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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended March 31, 2004**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number: 001-15749**

# ALLIANCE DATA SYSTEMS CORPORATION

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware** | **31-1429215** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

**17655 Waterview Parkway**
**Dallas, Texas 75252**
(Address of Principal Executive Office, Including Zip Code)

**(972) 348-5100**
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No o

As of April 30, 2004, 80,252,419 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

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## PART I

**Item 1. Financial Statements**

**ALLIANCE DATA SYSTEMS CORPORATION**
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**
**(in thousands, except per share amounts)**

| | December 31, 2003 | March 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 67,745 | $ 107,173 |
| Due from card associations | 7,855 | 5,033 |
| Trade receivables, net | 125,396 | 112,067 |
| Seller's interest and credit card receivables, less allowance for doubtful accounts ($17,151 and $17,708 at December 31, 2003 and March 31, 2004, respectively) | 271,396 | 255,065 |
| Deferred tax asset, net | 45,881 | 45,871 |
| Other current assets | 64,579 | 68,258 |
| Total current assets | 582,852 | 593,467 |
| Redemption settlement assets, restricted | 215,271 | 221,084 |
| Property and equipment, net | 133,746 | 128,233 |
| Other non-current assets | 27,647 | 26,756 |
| Due from securitizations | 280,778 | 245,851 |
| Intangible assets, net | 143,733 | 137,554 |
| Goodwill | 484,415 | 484,119 |
| Total assets | $ 1,868,442 | $ 1,837,064 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Accounts payable | $ 71,727 | $ 68,789 |
| Accrued expenses | 101,620 | 102,609 |
| Merchant settlement obligations | 56,904 | 62,457 |
| Other liabilities | 59,359 | 56,554 |
| Certificates of deposit | 195,800 | 86,800 |
| Credit facilities and other debt, current | 4,990 | 47,990 |
| Total current liabilities | 490,400 | 425,199 |
| Other liabilities | 13,731 | 9,537 |
| Deferred tax liability, net | 6,744 | 11,060 |
| Deferred revenue—service | 132,741 | 131,743 |
| Deferred revenue—redemption | 333,134 | 333,406 |
| Certificates of deposit | 4,600 | 4,200 |
| Long-term and subordinated debt | 184,761 | 180,506 |
| Total liabilities | 1,166,111 | 1,095,651 |
| Stockholders' equity: | | |
| Common stock, $0.01 par value; authorized 200,000 shares; issued 80,043 shares as of December 31, 2003, 80,357 shares as of March 31, 2004 | 800 | 804 |
| Additional paid-in capital | 611,550 | 615,983 |
| Treasury stock, at cost, 418 shares (December 31, 2003 and March 31, 2004) | (6,151) | (6,151) |
| Retained earnings | 96,965 | 129,306 |
| Accumulated other comprehensive (loss) income | (833) | 1,471 |
| Total stockholders' equity | 702,331 | 741,413 |
| Total liabilities and stockholders' equity | $ 1,868,442 | $ 1,837,064 |

See accompanying notes to unaudited condensed consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**(in thousands, except per share amounts)**

| | Three months ended March 31, 2003 | Three months ended March 31, 2004 |
|---|---|---|
| Revenues | | |
| Transaction and marketing services | $ 122,576 | $ 148,437 |
| Redemption | 36,108 | 51,438 |
| Financing charges, net | 77,276 | 106,076 |
| Other income | 4,229 | 6,455 |
| Total revenue | 240,189 | 312,406 |
| Operating expenses | | |
| Cost of operations (exclusive of depreciation and amortization disclosed separately below) | 180,406 | 219,025 |
| General and administrative | 16,875 | 14,535 |
| Depreciation and other amortization | 12,925 | 16,556 |
| Amortization of purchased intangibles | 4,353 | 6,758 |
| Total operating expenses | 214,559 | 256,874 |
| Operating income | 25,630 | 55,532 |
| Fair value loss on interest rate derivative | 1,148 | 509 |
| Interest expense | 4,556 | 3,112 |
| Income before income taxes | 19,926 | 51,911 |
| Provision for income taxes | 7,612 | 19,570 |
| Net income | $ 12,314 | $ 32,341 |
| Net income per share—basic | $ 0.16 | $ 0.40 |
| Net income per share—diluted | $ 0.16 | $ 0.39 |
| Weighted average shares—basic | 74,866 | 80,143 |
| Weighted average shares—diluted | 76,463 | 83,188 |

See accompanying notes to unaudited condensed consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands)**

| | Three months ended March 31, | |
|---|---|---|
| | 2003 | 2004 |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 12,314 | $ 32,341 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,278 | 23,314 |
| Deferred income taxes | (2,279) | 3,552 |
| Accretion of deferred income | (384) | — |
| Fair value loss on interest rate derivative | 1,148 | 509 |
| Provision for doubtful accounts | 2,986 | 3,208 |
| Change in operating assets and liabilities, net of acquisitions: | | |
| Change in trade receivable | 5,455 | 11,759 |
| Change in merchant settlement activity | 41,799 | 8,375 |
| Change in other assets | (3,518) | (1,776) |
| Change in accounts payable and accrued expenses | 13,921 | 151 |
| Change in deferred revenue | 5,955 | 4,513 |
| Change in other liabilities | 8,114 | (6,157) |
| Purchase of credit card receivables | — | (34,417) |
| Other operating activities | 2,654 | 30 |
| Net cash provided by operating activities | 105,443 | 45,402 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Change in redemption settlement assets | (1,772) | (8,203) |
| Payments for acquired businesses, net of cash acquired | (2,465) | — |
| Payments to secure customer contracts | (30,541) | — |
| Change in seller's interest | 351 | 46,442 |
| Change in due from securitizations | 23,808 | 34,927 |
| Capital expenditures | (10,049) | (11,621) |
| Other investing activities | 108 | (1,775) |
| Net cash (used in) provided by investing activities | (20,560) | 59,770 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Borrowings under debt agreements | 174,468 | 265,813 |
| Repayment of borrowings | (197,500) | (334,490) |
| Payment of capital lease obligations | (63) | (1,234) |
| Proceeds from issuance of common stock | 885 | 4,437 |
| Net cash used in financing activities | (22,210) | (65,474) |
| Effect of exchange rate changes | 6,552 | (270) |
| Change in cash and cash equivalents | 69,225 | 39,428 |
| Cash and cash equivalents at beginning of period | 30,439 | 67,745 |
| Cash and cash equivalents at end of period | $ 99,664 | $ 107,173 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | |
| Interest paid | $ 5,963 | $ 3,206 |
| Income taxes paid | $ 4,425 | $ 247 |

See accompanying notes to unaudited condensed consolidated financial statements.

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation ("ADSC" or, including its wholly owned subsidiaries, the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2003.

The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting of normal, recurring adjustments) which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts 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.

For purposes of comparability, certain prior period amounts have been reclassified to conform with the current year presentation. Such reclassifications have no impact on previously reported net income.

**2. INTANGIBLE ASSETS**

Intangible assets consist of the following:

| | March 31, 2004 | | | |
|---|---|---|---|---|
| | Gross Assets | Accumulated Amortization | Net | Amortization Life and Method |
| | | (in thousands) | | |
| Premium on purchased credit card portfolios | $ 43,137 | $ (8,169) | $ 34,968 | 3-10 years—straight line |
| Customer contracts and lists | 111,787 | (30,651) | 81,136 | 3-20 years—straight line |
| Noncompete agreements | 4,300 | (3,607) | 693 | 1-5 years—straight line |
| Collector database | 52,407 | (31,650) | 20,757 | 15%—declining balance |
| Total intangible assets | $ 211,631 | $ (74,077) | $ 137,554 | |

| | December 31, 2003 | | | |
|---|---|---|---|---|
| | Gross Assets | Accumulated Amortization | Net | Amortization Life and Method |
| | | (in thousands) | | |
| Premium on purchased credit card portfolios | $ 42,142 | $ (6,774) | $ 35,368 | 3-10 years—straight line |
| Customer contracts and lists | 131,487 | (46,308) | 85,179 | 3-20 years—straight line |
| Noncompete agreements | 4,300 | (3,399) | 901 | 1-5 years—straight line |
| Collector database | 53,991 | (31,706) | 22,285 | 15%—declining balance |
| Total intangible assets | $ 231,920 | $ (88,187) | $ 143,733 | |

**3. DEBT**

Debt consists of the following:

| | December 31, 2003 | March 31, 2004 |
|---|---|---|
| | (in thousands) | |
| Certificates of deposit | $ 200,400 | $ 91,000 |
| Credit facilities | 179,789 | 219,771 |
| Other | 9,962 | 8,725 |
| | 390,151 | 319,496 |
| Less: current portion | (200,790) | (134,790) |
| Long term portion | $ 189,361 | $ 184,706 |

The Company amended its Credit Facility (364-Day) by and among the Company, the guarantors from time to time party thereto, the banks from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent, as of April 8, 2004, to extend for an additional 364 days the terms of the previous Credit Facility (364-Day) dated as of April 10, 2003, by and among the same parties.

As of March 31, 2004, the certificates of deposit had effective annual fixed rates ranging from 1.6% to 3.3%, and the credit facilities had an average interest rate of 3.1%.

**4. INCOME TAXES**

For the three months ended March 31, 2004, the Company has utilized an effective tax rate of 37.7% to calculate its provision for income taxes. In accordance with Accounting Principles Board ("APB") Opinion No. 28, Interim Financial Reporting, this effective tax rate is the Company's expected annual effective tax rate for calendar year 2004 based on all known variables.

## 5. COMPREHENSIVE INCOME

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

| | Three months ended March 31, 2003 | Three months ended March 31, 2004 |
|---|---|---|
| | (in thousands) | |
| Net income | $ 12,314 | $ 32,341 |
| Change in fair value of derivatives | (1,755) | — |
| Reclassifications into earnings(1) | 1,824 | 290 |
| Unrealized (loss) gain on securities available-for-sale | (726) | 880 |
| Foreign currency translation adjustments(2) | 712 | 1,134 |
| Total comprehensive income | $ 12,369 | $ 34,645 |

(1) Reclassifications into earnings arise from interest rate swaps, a foreign currency hedge, and amortization of amounts recorded in connection with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 133.

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

## 6. STOCK COMPENSATION

At March 31, 2004, the Company had three stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based employee compensation cost is reflected in net income for stock options, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

| | Three months ended March 31, 2003 | Three months ended March 31, 2004 |
|---|---|---|
| | (in thousands, except per share amounts) | |
| Net income, as reported | $ 12,314 | $ 32,341 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects | 1,725 | — |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all stock option awards, net of related tax effects | (4,013) | (1,831) |
| Net income, pro forma | $ 10,026 | $ 30,510 |
| Net income per share: | | |
| Basic-as reported | $ 0.16 | $ 0.40 |
| Basic-pro forma | $ 0.13 | $ 0.38 |
| Diluted-as reported | $ 0.16 | $ 0.39 |
| Diluted-pro forma | $ 0.13 | $ 0.37 |

## 7. SEGMENT INFORMATION

Consistent with prior periods, the Company classifies its businesses into three segments: Transaction Services, Credit Services and Marketing Services.

| | Transaction Services | Credit Services | Marketing Services | Other/ Elimination | Total |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| **Three months ended March 31, 2003** | | | | | |
| Revenues | $ 143,119 | $ 109,179 | $ 59,735 | $ (71,844) | $ 240,189 |
| Depreciation and amortization | 11,569 | 1,418 | 4,291 | — | 17,278 |
| Operating income | 7,024 | 15,616 | 2,990 | — | 25,630 |
| EBITDA(1) | 18,593 | 17,034 | 7,281 | — | 42,908 |
| Fair value loss on interest rate derivative | — | 1,148 | — | — | 1,148 |
| **Three months ended March 31, 2004** | | | | | |
| Revenues | $ 171,582 | $ 142,193 | $ 80,362 | $ (81,731) | $ 312,406 |
| Depreciation and amortization | 16,689 | 1,953 | 4,672 | — | 23,314 |
| Operating income | 7,231 | 38,043 | 10,258 | — | 55,532 |
| EBITDA(1) | 23,920 | 39,996 | 14,930 | — | 78,846 |
| Fair value loss on interest rate derivative | — | 509 | — | — | 509 |

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

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes thereto presented in this quarterly report and the notes thereto included in our Annual Report filed on Form 10-K for the year ended December 31, 2003.

### Recent Developments

We amended our Credit Facility (364-Day) by and among us, the guarantors from time to time party thereto, the banks from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent, as of April 8, 2004, to extend for an additional 364 days the terms of the previous Credit Facility (364-Day), dated as of April 10, 2003 by and among the same parties.

### Quarter in Review Highlights

Our first quarter 2004 results included significant new and renewed customer and sponsor agreements:

- In January 2004, we signed a long-term renewal with BMO Bank of Montreal MasterCard, a top-five client and founding sponsor in the AIR MILES® Reward Program.
- In January 2004, we entered into an agreement with Stage Stores, Inc. to purchase the Peebles' private label credit card portfolio.
- In January 2004, we signed a long-term renewal with Shell Canada Limited, a top-ten client and significant, high-frequency sponsor in the AIR MILES Reward Program.
- In January 2004, we signed a long-term renewal whereby Air Canada will continue as a rewards supplier in the AIR MILES Reward Program.
- In February 2004, we commenced a five-year agreement to start a private label credit card program with Design Within Reach.
- In March 2004, we signed a long-term, exclusive agreement with BMO Bank of Montreal and WestJet to introduce a tri-branded MasterCard.

### Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2003.

### Use of Non-GAAP Financial Measures

EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable GAAP financial measure, plus provision for income taxes, interest expense, fair value loss on interest rate derivative, depreciation, and amortization. Operating EBITDA is a non-GAAP financial measure equal to EBITDA plus the change in deferred revenue less the change in redemption settlement assets. We have presented EBITDA and operating EBITDA because we use them to monitor compliance with the financial covenants in our credit agreements, such as debt-to-operating EBITDA and operating EBITDA to interest expense ratios. We also use EBITDA and operating EBITDA as an integral part of our internal reporting to measure the performance of our reportable segments and to evaluate the performance of our senior management. Therefore, we believe that EBITDA and operating EBITDA provide useful information to our investors regarding our performance and overall results of operations.

We also present EBITDA margin, which is EBITDA divided by revenue. EBITDA and operating EBITDA are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, EBITDA and operating EBITDA are not intended to represent funds available for dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The EBITDA and operating EBITDA measures presented in this Form 10-Q may not be comparable to similarly titled measures presented by other companies, and may not be identical to corresponding measures used in our various agreements. The following sets forth a reconciliation of net income to EBITDA and operating EBITDA:

| | Three months ended March 31, | |
|---|---|---|
| | 2003 | 2004 |
| | (in thousands) | |
| Net income | $ 12,314 | $ 32,341 |
| Provision for income taxes | 7,612 | 19,570 |
| Interest expense | 4,556 | 3,112 |
| Fair value loss on interest rate derivative | 1,148 | 509 |
| Depreciation and other amortization | 12,925 | 16,556 |
| Amortization of purchased intangibles | 4,353 | 6,758 |
| EBITDA | 42,908 | 78,846 |
| Change in deferred revenue | 32,579 | (726) |
| Less change in redemption settlement assets | (14,257) | (5,813) |
| Operating EBITDA | $ 61,230 | $ 72,307 |

Note: Operating EBITDA is affected by fluctuations in foreign exchange rates and transfers of cash to redemption settlement assets.

**Results of Operations**

***Three months ended March 31, 2003 compared to the three months ended March 31, 2004***

| | Three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2003 | 2004 | $ | % |
| | (in thousands, except percentages) | | | |
| Revenue: | | | | |
| Transaction Services | $ 143,119 | $ 171,582 | $ 28,463 | 19.9% |
| Credit Services | 109,179 | 142,193 | 33,014 | 30.2 |
| Marketing Services | 59,735 | 80,362 | 20,627 | 34.5 |
| Other/Eliminations | (71,844) | (81,731) | (9,887) | 13.8 |
| Total | $ 240,189 | $ 312,406 | $ 72,217 | 30.1% |
| EBITDA: | | | | |
| Transaction Services | $ 18,593 | $ 23,920 | $ 5,327 | 28.7% |
| Credit Services | 17,034 | 39,996 | 22,962 | 134.8 |
| Marketing Services | 7,281 | 14,930 | 7,649 | 105.1 |
| Total | $ 42,908 | $ 78,846 | $ 35,938 | 83.8% |
| Depreciation and amortization: | | | | |
| Transaction Services | $ 11,569 | $ 16,689 | $ (5,120) | (44.3)% |
| Credit Services | 1,418 | 1,953 | (535) | (37.7) |
| Marketing Services | 4,291 | 4,672 | (381) | (8.9) |
| Total | $ 17,278 | $ 23,314 | $ (6,036) | (34.9)% |
| Operating income: | | | | |
| Transaction Services | $ 7,024 | $ 7,231 | $ 207 | 2.9% |
| Credit Services | 15,616 | 38,043 | 22,427 | 143.6 |
| Marketing Services | 2,990 | 10,258 | 7,268 | 243.1 |
| Total | $ 25,630 | $ 55,532 | $ 29,902 | 116.7% |
| Segment operating data: | | | | |
| Statements generated | 39,310 | 47,990 | 8,680 | 22.1% |
| Core transactions processed | 452,998 | 604,542 | 151,554 | 33.5% |
| Credit Sales | $ 1,118,372 | $ 1,310,903 | $ 192,531 | 17.2% |
| Average securitized portfolio | $ 2,611,992 | $ 2,996,520 | $ 384,528 | 14.7% |
| AIR MILES reward miles issued | 571,733 | 620,750 | 49,017 | 8.6% |
| AIR MILES reward miles redeemed | 321,597 | 407,193 | 85,596 | 26.6% |

*Revenue.* Total revenue increased $72.2 million, or 30.1%, to $312.4 million for the three months ended March 31, 2004 from $240.2 million for the comparable period in 2003. The increase was due to a 19.9% increase in Transaction Services revenue, a 30.2% increase in Credit Services revenue and a 34.5% increase in Marketing Services revenue as follows:

- *Transaction Services.* Transaction Services revenue increased $28.5 million, or 19.9%, primarily due to an increase in the number of statements generated and transactions processed. The increase in the number of statements generated is attributable to our utility and private label clients. Statements generated increased by 22.1%, while revenue per statement was up slightly. The increase in statements is primarily from the addition of new clients in both utility—Centrica (signed in March 2003), CBSI (acquired in September 2003) and Orcom (acquired in December 2003) and private label—Stage Stores (signed in September 2003) and core growth in existing clients. Core transactions processed increased by 33.5% as our petroleum clients experienced higher transaction volume due to higher gas prices.

- *Credit Services.* Credit Services revenue increased $33.0 million, or 30.2%, primarily due to a 36.3% increase in finance charges, net. Finance charges, net increased $28.1 million primarily as a result of a 15.0% increase in average core accounts receivable, lower cost of funds as a result of the refinancing of our public securitization bonds during 2003, and higher collected yield compared to the same period in 2003.

- *Marketing Services.* Marketing Services revenue increased $20.6 million, or 34.5%, primarily due to an increase in redemption revenue related to a 26.6% increase in the redemption of AIR MILES reward miles and an increase in the accretion of deferred services revenue. Changes in the exchange rate of the Canadian dollar accounted for approximately $9.7 million of the $20.6 million increase in our Marketing Services revenue, or 16.2%. Our deferred revenue balance decreased 0.2% to $465.1 million at March 31, 2004 from $465.9 million at December 31, 2003 due to the declining Canadian dollar exchange rate, partially offset by continued growth in the program, including an 8.6% increase in AIR MILES reward miles issued during the three months ended March 31, 2004 over the comparable period in 2003. Deferred revenue in local currency increased 1.0%.

*Operating Expenses.* Total operating expenses, excluding depreciation and amortization, increased $36.3 million, or 18.4%, to $233.6 million during the three months ended March 31, 2004 from $197.3 million during the comparable period in 2003. Total EBITDA margin increased to 25.2% for the three months ended March 31, 2004 from 17.9% for the comparable period in 2003, primarily due to increased margins for Transaction Services, Credit Services and Marketing Services.

- *Transaction Services.* Transaction Services operating expenses, excluding depreciation and amortization, increased $23.2 million, or 18.6%, to $147.7 million for the three months ended March 31, 2004 from $124.5 million for the comparable period in 2003, and EBITDA margin increased to 13.9% for the three months ended March 31, 2004 from 13.0% during the comparable period in 2003. The increase in EBITDA margin was primarily the result of an increase in revenue driven by a 22.1% increase in the segment's key driver, statements generated, combined with revenue per statement that was up slightly.

- *Credit Services.* Credit Services operating expenses, excluding depreciation and amortization, increased $10.1 million, or 11.0%, to $102.2 million for the three months ended March 31, 2004 from $92.1 million for the comparable period in 2003, and EBITDA margin increased to 28.1% for the three months ended March 31, 2004 from 15.6% for the same period in 2003. The increased margin is the result of favorable revenue trends from increased receivable balances, higher collected yield and lower financing costs as a result of the refinancing of our public securitization bonds during 2003.

- *Marketing Services.* Marketing Services operating expenses, excluding depreciation and amortization, increased $12.9 million, or 24.6%, to $65.4 million for the three months ended March 31, 2004 from $52.5 million for the comparable period in 2003, and EBITDA margin increased to 18.6% for the three months ended March 31, 2004 from 12.2% for the comparable period in 2003. The increase in EBITDA margin is being driven by the AIR MILES Reward Program from the benefits of increased scale, as greater amounts of prior period deferred revenue amortizes into revenue, and the strong Canadian dollar.

- *Depreciation and Amortization.* Depreciation and amortization increased $6.0 million, or 34.7%, to $23.3 million for the three months ended March 31, 2004 from $17.3 million for the comparable period in 2003 due to an increase in depreciation and other amortization of

$3.6 million related to capital spending and a $2.4 million increase in the amortization of purchased intangibles.

*Operating Income.* Operating income increased $29.9 million, or 116.7%, to $55.5 million for the three months ended March 31, 2004 from $25.6 million during the comparable period in 2003. Operating income increased due to the revenue and expense factors discussed above.

*Interest Expense.* Interest expense decreased $1.5 million, or 32.6%, to $3.1 million for the three months ended March 31, 2004 from $4.6 million for the comparable period in 2003 due to lower interest rates, offset in part by higher average balances.

*Taxes.* Income tax expense increased $12.0 million to $19.6 million for the three months ended March 31, 2004 from $7.6 million in 2003 due to an increase in taxable income. Our effective tax rate of 37.7% in 2004 improved from the 38.2% effective rate in 2003 due to lower tax rates in Canada and the relatively smaller impact of non-deductible permanent items in 2004.

**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, 2004, 46.0% of securitized accounts with balances and 40.6% of securitized receivables were less than 24 months old.

*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 after 90 days. When an account becomes delinquent, we print a message on the cardholder's billing statement requesting payment. After an account becomes 30 days past due, a proprietary collection scoring algorithm automatically scores the risk of the account rolling to a more delinquent status. The collection system then recommends a collection strategy for the past due account based on the collection score and account balance and dictates the contact schedule and collections priority for the account. 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 tables reflect statistics for our securitization trust as reported to the trustee for compliance reporting. Management also uses core receivables to manage and analyze the portfolios. Core receivables are defined as securitized receivables less those receivables whereby we do not assume any risk of loss. These losses are passed on to the respective client.

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

| | December 31, 2003 | % of total | March 31, 2004 | % of total |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Receivables outstanding | $ 3,186,799 | 100.0% | $ 2,878,500 | 100.0% |
| Loan balances contractually delinquent: | | | | |
| 31 to 60 days | 57,931 | 1.8 | 43,415 | 1.5 |
| 61 to 90 days | 35,849 | 1.1 | 32,103 | 1.1 |
| 91 or more days | 70,447 | 2.2 | 66,065 | 2.3 |
| Total | $ 164,227 | 5.2% | $ 141,583 | 4.9% |

*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.

| | Three months ended March 31, 2003 | Three months ended March 31, 2004 |
|---|---|---|
| | (dollars in thousands) | |
| Average securitized portfolio | $ 2,611,992 | $ 2,996,520 |
| Net charge-offs | 45,010 | 51,412 |
| Net charge-offs as a percentage of average loans outstanding (annualized) | 6.9% | 6.9% |

**Liquidity and Capital Resources**

***Operating Activities.*** We have historically generated cash flow from operating activities, as detailed in the table below, although that amount may vary based on fluctuations in working capital and the timing of merchant settlement activity.

| | Three months ended March 31, 2003 | Three months ended March 31, 2004 |
|---|---|---|
| | (in thousands) | |
| Cash provided by operating activities before change in merchant settlement activity | $ 63,644 | $ 37,027 |
| Net change in merchant settlement activity | 41,799 | 8,375 |
| Cash provided by operating activities | $ 105,443 | $ 45,402 |

We generated cash flow from operating activities before change in merchant settlement activity of $37.0 million for the three months ended March 31, 2004 compared to $63.6 million for the comparable period in 2003. The decrease in operating cash flows before change in merchant settlement activity is related to the purchase of the Peebles receivables portfolio during the first quarter of 2004, partially offset by improved operating results for the three months ended March 31, 2004, in addition to working capital movements. Merchant settlement activity fluctuates significantly depending on the day in which the quarter ends. We utilize our cash flow from operations for ongoing business operations, acquisitions and capital expenditures.

***Investing Activities.*** We had cash provided by investing activities of $59.8 million for the three months ended March 31, 2004 compared to net cash used of $20.6 million for the comparable period in 2003. Significant components of investing activities are as follows:

- *Acquisitions.* Net cash outlays, net of cash received, for acquisitions and payments to secure customer contracts for the three months ended March 31, 2004 were zero compared to $33.0 million in the comparable period in 2003. The outlay for acquisitions in 2003 relates to the January 2003 purchase of substantially all of the assets of ExoLink Corporation, a provider of utility back office support services and the March 2003 purchase of the customer care back office operations of America Electric Power Company related to the deregulated Texas marketplace.

- *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, 2004, we had over $2.8 billion of securitized credit card receivables.

Securitizations require credit enhancements in the form of cash, spread accounts and additional receivables. The credit enhancement is funded through the use of certificates of deposit issued through our subsidiary, World Financial Network National Bank. Cash flow from securitization activity was $81.4 million for the three months ended March 31, 2004 and $24.2 million for the comparable period in 2003. We intend to utilize our securitization program for the foreseeable future.

***Financing Activities.*** Net cash used in financing activities was $65.5 million for the three months ended March 31, 2004 compared to $22.2 million of net cash used for the comparable period in 2003. Our financing activities during the three months ended March 31, 2004 relate primarily to borrowings and repayments under our revolving credit facilities.

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

*Securitization Program and Off-Balance Sheet Transactions.* Since January 1996, we have sold, sometimes through WFN Credit Company, LLC and WFN Funding Company II, LLC, substantially all of the credit card receivables owned by our credit card bank, World Financial Network National Bank, to World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust, World Financial Network Credit Card Master Trust II and World Financial Network Credit Card Master Trust III, which we refer to as the WFN Trusts, as part of our securitization program. This securitization program is the primary vehicle through which we finance our private label credit card receivables.

As public notes approach maturity, the notes will enter a controlled accumulation period, which typically lasts three months. During the controlled accumulation period, we will either need to arrange an additional private conduit facility or use our own balance sheet to finance the controlled accumulation until such time as we can issue a new public series in the public markets.

As of March 31, 2004 the WFN Trusts had over $2.8 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits and additional receivables. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and by the performance of the private label credit cards in the securitization trust. During the period from November to January, the WFN Trusts are required to maintain a credit enhancement level of 6% of securitized credit card receivables. Certain of the WFN Trusts are required to maintain a level of between 4% and 6% for the remainder of the year. Accordingly, at December 31, the WFN Trusts typically have their highest balance of credit enhancement assets. We intend to utilize our securitization program for the foreseeable future.

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

- conditions in the securities markets in general and the asset backed securitization market in particular; and

- conformity in the quality of credit card receivables to rating agency requirements and changes in those requirements; and

- our ability to fund required overcollateralizations or credit enhancements, which we routinely utilize in order to achieve better credit ratings to lower our borrowing costs.

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

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

*Certificates of Deposit.* We utilize certificates of deposit to finance the operating activities of our credit card bank subsidiary, World Financial Network National Bank, and to fund securitization enhancement requirements. World Financial Network National Bank 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 1.6% to 3.3%. As of March 31, 2004, we had $91.0 million of certificates of deposit outstanding. Certificate of deposit borrowings are subject to regulatory capital requirements.

*Credit Facilities.* On April 10, 2003, we entered into three new credit facilities to replace our prior credit facilities. The first facility provides for a $150.0 million revolving commitment and matures in April 2006. The second facility is a 364 day facility and provides for an additional $150.0 million revolving commitment that matures in April 2004. The third facility provides for a $100.0 million revolving commitment to Loyalty Management Group Canada Inc., a wholly owned Canadian subsidiary, and matures in April 2006. The covenants contained in the three credit facilities are substantially identical. We are in compliance with our covenants.

We amended our Credit Facility (364-Day) by and among us, the guarantors from time to time party thereto, the banks from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent, as of April 8, 2004, to extend for an additional 364 days the terms of the previous Credit Facility (364-Day) dated as of April 10, 2003, by and among the same parties.

Advances under the credit facilities are in the form of either base rate loans or eurodollar loans. The interest rate on base rate loans fluctuates based upon the higher of (1) the interest rate announced by the administrative agent as its "prime rate" and (2) the Federal funds rate plus 0.5%, in each case with no additional margin. The interest rate on eurodollar loans fluctuates based upon the rate at which eurodollar deposits in the London interbank market are quoted plus a margin of 1.0% to 1.5% based upon the ratio of total debt under the credit facilities to consolidated Operating EBITDA, as each term is defined in the credit facilities. The credit facilities are secured by pledges of stock of certain of our subsidiaries and pledges of certain intercompany promissory notes.

At March 31, 2004, we had borrowings of $219.8 million outstanding under these credit facilities (with an average interest rate of 3.1%), we issued no letters of credit, and we had available unused borrowing capacity of approximately $180.2 million. The credit facilities limit our aggregate outstanding letters of credit to $50.0 million. We can obtain an increase in the total commitment under the credit facilities of up to $50.0 million if we are not in default under the credit facilities, one or more lenders agrees to increase its commitment and the administrative agent consents.

We utilize our credit facilities and excess cash flows from operations to support our acquisition strategy and to fund working capital and capital expenditures.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

### Market Risk

There has been no material change from our Annual Report on Form 10-K for the year ended December 31, 2003 related to our exposure to market risk from off-balance sheet risk, interest rate risk, credit risk, and redemption reward risk.

*Foreign Currency Exchange Risk.* We are exposed to fluctuations in the exchange rate between the U.S. and the Canadian dollar through our significant Canadian operations. We do not hedge our net investment exposure in our Canadian subsidiary.

## Item 4. Controls and Procedures

### Evaluation

As of March 31, 2004, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2004, our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no significant changes in our internal controls over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## FORWARD-LOOKING STATEMENTS

This Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended December 31, 2003.

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 quarterly report reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We have no intention, and disclaim any obligation, to update or revise any forward-looking statements, whether as a result of new information, future results or otherwise.

## PART II

**Item 1. Legal Proceedings.**

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

**Item 2. Changes in Securities, Use of Proceeds and Issuer Purchase of Equity Securities.**

We do not currently have a common stock repurchase program in place. However, the administrator of our 401(k) and Retirement Savings Plan purchased shares of our common stock for the benefit of the employees who participated in that portion of the plan during the first quarter of 2004. The following table presents information with respect to those purchases of our common stock made during the three months ended March 31, 2004:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| During 2004: | | | | |
| January | 38,869 | $ 27.65 | — | — |
| February | 7,044 | 29.99 | — | — |
| March | 1,842 | 31.42 | — | — |
| Total | 47,755 | $ 28.14 | — | — |

**Item 3. Defaults Upon Senior Securities.**

None

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

None

**Item 5. Other Information.**

(a) None
(b) None

**Item 6. Exhibits and Reports on Form 8-K.**

*(a)* *Exhibits:*

**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
| 3.1 | Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit No. 3.1 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623). |
| 3.2 | Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.2 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623). |
| 3.3 | First Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.3 to our Registration Statement on Form S-1 filed with the SEC on May 4, 2001, File No. 333-94623). |
| 3.4 | Second Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.4 to our Annual Report on Form 10-K, filed with the SEC on April 1, 2002, File No. 001-15749). |
| 4 | Specimen Certificate for shares of Common Stock of the Registrant (incorporated by reference to Exhibit No. 4 to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2003, File No. 001-15749). |
| *10.1 | First Amendment to Credit Agreement (364-Day) dated as of April 8, 2004, by and among Alliance Data Systems Corporation, the guarantors from time to time party thereto, the lenders from time to time party thereto, and Harris Trust and Savings Bank, as Administrative Agent. |
| *10.2 | Alliance Data Systems Corporation 2004 Incentive Compensation Plan. |
| *31.1 | Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended. |
| *31.2 | Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended. |
| *32.1 | Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| *32.2 | Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code. |

* Filed herewith

*(b)* *Reports on Form 8-K:*

On April 21, 2004, we furnished to the SEC a Current Report on Form 8-K, dated April 21, 2004. The Current Report on Form 8-K relates to our earnings for the first quarter of 2004.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**ALLIANCE DATA SYSTEMS CORPORATION**

| | | |
|---|---|---|
| | By: | /s/ EDWARD J. HEFFERNAN |
| Date: May 7, 2004 | | Edward J. Heffernan<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) |
| | By: | /s/ MICHAEL D. KUBIC |
| Date: May 7, 2004 | | Michael D. Kubic<br>Senior Vice President and Corporate Controller<br>(Principal Accounting Officer) |

## EXHIBIT INDEX

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* Filed herewith

**Exhibit 10.1**

**FIRST AMENDMENT TO CREDIT AGREEMENT (364-DAY)**

This First Amendment to Credit Agreement (364-Day) (the "*Amendment*") dated as of April 8, 2004 by and among Alliance Data Systems Corporation (the "*Borrower*"), the Guarantor party hereto, the Banks party hereto, and Harris Trust and Savings Bank, as Administrative Agent;

W I T N E S S E T H:

WHEREAS, the Borrower, the Guarantors, the Banks, and the Administrative Agent have heretofore executed and delivered a Credit Agreement (364-Day) dated as of April 10, 2003 (the *"Credit Agreement"*); and

WHEREAS, the Borrower, the Guarantors, the Banks and the Agent desire to amend the Credit Agreement to extend the Maturity Date and to make certain other amendments to the Credit Agreement as set forth herein;

NOW, THEREFORE, for good and valuable consideration the receipt of which is hereby acknowledged, the Borrower, the Banks and the Administrative Agent hereby agree as follows:

1. The definition of *"Maturity Date"* contained in Section 1.1 of the Credit Agreement is hereby amended in its entirety to read as follows:

*"Maturity Date"* means April 7, 2005.

2. The Borrower has requested that from and after the Effective Time the Commitments of the Banks be reallocated among the Banks; *provided* that the aggregate amount of the Commitments do not exceed $150,000,000. Accordingly, the Commitments of the Banks set forth on Schedule I to the Credit Agreement are hereby amended in their entirety and as so amended shall be as set forth on Schedule I to this Amendment.

3. This Amendment shall become effective as of the opening of business on April 8, 2004 (the *"Effective Time"*) subject to the conditions precedent that on or before such date:

(a) the Administrative Agent shall have received counterparts hereof executed by the Borrower, Guarantor and each Bank;

(b) the Administrative Agent shall have received certified copies of resolutions of the Board of Directors of the Borrower and Guarantor authorizing the execution and delivery of this Amendment, indicating the authorized signers of this Amendment and the specimen signatures of such signers; and

(c) an opinion of counsel to the Borrower and Guarantor in form reasonably acceptable to the Administrative Agent and covering such matters relating to the transactions contemplated hereby as the Administrative Agent or the Required Banks may reasonably request.

4.1. To induce the Administrative Agent and the Banks to enter into this Amendment, the Borrower represents and warrants to the Administrative Agent and the Banks that: (a) the representations and warranties contained in the Credit Agreement are true and correct in all material respects as of the date hereof with the same effect as though made on the date hereof (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects only as of such specified date); (b) no Default or Event of Default exists; (c) this Amendment has been duly authorized by all necessary corporate proceedings and duly executed and delivered by the Borrower and the Credit Agreement, as amended by this Amendment, is the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws of general application affecting the enforcement of creditors' rights or by general principles of equity; and (d) no consent, approval, authorization, order, registration or qualification with any governmental authority is required for, and in the absence of which would adversely effect, the legal and valid execution and delivery or performance by the Borrower of this Amendment or the performance by the Borrower of the Credit Agreement, as amended by this Amendment.

4.2. This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Amendment.

4.3. Except as specifically provided above, the Credit Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. The execution, delivery, and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power, or remedy of the Administrative Agent or any Bank under the Credit Agreement or any Note, nor constitute a waiver or modification of any provision of any of the Credit Agreement or any Note.

4.4. This Amendment and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the law of the State of Illinois.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized as of the day and year first above written.

ALLIANCE DATA SYSTEMS CORPORATION, as Borrower

By: /s/ ROBERT P. ARMIAK
Robert P. Armiak

Name: Robert P. Armiak
Title: Senior Vice President & Treasurer

ADS ALLIANCE DATA SYSTEMS, INC., as a Guarantor

By: /s/ ROBERT P. ARMIAK

Name: Robert P. Armiak
Title: Senior Vice President & Treasurer

HARRIS TRUST AND SAVINGS BANK, individually, as Letter of Credit Issuer and as Administrative Agent

By: /s/ PETER F. STACK

Name: Peter F. Stack
Title: Vice President

SUNTRUST BANK

By: /s/ BRIAN K. PETERS

Name: Brian K. Peters
Title: Managing Director

BANK ONE, N.A. (Main Office Chicago)

By: /s/ MARK WASDEN

Name: Mark Wasden
Title: Director

WACHOVIA BANK, N.A.

By: /s/ STEVEN L. HIPSMAN

Name: Steven L. Hipsman
Title: Director

JPMORGAN CHASE BANK

By: /s/ MICHAEL J. LISTER

Name: Michael J. Lister
Title: Vice President

HUNTINGTON NATIONAL BANK

By: /s/ LYNN A. KARR

Name: Lynn A. Karr
Title: Senior Vice President

CREDIT SUISSE FIRST BOSTON, Acting Through Its Cayman Islands Branch

By: /s/ PETER CHAUVIN

Name: Peter Chauvin
Title: Vice President

By: /s/ ALAIN DAOUST

Name: Alain Daoust
Title: Director

U.S. BANK N.A.

By: /s/ JOSEPH L. SOOTER, JR.

Name: Joseph L. Sooter, Jr.
Title: Vice President

UNION BANK OF CALIFORNIA, N.A.

By: /s/ CLIFFORD F. CHO

Name: Clifford F. Cho
Title: Assistant Vice President

FIFTH THIRD BANK (Central Ohio)

By: /s/ KRISTIE L. NICOLOSI

Name: Kristie L. Nicolosi
Title: Assistant Vice President

BARCLAYS BANK PLC

By: /s/ ALISON MCGUIGAN

Name: Alison McGuigan
Title: Associate Director

**Schedule I**

| Bank | Commitment |
|---|---|
| Harris Trust and Savings Bank | $ 15,000,000 |
| SunTrust Bank | $ 20,000,000 |
| Bank One, N.A. (Main Office Chicago) | $ 10,000,000 |
| Wachovia Bank, N.A. | $ 15,000,000 |
| JPMorgan Chase Bank | $ 10,000,000 |
| Huntington National Bank | $ 15,000,000 |
| Barclays Bank PLC | $ 20,000,000 |
| Fifth Third Bank | $ 15,000,000 |
| Credit Suisse First Boston Cayman Islands Branch | $ 10,000,000 |
| Union Bank of California, N.A. | $ 10,000,000 |
| U.S. Bank N.A. | $ 10,000,000 |

Use these links to rapidly review the document
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**Exhibit 10.2**

# ALLIANCE DATA SYSTEMS CORPORATION

## 2004 Incentive Compensation Plan

**(As Amended and Restated Effective January 1, 2004)**

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**Table of Contents**

***Plan Philosophy***

The intent of the Alliance Data Systems Incentive Compensation ("IC") Plan ("Plan") is to:

- Provide IC to round out an eligible associate's total compensation package in order to attract and retain high performing associates;
- Improve organizational performance by driving financial and individual performance and increasing associate satisfaction;
- Improve the alignment between strategic imperatives and initiatives with the Alliance Scorecard; and
- Provide an opportunity for associates to share in the success they help create.

Participation in this Plan reflects the importance of an associate's position and the impact that the associate's performance can have on the success of the Company.

***Effective Date***

The Plan Year is January 1, 2004 through December 31, 2004.

***Eligibility***

Subject to the provisions of this Plan, Associates are eligible to receive IC under this Plan if they are:

- Employed by Alliance Data Systems Corporation or any of its subsidiaries (collectively, the "Company") and are either (a) a member of the Alliance Senior Leadership Team, as defined by the title Director through Chairman & CEO, or (b) in an Exempt position that is designated by the Senior Director of Compensation as IC eligible (currently jobs in pay grades 8-11, 21-23, 32-35, 94 and 95);
- Employed or promoted into an IC eligible position by the Company before October 1, 2004;
- On active status on the date of the award distribution or are eligible under the guidelines for retirement, disability or leave of absence; and
- In the case of part-time associates in one of the specified pay grades listed above, working a schedule equal to a minimum of 25 hours per week.

Associates are not eligible if they:

- Do not meet one of the eligibility requirements listed above;
- Are participating in a sales commission or other incentive plan, unless approved by the appropriate Executive Vice President of a Line of Business ("LOB") or of a Business Support Group ("BSG") and confirmed by the Senior Vice President of Human Resources and the Senior Director of Compensation;
- Are temporary or on-call associates or contractors;
- Are hired on or after October 1, 2004 or are promoted into an IC eligible pay grade on or after October 1, 2004; or
- Are on a documented performance improvement plan as of the date of award distribution.

***Base Compensation Used in Calculating IC Payout***

Annualized base pay as of October 1, 2004 will be used as part of the IC calculation. The IC target percentage(s) will be applied to October 1, 2004 base salary for purposes of calculating the dollar target amount.

***Determining IC Targets***

Each participant has an IC target. The Compensation Committee of the Board of Directors assigns IC targets for the Executive Committee members. IC targets for other positions are determined by the participant's manager using the guidelines established by the Senior Director of Compensation in the following table:

| Grade Level | IC Target |
|---|---|
| Executive Committee Member | Determined by the Board's Compensation Committee |
| (Senior Vice President) 3 | 35% or 40% or 45% |
| (Vice President) 4 | 25% or 30% or 35% |
| (Director/Senior Director) 5 | 15% or 20% or 25% |
| 8-10, 21-23, 33-35 and 95 | 10% or 15% |
| 11, 32 and 94 | 5% or 10% |

IC targets are set in *5% increments*. When determining the appropriate target, the following are considered:

- The associate's position relative to those of other participants in the department;
- The associate's anticipated contribution to the organization's success; and
- Targeted total compensation package that is competitive with similar positions in the appropriate labor market or industry.

IC targets will be set at the beginning of the Plan year or at time of hire. If the IC target percentage changes, the manager will explain how the target will be prorated for payout purposes (if appropriate) and whether or not the performance expectations and weightings will change for the current Plan year.

***IC Components***

All performance goals should be established and communicated to the participant at the beginning of the Plan year or within 30 days of becoming a participant in the Plan. The degrees to which these performance goals are accomplished have an impact on the actual incentive earned from the Plan.

**Alliance Revenue and EBITDA Targets:** The Revenue and Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") targets make up 25%-75% of a participant's IC payment (see Standard Weightings Chart below).

**LOB Revenue and EBITDA Targets:** There are a number of financial measures that can be used to determine success for a particular area or individual. The appropriate Executive Vice President, along with the Senior Vice President of Human Resources and the Senior Director of Compensation will determine if sub-measures will be used for a particular LOB or a particular individual. However, it is intended that the Board of Directors approve the achievement of LOB Revenue and EBITDA for payout purposes.

**Associate Satisfaction Index:** The annual administration of the Associate Survey and the tracking of data (i.e., improvement expectations) are designed to motivate ongoing attention to issues that affect quality of client service, as well as the development and retention of associates. The Associate Satisfaction Index ("ASI") is a component of the Associate Survey process. The ASI component is designed to recognize and incent critical non-financial organizational factors that contribute to sustainable business performance and provide a competitive advantage in recruiting, developing and retaining high performing associates. Targets are set at the beginning of each year along with a payout schedule.

**Individual Expectations:** The Weightings Chart identifies those participants that have 25%—50% of their IC payments based upon the achievement of individual expectations or team strategic imperatives (or action steps to accomplish the strategic imperatives) as determined between the participant and his or her manager. A sample worksheet has been provided in Attachment A.

***Standard Weightings Chart for IC Components***

IC objectives are weighted to drive financial and individual performance and increase associate satisfaction. LOBs have the ability to use specific components that closely reflect Alliance Scorecard measurements. In addition, LOBs may adjust the standard components to include measurable financial drivers, such as bad debt or specific client revenue goals, with review and approval by the appropriate Executive Vice President, along with the Senior Vice President of Human Resources and the Senior Director of Compensation. The participant's grade/job level as of October 1, 2004 will be used to determine the overall weightings.

**2004 IC Plan**
**Standard Components and Weightings**

| | | Senior Leadership Team[1] | Exempts with Direct Supervisory Responsibility | All Other Exempts[2] |
|---|---|---|---|---|
| LOB | **LOB EBITDA** | **50%** | **25%** | **25%** |
| | **LOB Revenue** | **25%** | **25%** | **25%** |
| | **Associate Satisfaction[3]** | **25%** | **25%** | **0%** |
| | **Individual Expectations[4]** | **0%** | **25%** | **50%** |
| BSG | **Alliance EBITDA** | **50%** | **25%** | **25%** |
| | **Alliance Revenue** | **25%** | **25%** | **25%** |
| | **Associate Satisfaction[3]** | **25%** | **25%** | **0%** |
| | **Individual Expectations[4]** | **0%** | **25%** | **50%** |

1 The LOB/BSG executive has some flexibility to establish targets that are important for the success of his or her respective area. The Individual Expectations weighting should not be used for SLT members unless it is used to drive financial performance. Any changes to the standard components, weightings or payout tables should be sent to the Senior Director of Compensation for approval by the appropriate Executive Vice President, along with the Senior Vice President of Human Resources.

2 The LOB/BSG has some flexibility in reassigning Revenue targets for those associates who fall into an all other eligible exempt category or in unique cases.

3 Some participants, such as National Account Managers ("NAMs"), may have more emphasis on client relationships than Associate Satisfaction. LOB/BSG executives can determine how they want to distribute the weightings for these positions.

4 Eligible exempt associates below the Director level should have Individual Expectations that support strategic imperatives ensuring the success of their LOB/BSG and the Company.

***Determining Payment Calculations***

**Attachment A:** Example Individual Expectations Worksheet

The sample form is provided to facilitate the setting of the Individual Expectations. If a participant is being held accountable for a Company-level strategic imperative (or an action item to accomplish the strategic imperative for the LOB/BSG), that form may also be used. Regardless of the form used, an overall percentage of achievement of the Individual Expectations will be required at the end of 2004 in order to determine the dollar payment for this IC component.

**Attachment B:** Performance/Payout Table for Revenue, EBITDA, Associate Satisfaction and Individual Expectations

Identifies the relationship between level of performance and the percentage to be paid for the achievement of the Alliance Revenue & Alliance EBITDA, LOB Revenue & LOB EBITDA, ASI and Individual Expectations targets. A minimum of 80% must be achieved for any payment to be received; performance of 120% or greater receives the maximum payment of 150%. Percentages are rounded to the nearer whole number.

For BSGs, both the Alliance EBITDA *and* Alliance Revenue targets must be achieved at 100% or greater in order for ASI or Individual Expectations to be paid above 100% of target. For LOBs, both the LOB EBITDA *and* LOB Revenue targets must be achieved at 100% or greater in order for ASI or Individual Expectations to be paid above 100% of target.

***Timing of Payment***

IC earned for the 2004 Plan year is paid in the first quarter of the following year. A participant must be actively employed on the date payment is made to receive his or her award. Any participant who is on an approved leave of absence or disability leave but is still on active status will receive his or her payment even if he or she is not actively at work on the date payment is made.

***Status Changes That May Affect IC Targets and Payout***

Status changes can affect the amount of incentive a participant receives. Status changes include:

- Transfers;
- New Hires;
- IC Target Changes;
- Leaves of Absence; and
- Terminations.

**Transfers:** The LOB or BSG a participant is assigned to as of October 1, 2004 will be used to determine any payments dependent upon LOB/BSG level of performance (see Standard Weightings Chart). Year-end performance for the LOB/BSG will be used to calculate the incentive amount to be paid for this component. No prorating will be done for the amount of time spent in another LOB/BSG or in a different IC eligible grade over the Plan year without prior approval of the appropriate Executive Vice President, along with the Senior Vice President of Human Resources and the Senior Director of Compensation.

For the ASI component, leaders who have moved or transferred during the course of the year, and who could therefore have their compensation tied to different reporting groups, will be reviewed as follows:

- Determine where the associate spent the most time during the action planning cycle;
- Assess where the associate had the greatest opportunity to influence Associate Satisfaction; and
- Before the end of December, the appropriate HR Executive will make a report recommendation to the Senior Director of Compensation, to be approved by the appropriate Executive Vice President, along with the Senior Vice President of Human Resources.

**New Hires:** For associates hired between January 1 and September 30, 2004 into an IC eligible position, the base salary as of October 1, 2004 will be used to calculate the IC dollar target. The dollar target will be prorated as follows:

| Hired Between These Dates | Prorated Amount |
|---|---|
| January 1-March 31 | 100% |
| April 1-June 30 | 75% |
| July 1-September 30 | 50% |
| October 1-December 31 | No IC |

For example, if an associate is hired on March 12, the IC dollar target will not be prorated. If an associate is hired on July 4, then the IC dollar target will be prorated by 50%.

**IC Target Changes:** For current Company associates, if there is a promotion or a grade level change during the Plan year but before October 1 which results in either (a) an associate becoming newly IC eligible or (b) a change in IC target, the IC target will be prorated according to the chart below depending on the associate's **IC eligible effective date**. Note: changes in IC targets *after October 1, 2004* will not be used to calculate IC payout for the 2004 Plan year.

| IC Eligible Effective Date Between These Dates | Prorated Amount For Old/New IC % Target |
|---|---|
| January 1-March 31 | 0%/100% |
| April 1-June 30 | 25%/75% |
| July 1-September 30 | 50%/50% |
| October 1-December 31 | 100%/0% |

The base salary as of October 1 will be used to calculate the dollar target, even if there is a corresponding change in base salary at the time of the promotion or IC target change. For example, a grade level change in April results in an IC target change from 5% to 10% and a base salary change from $35,000 to $40,000. The base salary on October 1 is $40,000, so that is the salary used in the calculation. The IC dollar target is then calculated using the following formula:

| | 10/01 Base | IC | Target | Prorate | Subtotal |
|---|---|---|---|---|---|
| **Old** | $ 40,000 | 5% | $ 2,000 | 25% | $ 500 |
| **New** | $ 40,000 | 10% | $ 4,000 | 75% | $ 3,000 |
| **TOTAL** | | | | | $ 3,500 |

The participant's manager should communicate to the participant the new weightings of financial and Individual Expectations (if applicable).

**Leaves of Absence:** If a participant takes a leave of absence in excess of 30 consecutive days, either paid or unpaid, during the Plan year, he or she may be eligible for a prorated award at the discretion of the appropriate Executive Vice President, along with the Senior Vice President of Human Resources and the Senior Director of Compensation.

**Terminations:** If a participant terminates his or her position voluntarily or involuntarily during the Plan year, he or she will ***not*** be eligible for an IC payment because he or she would not be on active status on the date of the award distribution. If a participant retires, becomes disabled or dies during the Plan year, he or she may be eligible for a prorated award at the discretion of the appropriate Executive Vice President, along with the Senior Vice President of Human Resources and the Senior Director of Compensation. In the event of death, any incentive award is made to the beneficiary named in the Company-paid life insurance program.

***Other Terms and Conditions***

- All decisions by the Company will be final in the interpretation and administration of the Plan and shall lie within the Company's sole and absolute discretion. Decisions shall be final, conclusive and binding on all parties concerned.
- This Plan does not constitute a contract for the participant's continued employment with the Company. All Company associates are employed "at-will" which means either the Company or the associate may terminate the employment relationship at any time with or without cause.
- Participant's rights under the Plan may not be assigned or transferred in any way, except as otherwise set forth herein.
- The Alliance Data Systems 2004 IC Plan may be amended, modified, suspended or terminated by the Company at any time, without prior consent by or prior notice to associates. The Company at its sole discretion may change objectives at any time without prior consent by or prior notice to associates.
- The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make other segregation of assets to assure the payment of the amounts under the Plan. Rights to the payment of amounts under the Plan shall be no greater than the rights of the Company's general creditors.
- Texas state law governs the validity, construction, interpretation, administration and effect of the Plan and the substantive laws, but not the choice of law rules of the State of Texas, shall govern rights relating to the Plan.
- Generally, all applicable employment and tax deductions plus 401(k) contribution deferrals will be withheld from the IC payout.
- No associate has the right nor is guaranteed the right to participate in the Plan by virtue of being an associate or fulfilling any specific position with the Company. Selection for participation in the Plan is solely within the discretion of the Company. The Company may offer participation in the Plan to additional associates or terminate the participation of any participant in the Plan at any time during the Plan Year.
- Revenues and earnings classified as "windfalls" or business losses may or may not be excluded in whole or in part from the calculation of Revenue and EBITDA at the discretion of the Company.
- Notice to participate in the Plan shall not impair or limit the Company's rights to transfer, promote or demote Plan participants to other jobs or to terminate their employment, nor shall it create any claim or right to receive any payment under the Plan or any right to be retained in the employ of the Company.
- The Plan is established for the current fiscal year. There shall be no obligation on the part of the Company to continue the Plan in the same or modified form for any future years.
- In the event that a participant has a dispute concerning the administration of this Plan, it shall first be submitted in writing to the Senior Director of Compensation. In the event that the Senior Director of Compensation does not provide a response satisfactory to the participant within 30 business days, the participant may submit the dispute in writing within five business days thereafter to the Senior Vice President of Human Resources, whose decision regarding the dispute shall be final and binding on each participant or person claiming under the Plan.
- The Plan is effective January 1, 2004, and supersedes and replaces all previous IC Plans. All such previous plans, unless earlier terminated, are terminated at midnight, December 31, 2003. If not renewed by the Company, this Plan will automatically terminate on December 31, 2004.
- In the event an eligible associate's performance falls below satisfactory standards during the Plan year, the associate may receive a reduced IC payment, at the discretion of the Company, regardless of the performance results of the Company, LOB, BSG or the ASI results (if applicable).
- The Company, at its sole discretion, may adjust or modify the methodology for calculating IC payments, the eligibility for receiving IC payments, and the actual amount of IC payments. All adjustments or modifications must be approved by the CEO, the appropriate Executive Vice President, the Senior Vice President of Human Resources and the Senior Director of Compensation.

**Attachment A**

## EXAMPLE INDIVIDUAL EXPECTATIONS WORKSHEET

| | |
|---|---|
| Name: | Target IC (%): |
| Position Title: | Grade Level: |

| (a)<br>Specific Expectations/Standards of Measure (Deliverables to be Achieved) | (b)<br>Accomplishments/Results (Actual Results Achieved in Performance Period) | Ratings<br>(c)<br>Weighting % | <br>(d)<br>Actual Perf. % | (e)<br>Overall Perf. Score % (c×d) |
|---|---|---|---|---|
| 1. | | | | |
| 2. | | | | |
| 3. | | | | |
| 4. | | | | |
| 5. | | | | |
| | | | | |
| | | 100% | | |
| | **Total Score on Specific Expectations (add column "e")>** | | | |
| | | | | |

Signed by: Associate Manager

**Attachment B**

**PERFORMANCE/PAYOUT TABLE**
**FOR REVENUE, EBITDA, ASSOCIATE SATISFACTION AND INDIVIDUAL EXPECTATIONS**

| | % of Objective(s) Achieved* | % Payout* | |
|---|---|---|---|
| | 79% or less | 0% | |
| 80% is the threshold for performance achievements to result in a payout. | 80% | 65% | |
| | 81% | 67% | |
| | 82% | 69% | |
| | 83% | 70% | |
| | 84% | 72% | |
| | 85% | 74% | |
| | 86% | 76% | |
| | 87% | 77% | |
| | 88% | 79% | |
| | 89% | 81% | |
| | 90% | 83% | |
| | 91% | 84% | |
| | 92% | 86% | |
| | 93% | 88% | |
| | 94% | 89% | |
| | 95% | 91% | |
| | 96% | 93% | |
| | 97% | 95% | |
| | 98% | 96% | |
| | 99% | 98% | |
| | 100% | 100% | 100% is the target for performance achievements to receive 100% payout. |
| | 101% | 102.5% | |
| | 102% | 105.0% | |
| | 103% | 107.5% | |
| | 104% | 110.0% | |
| | 105% | 112.5% | |
| | 106% | 115.0% | |
| | 107% | 117.5% | |
| | 108% | 120.0% | |
| | 109% | 122.5% | |
| | 110% | 125.0% | |
| | 111% | 127.5% | |
| | 112% | 130.0% | |
| | 113% | 132.5% | |
| | 114% | 135.0% | |
| | 115% | 137.5% | |
| | 116% | 140.0% | |
| | 117% | 142.5% | |
| | 118% | 145.0% | |
| | 119% | 147.5% | |
| | 120% or greater | 150.0% | 150% is the maximum payout level. |

For business support groups, both Alliance EBITDA *and* Alliance Revenue targets must be achieved at 100% or greater in order for ASI or Individual Expectations to be paid above 100% of target. For lines of business, both LOB EBITDA *and* LOB Revenue targets must be achieved at 100% or greater in order for ASI or Individual Expectations to be paid above 100% of target.

**Exhibit 31.1**

**CERTIFICATION OF THE
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION**

I, J. Michael Parks, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alliance Data Systems Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004
/s/ J. MICHAEL PARKS

J. Michael Parks
Chief Executive Officer

QuickLinks

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER OF ALLIANCE DATA SYSTEMS CORPORATION

**Exhibit 31.2**

**CERTIFICATION OF THE
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION**

I, Edward J. Heffernan, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alliance Data Systems Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004
/s/ EDWARD J. HEFFERNAN

Edward J. Heffernan
Chief Financial Officer

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**Exhibit 32.1**

**CERTIFICATION OF**
**CHIEF EXECUTIVE OFFICER**
**OF**
**ALLIANCE DATA SYSTEMS CORPORATION**

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended March 31, 2004 (the "Form 10-Q") of Alliance Data Systems Corporation (the "Registrant").

I, J. Michael Parks, the Chief Executive Officer of the Registrant certify that to the best of my knowledge:

(i) the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: May 7, 2004

/s/ J. MICHAEL PARKS

Name: J. Michael Parks
Chief Executive Officer

Subscribed and sworn to before me
this 7th day of May, 2004.

/s/ JANE BAEDKE

Name: Jane Baedke
Title: Notary Public
My commission expires:

October 23, 2004

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

QuickLinks

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF ALLIANCE DATA SYSTEMS CORPORATION

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**Exhibit 32.2**

**CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION**

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended March 31, 2004 (the "Form 10-Q") of Alliance Data Systems Corporation (the "Registrant").

I, Edward J. Heffernan, the Chief Financial Officer of the Registrant certify that to the best of my knowledge:

(i) the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: May 7, 2004

/s/ EDWARD J. HEFFERNAN

Name: Edward J. Heffernan
Chief Financial Officer

Subscribed and sworn to before me
this 7th day of May, 2004.

/s/ JANE BAEDKE

Name: Jane Baedke
Title: Notary Public
My commission expires:

October 23, 2004

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.