System serving the Premises, at the Tenant's sole cost and expense. The contract shall be between Tenant and a dealer-authorized company reasonably acceptable to Landlord, and shall at a minimum provide for an equipment check and tune-up service each spring and fall, and filter and lubrication service every three months. A copy of said contract shall be provided to Landlord, as well as any modification, extension, renewal or replacement thereof"

7. The Lease shall remain in full force and effect except as hereby amended, and the Landlord and Tenant hereby ratify, affirm, and confirm the terms of the Lease, as hereby amended.

IN WITNESS WHEREOF, Landlord and Tenant have caused this First Amendment to be executed under seal by their respective duly authorized officers as of the date and year first above written.

LANDLORD:

BARRETT BUSINESS CENTER, LLC, a Georgia limited liability company

BY: AMLI LAND DEVELOPMENT-I LIMITED PARTNERSHIP, an Illinois limited partnership, Managing Member

By: Amli Realty Co., a Delaware corporation, its sole general partner

By: /s/ PHILIP N. TAGUE

Philip N. Tague, Executive Vice President

(CORPORATE SEAL)

[SIGNATURES ON FOLLOWING PAGE

TENANT:

UTILIPRO, INC.

By: /s/ ILLEGILBE

Title: CHAIRMAN

Attest:

Title:

(CORPORATE SEAL)

LEASE FOR BARRETT BUSINESS CENTER
BUILDING 100

LEASE AGREEMENT

BARRETT BUSINESS CENTER
KENNESAW, GEORGIA

BY AND BETWEEN

BARRETT BUSINESS CENTER, LLC
A GEORGIA LIMITED LIABILITY COMPANY

AND

UTILIPRO, INC.
("TENANT")

DATED: MAY 13, 1999

LEASE AGREEMENT

THIS LEASE AGREEMENT (this "LEASE") is made and entered into as of the __ day of _____, 1999 by and between BARRETT BUSINESS CENTER, LLC, a Georgia limited liability company ("LANDLORD"), and UTILIPRO, INC., a Georgia corporation ("TENANT"), upon all the terms set forth in this Lease and in all exhibits and riders hereto, to each and all of which terms Landlord and Tenant hereby mutually agree, and in consideration of One Dollar ($1.00) and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the rents, agreements and benefits flowing between the parties hereto, as follows:

ARTICLE 1. BASIC LEASE INFORMATION AND CERTAIN DEFINITIONS.

SECTION 1.01 Each reference in this Lease to information and definitions contained in the Basic Lease Information and Certain Definitions and each use of the terms capitalized and defined in this Section shall be deemed to refer to, and shall have the respective meaning set forth in, this Section.

A.	Premises:	Approximately 21,000 rentable square feet located in the Building, as identified on the floor plan attached hereto as EXHIBIT "A".
B.	Building:	The building known as Building 100 Barrett Business Center, _____, Kennesaw, Georgia _____.
C.	Land:	That certain parcel of land upon which the Building is located.
D.	Project:	The Land and all improvements thereon, including the Building, the Parking Facilities, known as Barrett Business Center.
E.	Commencement Date:	As set forth in Section 3.1 hereof.
F.	Term:	Seven (7) years, commencing on the Commencement Date. [THE WORD "TERM" SHALL ALSO INCLUDE ANY RENEWAL TERM UNLESS THE "INITIAL 7 YEAR TERM" IS SPECIFIED.]
G.	Renewal Term:	As set forth in EXHIBIT "C" hereof.
H.	Net Rentable Area of the Building:	Approximately 30,964 square feet.
I.	Tenant's Share:	Approximately sixty-eight percent (68%) representing the ratio that the Net Rentable Area of the Premises

bears to the Net Rentable Area of the Building, subject to adjustment pursuant to the express terns hereof.

J. Rent: The Base Rent and the Additional Rent.

K. Base Rent: The initial Base Rent rate per square foot of the Net Rentable Area of the Premises is:

Base Rent/RSF	Net Rent	Taxes	Insurance	CAM	Total Rent
Year 1	$11.50	.75	.07	.40	$12.72

L. Net Rent Escalation: The Net Rent rate per square foot of Net Rentable Area of the Premises shall be increased at the expiration of each twelve (12) month period of the Term by three percent (3%) of the Net Rent rate applicable during the then expiring twelve (12) month period.

M. Additional Rent: The Additional Rent shall be all other sums due and payable by Tenant under the Lease, including, but not limited to, Tenant's Share of Operating Costs over the Base Year 2000.

N. Base Year: The Base Year for purposes of calculating Tenant's Share of Operating Costs is 2000.

O. Tenant's Permitted Uses: Tenant may use the Premises only for general office purposes for the conduct of Tenant's business.

P. Security Deposit: Amount equal to first month's rent paid simultaneously with the execution of this Lease, to be held by Landlord as security until the expiration of the Term as set forth in Section 21.13 hereof.

Q. Tenant Improvement Allowance: $25.00/RSF, as set forth in Paragraph 2 of Exhibit "B".

R. Broker(s): Tenant's Broker: Carter & Associates, L.L.C.
Landlord's Broker: Pope & Land Enterprises, Inc.

S. Landlord's Address for Notice: Barrett Business Center, LLC
c/o Pope & Land Enterprises, Inc.
3225 Cumberland Circle NW, Ste. 400
Atlanta, Georgia 30339
Attention: Mr. H. Mason Zimmerman

		WITH A COPY TO: Wilson Brock & Irby, L.L.C. Overlook I, Suite 700 2849 Paces Ferry Road Atlanta, Georgia 30339 Attention: Lethco H. Brock, Jr., Esq.
T.	Landlord's Address for Payment:	Barrett Business Center, LLC c/o Pope & Land Enterprises, Inc. 3225 Cumberland Circle, NW, Ste. 400 Atlanta, Georgia 30339 Attention Accounting Dept.
U.	Tenant's Address for Notice:	UTILIPRO, INC. c/o Mr. Michael Foley 5665 New Northside Drive, Suite 350 Atlanta, Georgia 30328 WITH A COPY TO: Aitkens & Aitkens, P.C. c/o Mr. Robert G. Aitkens 1827 Powers Ferry Road Building One, Suite 100 Atlanta, Georgia 30339 WITH A COPY TO: Carter & Associates, L.L.C. c/o Mr. Richard W. Courts, IV 1275 Peachtree Street, NE Atlanta, Georgia 30367-1801

ARTICLE 2. PREMISES; COMMON AREAS. Subject to the terms hereof, Landlord hereby leases the Premises to Tenant, and Tenant hereby rents and hires the Premises from Landlord, for the Term. During the Term, Tenant shall have the right to use, in common with others and in accordance with this Lease and the Rules and Regulations, the Common Areas. "Common Areas" shall mean all areas, spaces, facilities and equipment (whether or not located within the Building, made available by Landlord for the common and joint use of Landlord, Tenant and others designated by Landlord using or occupying space in the Building, including but not limited to, tunnels, walkways, sidewalks and driveways necessary for access to the Building, Building lobbies, landscaped areas, public corridors, public rest rooms, Building stairs, elevators open to the public, service elevators (provided that such service elevators shall be available only for tenants of the Building and others designated by Landlord), drinking fountains and any such other areas and facilities as are designated by Landlord from time to time as Common Areas. "Service Corridors" shall mean all loading docks, loading areas and ail

corridors that are not open to the public but which are available for use by Tenant and others designated by Landlord. "Service Areas" shall mean areas, spaces, facilities and equipment serving the Building (whether or not located within the Building) but to which Tenant and other occupants of the Building will not have access, including, but not limited to mechanical, telephone, electrical and similar rooms and air and water refrigeration equipment. Tenant is hereby granted a non-exclusive right to use the Common Areas and Service Corridors during the term of this Lease for their intended purposes, in common with others designated by Landlord, subject to the terms and conditions of this Lease, including, without limitation, the Rules and Regulations. The Building, Common Areas, Service Corridors and Service Areas will be at all times under the exclusive control, management and operation of the Landlord. Tenant agrees and acknowledges that the Premises (whether consisting of less than one floor or consisting of one or more full floors within the Building) do not include, and Landlord hereby expressly reserves for its sole and exclusive use, any and all mechanical, electrical, telephone and similar rooms, janitor closets, elevator, pipe and other vertical shafts and ducts, flues, stairwells, any area above the acoustical ceiling and any other areas not specifically shown on EXHIBIT "A" as being part of the Premises. Notwithstanding anything to the contrary contained herein, Landlord shall have the unrestricted right to make changes to or to reconfigure all portions of the Project (excluding the Premises, except for structural elements and load bearing elements within the Premises), including, without limitation, the Common Areas, in Landlord's reasonable discretion (provided that any such reconfiguration will be in conformity with the overall quality of the Project), and Landlord shall have the right to close, from time to time, the Common Areas and other portions of the Project for such temporary periods as Landlord deems legally sufficient to evidence Landlord's ownership and control thereof and to prevent any claim of adverse possession by, or any implied or actual dedication to, the public or any party other than Landlord.

ARTICLE 3. TERM; COMMENCEMENT DATE; DELIVERY AND ACCEPTANCE OF PREMISES.

SECTION 3.01 The Commencement Date shall be October 8, 1999. Landlord shall deliver the Premises to Tenant on or before May 8, 1999, ("Delivery Date"). Tenant shall begin paying Rent on the Commencement Date and between the Delivery Date and Commencement Date Tenant shall not pay any Rent.

SECTION 3.02 Landlord at its sole cost and expense shall cause the Leasehold Improvements to be constructed and installed, and the Premises to be delivered to Tenant, pursuant to the terms of EXHIBIT "B".

ARTICLE 4. RENT.

SECTION 4.01 Tenant shall pay to Landlord, without notice, demand, or deduction in lawful money of the United States of America, at Landlord's Address for Payment, or at such other place as Landlord shall designate in writing from time to time: (a) the Base Rent in equal monthly installments, in advance, on or before the fifth day of each calendar month during the Term; and (b) the Additional Rent, at the respective times required hereunder. The first monthly installment of Base Rent hereof shall be paid in advance on the date of Tenant's execution of this Lease and applied to the first installment of Base Rent coming due under this Lease. Payment shall begin on the Commencement Date; provided however, that if either the Commencement

Date or the expiration of the Term falls on a date other than the first day of a calendar month, the Rent due for such fractional month shall be prorated on a per diem basis between Landlord and Tenant so as to charge Tenant only for the portion of such fractional month failing within the Term. Tenant's covenant to pay Rent hereunder is independent of any other covenant, condition, provision or agreement herein contained. All installments of Rent past due more than two (2) times in any twelve (12) month period shall be subject to a late charge of five percent (5%) of the past due amounts. If Tenant's rental payment is past due more than (10) times throughout the Term (and in any event if the Rent is more than 30 days late), the Base Rent and past due amounts shall bare additional interest until paid at a rate per annum (the "Interest Rate") equal to eighteen percent (18%). The late charge is intended to reimburse Landlord for administrative costs incurred by Landlord as a result of Tenant's late payment, and is not a penalty.

SECTION 4.02 On the first annual anniversary of the Commencement Date, and on each and every annual anniversary of the Commencement Date thereafter during the Term, the Base Rent shall be increased a specified in SECTION 1.1(L).

SECTION 4.03 As used in this Lease, the term "LEASE YEAR" shall mean a calendar year during the Term, except that the first Lease Year shall be the period commencing on the Commencement Date and expiring upon the expiration of the calendar year in which the commencement Date occurs and the final Lease Year shall expire upon the expiration of the. Term. If the first or final Lease Year is less than twelve (12) months, all prorations shall be based upon a 365 day year.

ARTICLE 5. OPERATING COSTS.

SECTION 5.01 Tenant shall pay to Landlord, on a per square foot basis, as Additional Rent, for each calendar year or fractional calendar year during the Term, the amount ("TENANT'S OPERATING COSTS PAYMENT"), if any, that Tenant's Share of Operating Costs exceeds Base Year Operating Costs. Tenant's Operating Costs Payment shall be calculated and paid as follows:

A. For each calendar year during the Term, commencing January 1, 2000, not less than thirty (30) days prior to the commencement of such calendar year, Landlord shall furnish Tenant with an itemized statement ("LANDLORD'S OPERATING COSTS ESTIMATE") setting forth Landlord's reasonable estimate of Operating Costs for the forthcoming year and Tenant's Share of Operating Costs in excess of the Base Year Operating Costs. On the first day of each calendar month during such year, Tenant shall pay to Landlord one-twelfth (1/12th) of Tenant's Operating Costs Payment. If for any reason Landlord has not provided Tenant with Landlord's Operating Costs Estimate on the first day of January of any year during the Term, then (a) until Tenant is given Landlord's Operating Costs Estimate, Tenant shall continue to pay to Landlord the sum, if any, payable by Tenant for the preceding year, and (b) promptly after Landlord's Operating Costs Estimate is furnished to Tenant, (i) if there shall be a deficiency, Tenant shall pay the amount thereof to Landlord within thirty (30) days after the delivery of Landlord's Operating Costs Estimate, or (ii) if there shall have been an overpayment, Landlord shall apply such overpayment as a credit against the next accruing monthly installment(s) of Additional Rent due from Tenant under this Section 5.1, and (iii) on the first day of the calendar month following the month in which Landlord's Operating Costs Estimate is given to Tenant and on the first day of each calendar month throughout the remainder of such year, Tenant shall pay to Landlord an

amount equal to one-twelfth (1/12th) of Tenant's Operating Costs Payment. Landlord shall have the right from time to time during any year but not more than twice annually to notify Tenant in writing of any reasonable change in Landlord's Operating Costs Estimate, in which event the monthly installment of Tenant's Operating Costs Payment payable for each of the remaining months of the year shall be adjusted to reflect the amount shown in such notice, which adjustment of such monthly installment shall be effective on the first day of the month following Landlord's giving of such notice.

B. For each calendar year during the Term commencing with January 1, 2001, within ninety (90) days following the end of the previous calendar year, Landlord shall furnish Tenant with a statement of the actual Operating Costs, and Tenant's Share of actual Operating Costs in excess of the Base Year Operating Costs for the preceding year. Within thirty (30) days after Landlord's giving of such statement, Tenant shall make a lump sum payment to Landlord in the amount, if any, by which Tenant's Operating Costs Payment for such preceding year as shown on Landlord's statements exceeds the aggregate of the monthly installments of Tenant's Operating Cost Payment paid during such preceding year. If Tenant's Operating Costs Payment, as shown on Landlord's statement, is less than the aggregate of the monthly installments of Tenant's Operating Costs Payment actually paid by Tenant during such preceding year, then Landlord shall apply such amount to the next accruing installment(s) of Base Rent and Additional Rent due from Tenant under this SECTION 5.1. until fully credited to Tenant.

SECTION 5.02

A. "OPERATING COSTS" shall mean all direct costs, expenses and disbursements of every kind and nature (computed on the accrual basis and in accordance with generally accepted accounting principles and sound management principles consistently applied) incurred or paid in connection with the ownership, management, operation, repair and maintenance of the Project, and an equitable pro rata share of such costs, expenses and disbursements related to certain common areas or improvements located or to be located in the Project. Operating Costs shall include, but not be limited to, the following: (i) wages, salaries, and other compensation payable to all on and off-site employees of Landlord directly involved with the operation of the Project, and Landlord's managing agent engaged either full or part time in the operation, management, or access control of the Project and payroll taxes, social security taxes, unemployment insurance taxes, and insurance costs relating to such employees, all reasonably allocated based upon the time such employees or agents are engaged directly in providing such services; (ii) the cost of all supplies, tools, equipment, uniforms and materials used in the operation, management, maintenance and access control of the Building or the Land; (iii) the cost of all common area utilities, including but not limited to the cost of electricity, telephone (voice/data), gas, water, sewer services and power for heating, lighting, air conditioning and ventilating; (iv) the cost of all maintenance and service agreements and the equipment therein, including but not limited to security service, window cleaning, landscaping maintenance and reasonable and customary landscaping replacement; (v) the cost of repairs and general maintenance to the improved Land; (vi) costs of all repairs, alterations, additions, changes, and replacements required by any law or any governmental regulation that are not required as of the date hereof by such law or regulation as presently interpreted and enforced, which items shall not include structural changes, regardless of whether such costs when incurred, are classified as capital expenditures (to the extent that any of the foregoing costs should be capitalized in accordance with generally

accepted accounting principles), such costs shall be amortized over the lesser of (i) their respective useful lives or (ii) the reasonably estimated payback period, which are (a) for the purpose of promoting safety, (b) reducing Operating Expenses, or (c) required by applicable law, ordinance, code, rule or regulation of a governmental authority and not required by same as interpreted and enforced as of the date of this Lease; (viii) the premiums of all insurance, including casualty, rental abatement and liability insurance applicable to the Project; (ix) the cost of trash and garbage removal, vermin extermination, and snow, ice and debris removal; (x) the cost of legal and accounting services incurred by Landlord in connection with the management, maintenance, operation and repair of the Project, excluding Landlord's general accounting, such as partnership statements and tax returns, and excluding legal expenses arising out of the negotiation of any lease affecting the Project and the enforcement of the provisions of any lease affecting the Project; (xi) the direct cost of operating the management office for the Project, including the cost of office supplies, telephone expenses and rent; (xii) and Taxes.

B. "TAXES" shall mean all taxes, assessments and government charges levied or assessed with respect to the Project, whether federal, state, county or municipal and whether they be by taxing districts or authorities presently taxing the Project or by others subsequently created or otherwise, and any other taxes and assessments attributable to the Project or its operation (and the costs of contesting any of the same), including community improvement district taxes and/or assessments and business license taxes and fees, and any assessments imposed on personal property of Landlord, excluding, however, the following: (i) taxes and assessments imposed on the personal property of the tenants of the Project; (ii) taxes imposed on the leasehold improvements of tenants of the Project (but only if and to the extent the applicable taxing authority separately assesses the leasehold improvements of all tenants of the Project); (iii) federal, state and local taxes on income; (iv) death taxes; (v) franchise, gift, transfer, excise, capital stock, succession, estate and inheritance taxes; (vi) any taxes (other than business licenses taxes and fees) imposes or measured on or by the income of Landlord from the operation of the Project; and (vii) any fines, penalties or increased interest charged due to Landlord's failure to pay taxes and assessments in a timely fashion. If at any time during the Lease term, the present method of taxation or assessment shall be changed such that as a substitute for or in addition to the whole or any part of the taxes, assessments, levies, impositions or charges now levied, assessed or imposed on real estate and the improvements thereon, taxes, assessments, levies, impositions or charges shall be levied, assessed and/or imposed wholly or partially as a capital levy or otherwise on the rents received from the Project or the rents reserved herein or any part thereof, then such substitute or additional taxes, assessments, levies, impositions or charges to the extent so levied, assessed or imposed, shall be paid by Tenant to the extent attributable to the Rent payable hereunder by Tenant or reserved herein. It is agreed by Tenant that Tenant will be responsible for ad valorem taxes on its personal property, and Tenant will be responsible for ad valorem taxes on the value of the leasehold improvements in the Premises (but only if and to the extent the taxing authority separately assesses the leasehold improvements of all tenants of the Project). In the event Landlord receives a refund of Taxes attributable to Taxes during the Term for which Tenant paid its Tenant's Share, Landlord shall pay to Tenant by a credit against Rent an equitable portion of such refund (less any costs incurred or paid by Landlord in connection with obtaining such refund) to Tenant based on the portion of such taxes previously paid by Tenant, or in the event the Lease has expired through the Term, then in that event Landlord shall reimburse Tenant any such refund of Taxes in the form of a cash payment.

C. "OPERATING COSTS" shall not include the following: (a) specific costs for any capital repairs, capital replacements or capital improvements, except as provided herein; (b) expenses for which Landlord is reimbursed or indemnified (either by an insurer, condemnor, tenant, warrantor or otherwise) to the extent of funds received by Landlord, or, in the event Landlord fails to maintain the insurance required to be maintained by Landlord hereunder, to the extent of funds that Landlord could reasonably have expected to recover under such required insurance as reimbursement for such expenses; (c) expenses incurred in leasing or procuring tenants (including lease commissions, advertising expenses, and expenses of renovating or otherwise preparing space for occupancy by tenants); (d) interest or amortization payments on any mortgages; (e) net base rents under ground leases; (f) costs specifically billed to and paid by specific tenants in addition to such tenants' pro rata share of Operating Costs; (g) any amounts for depreciation or amortization, except as permitted herein; (h) the cost of any interior painting or decorating, other than in Common Areas or areas generally open to the public; (i) the cost of any sculpture, painting or other objects of art; (j) any political or charitable contributions; (k) the cost of enforcing any leases and other expenses incurred in connection with negotiations or disputes with tenants, other occupants, or prospective tenants; (l) legal fees or other professional or consulting fees except general accounting for the Project (but not accounting related to the preparation or filing of income tax returns or responding to income tax audits); (m) any cost incurred by Landlord in order to comply with governmental laws, ordinances, codes, rules or regulations to the extent such compliance action is presently required by such laws, ordinances, codes, rules, or regulations as interpreted and enforced as of the date hereof; or (n) any cost associated with any building other than the Building. There shall be no duplication of costs.

D. Notwithstanding anything to the contrary contained herein, and in addition to the costs and charges contemplated by this SECTION 5.2, in the event that any cost or item that is included within the term "Operating Cost" is attributable to, or supplied primarily for the benefit of, Tenant, then Landlord reserves the right to charge such cost directly to Tenant and increase Tenant's Share of Operating Costs by such amount. Any such amount shall be due and payable by Tenant hereunder as Additional Rent within thirty (30) days of written notice from Landlord specifying the amount of such additional costs and the reasons for attributing them directly to Tenant.

SECTION 5.03 INTENTIONALLY DELETED

SECTION 5.04 Tenant and Landlord agree that the components of common area maintenance ("CAM") shall be as follows: parking lot clean-up, landscaping, maintenance, periodic services, allocation of basic periodic maintenance of Vaughn Pond, signage maintenance, common area electrical, and irrigation.

ARTICLE 6. SERVICES OF LANDLORD.

SECTION 6.01 Provided there exists no event of default on behalf of Tenant, Landlord agrees to furnish or cause to be furnished to the Premises, the following services, subject to all other provisions of this Lease:

A. HEAT AND AIR CONDITIONING: Landlord shall cause to be furnished seasonable air conditioning and heating during Business Hours, at such temperatures and in such amounts as is

customary in buildings of comparable size, quality and in the general vicinity of the Building, with such adjustments as Landlord reasonably deems necessary for the comfortable occupancy of the Premises, subject to any governmental requirements, ordinances, rules, regulations, guidelines or standards relating to, among other things, energy conservation. Upon reasonable notice, Landlord shall make available, at Tenant's expense, after hours heat or air conditioning. The heating, air conditioning and ventilation system shall have the capability of maintaining 35% relative humidity at 78 degrees F. during the summer season and at 72 degrees F. during the winter season and of providing 20 cubic feet per minute of ventilation per person at an occupancy density not exceeding seven persons for each 1,000 rentable square feet of the Building.

B. ELECTRICITY. Landlord shall cause to be furnished to the common area of the Building electric current for Building standard lighting. Tenant shall not use electric current in excess of the capacity of the feeders or lines to the Building or the risers or wiring installation of the Building or the Premises. Tenant shall be responsible for the cost of all electric service to the Premises which shall be metered separately. Landlord shall be responsible for all Building standard fluorescent bulb replacement in all areas and all incandescent bulb replacement in Building standard exit signs, public areas, toilet and restroom areas and stairwells.

C. WATER. Landlord shall cause to be furnished water for drinking, cleaning and lavatory purposes only.

D. JANITORIAL SERVICES. Tenant, at its sole cost and expense, shall provide its own janitorial services to the Premises.

SECTION 6.02 No interruption or stoppage of the services referred to in this ARTICLE 6 within Landlord's reasonable control, including, without limitation, utilities, shall make Landlord liable in any respect for damages to any person, property or business, or be construed as an eviction of Tenant, or entitle Tenant to any abatement of Rent or other relief from any of Tenant's obligations under this Lease, unless such failure shall persist due to Landlord's gross negligence or willful misconduct and/or wrongful misconduct for an unreasonable time or forty-eight (48) hours after receipt of written notice of such failure is given to Landlord by Tenant, whichever comes first. Landlord's obligation to furnish electrical and other utility services shall he subject to the rules and regulations of the supplier of such electricity or other utility services and the rules and regulations of any municipal or other governmental authority regulating the business of providing electricity and other utility services. Notwithstanding the above, Landlord shall use reasonable efforts to remedy any interruption or stoppage of the services referred to in this Article 6.

ARTICLE 7. ASSIGNMENT AND SUBLETTING. Neither Tenant nor its legal representatives or successors in interest shall, by operation of law or otherwise, assign, mortgage, pledge, encumber or otherwise transfer this Lease or any portion thereof, or the interest of Tenant under this Lease, or enter any sublease with respect to the Premises, or any portion thereof, without the prior written consent of Landlord which consent shall not be unreasonably withheld conditioned or delayed except when the Landlord has available comparable sized space to be leased in the Building. The Premises or any part thereof shall not be occupied or used for any purpose by anyone other than Tenant, without Tenant's obtaining in each instance the prior

written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. No acceptance by Landlord of any Rent or any other sum of money from any assignee, subtenant or other transferee shall be deemed to constitute Landlord's consent to any assignment, sublease, mortgage, pledge, encumbrance or other transfer. Tenant acknowledges and agrees that any consent by Landlord pursuant to this ARTICLE 7 shall not be deemed to be a consent to any subsequent assignment, sublease, mortgage, pledge, encumbrance or any other agreement or other action to which Landlord's consent is required, whether or not such consent by Landlord shall expressly limit the application thereof to the consent then being given. In no event whatsoever shall Tenant sublet, assign or otherwise endeavor to transfer any interest of Tenant in this Lease to any other tenant of space in the Building. Any attempted assignment or sublease (except as hereinafter provided) by Tenant in violation of the terms and provisions of this Article 7 shall be void and shall constitute a material breach of this Lease. In no event shall any assignment, subletting, mortgage, pledge, encumbrance or other transfer, whether or not with Landlord's consent, relieve Tenant of its primary liability under this Lease for the entire Term, and Tenant shall in no way be released from the full and complete performance of all the terms hereof. Subletting or assignment rental rates shall not be less than the then current fair market rental rates (including components thereof for the term, tenant improvements, lease commissions and concessions) for similar space in similar projects in the Northwest Atlanta market, provided that Landlord has unleased space in the Project. Landlord and Tenant shall split 50/50 all such rental in excess of the Rent payable by Tenant hereunder net of any costs associated with such sublease or assignment including Tenant Improvements, commissions, legal fees and other concessions.

If Landlord provides Tenant prior written consent to assign or sublease all or any portion of the Premises to a non-affiliated entity or independent third party, Landlord shall, at its option, have the right to terminate Tenant's Lease as to such portion of the Premises by providing Tenant notice of such termination within five (5) days of providing Tenant such written consent. Tenant agrees to surrender the Premises in accordance with Article 17 hereof and failure by Tenant to comply with Article 17 hereof shall give rise to a default under this Lease and Landlord shall have the right to exercise any and all remedies provided in this Lease and at law or in equity.

Notwithstanding anything hereinabove contained, provided that Tenant is not in default under the Lease and gives Landlord written notice, Tenant shall have the right to sublet or assign all or part of the Premises without Landlord's prior consent to any and all affiliates, subsidiaries, sister companies or any entity in which Tenant or Tenant's parent company has a controlling interest, or parent of Tenant. For non-affiliated entities, Landlord shall not unreasonably withhold, condition or delay the approval of any proposed sublease, so long as the sublessee's use of the Premises and creditworthiness is the same or better than Tenant's at the execution of this Lease. Tenant's foregoing rights of sublease shall apply to the Initial Term and any Renewal Terms.

ARTICLE 8. REPAIRS, MAINTENANCE.

SECTION 8.01 Tenant shall, at Tenant's sole cost and expense, (i) maintain and keep the interior of the Premises (including, but not limited to, all fixtures, walls, ceilings, floors, doors, interior windows and equipment which are a part of the Premises) in good repair and condition,

(ii) repair or replace any damage or injury done to the Building or any other part of the Project caused by Tenant, Tenant's agents, employees, licensees, invitees or visitors or resulting from a breach of its obligations under this SECTION 8.1 or SECTION 8.2 or (iii) indemnify and hold Landlord harmless from any and all costs, expenses (including reasonable attorneys' fees), claims and causes of action arising from or incurred by and/or asserted in connection with such maintenance, repairs, replacements, damage or injury or Tenant's breach of its obligations under this SECTION 8.1 or SECTION 8.2. It is hereby understood and agreed that this provision shall not eliminate Landlord's obligation with respect to latent defects in and around the Building or Premises for a one (1) year period commencing on the Delivery Date. All repairs and replacements performed by or on behalf of Tenant shall be performed in a good and workmanlike manner and in accordance with the standards applicable to alterations or improvements performed by Tenant. Tenant shall continue to pay Rent, without abatement, during any period that repairs or replacements are performed or required to be performed by Tenant under this SECTION 8.1 or SECTION 8.2. In the event Tenant fails after 30 days written notice from Landlord, and in the reasonable judgment of Landlord to maintain the Premises in good order, condition and repair, ordinary wear and tear expected, or otherwise satisfy its repair and replacement obligations under this SECTION 8.1 or SECTION 8.2, Landlord shall, after thirty (30) days prior written notice to Tenant, have the right to perform such maintenance, repairs and replacements at Tenant's expense, but with Tenant's written agreement to the cost estimate, which written agreement of Tenant will not unreasonably be withheld by Tenant. Tenant shall pay to Landlord on demand any such cost or expense incurred by Landlord, together with interest thereon at the Interest Rate from the date of demand until paid.

SECTION 8.02 All Repairs made by Tenant pursuant to SECTION 8.1 shall be performed in a good and workmanlike manner by contractors or other repair personnel selected by Tenant, which contractors and repair personnel are approved in advance, in writing, by Landlord, which approval will not unreasonably be withheld by Landlord, provided, however, that neither Tenant nor its contractors or repair personnel shall be permitted to do any work affecting (i) the structural components of the Building, or (ii) the heating, ventilation, air conditioning system, the electrical system, any mechanical system, the plumbing system, the fire/life/safety system, or any other system of the Building (collectively the "SYSTEMS"). In no event shall such work be done for Landlord's account or in a manner which allows any liens to be filed against the Project, or any portion thereof. To the extent any repairs involve the making of alterations to the Premises, Tenant shall comply with the provisions of ARTICLE 9.

SECTION 8.03 Subject to ARTICLES 13 AND 14 hereof, Landlord shall maintain, or cause to be maintained, the Common Areas, including but not limited to, the Building entrance and parking areas and the grounds surrounding and adjacent to the Building, the roof, foundation, the structural soundness of the exterior structural walls of the Building, the exterior Building glass, the heating, air conditioning and ventilation system(s) installed by Landlord and serving the Premises, and the plumbing and electrical systems serving the Premises in good repair, ordinary wear and tear excepted.

ARTICLE 9. ALTERATIONS.

SECTION 9.01 Tenant shall not make any alterations to the Premises without first obtaining Landlord's written consent thereto, which consent may not be unreasonably withheld,

conditioned or delayed. Notwithstanding the foregoing, in the event any such proposed alteration would, in the reasonable judgment of Landlord, affect any structural components of the Building or any of the Systems, Landlord may withhold its consent to any such alteration in its sole discretion. Without in any way limiting Landlord's consent rights, Landlord shall not be required to give its consent until (a) Landlord is satisfied that the contractor or person proposed by Tenant to make such alterations (the "CONTRACTOR"), and the insurance coverage to be provided by Contractor in connection with the work, are reasonably acceptable to Landlord, (b) Landlord approves final and complete plans and specifications for the work and (c) the appropriate governmental agency has approved the plans and specifications for such work. Upon Tenant's receipt of written approval from Landlord and any required approval of any mortgagee or lessor of Landlord and any such governmental agency, and upon Tenant's payment to Landlord of any fees charged by any mortgagee or lessor of Landlord for such review and approval, Tenant shall have the right to proceed with the construction of all approved alterations, but only so long as such alterations are made by the Contractor reasonably acceptable to Landlord in strict compliance with the plans and specifications so approved by Landlord and with the provisions of this ARTICLE 9. All alterations shall be made at Tenant's sole cost and expense. Tenant shall keep the Project, the Building and the Premises and Landlord's interest therein free from any liens arising from any work performed, materials furnished, or obligations incurred by, or on behalf of, Tenant (other than by Landlord pursuant to this Lease). Notice is hereby given that neither Landlord nor any mortgagee or lessor of Landlord shall be liable for any labor or materials furnished to Tenant except as famished to Tenant by Landlord pursuant to this Lease. If any lien is filed for such work or materials, such lien shall encumber only Tenant's interest in leasehold improvements on the Premises. Within ten (10) business days after Tenant learns of the filing of any such lien, Tenant shall notify Landlord of such lien and shall either discharge and cancel such lien of record or post a bond sufficient under the laws of the State of Georgia to cover the amount of the lien claim plus any penalties, interest, attorney's fees, court costs, and other legal expenses in connection with such lien. If Tenant fails to so discharge or bond over such lien within twenty (20) days after the earlier of Tenant becoming aware of such lien or written demand from Landlord, Landlord shall have the right, at Landlord's option, to pay the full amount of such lien without inquiry into the validity thereof, and Landlord shall be promptly reimbursed by Tenant, as Additional Rent, for all amounts so paid by Landlord, including expenses, interest, and attorneys' fees.

SECTION 9.02 All construction, alterations and repair work done by or for Tenant shall: (a) be performed in such a manner as to maintain harmonious labor relations; (b) not adversely affect any structural component of the Building or any of the Systems or the safety of the Project, the Building or the Premises; (c) comply with all building, safety, fire, plumbing, electrical, and other codes and governmental and insurance requirements, including, without limitation, ADA requirements; (d) not result in any usage in excess of building standard of water, electricity, gas, or other utilities or of heating, ventilating or air-conditioning (either during or after such work) unless prior written arrangements satisfactory to Landlord are made with respect thereto: (e) be completed promptly and in a good and workmanlike manner; and (f) not unreasonably disturb Landlord or other tenants in the Building. After completion of any alterations to the Premises, Tenant will deliver to Landlord a copy of "as built" plans and specifications depicting and describing such alterations.

SECTION 9.03 Landlord hereby reserves the right and at all times shall have the right to repair, change, redecorate, alter, improve, modify, renovate, enclose or make additions to any part of the Project (including structural elements and load bearing elements within the Premises) and to enclose and/or change the arrangement and/or location of driveways or parking areas or landscaping or other Common Areas all without being held guilty of an actual or constructive eviction of Tenant or breach of the implied warranty of suitability or of any term of this Lease and without an abatement of Rent. Without in any way limiting the generality of the foregoing Landlord's rights shall include, but not limited to the right to perform, or cause the performance of, the following: (i) construct scaffolding and other structures and perform all work and other activities associated with such changes, alterations, improvements, modifications, renovations, and/or additions; (ii) repair, change, renovate, remodel, alter, improve, modify or make additions to the arrangement, appearance, location and/or size of entrances or passageways, doors, and doorways, corridors, elevators, elevator lobbies, stairs, toilets or other Common Areas or Service Areas; (iii) temporarily close any Common Area and/or temporarily suspend Building services and facilities in connection with any repairs, changes, alterations, modifications, renovations or additions to any part of the Building; (iv) repair, change, alter or improve plumbing, pipes and conduits located in the Building, including without limitation, those located within the Premises, the Common Areas, the Service Corridors or the Service Areas; and (v) repair, change, modify, alter, improve, renovate or make additions to the structural components of the Building or the Systems, or any portion thereof. When exercising the rights herein, Landlord will use good faith efforts not to interfere with Tenant's use and occupancy of the Premises.

ARTICLE 10. USE AND COMPLIANCE WITH LAWS.

SECTION 10.01 The Premises shall be used only for executive and administrative offices for the conduct of Tenant's business limited to the uses specifically set forth in SECTION 1.1.(o) and for no other purposes whatsoever. Tenant shall use and maintain the Premises in a clean, careful, safe, lawful and proper manner and shall not allow within the Premises, any offensive noise, odor, conduct or private or public nuisance or permit Tenant's employees, agents, licensees or invitees to create a public or private nuisance or act in a disorderly manner within the Building or in the Project. Any statement as to the particular nature of the business to be conducted by Tenant in the Premises and uses to be made thereof by Tenant as set forth in SECTION 1.1(o) hereof shall not constitute a representation or warranty by Landlord that such business or uses are lawful or permissible under any certificate or occupancy for the Premises or the .Building or are otherwise permitted by law. Landlord does, however, represent that any certificate of occupancy issued with respect to the Premises shall allow use for executive and administrative offices.

SECTION 10.02 Tenant shall, at Tenant's sole expense, (a) comply with all laws, orders, ordinances, and regulations of federal, state, county, and municipal authorities having jurisdiction over the Premises, that are applicable to the Premises because of Tenant's particular type of use being made in the Premises, including, without limitation, the Americans With Disabilities Act ("ADA") and any similar law enacted by the state in which the Premises is located, (b) comply with any directive, order or citation made pursuant to law by any public officer requiring abatement of any nuisance caused by the activities of Tenant or which imposes upon Landlord or Tenant any duty or obligation arising from conditions which have been created by or at the request or insistence of Tenant, or required by reason of a breach of any of Tenant's

obligations hereunder or by or through other fault of Tenant, (c) comply with all customary insurance requirements applicable to the Premises and (d) indemnify and hold Landlord harmless from any loss, cost or claim or expenses which Landlord incurs or suffers by reason of Tenant's failure to comply with its obligations under clauses (a), (b) or (c) above. If Tenant receives notice of any such directive, order citation or of any violation of any law, order, ordinance, regulation or any insurance requirement, Tenant shall promptly notify Landlord in writing of such alleged violation and furnish Landlord with a copy of such notice.

SECTION 10.03 Tenant shall not use or permit the use of the Premises or any portion of the Project for the storage, treatment, use, production or disposal of any hazardous substances or hazardous waste (as those terms are defined under CERCLA or RCRA or any other applicable federal, state or local environmental protection laws, ordinances, codes, rules or regulations) other than those which might be incidental to and commonly used in general executive administrative offices and which are stored or used in accordance with all applicable laws, rules and regulations. Tenant does hereby indemnify and hold Landlord harmless from and against any and all damage to any property or injury to or death of any person as a result of Tenant's violation of the foregoing provision. Tenant's indemnity shall include the obligation to reimburse Landlord for any and all costs and expenses (including reasonable attorneys' fees) incurred by Landlord, its agents or employees as a result of Tenant's violation. Landlord has provided to Tenant a copy of any environmental reports with respect to the Building in Landlord's possession as of the date hereof. Landlord does not represent or warrant to Tenant that the findings disclosed in any such reports) are correct. Landlord does not have any other actual knowledge concerning the presence of hazardous waste or hazardous substances in the Building.

ARTICLE 11. DEFAULT AND REMEDIES.

SECTION 11.01 The occurrence of any of the events described below shall constitute a default by Tenant under this Lease.

A. FAILURE TO PAY RENT. The failure by Tenant to make payment of Rent to Landlord when due, and such failure shall continue for a period of five (5) days after written notice to Tenant from Landlord that such payment was not made when due. Landlord shall not be required to give written notice to Tenant of non-payment of Rent more than two (2) times per Lease Year.

B. FAILURE TO PERFORM. Except for a failure covered by Section 11.1(A), any failure by Tenant to observe and perform any provision of this Lease to be observed or performed by Tenant, and such failure is not cured within thirty (30) days after written notice of such failure to Tenant from Landlord and in the event any failure cannot be cured within said thirty (30) day period and provided that Tenant is diligently and continuously pursuing the cure of such default, Tenant shall have an additional period of time to cure such failure, but not to exceed a total of thirty (30) more days. In the event the time to cure such default will require more than the aforesaid total of sixty (60) days, and provided Tenant has been and is continuously pursuing the cute of such default and Tenant and Landlord agree for an additional time period to cure such default, which agreement by Landlord shall not be unreasonable conditioned, Tenant shall be granted additional time to cure but not to exceed a total of more than one hundred eighty (180) days.

C. BANKRUPTCY, INSOLVENCY, ETC. If Tenant (i) cannot meet its obligations as they become due, (ii) becomes or is declared insolvent according to any law, (iii) makes a transfer in fraud of creditors according to any applicable law, (iv) assigns or conveys all or a substantial portion of its property for the benefit of creditors or (v) files a petition for relief under the Federal Bankruptcy Code or any other present or future federal or state insolvency, bankruptcy or similar law (collectively, "applicable bankruptcy law"); a receiver or trustee is appointed for Tenant or its property, the interest of Tenant under this Lease is levied on under execution or under other legal process; any involuntary petition is filed against Tenant under applicable bankruptcy law, or any action is taken to reorganize or modify Tenant's capital structure if Tenant be a corporation or other entity (provided that no such levy, execution, legal process or petition filed against Tenant shall constitute a breach of this Lease if Tenant shall vigorously contest the same by appropriate proceedings and shall remove or vacate the same within ninety (90) days from the date of its creation, service or filing).

D. ABANDONMENT. The abandonment or vacating of the Premises by Tenant, which shall be conclusively presumed if Tenant is absent from the Premises for eight (8) consecutive months or more or if Tenant shall fail to move into or take possession of the Premises within ten (10) days after the date on which Rent is to commence under the terms of this Lease.

E. DISSOLUTION OR LIQUIDATION. If Tenant is a corporation or partnership, Tenant dissolves or liquidates or otherwise fails to maintain its corporate or partnership structure, as applicable.

F. UNPERMITTED ASSIGNMENT AT SUBLEASE. If Tenant makes or attempts to make an un-permitted assignment of this Lease or sublease of all or any portion of the Premises.

SECTION 11.02 Upon the occurrence of any default by Tenant specified in SECTION 11.1 hereof, Landlord, at its option, may in addition to all other rights and remedies provided herein or at law or in equity, exercise one or more of the remedies set forth below:

A. TERMINATION. Landlord may terminate this Lease by written notice to Tenant in which event Tenant shall immediately surrender the Premises to Landlord and if Tenant fails to do so, Landlord may without prejudice to any other remedy which it may have for possession or arrearages in Rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying said Premises or any part thereof, without being liable for prosecution or any claim of damages therefor. Upon any such termination, Tenant shall be and remain liable for all obligations of Tenant arising or accruing under this Lease prior to the time of termination and, in addition thereto, for the damages provided for in SECTION 11.2(D) hereof.

B. TERMINATE POSSESSION. Landlord may terminate Tenant's right of possession (but not this Lease), by written notice to Tenant specifying the date of termination in such notice, and, on or after such date, enter upon and take possession of Premises and expel or remove Tenant and any other person who may be occupying said Premises or any part thereof, by entry, dispossessory suit or otherwise, without thereby releasing Tenant from any liability hereunder, without terminating this Lease, and without being liable for prosecution of any claim of damages therefor, and, if Landlord so elects, make such alterations, redecorations and repairs as, in

Landlord's reasonable judgment, may be necessary to relet the Premises, and Landlord may, but shall be under no obligation to do so, relet the Premises or any portion thereof in Landlord's or Tenant's name, but for the account of Tenant, for such term or terms (which may be for a term extending beyond the Least term under this Lease) and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable, with or without advertisement or by private negotiations, and receive the rent therefor. Upon each such reletting, all rentals and other sums received by Landlord from such reletting shall be applied, first, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord, second, to the payment of any costs and expenses of such reletting actually incurred by Landlord, including lease assumptions, reasonable brokerage fees and attorneys' fees and the costs of any alterations; repairs, redecorations and restorations; third, to the payment of Rent and other charges due and unpaid hereunder; and the residue, if any, shall be held by Landlord and applied in payment of future Rent as the same may become due and payable hereunder or shall be paid to Tenant to the extent (and only to the extent) provided in the third following sentence. If such rentals and other sums received from such reletting during any month are less than the amount of Rent to be paid during that month by Tenant hereunder, Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. If such rentals and the sums received from such reletting during any month shall be more than the amount of Rent to be paid during that month by Tenant hereunder, Tenant shall have no right to, and shall receive no credit for, the excess; provided, however, if any such excess shall exist at such time as this Lease shall terminate, after application of such rentals and sums received from reletting in the manner hereinabove set forth, such excess shall be paid to Tenant. No such reentry or taking of possession of the Premises by Landlord (whether through entry, dispossessory suit or otherwise) shall be construed as an election on Landlord's part to terminate this Lease unless a written notice of such termination be given to Tenant. Notwithstanding any such reletting without termination, Landlord may at any time elect by written notice to Tenant to terminate this Lease for such previous event of default

C. ENTRY. Landlord may enter upon the Premises, without being liable for prosecution or any claim of damages therefor, and do whatever Tenant is obligated to do under the terms of this Lease, and Tenant agrees to reimburse Landlord on demand for any expenses including, without limitation, reasonable attorneys' fees, which Landlord may actually incur in thus effecting compliance with Tenant's obligations under this Lease and Tenant further agrees that Landlord shall not be liable for any damages resulting to Tenant from such action.

D. ACCELERATION. If this Lease is terminated by Landlord as a result of the occurrence of an event of default, Landlord may declare to be due and payable immediately the excess of (a) the entire amount of Rent and other charges and assessments which in Landlord's reasonable determination would become due and payable during the remainder of the Lease term (determined as though the Lease has not been terminated) discounted to present value by using a discount factor of eight percent (8%) over (b) the then fair market rental value of the Premises for the remainder of the Lease term discounted to present value by using a discount factor of eight percent (8%) per annum. Upon the acceleration of such amounts, Tenant agrees to pay the same at once, in addition to all Rent and other charges, costs and assessments due as provided in SECTION 11.2(B) hereof, at Landlord's address as provided herein. If Landlord exercises its rights under this SECTION 11.2(D), Landlord and Tenant agree that the payment of the aforesaid accelerated amount shall not constitute a penalty or forfeiture but shall constitute liquidated damages for Tenant's failure to comply with the terms and provisions of this Lease (Landlord

and Tenant agreeing that Landlord's actual damages in such event are impossible to ascertain and that the amount set forth above is a reasonable estimate thereof).

E. SELF-HELP. Landlord may, at its option, without waiving or releasing Tenant from obligations of Tenant, make any such payment or perform any such other act on behalf of Tenant. All sums so paid by Landlord, or incurred by Landlord in effecting such performance or other act, and all necessary incidental costs, together with interest thereon at the Interest Rate, from the date of such payment by Landlord, shall be payable to Landlord on demand. Tenant covenants to pay any such sums, and Landlord shall have (in addition to any other right or remedy of Landlord) the same rights and remedies in the event of the non-payment thereof by Tenant as in the case of default by Tenant in the payment of Rent.

F. CUMULATIVE REMEDIES. No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity or by statute. In addition to the other remedies provided in this Lease, Landlord shall be entitled, to the extent permitted by applicable law, to injunctive relief in case of the violation, or attempted or threatened violation, of any of the covenants, agreements, conditions or provisions of this Lease, or to a decree compelling performance of any of the covenants, agreements, conditions or provisions of this 1 ease, or to any other remedy allowed to Landlord at law or is equity.

ARTICLE 12. INSURANCE.

SECTION 12.01 Tenant covenants and agrees that from and after the date of delivery of the Premises from Landlord to Tenant, Tenant will carry and maintain, at its sole cost and expense, the following insurance:

A. PUBLIC LIABILITY INSURANCE. General Comprehensive Public Liability Insurance covering the Premises and Tenant's use thereof against claims for personal or bodily injury or death or property damage occurring upon, in or about the Premises (including contractual, indemnity and liability coverage to cover Tenant's indemnities set forth herein), such insurance to insure both Tenant and, as additional named insureds, Landlord and its subsidiaries, directors, agents and employees and the property manager, and to afford protection to the limit of not less than $1,000,000.00 combined single limit or such higher limits as Landlord may require from time to time during the Term, on an occurrence basis, in respect to injury or death to any number of persons and broad form property damage arising out of any one (1) occurrence, operations hazard, owner's protective coverage, contractual liability, with a cross liability clause and a severability of interests clause to cover Tenant's indemnities set forth herein, with a deductible acceptable to Landlord. This insurance coverage shall extend to any liability of Tenant arising our of the indemnities provided for in this Lease.

B. PROPERTY INSURANCE. Property insurance on all-risk extended coverage basis (including coverage against fire, wind, tornado, vandalism, malicious mischief, water damage and sprinkler leakage) covering all fixtures, equipment and personalty located in the Premises, in an amount not less than one hundred percent (100%) of full replacement cost thereof. Such policy will be written in the names of Tenant, Landlord and any other parties reasonably

designated by Landlord from time to time, as their respective interests may appear. The property insurance may, with the consent of the Landlord, provide for a reasonable deductible.

C. WORKERS COMPENSATION INSURANCE. Worker's compensation insurance insuring against and satisfying Tenant's obligations and liabilities under the worker's compensation laws of the State of Georgia.

D. EMPLOYERS LIABILITY INSURANCE. Employer's liability insurance in an amount not less than $500,000.00.

E. BUILDER'S RISK INSURANCE. In the event Tenant performs any repairs or alterations in the Premises and Builder's Risk insurance on an "All Risk" basis (including collapse) on a completed value (non-reporting) form for full replacement value covering all work incorporated in the Building and all materials and equipment in or about the Premises.

SECTION 12.02 All such insurance will be issued and underwritten by companies reasonably acceptable to Landlord and will contain endorsements that (a) such insurance may not lapse with respect to Landlord or property manager or be canceled or amended with respect to Landlord or property manager without the insurance company giving Landlord and property manager at least thirty (30) days prior written notice of such lapse, cancellation or amendment, (b) Tenant will be solely responsible for payment of premiums, (c) in the event of payment of any loss covered by such policy, Landlord or Landlord's designees will be paid first by the insurance company for Landlord's loss and (d) Tenant's insurance is primary in the event of overlapping coverage which may be carried by Landlord. Tenant shall deliver to Landlord duplicate originals of all policies of insurance required by SECTION 12.1 hereof or this SECTION 12.2 or duty executed originals of the certificates of such insurance evidencing in-force coverage on or before the Commencement Date. Further, Tenant shall deliver to Landlord renewals thereof at least thirty (30) days prior to the expiration of the respective policy terms.

SECTION 12.03 Tenant shall not knowingly conduct or permit to be conducted in the Premises any activity, or place any equipment in or about the Premises or the Building, which will invalidate the insurance coverage in effect or increase the rate of casualty insurance or other insurance on the Premises or the Building, and Tenant shall comply with all customary requirements and regulations of Landlord's casualty and liability insurer. If any invalidation of coverage or increase in the rate of casualty insurance or other insurance occurs or is threatened by any insurance company due to any act or omission by Tenant, or its agents, employees, representatives, or contractors, such statement or threat shall be conclusive evidence that the increase in such rate is due to the act of Tenant or the contents or equipment in or about the Premises, and, as a result thereof, Tenant shall be liable for such increase and such amount shall be considered Additional Rent payable with the next monthly installment of Base Rent due under this Lease. In no event shall Tenant introduce or permit to be kept on the Premises or brought into the Building any dangerous, noxious, radioactive or explosive substance.

SECTION 12.04 Landlord covenants and agrees that from and after the date of delivery of the Premises from Landlord to Tenant, Landlord will carry and maintain the following insurance, the cost of which shall be included in Operating Costs:

A. PUBLIC LIABILITY INSURANCE. General Comprehensive Public Liability Insurance covering the Common Areas against claims for personal or bodily injury or death or property damage occurring upon, in or about the Common Areas (including contractual, indemnity and liability coverage to cover Landlord's indemnities set forth herein), such insurance to afford protection to the limit of not less than $3,000,000 combined single limit or such higher limits as Landlord may elect, at its option, to carry from time to time, on an occurrence basis, in respect to injury or death to any number of persons and broad form property damage arising out of any one (1) occurrence, operations hazard, owner's protective coverage, contractual liability, with a cross liability clause and a severability of interests clause to cover Landlord's indemnities set forth herein, with a commercially reasonable deductible. This insurance coverage shall extend to any liability of Landlord arising out of the indemnities provided for in this Lease.

B. PROPERTY INSURANCE. Property insurance on all-risk extended coverage basis (including coverage against fire, wind, tornado, vandalism, malicious mischief, water damage and sprinkler leakage) covering the Building in an amount not less than ninety-five percent (95%) of full replacement cost thereof, subject to a commercially reasonable deductible.

C. OTHER INSURANCE. Such other insurance as Landlord may elect, at its option, to carry and maintain from time to time.

SECTION 12.05 Landlord and Tenant each hereby waive any right of subrogation and right of recovery or cause of action for injury or loss to the extent that such injury or loss is covered by fire, extended coverage, "All Risk" or similar policies covering real property or personal property required to be obtained and maintained hereunder (or which would have been covered if the party claiming such right of subrogation or recovery or cause of action had carried the insurance required by this Lease) or covered by any other insurance maintained by the waiving party. Written notice of the terms of the above mutual waivers shall be given to the insurance carriers of Landlord and Tenant and the parties' insurance policies shall be properly endorsed, if necessary, to prevent the invalidation of said policies by reason of such waivers.

ARTICLE 13. DAMAGE BY FIRE OR OTHER CASUALTY.

SECTION 13.01 If the Building or any portion thereof is damaged or destroyed by any casualty, to the extent that, in Landlord's reasonable judgment, (a) repair of such damage or destruction would not be economically feasible, or (b) the damage or destruction to the Building cannot be repaired within one hundred twenty (120) days after the date of such damage or destruction, or (c) if the proceeds from the insurance remaining after any required payment to any mortgagee or lessor of Landlord are insufficient to repair such damage or destruction, Landlord shall have the right, at Landlord's option, to terminate this Lease by giving Tenant notice of such termination, within thirty (30) days after the date of such damage or destruction. In the event that all or substantially all of the Premises is damaged or destroyed by any casualty and such damage or destruction cannot, with reasonable efforts, be restored within one hundred twenty (120) days after the date of such casualty in order to avoid such damage or destruction causing all or a substantial portion of the Premises to be unusable by Tenant for the uses permitted hereunder in which Tenant was engaged at the Premises immediately prior to such casualty, and Tenant or Landlord, as the case may be, shows such fact to the other party to a degree of certainty reasonably acceptable to such other party, either Landlord or Tenant may

terminate this Lease by delivering written notice thereof to the other within thirty (30) business days after the date of the damage or destruction.

SECTION 13.02 If the Premises or any portion thereof is damaged or destroyed by any casualty against which Tenant is required to be insured hereunder, and if, in Landlord's reasonable opinion, the Premises cannot be rebuilt or made fit for Tenant's purposes within ninety (90) days after the date of such damage or destruction, or if the proceeds from the insurance Landlord or Tenant is required to maintain hereunder (or the amount of proceeds which would be available if the non-terminating party were carrying the insurance required of such party hereunder) are insufficient to repair such damage or destruction, then either Landlord or Tenant shall have the right, at the option of either party, to terminate this Lease by giving the other written notice within thirty (30) days after such damage or destruction.

SECTION 13.03 In the event of partial destruction or damage to the Building or the Premises which is not subject to SECTION 13.3 or 13.2 hereof, or which is subject to SECTION 13.1 or 13.2 but the applicable party (or parties) does not elect to terminate the Lease, which partial destruction or damage renders the Premises partially but not wholly untenantable, this Lease shall not terminate and Rent shall be abated in proportion to the area of the Premises which, in Landlord's reasonable opinion, cannot be used or occupied by Tenant as a result of such casualty. Landlord shall in such event, within a reasonable time after the date of such destruction or damage, subject to force majeure or to delays caused by Tenant and to the extent and availability of insurance proceeds, restore the Premises to substantially the same condition as existed prior to such partial damage or destruction, provided that, Tenant shall pay to Landlord Tenant's insurance proceeds as required in SECTION 13.4. In no event shall Rent abate or shall any termination occur if damage to or destruction of the Premises is the result of the negligence or willful act of Tenant, or Tenant's agents, employees, representatives, contractors, successors, assigns, licensees or invitees.

SECTION 13.04 Landlord shall have no liability to Tenant for inconvenience, loss of business, or annoyance arising from any repair of any portion of the Premises or the Building under this Article. If Landlord is required by this Lease or by any mortgagee or lessor of Landlord to repair of if Landlord undertakes to repair, Tenant shall pay to Landlord that amount of Tenant's insurance proceeds (or the amount which would have been received by Tenant if Tenant was carrying the insurance required by this Lease) which insures such damage that Landlord is obligated to repair as a contribution towards such repair, and Landlord shall use reasonable efforts to have such repairs made promptly and in a manner which will not unnecessarily interfere with Tenant's occupancy. In the event that Tenant collects any insurance proceeds (or would have the right to collect such proceeds if Tenant had been carrying the insurance policies required by this Lease) on account of damage or destruction to the Leasehold Improvements, and such Leasehold Improvements are not restored or repaired, either in whole or in part, then Tenant shall pay to Landlord an equitable portion of such insurance proceeds (or those that would have been payable to Tenant had it been carrying the insurance policies required by this Lease) based on the ratio between the amount that Tenant expended in connection with such Leasehold Improvements and the amount contributed by Landlord thereto pursuant to the other terms hereof. The terms of the foregoing sentence shall survive the termination or expiration of the Term of this Lease.

SECTION 13.05 In the event of termination of this Lease pursuant to SECTION 13.1 or 13.2, then all Rent shall be apportioned and paid to the date on which possession is relinquished or the date of such damage, whichever last occurs, and Tenant shall immediately vacate the Premises according to such notice of termination; provided, however, that those provisions of this Lease which are designated to cover matters of termination and the period thereafter shall survive the termination hereof.

ARTICLE 14. CONDEMNATION.

SECTION 14.01 In the event the whole or substantially the whole of the Building or the Premises are taken or condemned by eminent domain or by any conveyance in lieu thereof (such taking, condemnation or conveyance in lieu thereof being hereinafter referred to as "condemnation"), the Term shall cease and this Lease shall terminate on the earlier of the date the condemning authority takes possession or the date title vests in the condemning authority. In the event that all or substantially all of the Premises is temporarily taken by eminent domain and such taking causes all or a substantial portion of the Premises to be unusable by Tenant for a period of ninety (90) consecutive days for the uses permitted hereunder in which Tenant was engaged at the Premises immediately prior to such temporary taking, and Tenant or Landlord, as the case may be, shows such fact to the other party to a degree of certainty reasonably acceptable to such other party, either Landlord or Tenant may terminate this Lease by delivering written notice thereof to the other within ten (10) business days after the taking, condemnation or sale in lieu thereof. During periods when Tenant is still under the terms of the Lease during possession by eminent domain by the condemning authority, Rent to be paid shall be adjusted on a fair and equitable basis under the circumstances.

SECTION 14.02 In the event any portion of the Building shall be taken by condemnation (whether or not such taking includes any portion of the Premises), which taking, in Landlord's reasonable and good faith judgment, is such that the Building cannot be restored in an economically feasible manner for use substantially as originally designed, then Landlord shall have the right, at Landlord's option, to terminate this Lease, effective as of the date specified by Landlord in a written notice of termination from Landlord to Tenant.

SECTION 14.03 In the event of termination of this Lease pursuant to the provisions of SECTION 14.1 or 14.2, the Rent shall be apportioned as of such date of termination; provided, however, that those provisions of this Lease which are designated to cover matters of termination and the period thereafter shall survive the termination hereof.

SECTION 14.04 All compensation awarded or paid upon a condemnation of any portion of the Project shall belong to and be the property of Landlord without participation by Tenant. Nothing herein shall be construed, however, to preclude Tenant from prosecuting any claim directly against the condemning authority for loss of business, loss of good will, moving expenses, damage to, and cost of removal of, trade fixtures, furniture and other personal property belonging to Tenant; provided, however, that Tenant shall make no claim which shall diminish or adversely affect any award claimed or received by Landlord.

SECTION 14.05 If any portion of the Project other than the Building is taken by condemnation or if the temporary use or occupancy of all or any part of the Premises shall be

taken by condemnation during the Term, this Lease shall be and remain unaffected by such condemnation, and Tenant shall continue to pay in full the Rent payable hereunder. In the event of any such temporary taking for use or occupancy of all or any part of the Premises, Tenant shall be entitled to appear, claim, prove and receive the portion of the award for such taking that represents compensation for use or occupancy of the Premises during the remainder of the Term (provided that for purposes of determining such award, any Renewal Term shall be included in the "Term" only if Tenant has exercised its right thereto prior to such temporary taking), and Landlord shall be entitled to appear, claim, prove and receive the portion of the award that represents the cost of restoration of the Premises and the use or occupancy of the Premises after the end of the Term. In the event of any such condemnation of any portion of the Project other than the Building, Landlord shall be entitled to appear, claim, prove and receive all of that award.

ARTICLE 15. INDEMNIFICATION. Tenant hereby waives all claims against Landlord for damage to any property or injury to, or death of, any person in, upon, or about the Project, including the Premises, except that Landlord will indemnify and hold Tenant harmless from such claims to the extent caused by or arising from the gross negligence or willful and/or wrongful misconduct of Landlord or its agents, employees or contractors in, upon, or about the Project. Tenant shall and hereby agrees to, indemnify and hold Landlord harmless from any damage to any property or injury to, or death of, any person that occurs in the Premises by Tenant, its agents, employees, representatives, contractors, successors, assigns, licensees. The provisions of this ARTICLE 15 shall survive the expiration of the term hereof or termination of this Lease with respect to any damage, loss, injury, or death occurring as a result of events occurring or circumstances existing before such expiration or termination. Without limiting the generality of the foregoing, Landlord shall not be liable for any injury to persons or property resulting from the condition or design of, or any defect in, the Building or the Systems, except that Landlord will indemnify and hold Tenant harmless from such claims to the extent caused by or arising from the gross negligence or willful or wrongful misconduct of Landlord or its agents, employees or contractors, nor shall Landlord be liable for any damage or loss caused by other tenants, occupants or persons in the Building, the Project or the business park in which the Building is located. Tenant, for itself and its agents, employees, representatives, contractors, successors, assigns, invitees and licensees, expressly assumes all risks of injury or damage to person or property, whether proximate or remote, resulting from the gross negligence or willful and wrongful misconduct of Tenant and its agents, employees, representatives, contractors, successors, assigns, invitees and licensees.

ARTICLE 16. SUBORDINATION AND ESTOPPEL CERTIFICATES.

SECTION 16.01 This Lease and all rights of Tenant hereunder are subject and subordinate to all underlying leases now or hereafter in existence, and to any supplements, amendments, modifications, and extensions of such leases heretofore or hereafter made and to any deeds to secure debt, mortgages, or other security instruments which now or hereafter cover all or any portion of the Project or any interest of Landlord therein, and to any advances made on the security thereof, and to any increases, renewals, modifications, consolidations, replacements, and extensions of any of such mortgages. Within twenty (20) days after Landlord's written request, Tenant shall execute, acknowledge, and deliver to Landlord any further instruments and certificates evidencing such subordination as Landlord, and any mortgagee or lessor of Landlord shall reasonably require, and if Tenant fails to so execute, acknowledge and deliver such

instruments within twenty (20) days after Landlord's request, Landlord is hereby empowered to do so in Tenant's name and on Tenant's behalf. Tenant hereby irrevocably appoints Landlord as Tenant's agent and attorney-in-fact for the purpose of executing, acknowledging, and delivering any such instruments and certificates. Upon Tenant's written request, Landlord agrees to use its reasonable efforts to obtain from any mortgagee or lessor of Landlord a non-disturbance agreement for Tenant's benefit, in the form attached hereto as Schedule I and incorporated herein by reference.

SECTION 16.02 Any mortgagee or lessor of Landlord shall have the right at any time to subordinate any such mortgage or underlying lease to this Lease, or to any of the provisions hereof, on such terms and subject to such conditions as such mortgagee or lessor of Landlord may consider appropriate in its discretion. At any time, before or after the institution of any proceedings for the foreclosure of any such mortgage, or the sale of the Building under any such mortgage, or the termination of any underlying lease, Tenant shall, upon request of such mortgagee or any person or entities succeeding to the interest of such mortgagee or the purchaser at any foreclosure sale ("Successor Landlord"), automatically become the tenant of the Successor Landlord, without change in and subject to the terms or other provisions of this Lease.

SECTION 16.03 Tenant shall from time to time, within ten (10) business days after request from Landlord, or from any mortgagee or lessor of Landlord, execute, acknowledge and deliver in recordable form a certificate then furnished by Landlord certifying, to the extent true, that this Lease is in full force and effect and unmodified (or, if there have been modifications, that the same is in full force and effect as modified and stating the modifications); that the Tetra has commenced and the full amount of the Rent then accruing hereunder; the date to which the Rent has been paid; that Tenant has accepted possession of the Premises and that any improvements required by the terms of this Lease to be made by Landlord have been completed to the satisfaction of Tenant; the amount, if any, that Tenant has paid to Landlord as a Security Deposit; that no Rent under this Lease has been paid more than thirty (30) days in advance of its due date; that Tenant, as of the date of such certificate, has no charge, lien, or claim of offset under this Lease or otherwise against Rent or other charges due or to become due hereunder; that, to the knowledge of Tenant, Landlord is not then in default under this Lease; and such other matters as may be reasonably requested by Landlord or any mortgagee or lessor of Landlord. Any such certificate may be relied upon by Landlord, any Successor Landlord, or any mortgagee or lessor of Landlord. Landlord agrees periodically to furnish, when reasonably requested in writing by Tenant, certificates signed by Landlord containing information similar to the foregoing information. If Tenant fails to timely execute, acknowledge and deliver such certificate within ten (10) business days after Landlord's request, then the information set forth in such certificate so furnished by Landlord shall be deemed true and correct, and Landlord is hereby empowered to so execute, acknowledge and deliver such certificate in Tenant's name and on Tenant's behalf, and Tenant hereby irrevocably appoints Landlord as Tenant's agent and attorney-in-fact for the purpose of executing, acknowledging, and delivering any such certificate.

ARTICLE 17. SURRENDER OF THE PREMISES.

SECTION 17.01 Upon the expiration of the Term or earlier termination of this Lease, or upon any re-entry of the Premises by Landlord without terminating this Lease pursuant to the terms hereof, Tenant at Tenant's sole cost and expense, shall peacefully vacate and surrender the

Premises to Landlord in good order, broom clean and in the same condition as at the beginning of the Term or as the Premises may thereafter have been improved by Landlord or Tenant (provided that Tenant's improvements were made with Landlord's consent without the condition that such improvements be removed upon surrender), reasonable use and ordinary wear and tear thereof and repairs which are Landlord's obligations under this Lease excepted, and also excepting loss by fire and other casualty and loss or damage caused by the negligent act or willful misconduct of Landlord, and Tenant shall remove all of Tenant's Property and such other property as is contemplated by SECTION 17.2 hereof and turn over all keys for the Premises to Landlord. Should Tenant continue to hold the Premises after the expiration of the Term or earlier termination of this Lease beyond a period of sixty (60) days from either of the aforesaid dates, then from the sixty-first (61st) day through and including the one hundred twentieth (120th) day such holding over, unless otherwise agreed to by Landlord in writing, shall constitute and be construed as a tenancy at sufferance at monthly installments of Base Rent equal to one hundred fifty percent (150%) of the monthly portion of Base Rent in effect as of the date of such expiration or earlier termination, and from the one hundred twenty-first (121st)day through and including the one hundred eightieth (180th) day at monthly installments of Base Rent equal to one hundred seventy-five percent (175%) of the monthly portion of Base Rent and for the one hundred eighty-first (181st) day and thereafter at monthly installments of Base Rent equal to two hundred percent (200%) of the monthly portion of Base Rent, and subject to all of the other terms, charges and expenses set forth herein (including the payment of Tenant's Operating Costs Payment) except any right to renew this Lease or to expand the Premises or any right to additional services. The provisions of this ARTICLE 17 shall survive the expiration of the Term or earlier termination of this Lease.

SECTION 17.02 All Leasehold Improvements, alterations and other physical additions made to or installed by or for Tenant in the Premises shall be and remain Landlord's property (except for Tenant's furniture, personal property, and movable trade fixtures) and shall not be removed without Landlord's written consent. Tenant agrees to remove, at its sole cost and expense, all of Tenant's furniture, personal property, and movable trade fixtures, and, if directed to or permitted to do so by Landlord in writing, all, or any part of, the Leasehold Improvements, alterations and other physical additions made by or on behalf of Tenant to the Premises on or before the Expiration of the Term or any earlier date of termination of this Lease. Tenant shall repair, or promptly reimburse Landlord for the cost of repairing all damage done to the Premises or the Building by such removal. Any Leasehold Improvements, alterations or physical additions made by or on behalf of Tenant which Landlord does not direct or permit Tenant to remove at any time during or at the end of the Term shall become the property of Landlord at the end of the Term without any payment to Tenant. If Tenant fails to remove any of Tenant's furniture, personal property or movable trade fixtures by the Expiration of the Term or any sooner date of termination of the Lease or, if Tenant fails to remove any Leasehold Improvements, alterations and other physical additions made by or on behalf of Tenant to the Premises which Landlord has in writing directed Tenant to remove (including without limitation, all cabling and wiring for computer systems, telephones and the like whether located above the finished ceiling or underneath the floor), Landlord shall have the right, on the fifth (5th) business day after Landlord's delivery of written notice (of its intent to dispose of such abandoned property) to Tenant to deem such property abandoned by Tenant and to remove, store, sell, discard or otherwise deal with or dispose of such abandoned property in a commercially reasonable manner. Tenant shall be liable for all costs of such disposition of Tenant's abandoned property,

and Landlord shall have no liability to Tenant in any respect regarding such property of Tenant. Notwithstanding anything contained herein, Tenant shall be allowed to remove the back-up power generator installed on the land surrounding the Building. The provisions of this SECTION 17.2 shall survive the expiration or any earlier termination of this Lease.

ARTICLE 18. BROKERAGE. Tenant and Landlord each represent and warrant to the other that it has not entered into any agreement with, or otherwise had any dealings with, any broker or agent in connection with the negotiation or execution of this Lease which could form the basis of any claim by any such broker or agent for a brokerage fee or commission, finder's fee, or any other compensation of any kind or nature in connection herewith, other than with Brokers, and each party shall, and hereby agrees to, indemnify and hold the other harmless from all costs (including court costs, investigation costs, and attorneys' fees), expenses, or liability for commissions or other compensation claimed by any broker or agent with respect to this Lease which arise out of any agreement or dealings, or alleged agreement or dealings, between the indemnifying party and any such agent or broker, other than with Brokers. This provision shall survive the expiration or earlier termination of this Lease. Landlord shall pay a commission to Pope & Land Enterprises, Inc. ("LANDLORD'S BROKER") in accordance with a separate written agreement with Landlord's Broker and shall pay a commission to Carter & Associates, L.L.C. ("TENANT'S BROKER") in accordance with the terms thereof or of a separate written agreement between Landlord and Tenant's Broker. All brokers, including Brokers, shall be required to execute and deliver lien waivers as a condition of payment. The parties hereto acknowledge that Landlord's Broker is acting a agent for Landlord in this transaction and that Tenant's Broker is acting as agent for Tenant in this transaction.

ARTICLE 19. NOTICES. All notices, consents, demands, requests, documents, or other communications (other than payment of Rent) required or permitted hereunder (collectively, "Notices") shall be deemed given, one (1) Business Day after deposited for delivery by air or next-day express courier (with signed receipts) to the other party, or on the third Business Day after deposit in the United States mail, postage prepaid, certified, return receipt requested, except for notice of change of address which shall be deemed given only upon actual receipt. Notices may be given by facsimile, so long as a copy is provided otherwise in accordance with the terms hereof. The time period for any action or response to any notice shall begin upon actual receipt of such notice (with receipt of a facsimile copy not constituting receipt for purposes of commencing any such period), with rejection or other refusal, or inability to deliver, being deemed receipt. The addresses of the parties for notices shall be the addresses set forth in ARTICLE 1 hereof, or such other address subsequently specified by each party in notices given pursuant to this ARTICLE 19. In the event that Tenant specifies the Premises as its address for notices in accordance with the preceding sentence, then notices delivered to the Premises (and tacked thereto if Tenant is not in occupancy thereof at the time of delivery), whether or not Tenant is in occupancy thereof, shall be deemed to have been effectively given in accordance with the terms of this Lease.

ARTICLE 20. BANKRUPTCY. Tenant acknowledges that this Lease is a lease of nonresidential real property and therefore agrees that Tenant, as the debtor in possession, or the trustee for Tenant (collectively the "Trustee") in any proceeding under Title 11 of the United States Bankruptcy Code relating to Bankruptcy, as amended (the "Bankruptcy Code"), shall not

seek or request any extension of time to assume or reject this Lease or to perform any obligations of this Lease which arise from or after the order of relief.

A. If the Trustee proposes to assume or to assign this Lease or sublet the Premises (or any portion thereof) to any person which shall have made a bonafide offer to accept an assignment of this Lease or a subletting on terms acceptable to the Trustee, the Trustee shall give Landlord, and lessors and mortgagees of Landlord of which Tenant has notice, written notice setting forth name and address of such person and the terms and conditions of such offer, no later than twenty (20) days after receipt of such offer, but in any event no later than ten (10) days prior to the date on which the Trustee makes application to the Bankruptcy Court for authority and approval to enter into such assumption and assignment or subletting. Landlord shall have the prior right and option, to be exercised by written notice to the Trustee given at any time prior to the effective date of such proposed assignment or subletting, to accept an assignment of this Lease or subletting of the Premises upon the same terms and conditions and for the same consideration, if any, as the bonafide offer made by such person, less any brokerage commissions which may be payable out of the consideration to be paid by such person for the assignment or subletting of this Lease. Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed, without further act or deed, to have assumed all of the obligations arising under this Lease and each of the conditions and provisions hereof on and after the date of such assignment. Any such assignee shall, upon the request of Landlord, forthwith execute and deliver to Landlord an instrument, in form and substance acceptable to Landlord, confirming such assumption.

B. The Trustee shall have the right to assume Tenant's rights and obligations under this Lease only if the Trustee: (a) promptly cures or provides adequate assurance that the Trustee will promptly cure any default under the Lease; (b) compensates or provides adequate assurance that the Trustee will promptly compensate Landlord for any actual pecuniary loss incurred by Landlord as a result of Tenant's default under this Lease; and (c) provides adequate assurance of future performance under the Lease. Adequate assurance of future performance by the proposed assignee shall include, as a minimum, that: (i) the Trustee or any proposed assignee of the Lease shall deliver to Landlord a security deposit in an amount equal to at least three (3) months' Rent accruing under the Lease; (ii) any proposed assignee of the Lease shall provide to Landlord an audited financial statement, dated no earlier than six (6) months prior to the effective date of such proposed assignment or sublease with no material change therein as of the effective date, which financial statement shall show the proposed assignee to have a net worth equal to at least twelve (12) months' Rent accruing under the Lease, or, in the alternative, the proposed assignee shall provide a guarantor of such proposed assignee's obligations under the Lease, which guarantor shall provide an audited financial statement meeting the requirements of (ii) above and shall execute and deliver to Landlord a guaranty agreement in form and substance acceptable to Landlord; and (iii) any proposed assignee shall grant to Landlord a security interest in favor of Landlord in all furniture, fixtures, and other personal property to be used by such proposed assignee in the Premises. All payments required of Tenant under this Lease, whether or not expressly denominated as such in this Lease, shall constitute rent for the purposes of Title 11 of the Bankruptcy Code.

C. The parties agree that for the purposes of the Bankruptcy Code relating to (a) the obligation of the Trustee to provide adequate assurance that the Trustee will "promptly" cure

defaults and compensate Landlord for actual pecuniary loss, the word "promptly" shall mean that cure of defaults and compensation will occur no later than sixty (60) days following the filing of any motion or application to assume this Lease; and (b) the obligation of the Trustee to compensate or to provide adequate assurance that the Trustee will promptly compensate Landlord for "actual pecuniary loss," the term "actual pecuniary Loss" shall mean, in addition to any other provisions contained herein relating to Landlord's damages upon default, payments of Rent, including interest at the Interest Rate on all unpaid Rent, all attorneys' fees and all related costs of Landlord incurred in connection with any default of Tenant in connection with Tenant's bankruptcy proceedings.

ARTICLE 21. MISCELLANEOUS.

SECTION 21.01 PROFESSIONAL FEES. In any action or proceeding brought by either party against the other under this Lease, the prevailing party shall be entitled to recover from the other party its reasonable professional fees for attorneys, appraisers and accountants, its investigation costs, and any other legal expenses and court costs actually incurred by the prevailing party in such action or proceeding.

SECTION 21.02 SEVERABILITY, HEADINGS. Every agreement contained in this Lease is, and shall be construed as, a separate and independent agreement. If any term of this Lease or the application thereof to any person or circumstances shall be invalid or unenforceable, the remaining agreements contained in this Lease shall not be affected. The article headings contained in this Lease are for convenience only and shall not enlarge or limit the scope or meaning of the various and several articles hereof. Words in the singular number shall be held to include the plural, unless the context otherwise requires.

SECTION 21.03 NON-MERCER. There shall be no merger of this Lease with any ground leasehold interest or the fee estate in the Project or any part thereof by reason of the fact that the same person may acquire or hold, directly or indirectly, this Lease or any interest in this Lease as well as any ground leasehold interest or fee estate.

SECTION 21.04 LANDLORD'S LIABILITY. Anything contained in this Lease to the contrary notwithstanding, Tenant agrees that Tenant shall look solely to the estate and property of Landlord in the Building (and the actual rents received by Landlord from the Building from and after the date of any money judgment against Landlord) for the collection of any judgment or other judicial process requiring the payment of money by Landlord. In no event shall either Landlord or any partners, shareholders, or other principals of Landlord, or any officers or employees of Landlord be personally responsible or liable for the payment of any such judgment or process, and, subject to the preceding sentence, the assets of any such party or persons shall not be subject to levy, execution or other judicial process for the satisfaction thereof. The term "Landlord", as used in this Lease, so far as covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner or owners, at the time in question, of the fee title to, or a lessee's interest in a ground lease of, the Land or the Building. In the event of any assignment, conveyance or other transfer of any such title or interest (each of which may be effected without Tenant's consent), Landlord herein named (and in case of any subsequent transfers or conveyances, the then grantor) shall be automatically freed and relieved from and after the date of such transfer, assignment or conveyance of all liability as respects the

performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed.

SECTION 21.05 FORCE MAJEURE. Whenever a period of time is herein prescribed for action to be taken by Landlord or Tenant, Landlord or Tenant shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to force majeure, which term shall include strikes, riots, acts of God, shortages of labor or materials, war, governmental approvals, laws, regulations, or restrictions or any other cause of any kind whatsoever which is beyond the reasonable control of Landlord or Tenant, as the case may be. Force Majeure shall not excuse or delay Tenant's obligation to pay Rent or any other amount due under this lease.

SECTION 21.06 SUCCESSORS AND ASSIGNS. All agreements and covenants herein contained shall be binding upon the respective heirs, personal representatives, successors and assigns of the parties hereto. If there be more than one Tenant, the obligations hereunder imposed upon Tenant shall be joint and several. If there is a guarantor of Tenant's obligations hereunder, Tenant's obligations shall be joint and several obligations of Tenant and such guarantor, and Landlord need not first proceed against Tenant hereunder before proceeding against such guarantor, and any such guarantor shall not be released from its guarantee for any reason, including any amendment of this Lease, any forbearance by Landlord or waiver of any of Landlord's rights, the failure to give Tenant or such guarantor any notices, or the release of any party liable for the payment or performance of Tenant's obligations hereunder. Notwithstanding the foregoing, nothing contained in the SECTION 21.6 shall be deemed to override ARTICLE 7.

SECTION 21.07 TENANT'S AUTHORITY. If Tenant signs as a corporation, execution hereof shall constitute a representation and warranty by Tenant that Tenant is a duly organized and existing corporation, that Tenant has been and is qualified to do business in the State of Georgia and in good standing with the State of Georgia, that the corporation has full right and authority to enter into this Lease, and that all persons signing on behalf of the corporation were authorized to do so by appropriate corporate action. If Tenant signs as a partnership, trust, or other legal entity, execution hereof shall constitute a representation and warranty by Tenant that Tenant has complied with all applicable laws, rules, and governmental regulations relative to Tenant's right to do business in the State of Georgia, that such entity has the full right and authority to enter into this Lease, and that all persons signing on behalf of Tenant were authorized to do so by any and all necessary or appropriate partnership, trust, or other legal entity.

SECTION 21.08 GOVERNING LAW. This Lease shall be governed by and construed under the laws of the State of Georgia.

SECTION 21.09 TIME OF ESSENCE. Time is of the essence of this Lease.

SECTION 21.10 NO ESTATE. The Lease shall create the relationship of landlord and tenant only between Landlord and Tenant and no estate shall pass out of Landlord. Tenant shall have only an usufruct, not subject to levy and sale and assignable in whole or in part by Tenant (except as expressly provided herein).

SECTION 21.11 EXHIBITS. Each of the exhibits attached hereto, and each of the terms and provisions set forth therein, are hereby incorporated herein, and shall be deemed to be a part of this Lease as if fully set forth herein.

SECTION 21.12 LANDLORD'S RIGHT TO INSPECT. Landlord shall retain duplicate keys to all doors of the Premises. Tenant shall provide Landlord with new keys should Tenant receive Landlord's consent to change the locks. Landlord shall have the right to enter the Premises at reasonable hours and upon reasonable prior notice (or, in the event of an emergency or at any time that an event of default on the part of Tenant is outstanding, at any hour and without notice) for any reasonable purpose, including, without limitation, the following purposes: (a) to exhibit the same to present or prospective mortgagees, lessors or purchasers during the Term and to prospective tenants during the last year of the Term; (b) to inspect the Premises; (c) to confirm that Tenant is complying with all off Tenant's covenants and obligations under this Lease; (d) to clean or make repairs required of Landlord under the terms of this lease; (e) to make repairs to areas adjoining the Premises; and (f) to repair and service utility lines or other components of the Building. Landlord shall not be liable to Tenant for the exercise of Landlord's rights under this SECTION 21.12 and Tenant hereby waives any claims for damages for any injury, inconvenience or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby.

SECTION 21.13 SECURITY DEPOSIT. Concurrently with its execution and delivery to Landlord of this Lease, Tenant shall deliver to Landlord the Security Deposit in the amount set forth in SECTION 1.1 hereof. Tenant's Security Deposit shall be held by Landlord, without liability for interest except to the extent required by law, as security for the performance of Tenant's obligations under this Lease. Unless required by applicable law, Landlord shall not be required to keep the Security Deposit segregated from other funds of Landlord. Tenant shall not assign or in any way encumber the Security Deposit. Upon the occurrence of any event of default by Tenant, Landlord shall have the right, without prejudice to any other remedy, to use the Security Deposit, or portions thereof, to the extent necessary to pay any arrearage in Rent, and any other damage, injury or expense. Following any such application of all or any portion of the Security Deposit, Tenant shall pay Landlord, within ten (10) days after written demand, the amount so applied in order to restore the Security Deposit to its original amount. If Tenant is not in default at the expiration of the term of this Lease or the termination of this Lease, any remaining balance of the Security Deposit shall be returned to Tenant, provided that Tenant timely surrenders the Premises without damage and otherwise in accordance with ARTICLE 17 hereof. If Landlord transfers an interest in the Premises during the Term, Landlord may assign the Security Deposit to the transferee, and, in such event, Landlord shall thereafter have no further liability to Tenant to Tenant for the Security Deposit.

SECTION 21.14 OBSERVANCE OF RULES AND REGULATIONS. Subject to the other terms hereof, Tenant and Tenant's servants, employees, agents, visitors, and licensees shall observe faithfully and comply strictly with all Rules and Regulations (herein so called) attached to this Lease as EXHIBIT "D", as such Rules and Regulations may be changed from time to time. Landlord shall at all times have the right to make reasonable changes in and additions to such new Rules and Regulations, provided Landlord gives Tenant prior written notice of such changes and provided that such new rules and regulations or changes in existing rules and regulations do not materially adversely limit the rights of Tenant set forth in the Lease.

SECTION 21.15 PARKING. The parking area available to Tenant, its employees, customers and agent shall be free and designated on a non-exclusive, unreserved basis for all Project tenants (including Tenant) and their respective employees, customers, invitees and visitors. Parking and delivery areas for all vehicles shall be in accordance with parking regulations established from time to time by Landlord, with which Tenant agrees to conform. Tenant shall only permit parking by its employees, customers and agents of automobiles in such designated parking areas. Tenant shall have unreserved surface parking spaces at a ratio equal to five (5) spaces per 1,000 rentable square feet of occupied space. Landlord, at its option may elect to require that the vehicles parked in such designated parking spaces that are attributable to Tenant and its employees, or otherwise parked therein, display a permit or other means of identification to be issued by Landlord, and in such event, Tenant shall cause such vehicles attributable to Tenant and its employees to display such permit while parked in such designated parking spaces. Notwithstanding the foregoing, Landlord reserves the right to designate certain portions of the parking areas on a reserved, exclusive basis, including, without limitation, for handicapped, vans, visitors, cycles, other reserved, courier and loading purposes.

SECTION 21.16 QUIET ENJOYMENT. Landlord covenants and agrees that, so long as Tenant is not in default hereunder, Landlord shall not interfere with Tenant's quiet and peaceful possession of the Premises and of the Common Areas.

SECTION 21.17 SPECIAL STIPULATIONS. Attached hereto as Exhibit "C" and incorporated herein by reference are Special Stipulations to this Lease.

SECTION 21.18 ENTIRE AGREEMENT; AMENDMENTS. This Lease and the Exhibits and Riders attached hereto set forth the entire agreement between the parties and cancel all prior negotiations, arrangements, brochures, agreements, and understandings, if any, between Landlord and Tenant regarding the subject matter of this Lease, it being acknowledged that any such negotiations, arrangements, brochures, agreements, and understandings have been fully incorporated herein and this Lease is a full and final integration of the agreement of the parties hereto, including without limitation, all such prior negotiations, arrangements, brochures, agreements, and understandings. Neither Landlord nor Landlord's agents or brokers have made any representations or promises with respect to the Premises, the Building, the Parking Facilities, the Land, or any other portions of the Project except as herein expressly set forth and all reliance with respect to any representations or promises is based solely on those contained herein. No rights, easements, or licenses are acquired by Tenant under this Lease by implication or otherwise except as, and unless, expressly set forth in this Lease. No amendment or modification of this Lease shall be binding or valid unless expressed in writing executed by both parties hereto.

ARTICLE 22. OTHER DEFINITIONS. When used in this Lease, the terms set forth herein below shall have the following meanings: (a) "BUSINESS DAYS" or "BUSINESS DAYS" shall mean Monday through Friday (except for Holidays); (b) "HOLIDAYS" shall mean those holidays designated by Landlord; (c) the word "DAY" or "DAYS" shall refer to calendar days, except where "Business Days" or "business days" are specified; (d) the words "HEREIN", "HEREOF", "HEREBY", "HEREUNDER" and words of similar import shall be construed to refer to this Lease as a whole and not to any particular Article or Section thereof unless expressly so stated; (e) the words "INCLUDE" and "INCLUDING" shall be construed as if followed by the phrase "without being

limited to"; (f) a "REPAIR" shall be deemed to include such rebuilding replacement and restoration as may be necessary to achieve and maintain good working order and condition; and (g) the phrase "TERMINATION OF THIS LEASE" and words of like import includes the expiration of the Term or the cancellation of this Lease pursuant to any of the provisions of this Lease or to law (upon the termination of this Lease, the Term shall end at 11:59 p.m. on the date of termination as if such date were the Expiration of the Term, and neither party shall have any further obligation or liability to the other after such termination except (i) as shall be expressly provided for in this Lease and (ii) for such obligations as by their nature or under the circumstances can only be, or by the provisions of this Lease, may be, performed after such termination and, in any event, unless expressly otherwise provided in this Lease, any liability for a payment (which shall be apportioned as of the date of such termination) which shall have accrued to or with respect to any period ending at the time of termination shall survive the termination of this Lease); (h) the phrase "TERMS OF THIS LEASE" and words of like import shall be deemed to include all terms, covenants, conditions, provisions, obligations, limitations, restrictions, reservations and agreements contained in this Lease; (i) the word "TENANT" shall be deemed to include Tenant's successors and assigns and any and all occupants of the Premises permitted by Landlord and claiming by, through or under Tenant; (j) the word "YEAR" shall mean a calendar year, except where "Lease Year" is specified; and (k) "BUSINESS HOURS" shall mean 6:00 AM to 8:00 PM Monday through Saturday and 6:00 AM to 3:00 PM on Sunday or as Tenant may change by providing notice to Landlord from time to time throughout the Term of this Lease.

ARTICLE 23. RESTRICTIVE COVENANTS. Landlord has advised Tenant that the Project shall be subjected to the Barrett Master Declaration of Restrictive Covenants and Design Guidelines and any sub-association that may be established under said Barrett Master Declaration.

ARTICLE 24. BUILD-OUT OF REMAINDER OF BUILDING. Landlord has advised Tenant that the Building consists of 30,964 square feet and that portions of the Building are presently unleased. Tenant acknowledges that Landlord shall have the unrestricted right to build out the unleased portions of the Building for a single tenant or for multiple tenants and to do all that is necessary in the build-out of the unleased portions of the Building for a single tenant or multiple tenants.

ARTICLE 25. ASSIGNABILITY. Landlord shall have the absolute and unrestricted right to assign this Lease to a third party entity, and upon such absolute assignment, Landlord shall be released of any and all obligations, duties and liabilities hereunder.

IN WITNESS WHEREOF, Landlord and Tenant have set their hands and seals hereunto and have caused this Lease to be executed by duly authorized officials thereof, as of the day and year set forth on the cover page hereof.

LANDLORD:

BARRETT BUSINESS CENTER, LLC

By: Amli Land Development - I Limited Partnership, an Illinois limited partnership, Managing Member

By: Amli Realty Co., a Delaware corporation, General Partner

By: /s/ PHILIP N. TAGUE

Title: EXEC. V.P.

[CORPORATE SEAL]

Date Execute by Landlord:

MAY 17, 1999
- ------------------------

TENANT:

UTILIPRO, INC

Date Executed by Tenant:

By: /s/ ILLEGIBLE

MAY 13, 1999
- ------------------------

Mr. Michael R. Foley
President & CEO

Attest: /s/ ILLEGIBLE

Name: JOHN D. FRENCH

Title: V.P. SALES

[CORPORATE SEAL]

EXHIBIT "A"

FLOOR PLAN OF THE PREMISES

EXHIBIT "B"

LEASEHOLD IMPROVEMENTS

PARAGRAPH 1. CONSTRUCTION; PAYMENT. 1.01 Tenant shall cause the Leasehold Improvements to be constructed and installed in a good and workmanlike manner and in substantial accordance with final plans and specifications, as approved by Landlord and Tenant, to be prepared by Tenant's architect and submitted to Landlord by _____, which plans and specifications shall be in accordance with the preliminary plans and specifications furnished to Landlord as of the date hereof and shall be subject to Landlord's and Tenant's approval (the "Working Drawings and Specifications"). Landlord shall have three (3) days from receipt to return comments to Tenant of Working Drawings and Specifications. All plans and specifications prepared for Tenant's space by Tenant or Tenant's architect(s) or engineer(s) shall be reviewed by Landlord's architect, Hendrick & Assoc., and Landlord's engineers, Sedki & Russ Engineers and/or B&A Consulting Engineers, at Landlord's sole cost and expense. The Working Drawings and Specifications may only be modified by a written change order executed by Tenant and Landlord.

1.02 Unless otherwise agreed to in writing by Landlord and Tenant, all work involved in the construction and installation of the Leasehold Improvements shall be carried out under the sole discretion of Tenant, subject to Landlord's inspection and approval. Tenant shall cooperate with Landlord and Landlord's architect, contractors, employees, agents and other persons in order to promote the efficient and expeditious completion of such work.

1.03 (a) Subject to Landlord's payment of the Tenant Improvement Allowance, Tenant shall be further responsible for payment of the following: (i) all costs, including professional fees, of Landlord's architect, space planner, and other professionals for the review and preparation of the Working Drawings and Specifications or any change order thereto; and (ii) all costs to complete the construction and installation of the Leasehold Improvements, including but not limited to the cost of all labor and materials supplied to construct, install and complete the Leasehold Improvements, including but not limited to the cost of any changes made in the Leasehold Improvements, and the contractor's profit and overhead expenses.

(b) Tenant shall pay, upon substantial completion of the Leasehold Improvements, the amount by which the costs paid or incurred in connection with the Leasehold Improvements or otherwise required to be paid hereunder by Tenant exceed the Tenant Improvement Allowance on the Additional TI (as that term is hereinafter defined) if so requested by Tenant.

(c) Tenant agrees that in the event it fails to make any required payment required in the EXHIBIT "B" in a timely manner, including, but not limited to, those payments due under subsection (b) above, Landlord, in addition to any and all other remedies allowed it by law or equity, shall have the rights and remedies against Tenant as Landlord would upon the occurrence of an event of default of payment of Rent under this Lease.

PARAGRAPH 2. TENANT IMPROVEMENT ALLOWANCE. 2.01 Landlord shall contribute an amount equal to $25.00 RSF inclusive of all design fees and construction costs of

the Leasehold Improvements (the "TENANT IMPROVEMENT ALLOWANCE"), which includes the costs paid or incurred in connection with the design of the Leasehold Improvements. The Building shall be in an "AS IS", "SHELL" condition. The Tenant Improvement Allowance shall be used for the actual costs of constructing the Leasehold Improvements as such costs are incurred. Tenant shall be responsible for the payment of, and shall pay when due, any costs related to the Leasehold Improvements in excess of the Tenant Improvement Allowance and the Additional TI as applicable.

Based upon the Working Drawings and Specifications, Tenant shall build Leasehold Improvements with the Tenant Improvement Allowance. In the event that Tenant, shall in any way change the Working Drawings and Specifications, all cost and expenses, including design costs, construction costs and material costs over and above the Tenant Improvement Allowance shall be borne by Tenant and Tenant shall pay to Landlord any and all additional costs.

At the request of Tenant, Landlord shall provide to Tenant up to $5.00 RSF as additional tenant improvement allowance ("Additional TI") for the build out of the Premises. The Additional TI shall be fully amortized under the Initial Term of the Lease at an annual rate of ten percent (10%) and shall be payable each month during the Term of the Lease with the Base Rent.

In the event the full amount of Tenant Improvement Allowance is not used for the build out of the Premises, Tenant shall receive a credit against the Base Rent for the unused portion of the Tenant Improvement Allowance.

2.02 The Tenant Improvement Allowance and the Additional TI shall be used for the costs described in Section 2.01 hereof in accordance with the Working Drawings and Specifications. Tenant, no more than twice a month, shall deliver to Landlord a draw request in an AIA form for all or a portion of the Tenant Improvement Allowance and/or the Additional TI for the Leasehold Improvements made and to be paid for under such draw request. Such draw request shall be accompanied by the following:

1. A narrative description of the Leasehold Improvements made and constructed for which payment is being requested and the amount of such payment;

2. Copies of invoices evidencing the amount to be paid;

3. Certification of Tenant's Architect and Tenant that such interim work has been performed and is in compliance with the Work Drawings and Specifications;

4. Progress lien releases from the Tenant's general contractor and any subcontractors whose invoices are included;

5. Certificate for Tenant that Tenant has paid to Tenant's general contractor and any other parties amounts due and previously requested in prior draw requests and funded by Landlord; and

6. Any other documentation, including any approvals required by Landlord's construction lender, including but not limited to, inspection reports from Landlord's construction lender, as may be reasonably required by Landlord's construction lender (such a request, an "Interim Construction Draw").

The invoices included in the Interim Construction Draw shall reflect a retainage amount of at least ten percent (10%) of hard costs. Prior to the payment or partial payment of the Interim

Construction Draw, Landlord or its agent (including Landlord's construction lender or the Construction lender's agent) shall have the right to inspect the Leasehold Improvements constructed for which payment is being requested under the Interim Construction Draw and to approve or disapprove such interim work and Interim Draw Request. If such interim work and Interim Construction Draw Request are disapproved, Landlord and Tenant will use all reasonable effort to agree upon the means of remedying the defects in the interim work and/or any discrepancies in the Interim Draw Request. Landlord shall pay such Interim Construction Draw within thirty (30) days of receipt of the Interim Construction Draw, up to, but not to exceed, the maximum amount equal to the sum of the Tenant Improvement Allowance and the Additional TIA. Such payment shall be made to the Tenant and such third parties to whom payment is due as designated in the Interim Construction Draw. Provided that the Interim Construction Draw is complete with all required documentation, has been approved by Landlord and the interim work has been approved by Landlord and has been constructed in accordance with the Working Drawings and Specifications, should Landlord fail to timely pay the Interim Construction Draw and should Tenant be called on to pay the amounts requested in such Interim Construction Draw, Tenant shall be entitled (but not obligated) to pay same and to be reimbursed for same by Landlord. All monies expended by Tenant in payment of such invoices shall be due and payable by Landlord immediately, and shall bear interest at the rate of ten percent (10%) per annum until paid.

At any time after the Leasehold Improvements have been substantially completed, Tenant shall be entitled to make a final draw on the Tenant Improvement Allowance and the Additional TIA. Such request shall be required to meet all of the conditions and requirements for an Interim Construction Draw, except that (i) the narrative shall only be required to described the work done since the last Interim Construction Draw, (ii) no hold back for retainage shall be required, and (iii) all lien releases shall be final lien releases. In addition to the aforesaid, Tenant shall deliver (i) certificate of substantial completion from Tenant's Architect and accepted by Tenant; (ii) a tenant estoppel certificate; (iii) a final certificate of occupancy; and (iv) final affidavit and certification from the general contractor. Landlord shall pay such final draw within thirty (30) days of receipt of the final draw up to, but not to exceed the maximum amount equal to the sum of Tenant Improvement Allowance and the Additional TIA. Such payment shall be made jointly to the Tenant and to such third parties to whom payment is due as designated in the final draw. Provided that the final draw is complete with all required documentation, has been approved by Landlord and the work has been approved by Landlord and has been constructed in accordance with the Working Drawings and Specifications, should Landlord fail to timely pay the final draw and should Tenant be called on to pay the amounts requested in such final draw, Tenant shall be entitled (but not obligated) to pay same and to be reimbursed for same by Landlord. All monies expended by Tenant in payment of such invoices shall be due and payable by Landlord immediately, and shall bear interest at the rate of ten percent (10%) per annum until paid.

In addition to the covenants, agreements and rights created under Article 9 , Section 9.1, Tenant hereby indemnifies and agrees to hold Landlord harmless for any and all liabilities, damages, actions, causes of action, injury to property or person (including death to person), mechanics and materialmen liens, including reasonable attorney fees and expenses incurred, arising out of, directly or indirectly, for the construction of the Leasehold Improvements.

PARAGRAPH 3. DELAYS. 3.01 Tenant shall use its reasonable efforts to cause the Leasehold Improvements to be substantially completed by October 1, 1999 (the "TARGET COMPLETION DATE").

3.02 If the Leasehold Improvements have not been substantially completed by the Target Completion Date, the Commencement Date shall be deemed to occur on the Target Completion Date, notwithstanding that the Leasehold Improvements were not substantially completed as of such date.

3.03 If the Leasehold Improvements have not been substantially completed by the Target Completion, this Lease shall not be void or voidable, the Commencement Date shall occur as stated herein.

EXHIBIT "C"

SPECIAL STIPULATIONS

RELOCATION:

Landlord shall not have the right to relocate Tenant to other space without Tenant's consent, which consent may be withheld.

WARRANTY COVERAGE:

Any and all warranties which Landlord should obtain and which are assignable or run to successors and assigns, for equipment, including but not limited to fixtures located in, on or providing services to the Premises presently or in the future shall otherwise benefit Tenant.

CONSTRUCTION PERIOD:

In the event Tenant shall lease now or in the future additional space in the Building, Tenant shall not be obligated to pay rent for a period of time not to exceed sixty (60) days from the date of delivery of the additional premises to the Tenant for tenant improvement construction.

BACK UP POWER:

Tenant shall have access to the Building and the immediate land around the Building for the purpose of installing a backup power supply in an area and manner approved by Landlord, which shall not be unreasonably withheld, conditioned or delayed and subject to the covenants, restrictions, rules, regulations and guidelines of Barrett Master Declaration of Restrictive Covenants and Design Guidelines.

RENEWAL TERM:

Provided that Tenant is not in default under this Lease and has fulfilled all of its obligations hereunder and has given Landlord written notice at least one hundred eighty (180) days prior to the expiration of the Initial 7 year Term and the First Renewal Term of its exercise of the hereinafter renewal right of the Premises, Tenant shall have the right to renew this Lease for an additional one (1) five (5) year period ("First Renewal Term") upon the expiration of the Initial 7 year Term and the right to renew the Lease for an additional one (1) five (5) year period ("Second Renewal Term") beginning at the expiration of the First Renewal Term under the same terms and conditions contained in the Lease, except that the Rent for the First Renewal Term or Second Renewal Term shall be ninety-five percent (95%) of the then "Fair Market Value" applicable to the Building, as mutually agreed between Landlord and Tenant. The term "Fair Market Value" shall mean the value that a third-party tenant would pay upon leasing space similar to the Premises in a comparable office building taking into consideration such factors as the amount of net rentable area leased; the length of the lease in question; tenant improvement allowances being quoted for new tenants of comparable quality; increases or decreases in Base Rent over the term of the Lease that are being included in the comparable leases in comparable buildings for comparable spaces; appropriate inducements and concessions then being included

in said comparable leases for preparation of comparable space, including but not limited to so-called free or abated rents; the location and quality of the Project as compared to comparable office buildings; and the credit standing of Tenant. Upon receipt of written notice from Tenant to Landlord of Tenant's desire to renew the Lease, Landlord and Tenant shall negotiate in good faith to reach an agreement on "Fair Market Value" for the Premises for the First Renewal Term or Second Renewal Term.

If Tenant and Landlord are unable to reach an agreement acting in good faith on a "Fair Market Value" for the Premises within sixty (60) days after Tenant has exercised its renewal option, Landlord shall advise Tenant, in writing, of Landlord's determination of Fair Market Value. Within thirty (30) days of receipt of Landlord's determination of Fair Market Value, Tenant shall advise Landlord in writing, of Tenant's acceptance or rejection of Landlord's determination. Failure to accept or reject within the allotted time period shall be deemed an acceptance of Landlord's determination by Tenant. If Tenant rejects Landlord's determination, then Tenant shall, within Tenant's written notice to Landlord, inform Landlord of Tenant's election to enter into binding arbitration or to cease negotiations with Landlord at which time this option to renew shall be forfeited and neither party shall have any continuing obligation to the other with respect to the Premises. If Tenant elects to arbitrate then said written notice to Landlord shall specify its selection of a real estate appraiser, who shall act on Tenant's behalf in the determination of Fair Market Value. Within ten (10) days of Landlord's receipt of Tenant's notice, Landlord shall designate a real estate appraiser to represent Landlord in the determination of Fair Market Value. Within ten (10) days of the selection of Landlord's appraiser, the two appraisers shall render a joint written determination of the Fair Market Value. If the two appraisers are unable to agree upon a joint written determination of Fair Market Value within said ten (10) days period then each appraiser shall render his or her own written determination of Fair Market Value and the two appraisers shall select a third appraiser within the ten (10) day period. The third appraiser shall then select one of the determinations of the original two appraisers without modification or qualification. All appraisers selected in accordance with this option shall have at least five (5) years prior experience in the Metropolitan Atlanta commercial leasing market and shall be members for the Georgia Association of Realtors, the American Institute of Real Estate Appraisers, or similar professional organization. The results of the arbitration proceeding shall be binding upon the parties hereto. Each party shall bear the expense of its own appraiser and shall share the expense of the third appraiser if necessary.

RIGHT OF FIRST REFUSAL:

Tenant shall have an on-going "First Right of First Refusal" ("First Right") to lease any and all space in the Building that becomes available during the Term, First Renewal Term and Second Renewal Term of this Lease under the following terms and conditions: (i) upon written notice to Tenant by the Landlord that additional space is available, which notice shall specify the space, that Landlord has a letter of intent from a bona fide third-party prospect, the square footage of the space, the length of the term, the economic and financial terms, and any other key business terms as Landlord feel appropriate to include in such written notice, Tenant shall either accept and agree to lease such additional space within ten (10) days of such notice or reject the right to lease such additional space within said ten (10) days and failure by Tenant to respond to Landlord in writing to such notice within said ten (10) days shall be deemed a rejection by Tenant to lease such additional space; (ii) rental of the additional space shall be under the terms

set forth in the aforesaid written notice; and (iii) Tenant shall enter into an amendment to the Lease for such additional space with Landlord within thirty (30) days of Tenant's agreement to lease such additional space.

In the event there exists no third party tenant and Tenant wishes to lease any and all additional space in the Building then Landlord and Tenant shall in good faith negotiate a "Fair Market Value" lease rate (as "Fair Market Value" is defined in the "Renewal Term" section above) for the applicable space.

If Tenant and Landlord are unable to reach an agreement on a "Fair Market Value" for the additional space within sixty (60) days after Tenant has exercised its First Right, Landlord shall advise Tenant, in writing, of Landlord's determination of Fair Market Value. Within thirty (30) days of receipt of Landlord's determination of Fair Market Value, Tenant shall advise Landlord in writing, of Tenant's acceptance or rejection of Landlord's determination. Failure to accept or reject within the allotted time period shall be deemed an acceptance of Landlord's determination by Tenant. If Tenant rejects Landlord's determination, then Tenant shall, within Tenant's written notice to Landlord, inform Landlord of Tenant's election to enter into binding arbitration or to cease negotiations with Landlord. If Tenant elects to arbitrate then said written notice to landlord shall specify its selection of a real estate appraiser, who shall act on Tenant's behalf in the determination of Fair Market Value. Within ten (10) days of Landlord's receipt of Tenant's notice, Landlord shall designate a real estate appraiser to represent Landlord in the determination of Fair Market Value. Within ten (10) days of the selection of Landlord's appraiser, the two appraisers shall render a joint written determination of the Fair Market Value. If the two appraisers are unable to agree upon a joint written determination of Fair Market Value within said ten (10) days period then each appraiser shall render his or her own written determination of Fair Market Value and the two appraisers shall select a third appraiser within the ten (10) day period. The third appraiser shall then select one of the determinations of the original two appraisers without modification or qualification. All appraisers selected in accordance with this option shall have at least five (5) years prior experience in the Metropolitan Atlanta commercial leasing market and shall be members for the Georgia Association of Realtors, the American Institute of Real Estate Appraisers, or similar professional organization. The results of the arbitration proceeding shall be binding upon the parties hereto. Each party shall bear the expense of its own appraiser and shall share the expense of the third appraiser if necessary.

The First Right as provided in this paragraph shall commence on August 7,1999, but not before said date.

RIGHT OF FIRST OFFER:

Subject to the rights to the space held by other tenants in the Building, upon written notice to Tenant by Landlord of the availability of space in the 100 Building, the Tenant shall have ten (10) days from receipt of such notice to either accept and agree to lease such additional space or reject the right to lease such additional space. The failure by the Tenant to respond in writing to Landlord's notice within said ten (10) day period shall be deemed a rejection by Tenant to lease such additional space. In the event that Tenant elects to lease tile additional space offered, the minimum amount of space to be leased shall be 5,000 rentable square feet, having a

minimum term of three (3) years with a termination date being co-terminus with the termination date of this Lease, at the then current market rental rate, and under substantially the same terms and conditions as contained in this Lease, including adjusted tenant allowance for tenant improvements.

LANDLORD LIEN RIGHTS:

Notwithstanding anything contained herein, in the event of a default under the Lease and Landlord exercises its remedies under the Lease or at law or equity, Landlord's lien rights shall only be applicable to Leasehold Improvements funded by the Tenant Improvement Allowance and Additional TI, and shall not be applicable to Tenant's furniture, fixtures, equipment or receivables.

SIGNAGE:

Tenant shall have the right to place its logo, at its sole expense, on the Building monument sign, which logo shall be subject to Landlord's approval, which approval will not unreasonably be withheld, subject to the Barrett Master Declaration of Restrictive Covenants and Design Guidelines and all governmental ordinances. So long as Tenant has a majority of the space in the Building leased, Tenant shall have the exclusive right to the signage on the Building monument sign.

PATIO:

Subject to Landlord's approval of location, size and design and the Barrett Master Declaration of Restrictive Covenants and Design Guidelines, Tenant shall have the right to construct, at Tenant's expense, a seating patio.

EXHIBIT "D"

RULES AND REGULATIONS

1. No sign, picture, advertisement or notice visible from the exterior of the Premises shall be installed, affixed, inscribed, painted or otherwise displayed by Tenant on or in any part of the Premises or the Building unless the same is first approved by Landlord. Any such sign, picture, advertisement or notice approved by Landlord shall be painted or installed for Tenant at Tenant's cost by Landlord or by a party approved by Landlord. No awnings, blinds, shades or screens shall be attached to or hung in, or used in connection with any window or door of, the Premises without the prior consent of the Landlord, including approval by the Landlord of the quality, type, design, color and manner of attachment.

2. Tenant agrees that its use of electrical current shall never exceed the capacity of existing feeders, risers or wiring installation.

3. Business machines and mechanical equipment belonging to Tenant that cause noise and/or vibration that may be transmitted to the structure of the Building or to any leased space so as to be objectionable to Landlord or any other tenants in the Building shall be placed and maintained by Tenant, at Tenant's expense, in setting of cork, rubber, or spring type nose and/or vibration eliminators sufficient to eliminate vibration and/or noise.

4. The Premises shall not be used for storage of merchandise held for retail sale to the general public. Tenant shall not do or permit to be done in or about the Premises or the Building anything which shall increase the rate of insurance on said Building or obstruct or interfere with the rights of other tenants of Landlord or annoy them in any way, including, but not limited to, using any musical instrument or making loud or unseemly noises. The Premises shall not be used for sleeping or lodging. No cooking or related activities shall be done or permitted by Tenant in the Premises except with permission of Landlord. Tenant will be permitted to use for its own employees within the Premises a small microwave oven and Underwriters' Laboratory approved new equipment for brewing coffee, tea, hot chocolate and similar beverages, provided that such use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations and all applicable insurance requirements. No vending machines of any kind will be installed, permitted or used on any part of the Premises without the prior consent of Landlord. No part of said Building or Premises shall be used for gambling, immoral or other unlawful purposes. Tenant shall not permit the sale of any alcoholic beverage from or in the Building or the Premises without the prior written consent of the Landlord. No area outside of the Premises shall be used for storage purposes at any time. With respect to multiple-tenant floors of the Building, each tenant thereof shall cause any doors between corridors, any elevator lobby doors and any stairwell or stairway doors on such floor to be kept closed.

5. No birds or animals of any kind shall be brought into the Building (other than trained seeing-eye dogs required to be used by the visually impaired). No bicycles or motorcycles (or other motorized vehicles of any kind) shall be brought into the Building.

6. The sidewalks, entrances, passages, corridors, halls, elevators, and stairways in the Building shall not be obstructed by Tenant or permitted by Tenant to be used for any purposes other than those for which same were intended as ingress and egress. No windows, floors or skylights that reflect or admit light into the Building shall be covered or obstructed by Tenant. Toilets, wash basins and sinks, or any other plumbing fixture or appliance, shall not be used for any purpose other than those for which they were constructed, and no sweeping, rubbish, or other obstructing or improper substances shall be thrown or placed therein. The cost of repairing any stoppage or damage resulting to any such fixtures or appliances from misuse on the part of Tenant or any person in the Building at the invitation or with the permission of Tenant shall be paid by Tenant. Any damage resulting to any such item, or to heating apparatus, from misuse by Tenant or any such person shall be borne by Tenant.

7. Only one key for each office in the Premises will be furnished Tenant without charge. Landlord may make a reasonable charge for any additional keys. No additional lock, latch or bolt of any kind shall be placed upon any door nor shall any changes be made in existing locks without the prior written consent of Landlord, and Tenant shall in each case furnish Landlord with a key for any such lock. At expiration of the term of the Lease or the termination of the Lease, Tenant shall return to Landlord all keys furnished to Tenant by Landlord, or otherwise procured by Tenant, and in the event of loss of any keys so furnished, Tenant shall pay to Landlord the replacement cost thereof.

8. Landlord shall have the right to prescribe the weight, position and manner of installation of heavy articles such as safes, machines and other equipment brought into the Building. No safes, furniture, boxes, large parcels or other kind of freight shall be taken to or from the Premises or allowed in any elevator, hall or corridor except at times allowed by Landlord. Tenant shall make prior arrangements with Landlord for use of the freight elevator for the purpose of transporting such articles and such articles may be taken in or out of said Building only by using such freight elevator and only during such hours as may be arranged with and designated by Landlord. The persons employed to move the same must be approved by Landlord. In no event shall any weight be placed upon any floor by Tenant so as to exceed the design conditions of the floors at the applicable location.

9. Tenant shall not permit any gases, liquids or odors to be produced upon or permeate from the Premises, and Tenant shall not permit any flammable, combustible or explosive fluid, chemical or substance to be brought into the Building.

10. Every person, including Tenant, its employees and visitors, entering and leaving the Building may be questioned by a watchman as to that person's business therein and may be required to sign such person's name on a form provided by Landlord for registering such person; provided, however, except for emergencies or other circumstances requiring same in Landlord's reasonable judgment, such procedures shall not be required during Business Hours. Landlord may also implement a card access security system to control access. Landlord shall not be liable for excluding any person from the Building, or for admission of any person to the Building at any time, or for damages or loss from theft resulting therefrom to any person, including Tenant. All deliveries must be made via the service entrance and service elevators during Business Hours or as otherwise directed or scheduled by Landlord, and Landlord's prior written approval must be obtained for any other deliveries.

Landlord shall not be responsible for any loss, theft, mysterious disappearance of or damage to, any property, however occurring.

11. No connection shall be made to the electric wires or gas or electric fixtures, without the prior written consent on each such occasion by Landlord. All glass, locks and trimmings in or upon the doors and windows of the Premises shall be kept whole by Tenant and in good repair. Tenant shall not injure, overload or deface the Building, the woodwork or the walls of the Premises, nor permit upon the Premises any noisome, noxious, noisy or offensive business.

12. If Tenant desires wiring for additional telephone service, or a bell or buzzer system, or for any other purpose, such wiring shall be done by the electrician of the Landlord, and no other person shall be permitted by Tenant to do any such work except with the prior written permission of Landlord. No boring or cutting for wiring or for any other purpose shall be done unless first approved in writing by Landlord.

13. Tenant and any person parking a vehicle (including, without limitation, a bicycle) in connection with visiting the Building, or otherwise parking a vehicle at Tenant's invitation or with-the permission of Tenant, shall observe and obey all parking and traffic regulations imposed by Landlord. All vehicles shall be parked only in areas designated therefor by Landlord. Tenant shall not permit any such vehicle to be parked overnight or to display any form of advertising, including, without limitation, "for sale" signs or any advertising of services, products, or any enterprise. Landlord shall be entitled to cause any vehicle parked in violation of these Rules and Regulations or other parking and traffic regulations imposed by Landlord either to be towed at the vehicle owner's sole cost and express or to attach to the vehicle a "boot" or other immobilizing device and require said owner to pay a fee for the removal thereof.

14. Canvassing, peddling, soliciting and distribution of handbills or any other written materials in the Building are prohibited, and Tenant shall cooperate to prevent same.

15. Landlord shall not have the right to change the name of the Building and to change the street address of the Building, provided that in the case of a change in the street address, Landlord shall give Tenant not less than 120 days' prior notice of the change, unless the change is required by governmental authority.

16. Landlord may waive any one or more of these Rules and Regulations for the benefit of Landlord or of any particular tenant, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the other tenants of the Building.

17. These Rules and Regulations are supplemental to, and shall not be construed in any way as modifying or amending, in whole or in part, the terms, covenants, agreements and conditions of any lease of any premises in the Building.

18. Landlord reserves the right to enforce the restrictions and limitations contained in the Lease, to make such other reasonable Rules and Regulations as in its judgment may from

time to time be desirable for the safety, care and cleanliness of the Building, the management thereof, or the preservation of good order therein.

LIST OF SUBSIDIARIES
OF
ALLIANCE DATA SYSTEMS CORPORATION

NAME OF DIRECT SUBSIDIARY	STATE & DATE OF INC.	DOING BUSINESS AS
ADS ALLIANCE DATA SYSTEMS, INC.	DELAWARE 4/22/83	ADS ALLIANCE DATA S
WORLD FINANCIAL NETWORK NATIONAL BANK	FEDERAL CHARTER 5/1/89	WORLD FINANCIAL NET
ALLIANCE DATA SYSTEMS (NEW ZEALAND) LIMITED	NEW ZEALAND 1/7/97	ALLIANCE DATA SYSTE LIMITED
LOYALTY MANAGEMENT GROUP CANADA, INC.	TORONTO, CANADA AMALGAMATED 7/24/98	LOYALTY MANAGEMENT
ADS REINSURANCE LTD.	BERMUDA 11/26/98	ADS REINSURANCE LT
ADS COMMERCIAL SERVICES, INC.	DELAWARE 1/18/95	ADS COMMERCIAL SER

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 7 to Registration Statement No. 333-94623 of Alliance Data Systems Corporation and Subsidiaries of our report dated February 2, 2001 (February 28, 2001 as to Note 21) appearing in the Prospectus, which is part of this Registration Statement, and to the references to us under the headings "Selected Historical Consolidated Financial and Operating Information" and "Experts" in such Prospectus.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Columbus, Ohio

May 4, 2001

EXHIBIT 23.3

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 7 to Registration Statement No. 333-94623 of Alliance Data Systems Corporation of our report dated February 28, 2001 relating to the consolidated financial statements of Utilipro, Inc. and Subsidiaries as of September 30, 1999 and 2000 and the years then ended, appearing in the Prospectus, which is part of this Registration Statement, and to the reference to us under the heading "Experts" in such Prospectus.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP
Atlanta, Georgia
May 4, 2001