STEWART INFORMATION SERVICES CORP
Form DEF 14A
March 29, 2017

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under Rule 14a-12

Stewart Information Services Corporation

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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STEWART INFORMATION SERVICES CORPORATION
1980 Post Oak Boulevard, Suite 800
Houston, Texas 77056

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD APRIL 28, 2017

Notice is hereby given that Stewart Information Services Corporation, a Delaware corporation, will hold its 2017 Annual Meeting on April 28, 2017, at 8:30 a.m., CDT, in the First Floor Conference Room of Three Post Oak Central, 1990 Post Oak Boulevard, Houston, Texas 77056, for the following purposes:

(1) To elect Stewart Information Services Corporation s directors;

(2) To approve an advisory resolution regarding the compensation of Stewart Information Services Corporation s named executive officers;

(3) To consider and act upon an advisory resolution regarding the frequency at which Stewart Information Services Corporation should include an advisory resolution in its proxy statement regarding the compensation of its named executive officers;

(4) To ratify the appointment of KPMG LLP as Stewart Information Services Corporation s independent auditors for 2017; and

(5) To transact such other business as may properly come before the meeting or any adjournment(s) thereof.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE:

FOR the nine nominees for director,

FOR the approval of the advisory resolution regarding the compensation of Stewart Information Services Corporation s named executive officers,

FOR an advisory vote on the compensation of Stewart Information Services Corporation s named executive officers EVERY YEAR, and

FOR the ratification of KPMG LLP as Stewart Information Services Corporation s independent auditors for 2017.

The holders of record of Stewart Information Services Corporation s Common Stock at the close of business on March 3, 2017 will be entitled to vote at the 2017 Annual Meeting.

By Order of the Board of Directors,

J. Allen Berryman
Secretary

March 29, 2017

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDERS MEETING TO BE HELD APRIL 28, 2017

Our proxy statement for the 2017 Annual Meeting and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 are available at *www.stewart.com/2017-annual-meeting*

IMPORTANT

You are cordially invited to attend the 2017 Annual Meeting in person. Even if you plan to be present, you are urged to sign, date and mail the enclosed proxy promptly. If you attend the 2017 Annual Meeting, you can vote either in person or by your proxy.

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STEWART INFORMATION SERVICES CORPORATION
1980 Post Oak Boulevard, Suite 800
Houston, Texas 77056
(713) 625-8100

PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD APRIL 28, 2017

Except as otherwise specifically noted, the Company, SISCO, Stewart, we, our, us, and similar words in thi statement refer to Stewart Information Services Corporation.

Stewart Information Services Corporation is furnishing this proxy statement to our stockholders in connection with the solicitation by our board of directors (the Board or the Board of Directors) of proxies for the annual meeting of stockholders we are holding Friday, April 28, 2017, at 8:30 a.m., CDT, in the First Floor Conference Room of Three Post Oak Central, 1990 Post Oak Boulevard, Houston, Texas, 77056 (the 2017 Annual Meeting), or for any adjournment(s) of that meeting. For directions to the 2017 Annual Meeting, please contact Nat Otis in Investor Relations at (713) 625-8360.

Proxies in the form enclosed, properly executed by stockholders and received in time for the 2017 Annual Meeting, will be voted as specified therein. Unless you specify otherwise, the shares represented by your proxy will be voted (i) for the Board of Directors nominees listed therein, (ii) for the approval of the advisory resolution regarding the compensation of Stewart Information Services Corporation s named executive officers, (iii) for an advisory vote on the compensation of Stewart Information Services Corporation s named executive officers every year, and (iv) for the ratification of KPMG LLP as Stewart Information Services Corporation s independent auditors for 2017. If after sending in your proxy you wish to vote in person or change your proxy instructions, you may, before your proxy is voted, deliver (i) a written notice revoking your proxy or (ii) a timely, later-dated proxy. Such notice or later-dated proxy shall be delivered either (i) in care of our Secretary, Stewart Information Services Corporation, 1980 Post Oak Boulevard, Suite 800, Houston, Texas 77056, or (ii) in person at the 2017 Annual Meeting. Please note that stockholders who hold their shares in our 401(k) plan must provide their voting instructions no later than 11:30 a.m., EDT, two days prior to the 2017 Annual Meeting. We are mailing this proxy statement on or about March 29, 2017, to stockholders of record at the close of business on March 3, 2017.

At the close of business on March 3, 2017, 23,641,111 shares of our Common Stock were outstanding and entitled to vote, and only the holders of record on such date may vote at the 2017 Annual Meeting. A quorum will exist if a majority of the holders of Common Stock issued and outstanding and entitled to vote, are present in person or represented by proxy. We will count the shares held by each stockholder who is present in person or represented by proxy at the meeting to determine the presence of a quorum at the meeting.

Each holder of our Common Stock will be entitled to cast one vote per share for or against each of the director nominees.

Unless there are director nominees other than those nominated by the Board of Directors, a director nominee will be elected as a director if the votes cast for his or her election exceed the votes cast against his or her election. In this case, any director nominee who does not receive a majority of votes cast for his or her election would be required to tender his or her resignation following the failure to receive the required vote. Pursuant to the Company s By-Laws, if the Secretary of the Company determines that the number of director nominees exceeds the number of directors to be elected as of the date seven days prior to the scheduled mailing date of the proxy statement, a plurality voting standard will apply and a director nominee receiving a plurality of votes cast will be elected as a director. For the purpose of electing directors, broker non-votes and abstentions are not treated as a vote cast affirmatively or negatively, and therefore will not affect the outcome of the election of directors. Both abstentions and broker non-votes are counted for purposes of determining the presence of a quorum.

Our stockholders will vote on the approval of the advisory resolution regarding the compensation of our named executive officers. Approval of this proposal requires the affirmative vote of the majority of the shares voted at the 2017 Annual Meeting. Brokers do not have discretionary authority to vote shares on this proposal

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without direction from the beneficial owner. Broker non-votes will not be counted. Abstentions, which will be counted as shares present for purposes of determining a quorum, will not be considered in determining the results of the voting for this proposal. Your shares will be voted as you specify on your proxy. If your properly executed proxy does not specify how you want your shares voted, the shares represented by your proxy will be voted FOR the approval of this proposal.

Our stockholders will vote with respect to the advisory resolution regarding the frequency at which we should include an advisory resolution in our proxy statement regarding the compensation of our named executive officers. The form of proxy allows stockholders to vote to recommend an advisory resolution regarding the compensation of our named executive officers every one, two or three years or abstain from voting. The frequency (every one, two or three years) that receives the highest number of votes will be deemed to be the choice of the stockholders. Abstentions, which will be counted as votes present for purposes of determining a quorum, will not be considered in determining the results of the voting for this proposal. Your shares will be voted as you specify on your proxy. If your properly executed proxy does not specify how you want your shares voted, we will vote them for an advisory resolution on the compensation of our named executive officers EVERY YEAR.

Our Common Stockholders will vote on the ratification of the appointment of KPMG LLP as our independent auditors for 2017. The ratification of this proposal requires the affirmative vote of the majority of the shares voted at the 2017 Annual Meeting. Under New York Stock Exchange (NYSE) rules, the approval of our independent auditors is considered a routine matter, which means that brokerage firms may vote in their discretion on this proposal if the beneficial owners do not provide the brokerage firms with voting instructions. Abstentions, which will be counted as shares present for purposes of determining a quorum, will not be considered in determining the results of the voting for this proposal. Your shares will be voted as you specify on your proxy. If your properly executed proxy does not specify how you want your shares voted, the shares represented by your proxy will be voted FOR the approval of this proposal.

Whether or not you plan to attend the 2017 Annual Meeting, and whatever the number of shares you own, please complete, sign, date and promptly return the enclosed proxy card. Please use the accompanying envelope, which requires no postage if mailed in the United States. You may also vote your shares by telephone or internet by following the instructions on the enclosed proxy card. Please note, however, that if you wish to vote in person at the 2017 Annual Meeting and your shares are held of record by a broker, bank or other nominee, you must obtain a legal proxy issued in your name from that record holder.

Revocation of Proxies

You may revoke your proxy at any time prior to its exercise at the 2017 Annual Meeting and change your vote by signing and dating a new proxy card with a later date and returning it in the postage-paid envelope provided or by voting via the internet or by telephone by following the instructions on the enclosed proxy card. You may also deliver a written notice revoking your proxy (i) in care of our Secretary, Stewart Information Services Corporation, 1980 Post Oak Boulevard, Suite 800, Houston, Texas 77056 or (ii) in person at the 2017 Annual Meeting.

Cost of Solicitation

We will bear the cost of the solicitation of our proxies. In addition to mail and e-mail, proxies may be solicited personally, via the internet or by telephone or facsimile, or by a few of our regular employees and officers without additional compensation and by certain officers or employees of Innisfree M&A Incorporated (Innisfree). We have hired Innisfree, 501 Madison Avenue, 20th Floor, New York, NY 10022 to assist us in the solicitation of proxies for a fee of $8,000.00 plus out-of-pocket expenses.

Questions

If you have any questions or need assistance in voting your shares, please call Innisfree, the firm assisting us in the solicitation, at 888-750-5834.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of March 3, 2017 with respect to persons we believe to be the beneficial owners of more than 5% of our voting shares:

Name	Title of Class	Amount and Nature of Beneficial Ownership		Percent of Class
BlackRock, Inc. 55 East 52nd Street New York, New York 10055	Common Stock	2,592,382	(1)	10.965
Dimensional Fund Advisors LP Palisades West, Building One 6300 Bee Cave Road Austin, Texas 78746	Common Stock	1,754,850	(2)	7.423
Starboard Value LP 777 Third Avenue, 18th Floor New York, New York 10017	Common Stock	2,315,000	(3)	9.792
Driehaus Capital Management LLC 25 East Erie Street Chicago, IL 06011	Common Stock	2,088,918	(4)	8.836

(1) BlackRock, Inc. reported sole voting power with respect to 2,540,843 of such shares and sole dispositive power with respect to 2,592,382 shares in its report on Schedule 13G/A filed December 9, 2016.

(2) Dimensional Fund Advisors LP reported sole voting power with respect to 1,680,430 of such shares and sole dispositive power with respect to 1,754,850 shares in its report on Schedule 13G/A filed February 9, 2017. Dimensional Fund Advisors LP is an investment adviser registered under Section 203 of the Investment Advisors Act of 1940 and disclaims beneficial ownership of all securities reported in such Schedule 13G.

(3) Starboard Value LP reported sole voting power with respect 2,315,000 shares and sole dispositive power with respect to 2,315,000 shares in its report on Schedule 13D/A filed October 17, 2016.

(4) Driehaus Capital Management LLC reported sole voting power with respect to 2,088,918 shares and sole dispositive power with respect to 2,088,918 shares in its report on Schedule 13D/A filed January 23, 2017.

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The following table sets forth information as of March 3, 2017 with respect to each class of our capital stock beneficially owned by our named executive officers, directors and nominees for director, and by all our executive officers, directors and nominees for director as a group:

Name	Title of Class	Amount and Nature of Beneficial Ownership[(1)]		Percent of Class
Matthew W. Morris	Common Stock	309,046	(2)	*
J. Allen Berryman	Common Stock	36,390	(3)	*
John L. Killea	Common Stock	6,236	(4)	*
David Fauth	Common Stock	7,224.7	(5)	*
Arnaud Ajdler	Common Stock	5,311		*
Thomas G. Apel	Common Stock	28,513		*
C. Allen Bradley, Jr.	Common Stock	435		*
James Chadwick	Common Stock	33,598	(6)	*
Frederick H. Eppinger	Common Stock	435		*
Glenn C. Christenson	Common Stock	43,311	(7)	*
Robert L. Clarke	Common Stock	48,478		*
Clifford Press	Common Stock	695		*
All executive officers, directors and nominees for director as a group (12 persons)	Common Stock	519,672.7		2.198

The mailing address of each director and executive officer shown in the table above is in care of Stewart Information Services Corporation, 1980 Post Oak Boulevard, Suite 800, Houston, Texas 77056.

Section 16(a) Beneficial Ownership Reporting Compliance

Each of our directors and certain officers are required to report to the U.S. Securities and Exchange Commission (the SEC), by a specified date, his or her transactions related to our Common Stock. Based solely on a review of the copies of reports furnished to us or written representations that no other reports were required, we believe that all filing requirements applicable to our executive officers, directors and greater-than 10% beneficial owners were met during 2016.

* Less than 1%.

(1) Unless otherwise indicated, the beneficial owner has sole voting and dispositive power with respect to all shares indicated.

(2) Includes 14,422 shares of restricted stock and 483 shares owned through the Company s 401(k) plan.

(3) Includes 4,574 shares of restricted stock.

(4) Includes 4,574 shares of restricted stock.

(5) Includes 3,602 shares of restricted stock.

(6) Mr. Chadwick is a portfolio manager of Ancora Catalyst Fund, LP, which owns 30,000 shares of the Company s Common Stock. Mr. Chadwick disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(7) Mr. Christenson indirectly owns the reported shares through the Christenson Family Trust.

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PROPOSAL NO. 1

ELECTION OF DIRECTORS

At our 2017 Annual Meeting, our stockholders will elect nine directors, constituting the entire Board of Directors. The Chairman of the Board is elected by the Board following the annual meeting of stockholders.

During 2016, in connection with agreements entered into with Starboard Value LP and certain of its affiliates, and with Foundation Asset Management, LP and certain of its affiliates, certain members of our Board of Directors resigned and were replaced by new directors (the Settlement Agreements). On October 17, 2016, Malcolm S. Morris and Stewart Morris, Jr. resigned from our Board of Directors and the Board of Directors appointed Matthew W. Morris and Clifford Press as new directors of the Company. On December 28, 2016, Laurie C. Moore and Governor Frank Keating resigned from the Board of Directors and the Board of Directors appointed C. Allen Bradley, Jr. and Frederick H. Eppinger as new directors of the Company. For additional information regarding the Settlement Agreements, our new directors and the changes to the structure and composition of our Board of Directors and its committees during 2016, see our current reports on Form 8-K filed on October 18, 2016 and January 3, 2017.

Director Nominees

The following persons have been nominated by the Board of Directors for election as directors by our stockholders. The persons named in your proxy intend to vote the proxy for the election of each of these nominees, unless you specify otherwise. Although we do not believe that any of these nominees will become unavailable, if one or more should become unavailable before the 2017 Annual Meeting, your proxy will be voted for another nominee, or other nominees, selected by our Board of Directors.

sition with Stewart	Director Since
irector and Chairman	2009
ector	2014
67, Director	2014
irector	2015
irector	2004
5, Director and Chief Executive Officer	2016
ctor	2016
5, Director	2016
58, Director	2016

UNAUDITED CONDENSED CONSOLIDATED STATEMENT

CASH FLOWS FROM OPERATING ACTIVITIES:
Net income
Adjustments to reconcile net income to net cash provided by (used in) operating activities:

Depreciation and amortization
Deferred income taxes
Provision for loan loss
Non-cash stock compensation
Fair value loss on interest-only strip
Fair value loss on interest rate derivatives
Amortization of discount on convertible senior notes
Loss on the sale of assets
Change in operating assets and liabilities, net of acquisitions:
Change in trade accounts receivable
Change in merchant settlement activity
Change in other assets
Change in accounts payable and accrued expenses
Change in deferred revenue
Change in other liabilities
Proceeds from the sale of credit card receivable portfolios to the securitization trusts
Excess tax benefits from stock-based compensation
Other
Net cash provided by operating activities
CASH FLOWS FROM INVESTING ACTIVITIES:
Change in redemption settlement assets
Change in seller s interest
Change in credit card receivables
Change in cash collateral, restricted
Change in restricted cash
Change in due from securitizations
Capital expenditures
Proceeds from the sale of assets
Other
Net cash provided by (used in) investing activities
CASH FLOWS FROM FINANCING ACTIVITIES:
Borrowings under debt agreements
Proceeds from issuance of convertible senior notes due 2014
Repayment of borrowings
Issuances of certificates of deposit
Repayments of certificates of deposit
Proceeds from asset-backed securities
Maturities of asset-backed securities
Payment of capital lease obligations
Payment of deferred financing costs
Excess tax benefits from stock-based compensation
Proceeds from issuance of common stock
Proceeds from issuance of warrants
Payments for convertible note hedges
Payments for prepaid forward contracts
Purchase of treasury shares
Net cash used in financing activities
Effect of exchange rate changes on cash and cash equivalents
Change in cash and cash equivalents
Cash effect on adoption of ASC 860 and ASC 810
Cash and cash equivalents at beginning of period
Cash and cash equivalents at end of period
SUPPLEMENTAL CASH FLOW INFORMATION:
Interest paid
Income taxes paid, net

See accompanying notes to unaudited condensed consolidated fi

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINA

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements included her Alliance Data Systems Corporation (ADSC or, including its wholly consolidated variable interest entities, the Company), without audi regulations of the Securities and Exchange Commission (SEC). Cert disclosures normally included in financial statements prepared in acco principles generally accepted in the United States of America (GAAI omitted pursuant to such rules and regulations. However, the Company b are adequate to make the information presented not misleading. Thes consolidated financial statements should be read in conjunction with th statements and the notes thereto included in the Company s Annual Repo year ended December 31, 2009, filed with the SEC on Ma

The unaudited condensed consolidated financial statements included her (consisting of normal, recurring adjustments) which are, in the opinion of state fairly the results for the interim periods presented. The results of periods presented are not necessarily indicative of the operating result subsequent interim period or for the fiscal year

The preparation of financial statements in conformity with GAAP requ estimates and assumptions that affect (1) the reported amounts of assets; of contingent assets and liabilities at the date of the financial statements; a of revenues and expenses during the reporting period. Actual results estimates. For purposes of comparability, certain prior period amounts conform to the current year presentation. See Note 2, Change in A information on the adoption of Financial Accounting Standards Board (Codification (ASC) 860, Transfers and Servicing, and A

In the first quarter of 2010, the Company reorganized its segments with Private Label Credit reflected as one segment. All prior year segment info conform to the current presentation. In addition, the Company renamed i Epsilon Marketing Services and Loyalty Services to Epsilon and

In February 2009, the Company sold the remainder of its utility services d as a discontinued operation. In November 2009, the Company terminat program for web and catalog retailer VENUE. Prior period information ha termination of VENUE as a discontinued operati

2. CHANGE IN ACCOUNTING PRINCIPL

In June 2009, the FASB issued guidance codified in ASC 860 related to financial assets and ASC 810 related to the consolidation of variable inter removed the concept of qualifying special purpose entity (QSPE) and exemption that was then available for QSPEs. ASC 810 requires an initi ongoing assessment of the Company s involvement in the activities of Credit Card Master Trust (Master Trust), World Financial Network C (Master Trust I), World Financial Network Credit Card Master Note World Financial Network Credit Card Master Trust III (Master Trust Trusts), and World Financial Capital Credit Card Master Note Trust Company s rights or obligations to receive benefits or absorb losse

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)

be potentially significant in order to determine whether those VIEs are re
the balance sheets of World Financial Network National Bank (WFNN
Bank (WFCB) or their affiliates, including A

On January 1, 2010, the Company adopted ASC 860 and ASC 810 on a p
the consolidation of the WFN Trusts and the WFC Trust. Based on the ca
Trusts and the WFC Trust s assets and liabilities as prescribed by ASC
increase in assets of approximately $3.4 billion, including $0.5 billion
increase in liabilities of approximately $3.7 billion and a $0.4 billion dec

After adoption, the Company s consolidated statements of income no l
income, but instead reflect finance charges and certain other income ass
credit card receivables. Net charge-offs associated with credit card recei
provision for loan loss reflected in the Company s total operating ex
associated with debt issued from the WFN Trusts and the WFC Trust
reported in securitization funding costs. Additionally, the Company no lo
new securitization activity since securitized credit card loans no longe
treatment, nor are there any gains or losses on the revaluation of the inte
that asset is not recognized in a transaction accounted for as a secure
Company s securitization transactions are accounted for under the new
borrowings rather than asset sales, the cash flows from these transactions
from financing activities rather than cash flows from operating or

The assets of the consolidated VIEs include certain credit card receivab
settle the obligations of those entities and are not expected to be availa
creditors. The liabilities of the consolidated VIEs include asset-backed se
liabilities for which creditors or beneficial interest holders do not have re
of the Company.

3. RECENT ACCOUNTING PRONOUNCEME

In October 2009, the FASB issued Accounting Standards Updat
Multiple-Deliverable Revenue Arrangements, which supersedes cert
Revenue Recognition Multiple-Element Arrangements, and requires
consideration at the inception of an arrangement to all of its deliverabl
selling prices (the relative-selling-price method). ASU 2009-13 elimina
method of allocation in which the undelivered element is measured at its
the delivered element is measured as the residual of the arrangement con
relative-selling-price method in all circumstances in which an entity r
arrangement with multiple deliverables subject to ASU 2009-13. ASU 2
revenue arrangements entered into or materially modified in fiscal ye
June 15, 2010. Early adoption is permitted. If the Company elects early a
during an interim period, the Company will be required to apply this AS
beginning of the Company s fiscal year. The Company can also elect to a
for all periods presented. The Company is currently evaluating the im
ASU 2009-13 will have on its consolidated financial st

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurem
amends ASC 820, Fair Value Measurements and Disclosures, to ad
purchases, sales, issuances and settlements related to Level 3 measuren

provide the Level 3 disclosures about purchases, sales, issuances and settl
interim and annual periods beginning after December 15, 2010. The adopt
separate Level 3 disclosures will only impact disclosures and will not ha
Company s consolidated financial statement

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE STATEMENTS (Continued)

In July 2010, the FASB issued ASU 2010-20, Disclosures about the C Receivables and the Allowance for Credit Losses, which amends ASC further disaggregated disclosures that improve financial statement users nature of an entity s credit risk associated with its financing receivables a of that risk in estimating its allowance for credit losses as well as change reasons for those changes. The new and amended disclosures as of the en effective for interim and annual reporting periods ending on or after D adoption of ASU 2010-20 will only impact disclosures and will not hav Company s consolidated financial statements

4. SHARES USED IN COMPUTING NET INCOME P

The following table sets forth the computation of basic and diluted net periods indicated:

	Three Months Ended June 30,	
	2010	**200**
	(In thousands, e	
Numerator		
Income from continuing operations	$ 47,320	$ 28,3
Income (loss) from discontinued operations, net of taxes		1,0
Net income	$ 47,320	$ 29,4
Denominator		
Weighted average shares, basic	53,188	56,9
Weighted average effect of dilutive securities:		
Shares from assumed conversion of convertible senior notes	2,295	
Net effect of dilutive stock options and unvested restricted stock	1,338	8
Denominator for diluted calculation	56,821	57,8
Basic		
Income from continuing operations per share	$ 0.89	$ 0
Income (loss) from discontinued operations per share		0
Net income per share	$ 0.89	$ 0
Diluted		
Income from continuing operations per share	$ 0.83	$ 0
Income (loss) from discontinued operations per share		0

Net income per share	$	0.83	$	0

The Company calculates the effect of its convertible senior notes, whicl
shares of common stock, on diluted net income per share as if they wil
Company has the intent to settle the convertible senior notes in cash. At J
Company excluded, in each case, 17.5 million warrants from the calculat
as the effect was anti-dilutive.

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE STATEMENTS (Continued)

During the second quarter of 2009, the Company entered into prepaid for 1,857,400 shares of its common stock for $74.9 million that are to be de period in 2014. The number of shares to be delivered under the prepaid f reduce weighted average basic and diluted shares outs

5. CREDIT CARD RECEIVABLES

Beginning January 1, 2010, the Company s credit card securitization tru WFC Trust, were consolidated on the balance sheets of WFNNB, WFCB ADSC, under ASC 860 and ASC 810. The WFN Trusts and the WFC T are reported in credit card receivables restricted for securitization inves WFN Trusts and the WFC Trust have been reclassified, derecognized or condensed consolidated balance sheets with the adoption of ASC

The tables below present quantitative information about the compon receivables and delinquencies:

Principal receivables
Billed and accrued finance charges
Other receivables
Total credit card receivables
Less credit card receivables restricted for securitization investors
Other credit card receivables
Principal amount of credit card receivables 90 days or more past due

Net charge-offs of credit card receivables were $112.4 million and $10 months ended June 30, 2010 and 2009, respectively, and $234.7 million a months ended June 30, 2010 and 2009, respectiv

Allowance for Loan Loss

Management evaluates the allowance for loan loss monthly for adeq maintained through an adjustment to the provision for loan loss. In estim credit card portfolio, management uses an approach that utilizes a migra and current credit card receivables. A migration analysis is a technique us that a credit card receivable will progress through the various stages of de The migration analysis considers uncollectible principal, interest and fe receivables. In determining the proper level of the allowance for loan considers factors that may impact loan loss experience, including seas amounts, payment rates and forecasting uncertain

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)

Changes in the allowance for loan loss on credit card receivables for the
2010 and the year ended December 31, 2009 were as

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Balance at beginning of period	$
Adoption of ASC 860 and ASC 810	
Provision for loan loss	
Charge-offs, net of recoveries	(
Balance at end of period	$

The provision for loan loss expense was $95.7 million and $184.6 mil
months ended June 30, 2010, respectively, which includes $1.0 million an
fraud losses, respectively. The provision for loan loss expense was $10.9
for the three and six months ended June 30, 2009, respectively, for the C
credit card receivables. These amounts were netted against securitiz

Securitized Credit Card Receivables

The Company regularly securitizes its credit card receivables to the WFN
The Company continues to own and service the accounts that generate cre
the WFN Trusts and the WFC Trust. In its capacity as a servicer, each of
fee from the WFN Trusts and the WFC Trust to service and administer th
payments, and charge-off uncollectible receivables. Upon consolidation
WFC Trust, this fee was eliminated.

The tables below present quantitative information about the components
card receivables, delinquencies and net charge-o

Total credit card receivables restricted for securitization investors	
Principal amount of credit card receivables restricted for securitization investors, 90 days or more past due	

Three Months En
June 30,

	2010	200
Net securitized charge-offs	$ 97.9	$ 93

During the initial phase of a securitization reinvestment period, the Co
principal collections in exchange for the transfer of additional credit c
securitized pool of assets. During the amortization or accumulation peri
investors share of principal collections (in certain cases, up to a maxim
month) is either distributed to the investors or held in an account until i
amount due, at which time it is paid to the investors in a

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE STATEMENTS (Continued)

The table below summarizes certain cash flows received from and paid when transfers of credit card receivables to the securitization trusts were adoption of ASC 860 and ASC 810:

	Three Mont June 200
Proceeds from collections reinvested in previous credit card securitizations	$ 1,19
Proceeds from new securitizations	70
Proceeds from collections reinvested in revolving period transfers	1,56
Servicing fees received	1

6. REDEMPTION SETTLEMENT ASSETS

Redemption settlement assets consist of cash and cash equivalents and se and are designated for settling redemptions by collectors of the AIR MI Canada under certain contractual relationships with sponsors of the AIR These assets are primarily denominated in Canadian dollars. Realized ga of investment securities were not material. The principal components of re which are carried at fair value, are as follows:

	June 30, 2010 Cost	Unrealized Gains	Unrealized Losses	Fair Value	D Cost	Unr G
				(In thousands)		
Cash and cash equivalents	$ 45,016	$	$	$ 45,016	$ 71,641	$
Government bonds	50,758	1,059	(35)	51,782	41,026	
Corporate bonds[1]	374,992	5,344	(505)	379,831	453,447	8
Total	$ 470,766	$ 6,403	$ (540)	$ 476,629	$ 566,114	$ 9

(1) Included in corporate bonds at December 31, 2009 is an investment in WFN Trusts with a fair value of $73.9 million. Upon adoption of ASC eliminated with the consolidation of the WFN Trusts, and therefore no condensed consolidated balance sheets as of June 30, 2010.

The following tables show the gross unrealized losses and fair value for t in an unrealized loss position as of June 30, 2010 and December 31, 2009 category and the length of time that individual securities have been in a

	June 30, 20			
	Less than 12 months		12 Months Greater	
	Fair Value	Unrealized Losses	Fair Value	Unreal Loss
	(In thousand			
Government bonds	$ 9,377	$ (35)	$	$
Corporate bonds	65,508	(505)		
Total	$ 74,885	$ (540)	$	$

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NOTES TO UNAUDITED CONDENSED CONSOLIDATE
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	December 31, 2009			
	Less than 12 months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealize Losses
	(In thousands)			
Corporate bonds	$ 98,448	$ (1,646)	$ 7,705	$ (14
Total	$ 98,448	$ (1,646)	$ 7,705	$ (14

Market values were determined for each individual security in the inv evaluating the investments for other-than-temporary impairment, the Con as the length of time and extent to which fair value has been below cost b of the security s issuer, and the Company s intent to sell the security and not that the Company will be required to sell the security before recovery The Company typically invests in highly-rated securities with low probab ability to hold the investments until maturity. As of June 30, 2010, the Co investments to be other-than-temporarily impair

The net carrying value and estimated fair value of the securities at June maturity are as follows:

	A
Due in one year or less	$
Due after one year through five years	
Total	$

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE STATEMENTS (Continued)

7. INTANGIBLE ASSETS AND GOODWIL

Intangible Assets

Intangible assets consist of the following:

	June 30, 2010			
	Gross Assets	Accumulated Amortization (In thousands)	Net	Amo
Finite Lived Assets				
Customer contracts and lists	$ 186,428	$ (134,092)	$ 52,336	5-10 y
Premium on purchased credit card portfolios	151,430	(53,170)	98,260	3-10 y
Collector database	65,752	(56,474)	9,278	30 year
Customer database	160,200	(65,509)	94,691	4-10 y
Noncompete agreements	2,514	(2,191)	323	3-5 yea
Tradenames	11,615	(4,309)	7,306	4-10 y
Purchased data lists	18,816	(10,236)	8,580	1-5 yea
	$ 596,755	$ (325,981)	$ 270,774	
Indefinite Lived Assets				
Tradenames	12,350		12,350	Indefin
Total intangible assets	$ 609,105	$ (325,981)	$ 283,124	

	December 31, 2009			
	Gross Assets	Accumulated Amortization (In thousands)	Net	Amo
Finite Lived Assets				
Customer contracts and lists	$ 186,428	$ (121,540)	$ 64,888	5-10 y
Premium on purchased credit card portfolios	155,227	(46,936)	108,291	3-10 y
Collector database	66,541	(56,316)	10,225	30 year
Customer database	160,564	(57,043)	103,521	4-10 y
Noncompete agreements	2,522	(1,986)	536	3-5 yea
Tradenames	11,658	(3,674)	7,984	4-10 y
Purchased data lists	17,178	(8,376)	8,802	1-5 yea

	$ 600,118	$ (295,871)	$ 304,247	
Indefinite Lived Assets				
Tradenames	12,350		12,350	Indefir
Total intangible assets	$ 612,468	$ (295,871)	$ 316,597	

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE STATEMENTS (Continued)

Goodwill

The changes in the carrying amount of goodwill for the six months en follows:

	LoyaltyOne	Epsilon	Private Lal Services and Credit (In thousands
December 31, 2009	$ 234,613	$ 669,930	$ 261,73
Effects of foreign currency translation	(2,642)	(1,680)	
June 30, 2010	$ 231,971	$ 668,250	$ 261,73

8. DEBT

Debt consists of the following:

Description	June 30, 2010 (In thousands)	December 31, 2009	Maturity	
Long-term and other debt:				
Credit facility	$ 500,000	$ 487,000	March 2012	
Senior notes	250,000	250,000	May 2011	
2009 Term loan	161,000	161,000	March 2012	
Convertible senior notes due 2013	635,144	612,058	August 2013	
Convertible senior notes due 2014	247,945	238,869	May 2014	
Capital lease obligations and other debt	19,572	33,425	July 2010	July 20
	1,813,661	1,782,352		
Less: current portion	(269,403)	(51,963)		
Long-term portion	$ 1,544,258	$ 1,730,389		
Certificates of deposit:				
	$ 1,098,900	$ 1,465,000	One year to five yea	

Certificates of deposit				
Less: current portion	(426,300)	(772,500)		
Long-term portion	$ 672,600	$ 692,500		
Asset-backed securities debt owed to securitization investors:[4]				
Fixed rate asset-backed term note securities	$ 1,489,065	$	July 2010	July 201
Floating rate asset-backed term note securities	1,216,633		August 2010	Apri
Conduit asset-backed securities	647,060		June 2011	Septemb
Total asset-backed securities owed to securitization investors	3,352,758			
Less: current portion	(253,593)			
Long-term portion	$ 3,099,165	$		

(1) The Company maintains a $750.0 million unsecured revolving credit f
where advances are in the form of either base rate loans or Eurodollar
denominated in Canadian dollars, subject to a sublimit, or U.S. dollars
loans is the higher of (a) the Bank of Montreal s prime rate, (b) the Fe
and (c) the quoted London Interbank Offered

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Rate (LIBOR) as defined in the credit agreement plus 1.0%. The in denominated in U.S. or Canadian dollars fluctuates based on the rate a dollars or Canadian dollars, respectively, in the London interbank mar margin of 0.4% to 0.8% based upon the Company s senior leverage ra Facility. Total availability under the Credit Facility at June 30, 2010 w June 30, 2010, the amounts outstanding under the Credit Facility were where the weighted average interest rate was 0.75%.

(2) Advances under the term loan agreement, dated May 15, 2009 (the 2 form of either base rate loans or Eurodollar loans. The interest rate for and is equal to the highest of (a) Bank of Montreal s prime rate; (b) th 0.5%; and (c) the quoted LIBOR as defined in the 2009 Term Loan ag case plus a margin of 2.0% to 3.0% based upon the Company s senior the 2009 Term Loan agreement. The interest rate of Eurodollar loans f at which deposits of U.S. dollars in the London interbank market are q 3.0% to 4.0% based on the Company s senior leverage ratio as define June 30, 2010, the amounts outstanding under the 2009 Term Loan we loans where the weighted average interest rate was 3.35%.

(3) The Company has other minor borrowings, primarily capital leases, w and maturities.

(4) Upon adoption of ASC 860 and ASC 810, the Company consolidated WFC Trust and the related asset-backed securities debt. See Note 2, Principle, for more information on the adoption of ASC 860 and AS

(5) Interest rates include those for certain of the Company s asset-backed securitization investors where floating rate debt is fixed through intere The weighted average interest rate of the fixed rate achieved through i agreements is 4.45% at June 30, 2010.

As of June 30, 2010, the Company was in compliance with its fi

Credit Facility

On June 18, 2010, the Company amended its Credit Facility to clarify the ASC 810 with respect to the calculation of covenant co

2009 Term Loan

On June 18, 2010, the Company amended its 2009 Term Loan to clarify t and ASC 810 with respect to the calculation of covenant compliance. In removed the prepayments that were required beginning June 30, 2010 and payments be paid at maturity, March 30, 2012

Convertible Senior Notes

The table below summarizes the carrying value of the components of th

J

Carrying amount of equity component	$
Principal amount of liability component	$ 1
Unamortized discount	
Net carrying value of liability component	$
If-converted value of common stock	$ 1

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
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The discount on the liability component will be amortized as interest exp
of the convertible senior notes which is a weighted average pe

Interest expense on the convertible senior notes recognized in the Comp
consolidated statements of income for the three and six months ended Ju
follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	
		(In thousan	
Interest expense calculated on contractual interest rate	$ 7,618	$ 4,796	$
Amortization of discount on liability component	16,301	11,870	
Total interest expense on convertible senior notes	$ 23,919	$ 16,666	$
Effective interest rate (annualized)	11.0%	11.0%	

Asset-backed Securities Owed to Securitization In

An asset-backed security is a security whose value and income payme
collateralized (or backed) by a specified pool of underlying assets. The
assets to general investors is accomplished through a securiti

The Company regularly sells its credit card receivables to its securitizatio
the WFC Trust. Beginning January 1, 2010, the WFN Trusts and the WFC
the balance sheets of the Company, under ASC 860 and ASC 810. See No
Principle, for more information on the adoption of ASC 860 and AS
consolidated VIEs include asset-backed securities for which creditors or b
not have recourse to the general credit of the Comp

Asset-backed Term Notes

In March 2010, Master Trust II issued $100.8 million of term asset-backe
offering consisted of $65.0 million of Class A Series 2010-1 asset-back
interest rate of 4.2% per year, $9.8 million of Class M Series 2010-1 ass
fixed interest rate of 5.3% per year, $6.6 million of Class B Series 2010
have a fixed interest rate of 6.3% per year, $11.6 million of Class C Serie
that have a fixed interest rate of 7.0% per year and $7.8 million of Class D
notes which were retained by the Company. The Class A notes will matu
Class M notes will mature in December 2012, the Class B notes will m
Class C notes will mature in February 2013 and the Class D notes will m
the consolidation of the WFN Trusts, the Class D Series 2010-1 notes
unaudited condensed consolidated financial statem

Conduit Facilities

During the first quarter of 2010, the Company renewed its $550.0 million
under Master Trust III, extending the maturity to Septemb

During the second quarter of 2010, the Company renewed its $1.2 billion
under Master Trust I, extending the maturity to June 23, 2011, and its $
conduit facility under the WFC Trust, extending the maturity

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ALLIANCE DATA SYSTEMS CORPORATI

**NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)**

The following table shows the maturities of borrowing commitments as of
Trusts and the WFC Trust by year:

	2010	2011	2012
			(In mill
Term notes	$ 211.4	$ 1,158.9	$ 805.2
Conduit facilities[1]		2,447.8	
Total[2]	$ 211.4	$ 3,606.7	$ 805.2

[1] Amount represents borrowing capacity, not outstanding borrowings.

[2] As of June 30, 2010, with the consolidation of the WFN Trusts and th
million of debt issued by the trusts and retained by the Company has b
unaudited condensed consolidated financial statements.

Derivative Financial Instruments

The credit card securitization trusts have entered into derivative financial
both interest rate swaps and an interest rate cap, to mitigate their inter
financial instrument or to lock the interest rate on a portion of its asset-bac
January 1, 2010, the derivative financial instruments of the credit card
consolidated on the Company s balance sheets under ASC 8

As part of its interest rate risk management program, the Company may e
instruments with institutions that are established dealers and manage its
value of certain asset-backed security obligations attributable to change
rate contracts involve the receipt of fixed rate amounts from counterpa
Company making variable rate payments over the life of the agreement v
underlying notional amount. These interest rate contracts are not designat
are not speculative and are used to manage interest rate risk, but do no
accounting requirements of ASC 815, Derivatives an

The following tables identify the notional amount, fair value and classi
outstanding interest rate contracts at June 30, 2010 in the unaudited cond
sheets:

	Notional (in thou
Interest rate contracts not designated as hedging instruments	$ 1,2

	Balance She
Interest rate contracts not designated as hedging instruments	Other curren
Interest rate contracts not designated as hedging instruments	Other liabili

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)

The following tables identify the classification of the Company s outstand
the three and six months ended June 30, 2010 in the unaudited condensed
income:

For the three months ended June 30, 2010	Income Statem
Interest rate contracts not designated as hedging instruments	Securitization

For the six months ended June 30, 2010	Income Statem
Interest rate contracts not designated as hedging instruments	Securitization

The Company limits its exposure on derivatives by entering into contrac
established dealers and maintain certain minimum credit criteria establi
June 30, 2010, the Company does not maintain any derivative contracts s
that would require the Company to post collateral or that contain any cre
features. The Company has provisions in certain of the master agreements
to post collateral to the Company when their credit ratings fall below cert
2010, these thresholds were not breached and no amounts were held as c

9. DEFERRED REVENUE

Because management has determined that the earnings process is not co
MILES reward mile is issued, the recognition of revenue on all fees recei
The Company allocates the proceeds from the issuance of AIR MILE
components as follows:

Redemption element. The redemption element is the larger of the t
related to the redemption element is based on the estimated fair va
revenue is recognized at the time an AIR MILES reward mile is re
MILES reward miles that are estimated to go unredeemed by the c
breakage, over the estimated life of an AIR MILES reward mil

Service element. The service element consists of marketing and ac
provided to sponsors. Revenue related to the service element is de
method in accordance with ASC 605-25. It is initially deferred an
over the estimated life of an AIR MILES reward mile.

Under certain of the Company s contracts, a portion of the proceeds is pa
issuance of an AIR MILES reward mile and a portion is paid at the time o
the Company does not have a redemption obligation related to these contr
at the time of redemption and is not reflected in the reconciliation of th
detailed below. Under such contracts, the proceeds received at issuanc
service revenue and revenue is recognized pro rata over the estimated lif
mile. Amounts for revenue related to the redemption element and servic
redemption revenue and transaction revenue, respectively, in the unaudit
statements of income.

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)

A reconciliation of deferred revenue for the AIR MILES Reward P

	Service	Def R (I
December 31, 2009	$ 306,336	$
Cash proceeds	88,940	
Revenue recognized	(83,680)	
Other		
Effects of foreign currency translation	(3,773)	
June 30, 2010	$ 307,823	$
Amounts recognized in the unaudited condensed consolidated balance sheets:		
Current liabilities	$ 147,574	$
Non-current liabilities	$ 160,249	$

10. STOCKHOLDERS EQUITY

Stock Repurchase Programs

On January 27, 2010, the Company s Board of Directors authorized a ne
to acquire up to $275.1 million of the Company s common stock throug
any restrictions pursuant to the terms of the Company s credit agr

For the three and six months ended June 30, 2010, the Company acquire
and 456,500 shares, respectively, of its common stock for $11.3 mill
respectively.

Stock Compensation Plans

On March 31, 2005, the Company s Board of Directors adopted the 200
which was subsequently approved by the Company s stockholders on
effective July 1, 2005. This plan reserved 4,750,000 shares of common s
stock options, nonqualified stock options, stock appreciation rights, restr
units and other performance-based awards to selected officers, employee
and consultants performing services for the Company or its affiliates. O
Company s Board of Directors amended the 2005 long term incentive pla
to settlement in shares of the Company s common stock or other secur
settled in cash. No more grants may be made from the 2005 long-term inc
on June 30, 2010.

On March 25, 2010, the Company s Board of Directors adopted the 2010
2010 plan), which was subsequently approved by the Company s s

became effective July 1, 2010 and expires on June 30, 2015. This plan re
common stock for grants of nonqualified stock options, incentive stock o
rights, restricted stock, restricted stock units, performance share award
deferred stock units, and other stock-based and cash-based awards to sel
non-employee directors and consultants performing services for the Con
only employees being eligible to receive incentive stock

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE STATEMENTS (Continued)

Stock Compensation Expense

Total stock-based compensation expense recognized in the Company consolidated statements of income for the three and six months ended Ju follows:

	Three Mont Ended June 30,	
	2010	2
Cost of operations	$ 6,308	$
General and administrative	6,107	
Total	$ 12,415	$ 1

There was no stock-based compensation expense related to discontinued six months ended June 30, 2010 and for the three months ended June 30 ended June 30, 2009, stock-based compensation expense for the Compan was approximately $0.1 million. This amount is included in the loss from the unaudited condensed consolidated statements of i

During the six months ended June 30, 2010, the Company awarded 47 restricted stock units with a weighted average grant date fair value per sh on the date of grant. The performance restriction on the awards will lapse Board of Directors or the Compensation Committee of the Board of Direc earnings per share growth for the period from January 1, 2010 to Decer pre-defined vesting criteria that permit a range from 50% to 150% of restricted stock units to vest. Upon such determination, the restrictions wi of the award on February 22, 2011, an additional 33% of the award on final 34% of the award on February 22, 2013, provided that the partic Company on each such vesting date.

During the six months ended June 30, 2010, the Company awarded 188, stock units with a weighted average grant date fair value per share of $6 date of grant. Service-based restricted stock units typically vest ratably o the participant meets the service condition on each such v

In March 2009, the Company determined that it was no longer prob performance measures associated with certain performance-based restr achieved. As a result, 1,242,098 performance-based restricted stock units January 2009, having a weighted-average grant date fair value of $56.43 to vest. The Company has not recognized stock-based compensation exp no longer expected to vest.

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE STATEMENTS (Continued)

11. COMPREHENSIVE INCOME

The components of comprehensive income, net of tax effect,

	Three Months Ended June 30, 2010	2009
		(In th
Net income	$ 47,320	$ 29,436
Adoption of ASC 860 and ASC 810[1]		
Unrealized gain (loss) on securities available-for-sale	3,953	(31,186)
Foreign currency translation adjustments[2]	5,757	12,521
Total comprehensive income, net of tax	$ 57,030	$ 10,771

(1) These amounts related to unrealized losses associated with retained in and the WFC Trust, which were classified as available-for-sale. These reflected in accumulated other comprehensive income. Effective Janu adoption of ASC 860 and ASC 810, these interests and related accumu income have been reclassified, derecognized or eliminated upon conso and the WFC Trust.

(2) Primarily related to the impact of changes in the Canadian currency ex

12. FINANCIAL INSTRUMENTS

In accordance with ASC 825, Financial Instruments, the Company is value of financial instruments for which it is practical to estimate fair va observable market prices are used if available. In some instances, observ readily available and fair value is determined using present value or other particular financial instrument. These techniques involve judgment and as indicative of the amounts the Company would realize in a current mark different assumptions or estimation techniques may have a material effect amounts.

Fair Value of Financial Instruments The estimated fair values of instruments are as follows:

	June 30, 2010 Carrying Amount	Fair Value
		(In thou
Financial assets		
Cash and cash equivalents	$ 250,335	$ 250,335

Trade receivables, net	209,609	209,609
Seller s interest		
Credit card receivables, net	4,516,623	4,516,623
Redemption settlement assets, restricted	476,629	476,629
Due from securitizations		
Cash collateral, restricted	313,018	313,018
Financial liabilities		
Accounts payable	125,534	125,534
Asset-backed securities debt owed to securitization investors	3,352,758	3,387,008
Debt, including certificates of deposit	2,912,561	3,018,304
Derivative financial instruments	83,939	83,939

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)

Fair Value of Assets and Liabilities Held at June 3

The following techniques and assumptions were used by the Company i
financial instruments as disclosed herein:

Cash and cash equivalents, trade receivables, net and accounts payal
approximates fair value due to the short maturit

Credit card receivables, net The carrying amount of credit card receiva
value due to the short maturity, and the average interest rates approximate
rates.

Redemption settlement assets, restricted Fair value for securities is based
the same or similar securities.

Cash collateral, restricted The spread deposits are recorded at their fai
cash flow models. The carrying amount of excess funding deposits appro
the relatively short maturity period and average interest rates, which ap
rates.

Asset-backed securities debt owed to securitization investors The fair v
current rates available to the Company for similar debt instruments with s

Debt, including certificates of deposit The fair value is estimated based
to the Company for similar debt instruments with similar rema

Derivative financial instruments The valuation of these instruments is de
cash flow analysis on the expected cash flows of each derivative. This ana
terms of the derivatives, including the period to maturity, and uses obser
including interest rate curves and option volatili

Fair Value of Assets and Liabilities Held at December

The following techniques and assumptions were used by the Company i
financial instruments which were subsequently reclassified, derecogn
consolidation of the WFN Trusts and the WFC Trust as a result of the a
ASC 810 as disclosed herein:

Seller s interest Seller s interest was carried at an allocated carrying am
The Company determined the fair value of its seller s interest through d
The estimated cash flows used included assumptions related to rates of pa
reflected economic and other relevant conditions. The discount rate used v
curve that was observable in the market place plus an unobservable
consolidation of the WFN Trusts and the WFC Trust on January 1, 201
eliminated.

Due from securitizations The retained interest and interest-only strips we
The Company used a valuation model that calculated the present value of

for each asset which incorporated the Company s own estimates of assu
used in determining fair value, including estimates of payment rates, d
discount rates and contractual interest and fees. With the consolidation o
WFC Trust on January 1, 2010, due from securitizations has been dere

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)

Assets and Liabilities Measured on a Recurring B

ASC 825 establishes a three-tier fair value hierarchy, which prioritizes th
fair value. These tiers include:

Level 1, defined as observable inputs such as quoted prices in acti

Level 2, defined as inputs other than quoted prices in active marke
indirectly observable; and

Level 3, defined as unobservable inputs in which little or no mark
requiring an entity to develop its own assumptions.

Financial instruments are considered Level 3 when their values are deter
discounted cash flow methodologies or similar techniques and at leas
assumption or input is unobservable. Level 3 financial instruments also i
determination of fair value requires significant management judgment
different techniques to determine fair value of these financial instrumen
estimates of fair value at the reporting date.

The following tables provide the assets carried at fair value measured
June 30, 2010 and December 31, 2009:

	Balance at June 30, 2010	Fair Value Measur Level 1	
		(In thousa	
Government bonds[1]	$ 51,782	$ 17,258	$
Corporate bonds[1]	379,831	222,750	
Other available-for-sale securities[2]	86,150	76,568	
Cash collateral, restricted	313,018		
Total assets measured at fair value	$ 830,781	$ 316,576	$
Derivative financial instruments[3]	$ 83,939	$	$
Total liabilities measured at fair value	$ 83,939	$	$

	Balance at December 31, 2009	Fair Value Measurem Level 1	
		(In thousa	
Government bonds[1]	$ 42,231	$ 16,676	$

Corporate bonds[1]	460,132	308,668	
Other available-for-sale securities[2]	105,064	95,300	
Seller s interest	297,108		
Due from securitizations	775,570		
Cash collateral, restricted	216,953		
Total assets measured at fair value	$ 1,897,058	$ 420,644	$

(1) Amounts are included in redemption settlement assets in the unaudited balance sheets.

(2) Amounts are included in other current and non-current assets in the ur consolidated balance sheets.

(3) Amounts are included in other current liabilities and other liabilities ir consolidated balance sheets.

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)

The following tables summarize the changes in fair value of the Compar
value on a recurring basis using significant unobservable inputs (Level 3)
June 30, 2010 and 2009:

	Corporate Bonds	Seller s Interest	S
		(In thous	
March 31, 2010	$	$	$
Total losses (realized or unrealized)			
Included in earnings			
Included in other comprehensive income			
Purchases, sales, issuances and settlements			
Transfers in or out of Level 3			
June 30, 2010	$	$	$
Losses for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at June 30, 2010	$	$	$

	Corporate Bonds	Seller s Interest	S
		(In thous	
December 31, 2009	$ 73,866	$ 297,108	$
Adoption of ASC 860 and ASC 810	(73,866)	(297,108)	
Total losses (realized or unrealized)			
Included in earnings			
Included in other comprehensive income			
Purchases, sales, issuances and settlements			
Transfers in or out of Level 3			
June 30, 2010	$	$	$
Losses for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at June 30, 2010	$	$	$

	Corporate Bonds	Seller s Interest	S

			(In thous
March 31, 2009	$ 93,748	$ 41,166	$
Total (losses) gains (realized or unrealized)			
Included in earnings		8,952	
Included in other comprehensive income	(10,189)		
Purchases, sales, issuances and settlements		133,555	
Transfers in or out of Level 3			
June 30, 2009	$ 83,559	$ 183,673	$
Losses for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at June 30, 2009	$	$	$

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)

	Corporate Bonds	Seller s Interest
		(In tho
December 31, 2008	$ 28,625	$ 182,428
Total (losses) gains (realized or unrealized)		
Included in earnings		8,543
Included in other comprehensive income	(9,623)	
Purchases, sales, issuances and settlements	64,557	(7,298)
Transfers in or out of Level 3		
June 30, 2009	$ 83,559	$ 183,673
Losses for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at June 30, 2009	$	$

For the three and six months ended June 30, 2010 and 2009, gains and l
attributable to cash collateral, restricted were included in revenue under
unaudited condensed consolidated statements of income. For the three an
2009, gains and losses included in earnings for seller s interest and du
included in securitization income in the unaudited condensed consolida

Assets and Liabilities Measured on a Non-Recurrin

The Company also has assets that under certain conditions are subject to m
a non-recurring basis. These assets include those associated with acqui
goodwill and other intangible assets. For these assets, measurement at fair
to their initial recognition is applicable if one or more is determined to be
and six months ended June 30, 2010, the Company had no impairmen

13. INCOME TAXES

For the three and six months ended June 30, 2010, the Company utilize
38.2% to calculate its provision for income taxes. For the three and six m
the Company s effective tax rate was 38.9% and 38.8%, respective
ASC 740-270, Income taxes Interim Reporting, the Company s exp
calendar year 2010 based on all known variables is 3

On January 1, 2010, the Company s deferred tax asset increased by appr
result of the adoption of ASC 860 and ASC 81

14. SEGMENT INFORMATION

In the first quarter of 2010, the Company reorganized its segments with
Private Label Credit reflected as one segment. All prior year segment info
conform to the current presentation. In addition, the Company renamed i
Epsilon Marketing Services and Loyalty Services to Epsilon and

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE STATEMENTS (Continued)

The Company operates in three reportable segments: LoyaltyOne, Epsilon and Credit.

LoyaltyOne includes the Company s Canadian AIR MILES Rew

Epsilon provides integrated direct marketing solutions that combi technology and analytics with a broad range of direct marketing s

Private Label Services and Credit provides risk management solut funding, transaction processing, customer care and collections ser private label retail credit card programs.

Additionally, corporate and all other immaterial businesses are reported category labeled Corporate/Other. Total interest expense, net and incon segments in the computation of segment operating profit for internal eva also been included in Corporate/Other. Total assets are not allocated to utility services business and a terminated credit program have been cl operations. See Note 15, Discontinued Operations, for addi

Three Months Ended June 30, 2010	LoyaltyOne	Epsilon	Private Label Services and Credit	Corpo Oth
			(In thousand	
Revenues	$ 191,531	$ 137,024	$ 343,260	$
Adjusted EBITDA[1]	58,666	31,277	133,229	(14
Depreciation and amortization	6,147	18,076	8,532	1
Stock compensation expense	2,365	2,166	1,777	6
Operating income (loss)	50,154	11,035	122,920	(22
Interest expense, net				83
Income (loss) from continuing operations before income taxes	50,154	11,035	122,920	(105

Three Months Ended June 30, 2009	LoyaltyOne	Epsilon	Private Label Services and Credit	Corpo Oth
			(In thousand	
Revenues	$ 167,346	$ 123,003	$ 156,821	$ 10
Adjusted EBITDA[1]	38,334	30,383	60,999	(7
Depreciation and amortization	4,957	17,825	5,880	2
Stock compensation expense	2,257	1,901	1,614	4
Merger and other costs[2]				
Operating income (loss)	31,120	10,657	53,505	(14

Interest expense, net				34
Income (loss) from continuing operations before income taxes	31,120	10,657	53,505	(48

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE STATEMENTS (Continued)

Six Months Ended June 30, 2010	LoyaltyOne	Epsilon	Private Label Services and Credit	Corpora Other
			(In thousands	
Revenues	$ 391,201	$ 263,331	$ 682,464	$ 1,1
Adjusted EBITDA[1]	112,253	58,563	272,984	(30,1
Depreciation and amortization	12,284	36,092	17,021	3,1
Stock compensation expense	4,528	4,136	3,539	10,8
Operating income (loss)	95,441	18,335	252,424	(44,1
Interest expense, net				166,5
Income (loss) from continuing operations before income taxes	95,441	18,335	252,424	(210,7

Six Months Ended June 30, 2009	LoyaltyOne	Epsilon	Private Label Services and Credit	Corpora Other
			(In thousands	
Revenues	$ 327,977	$ 240,569	$ 345,978	$ 22,4
Adjusted EBITDA[1]	93,233	52,521	148,469	(19,9
Depreciation and amortization	9,911	33,832	11,931	4,7
Stock compensation expense	6,281	5,225	4,631	12,5
Merger and other costs[2]				3,0
Operating income (loss)	77,041	13,464	131,907	(40,2
Interest expense, net				65,3
Income (loss) from continuing operations before income taxes	77,041	13,464	131,907	(105,6

(1) Adjusted EBITDA is a non-GAAP financial measure equal to income the most directly comparable GAAP financial measure, plus stock con provision for income taxes, interest expense, net, depreciation and am costs. Adjusted EBITDA is presented in accordance with ASC 280, S the primary performance metric by which senior management is evalu

(2) Merger and other costs are not allocated to the segments in the compu profit for internal evaluation purposes. Merger costs represent investm accounting costs directly associated with the proposed merger with an Group. Other costs represent compensation charges related to the depa resulting from cost saving initiatives and other non-routine costs assoc of certain businesses.

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)

15. DISCONTINUED OPERATIONS

In February 2009, the Company completed the sale of the remainder of i including the termination of a services agreement and the resolution of cer a former utility client. In November 2009, the Company terminated opera for web and catalog retailer VENUE. These have been treated as disco ASC 205-20, Presentation of Financial Statements Discontinued Opera the discontinued operations for the periods presented in the unaudited con sheets are as follows:

	Ju
Assets:	
Credit card receivables, net	$
Assets of discontinued operations	$

The following table summarizes the operating results of the disco

	Three Months Ended June 30, 2010	2009
		(In tho
Revenue	$	$ 2,872
Income (loss) before provision for income taxes		1,626
(Provision) benefit from income taxes		(577)
Income (loss) from discontinued operations	$	$ 1,049

16. NON-CASH FINANCING AND INVESTING AC

On January 1, 2010, the Company adopted ASC 860 and ASC 810 result the WFN Trusts and the WFC Trust. Based on the carrying amounts of th Trust s assets and liabilities as prescribed by ASC 810, the consolida following non-cash impact to the financing and investing activities for th 2010 as follows:

elimination of $74 million in redemption settlement assets for thos WFN Trusts, elimination of $775 million in retained interests classified in due f

consolidation of $4.1 billion in credit card receivables, and

consolidation of $3.7 billion in asset-backed securities.

17. SUBSEQUENT EVENTS

On July 1, 2010, the Company completed the acquisition of the Direct M division of Equifax, Inc. The total purchase price was approximately $1 division provides proprietary data-driven, integrated marketing solutions t offers: database marketing and hosting, and data services, including U.S information. In connection with the acquisition, the division will be inte Epsilon segment.

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ALLIANCE DATA SYSTEMS CORPORATI

NOTES TO UNAUDITED CONDENSED CONSOLIDATE
STATEMENTS (Continued)

On July 8, 2010, Master Trust I issued $450.0 million of term asset-backe
public offering. The offering consisted of $355.5 million of Class A Series
that have a fixed interest rate of 3.96% per year, $16.9 million of Class M
notes that have a fixed interest rate of 5.2% per year, $21.4 million of
asset-backed notes that have a fixed interest rate of 6.75% per year and
Series 2010-A asset-backed notes that have a fixed interest rate of 5.0% p
M, Class B and Class C notes will all mature in June 2015. The Class C
retained by the Company. With the consolidation of the WFN Trusts, the
are eliminated from the unaudited condensed consolidated fina

On July 15, 2010, the Office of the Comptroller of the Currency (OCC
by the Company s credit card services bank subsidiary, WFNNB, to chan
Wilmington, Delaware through the merger of the bank with an interim ba
under the laws of the United States and located in Wilmington, Delawa
banking association and a limited purpose credit card bank and is regulate
by the OCC, its primary regulator. WFNNB is also subject to regulation b
the Federal Reserve System and the Federal Deposit Insurance Corporati
bank nor any of its assets, liabilities or contemplated business purposes w
merger. It is anticipated the merger will be completed in the thir

On August 6, 2010, the Company, as borrower, and ADS Alliance Data S
Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing
Data Management, LLC, as guarantors, entered into a term loan agre
Montreal, as administrative agent, and various other agents and banks (t
2010 Term Loan is an unsecured loan in the amount of $200.0 million w
days after the closing date, to increase the amount by $100.0 million up
$300.0 million. The Company borrowed $221.0 million on August 6, 201
available on the option to increase. The proceeds were used to refinanc
Amounts borrowed under the 2010 Term Loan are scheduled to matu

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FI AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the unaudit financial statements and related notes thereto presented in this quarterly r financial statements and related notes thereto included in our Annual Rep the year ended December 31, 2009, filed with the Securities and Exchang March 1, 2010.

In the first quarter of 2010, we reorganized our segments with Private L Label Credit reflected as one segment. All prior year segment informa conform to the current presentation. In addition, we renamed our other t Marketing Services and Loyalty Services to Epsilon and Lo

Year in Review Highlights

Our results for the first six months of 2010 included the following new

In January 2010, we announced the signing of a multi-year expans York & Company, a specialty retail apparel chain, to provide a co marketing solution that includes customer data management, camp reporting and strategic consulting and analytics services.

In February 2010, we announced the signing of multi-year agreem to provide a comprehensive direct-to-consumer marketing solution data management, consumer data integration, permission-based en multi-channel campaign management and interactive web services

In February 2010, we announced that Budgetcar, Inc., a subsidiary Inc. and an AIR MILES® Reward Program sponsor and rewards s signed a multi-year renewal agreement.

In February 2010, we announced the signing of a new multi-year a Dallas-based La Quinta to provide permission-based email market La Quinta also renewed its existing agreement for Epsilon s ongo of La Quinta s frequent guest program.

In March 2010, we announced that Vision Electronics, an AIR MI sponsor since 2007, had signed a multi-year renewal agreement.

In March 2010, our private label credit card banking subsidiary, W National Bank, or WFNNB, issued $100.8 million of asset-backed

In March 2010, WFNNB completed the renewal of its $550.0 mill

In April 2010, we announced the signing of a new 5-year contract
Board of Ontario, a top-10 AIR MILES sponsor and a sponsor sin

In May 2010, we announced that Pharmasave Atlantic, an Atlanti
retailer and an AIR MILES Reward Program sponsor since 1995,
agreement.

In May 2010, we announced the signing of a multi-year agreemen
LP, one of Canada s leading marketers and supplier of home app
AIR MILES Reward Program.

In June 2010, we announced that Washington, D.C.-based AARP
renewal agreement to provide data and database marketing servic
member acquisition program.

In June 2010, we announced a new sponsor agreement coinciding
conversation campaign with the Ontario Power Authority, represe
AIR MILES Reward Program in the energy sector.

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In June 2010, WFNNB completed the renewal of its $1.2 billion c
our industrial bank subsidiary, World Financial Capital Bank, or V
the renewal of its $275.0 million conduit facility, resulting in an in
million in overall conduit capacity.

Critical Accounting Policies and Estimates

There have been no material changes, other than those noted below with
Accounting Standards Board, or FASB, Accounting Standards Codificati
and Servicing, and ASC 810, Consolidation, to our critical accounting
information provided in Item 7, Management s Discussion and Analys
Results of Operations, included in our 10-K for the fiscal year end

Effective January 1, 2010, our seller s interest, interest-only strips and r
recorded at estimated fair value, have been reclassified, derecognized or e
ASC 860 and ASC 810. Additionally, with the consolidation of World Fir
Master Trust, or Master Trust, World Financial Network Credit Card Ma
Trust I, World Financial Network Credit Card Master Note Trust II, or M
Financial Network Credit Card Master Trust III, or Master Trust III, or co
and the World Financial Capital Credit Card Master Note Trust, or the W
the allowance for loan loss has become a critical accounting estimate. T
represents management s estimate of probable net loan losses inherent

Management evaluates its allowance for loan loss monthly for adequacy. T
through an adjustment to the provision for loan loss. In estimating losses
portfolio, we use an approach that utilizes a migration analysis of delinqu
receivables. A migration analysis is a technique used to estimate the lik
receivable will progress through the various stages of delinquency and to
analysis considers uncollectible principal, interest and fees reflected in c
determining the proper level of the allowance for loan loss, management
may impact loan loss experience, including seasoning, loan volume and a
forecasting uncertainties.

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update
Multiple-Deliverable Revenue Arrangements, which supersedes certa
Revenue Recognition Multiple-Element Arrangements, and requires
consideration at the inception of an arrangement to all of its deliverable
selling prices (the relative-selling-price method). ASU 2009-13 elimina
method of allocation in which the undelivered element is measured at its
the delivered element is measured as the residual of the arrangement con
relative-selling-price method in all circumstances in which an entity re
arrangement with multiple deliverables subject to ASU 2009-13. ASU 20
revenue arrangements entered into or materially modified in fiscal yea
June 15, 2010. Early adoption is permitted. If we elect early adoption an
interim period, we will be required to apply this ASU retrospectively fron
year. We can also elect to apply this ASU retrospectively for all periods p
evaluating the impact that the adoption of ASU 2009-13 will have on c
statements.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurem
amends ASC 820, Fair Value Measurements and Disclosures, to ad
purchases, sales, issuances and settlements related to Level 3 measuren
provide the Level 3 disclosures about purchases, sales, issuances and settl
interim and annual periods beginning after December 15, 2010. The adopt
separate Level 3 disclosures will only impact disclosures and will not hav
consolidated financial statements.

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In July 2010, the FASB issued ASU 2010-20, Disclosures about the C
Receivables and the Allowance for Credit Losses, which amends ASC
further disaggregated disclosures that improve financial statement users
nature of an entity s credit risk associated with its financing receivables a
of that risk in estimating its allowance for credit losses as well as change
reasons for those changes. The new and amended disclosures as of the er
effective for interim and annual reporting periods ending on or after D
adoption of ASU 2010-20 will only impact disclosures and will not have
consolidated financial statements.

Accounting Treatment for Securitizations

We have consolidated the credit card securitization trusts used in our sec
the WFN Trusts and the WFC Trust were no longer exempt from consoli
2010, upon our adoption of ASC 860 and ASC 8

At adoption, we added approximately $3.4 billion of assets, including a $
loss reserves, and approximately $3.7 billion of liabilities to our unaudite
balance sheets. The impact of the new accounting is a reduction to stockho
The adoption required a full consolidation of the securitization trusts in a
principles generally accepted in the United States of Ameri

Subsequent to January 1, 2010, our unaudited condensed consolidated stat
reflect securitization income, but instead reflect finance charges and certa
with the securitized credit card receivables. Net charge-offs associated w
impact our provision for loan loss reflected in our total operating exp
associated with debt issued from the trusts to third-party investors is repor
costs. Additionally, we no longer record initial gains on new securitizatio
credit card loans no longer receive sale accounting treatment, nor are ther
revaluation of the interest-only strip receivable, as that asset is not rec
accounted for as a secured borrowing. Since our securitization transactio
the new accounting rules as secured borrowings rather than asset sales,
transactions are presented as cash flows from financing activities rath
operating or investing activities.

Credit Card Accountability, Responsibility, and Disclosur

On June 15, 2010, the Federal Reserve Board released the final guidelin
charged by financial institutions effective as of August 22, 2010. In an
guidelines, we modified cardholder terms to include a $1 processing fee
decline in average late fees charged. However, the final guidelines had
expected as they provide for: (1) a $25 maximum late fee compared to o
$20, and (2) late fees to be charged in excess of the $25 maximum for re
month period. Accordingly we suspended the $1 processing fee pre
implementation this summer as it is disproportionate to the anticipated i
from the final rules. Instead, we will marginally increase minimum payme
fee structures to maintain the current average late fee of approximately $
cardholder terms will be made as early as August 2010, to be effective for
November 2010.

2010 Third Quarter and Full-Year Outlook

We expect double-digit consolidated revenue growth with the potential fo
to generate double-digit revenue growth compared to the prior year s t
Services and

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Credit and Epsilon are expected to provide positive, double-digit adjuste
decline is expected at LoyaltyOne. LoyaltyOne is expected to report a
adjusted EBITDA primarily due to the run-off of deferred revenue rela
certain split fee to non-split fee program. Adjusted EBITDA for Loyalty
impacted in the second half of 2010 due to a change in sponsor mix for A
the latter part of 2008 and 2009. Because service revenue is deferred and
month period, the impact of this will be realized in the second half of 2
expect a solid third quarter.

Key metrics for the AIR MILES Reward Program continue to improve.
issued during the second quarter of 2010 increased 4% compared to the
representing the fourth consecutive period of quarter-over-quarter grow
MILES reward miles issued in the second quarter of 2010 is below histori
primarily due to slower promotional activity in the grocer sector compare
quarter. Promotional activity, which can vary by quarter based upon spo
generally remains stable on a yearly basis. As 2010 progresses, we expec
issued to remain stable at growth of approximately 5% with potential up
increases in the grocer sector. Additionally, LoyaltyOne has a partner
operating a Brazilian coalition loyalty program. The initial phase is curre
planned investment of up to $15.0 million in the initiative is dependent
phase and the timing of the phased program roll

On July 1, 2010, we bolstered our data business by acquiring the Direct
division of Equifax, Inc. This division provides proprietary data-drive
solutions through two complementary offerings: database marketing and
including U.S. consumer demographic information. The DMS acqui
materially benefit earnings in 2010, but is expected to be accretive

Key drivers in Private Label Services and Credit continue to be solid as
increase in March 2010 has added approximately 1% to gross yield;
improving; and funding costs are trending downward with continued im
financings. These factors should increase net yield for the rem

Our outlook for 2010 assumed the rollout of the $1 processing fee in the
offset to the potential impact of the CARD Act requirements to 2010. As
suspended this rollout. Without the benefit of the $1 processing fee, the C
expected to lower our earnings per diluted share by approximately $0.3
results from the timing gap between when the rollout of the $1 processi
when the new cardholder terms relating to late fees can be implemente
places downward risk on our estimated 2010 earn

Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure equal to income fro
most directly comparable GAAP financial measure, plus stock compens
income taxes, interest expense, net, merger and other costs, depreciation
amortization of purchased intangibles.

We use adjusted EBITDA as an integral part of our internal reporting to
our reportable segments and to evaluate the performance of our senio
EBITDA is considered an important indicator of the operational strength
EBITDA eliminates the uneven effect across all business segments of
non-cash depreciation of tangible assets and amortization of certain in
recognized in business combinations. A limitation of this measure, howe
the periodic costs of certain capitalized tangible and intangible assets us
our businesses. Management evaluates the costs of such tangib

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assets, the impact of related impairments, as well as asset sales through ot
as capital expenditures, investment spending and return on capital and
excluded from adjusted EBITDA. Adjusted EBITDA also eliminates th
compensation expense. Stock compensation expense is not included in th
adjusted EBITDA provided to the chief operating decision maker for pur
performance and decision making with respect to resource allocations. T
adjusted EBITDA provides useful information to our investors regarding o
results of operations. Adjusted EBITDA is not intended to be a performa
regarded as an alternative to, or more meaningful than, either operating i
indicator of operating performance or to cash flows from operating ac
liquidity. In addition, adjusted EBITDA is not intended to represent fun
reinvestment or other discretionary uses, and should not be considered in
for measures of performance prepared in accordance wi

The adjusted EBITDA measures presented in this Quarterly Report or
comparable to similarly titled measures presented by other companies, a
corresponding measures used in our various agreem

	Three Months Ended June 30,	
	2010	2009
	(In thou	
Income from continuing operations	$ 47,320	$ 28,387
Stock compensation expense	12,415	10,698
Provision for income taxes	29,212	18,085
Interest expense, net	83,848	34,107
Merger and other costs [1]		64
Depreciation and other amortization	16,580	15,300
Amortization of purchased intangibles	17,841	15,815
Adjusted EBITDA	$ 207,216	$ 122,456

(1) Represents investment banking, legal and accounting costs directly as
merger with an affiliate of The Blackstone Group. Other costs represe
related to the departure of certain employees resulting from cost savin
non-routine costs associated with the disposition of certain businesses

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Results of Continuing Operations

Three months ended June 30, 2010 compared to the three months

	Three Months Ended June 30,	
	2010	2009
	(In thousands, ex	
Revenue:		
LoyaltyOne	$ 191,531	$ 167,34
Epsilon	137,024	123,00
Private Label Services and Credit	343,260	156,82
Corporate/Other	388	10,36
Eliminations	(2,485)	
Total	$ 669,718	$ 457,53
Adjusted EBITDA[1]:		
LoyaltyOne	$ 58,666	$ 38,33
Epsilon	31,277	30,38
Private Label Services and Credit	133,229	60,99
Corporate/Other	(14,243)	(7,26
Eliminations	(1,713)	
Total	$ 207,216	$ 122,45
Stock compensation expense:		
LoyaltyOne	$ 2,365	$ 2,25
Epsilon	2,166	1,90
Private Label Services and Credit	1,777	1,61
Corporate/Other	6,107	4,92
Total	$ 12,415	$ 10,69
Depreciation and amortization:		
LoyaltyOne	$ 6,147	$ 4,95
Epsilon	18,076	17,82
Private Label Services and Credit	8,532	5,88
Corporate/Other	1,666	2,45
Total	$ 34,421	$ 31,11
Operating income from continuing operations:		
LoyaltyOne	$ 50,154	$ 31,12
Epsilon	11,035	10,65
Private Label Services and Credit	122,920	53,50
Corporate/Other	(22,016)	(14,70
Eliminations	(1,713)	
Total	$ 160,380	$ 80,57
Adjusted EBITDA margin[2]:		
LoyaltyOne	30.6%	22
Epsilon	22.8	24
Private Label Services and Credit	38.8	38
Total	30.9%	26

Segment operating data:		
Private Label statements generated	35,559	31,17
Credit sales	$ 2,220,513	$ 1,944,28
Average credit card receivables	$ 4,992,034	$ 4,136,72
AIR MILES reward miles issued	1,165,089	1,122,57
AIR MILES reward miles redeemed	801,111	756,93

(1) Adjusted EBITDA is equal to income from continuing operations, plus stock co for income taxes, interest expense, net, merger and other costs, depreciation and reconciliation of adjusted EBITDA to income from continuing operations, the m financial measure, see Use of Non-GAAP Financial Measures included in thi

(2) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Manageme margin to analyze the operating performance of the segments and the impact rev expenses.

* Not Meaningful

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***Consolidated Operating Results*:**

Revenue. Total revenue increased $212.2 million, or 46.4%, to $669.7 m
ended June 30, 2010 from $457.5 million for the comparable period in 20
the following:

Transaction. Revenue decreased $25.4 million, or 26.7%, to $69.3
months ended June 30, 2010 due to several factors:

elimination of servicing fees of $17.9 million from the credit
as a result of the adoption of ASC 860 and ASC 810. In its ca
of our respective banks earns a fee from the credit card secur
and administer its receivables, collect payments, and charge-
receivables. Upon consolidation of the credit card securitizat
eliminated;

a decline in merchant fees, which are transaction fees charge
million attributable to increases in royalty payments to our re
decline in fees earned from deferred programs; and

a decline in transition services revenue of $7.3 million from a
the acquirers of our merchant services and utility services bu
longer in place in 2010.

These decreases were offset in part by increased AIR MILES reward
$7.8 million due to a favorable foreign currency exchange rate and growth
miles issued. Our issuance fees, which consist of fees for marketing an
provided to sponsors, are recognized pro rata over the estimated life of an
The average foreign currency exchange rate for the current year perio
compared to $0.87 in the prior year period. Additionally, debt cancellat
credit card holders increased $4.8 million due to higher volumes in par
acquisition of the Charming Shoppes credit card pro

Redemption. Revenue increased $13.7 million, or 12.0%, to $127.
months ended June 30, 2010 due to a favorable foreign currency e
favorably impacted revenue by $15.3 million. Redemption revenu
(Canadian dollars) decreased approximately CAD $1.6 million, al
increased 5.8%. This resulted from a reduction in the amortization
to the conversion of a certain split fee to non-split fee program. Re
as these AIR MILES reward miles have been redeemed. As of Jun
minimal amount of deferred revenue related to the conversion rem

Securitization income. Securitization income decreased $93.2 mill
ASC 860 and ASC 810 and the consolidation of the credit card se
securitization income is no longer reflected. Amounts that were pr
financial statement line item are now reflected in finance charges,
condensed consolidated statements of income.

Finance charges, net. Revenue increased $308.1 million to $319.3
months ended June 30, 2010. On a conformed presentation, adjust
income for securitization funding costs and credit losses which tot
revenue increased $76.4 million. The increase was a result of cont
portfolio growth of 20.7%, credit sales growth of 14.2% and an in
basis points to 25.6% for the current period.

Database marketing fees and direct marketing. Revenue increased
to $135.0 million for the three months ended June 30, 2010. The d
continue to build from recent client signings and expansion of ser
increasing 14.2 % for the three months ended June 30, 2010. The
catalog business are continuing from the first quarter. Our large ca
Abacus, achieved solid revenue growth of 14.5% during the secon
data sector continues to show positive momentum, signifying the
for rich insight to drive targeted marketing initiatives.

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Other revenue. Revenue decreased $6.3 million, or 25.6%, to $18
months ended June 30, 2010 due to (1) the inclusion in 2009 of re
MasterCard Incorporated class B stock, and (2) the elimination of
million from investments held by LoyaltyOne in the credit card se
their consolidation in 2010 upon adoption of ASC 860 and ASC 8

Cost of operations. Cost of operations increased $31.1 million, or 9.5%
three months ended June 30, 2010. The increase was driven b

higher payroll and benefit costs in Private Label Services and Cre
Epsilon of $10.7 million as a result of growth in both segments;

increases in the cost of redemptions for the AIR MILES Reward P
driven by the increase in average foreign currency exchange rates.
for the AIR MILES Reward Program in local currency was relativ
increasing CAD $0.4 million; and

credit card related expenses such as marketing, credit bureau and p
the current period as compared to the prior year period due to high

Increases in cost of operations were partially offset by a decrease in fore
second quarter of 2009, we recognized a foreign exchange loss of $15.9 m
investments held at LoyaltyOne.

General and administrative. General and administrative expenses increase
$21.5 million for the three months ended June 30, 2010. The increase
expense associated with the departure of certain associates and an increas
for the current year period as compared to the prior yea

Provision for loan loss. Provision for loan loss was $95.7 million for the t
2010. In 2009, net losses were netted against securitization income. On
provision for loan loss decreased $7.9 million, or 7.6%, as compared
provision for loan loss of $103.6 million. The decrease was a result of co
rate.

Depreciation and other amortization. Depreciation and other amortizatio
8.4%, to $16.6 million for the three months ended June 30, 2010 due to
service during the second half of 2009 and 201

Amortization of purchased intangibles. Amortization of purchased intangi
or 12.8%, to $17.8 million for the three months ended June 30, 2010 as
assets acquired with the Charming Shoppes credit card program

Interest expense. Total interest expense, net increased $49.7 million, or 1
the three months ended June 30, 2010 from $34.1 million for the compa
increase was due to the following:

Securitization funding costs. Securitization funding costs were $4
months ended June 30, 2010. In 2009, these costs were netted aga
and totaled $34.9 million. The increase in these costs is due to gro
compared to June 30, 2009, and the amortization of securitized fe

Interest expense on certificates of deposit. Interest expense on cert
increased $0.8 million to $7.6 million for the three months ended
million for the comparable period in 2009 due to higher average b
decline in interest rates.

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Interest expense on long-term and other debt, net. Interest expens
debt, net increased $5.3 million, to $32.6 million for the three mo
from $27.3 million for the comparable period in 2009. The increa
resulted from a $4.4 million increase in the amortization of the di
convertible senior notes, an increase of $0.9 million for our credit
average balances and the amortization of debt issuance costs of $0

Merger costs (reimbursements). In 2010, there were no merger costs or r
three months ended June 30, 2009, we incurred approximately $0.1 milli
with our proposed merger with an affiliate of The Blackstone Group. W
costs associated with the proposed merger.

Taxes. Income tax expense increased $11.1 million to $29.2 million, or 6
ended June 30, 2010 from $18.1 million for the comparable period in 2
taxable income, partially offset by a decrease in our effective tax rate to
ended June 30, 2010 from 38.9% for the comparable peri

Income (loss) from discontinued operations. In 2010, there were no gain
discontinued operations. Income from discontinued operations, net of ta
three months ended June 30, 2009 related to the terminated operations of
and catalog retailer VENUE.

***Segment Information*:**

Revenue. Total revenue increased $212.2 million, or 46.4%, to $669.7 m
ended June 30, 2010 from $457.5 million for the comparable period in 20
the following:

LoyaltyOne. Revenue increased $24.2 million, or 14.5%, to $191.
months ended June 30, 2010 due to a favorable foreign currency e
impacted revenue by $22.3 million. Redemption revenue in local
approximately CAD $1.6 million, although miles redeemed increa
of a decline in the amortization of deferred revenue related to the
fee to non-split fee program. As of June 30, 2010, there is a minin
revenue remaining. This decline was offset by an increase in issua
million as a result of the growth in AIR MILES reward miles issu

Epsilon. Revenue increased $14.0 million, or 11.4%, to $137.0 mi
ended June 30, 2010. The database/digital businesses continued th
organic revenue growth, increasing 14.2% as compared to the thre
2009. Momentum in this group continues to build as, increasingly
companies are directing a portion of their marketing spend to Epsi
benefited from the number of new client signings in 2009, a trend
2010 with two large client wins and three expansion agreements.
which operates a larger coalition database, achieved solid revenue
the second quarter of 2010, continuing the positive trend from the
data sector continues to show positive momentum, signifying the
for rich insight to drive targeted marketing initiatives.

Private Label Services and Credit. Revenue increased $186.4 mill
million for the three months ended June 30, 2010. On a conforme
2009 revenue for securitization funding costs and credit losses of
increased $47.9 million, or 16.2%. The increase was a result of co

portfolio growth of 20.7%, credit sales growth of 14.2% and an in

Corporate/Other. Revenue decreased $10.0 million to $0.4 millio
ended June 30, 2010 due to a decline in transition services revenu
associated with the acquirers of our merchant services and utility s
were no longer in place in 2010.

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Adjusted EBITDA. For purposes of the discussion below, adjusted EBITI
continuing operations plus stock compensation expense, provision for inc
net, merger and other costs, depreciation and amortization. Adjusted E
million, or 69.2%, to $207.2 million for the three months ended June 30,
for the comparable period in 2009. The increase was due to

LoyaltyOne. Adjusted EBITDA increased $20.3 million, or 53.0%
adjusted EBITDA margin increased to 30.6% for the three months
compared to 22.9% in the same period in 2009. The increase in 20
impact of a foreign exchange loss of $15.9 million in 2009 related
investments, as well as the impact of a favorable currency exchan
period. In local currency, excluding the impact of the foreign curr
adjusted EBITDA decreased CAD $3.9 million. The decline in ad
due to lower margins on AIR MILES reward miles redeemed as w
costs due to the timing of certain marketing campaigns.

Epsilon. Adjusted EBITDA was relatively flat, increasing $0.9 mi
million but adjusted EBITDA margin decreased to 22.8% for the t
2010 compared to 24.7% in the same period in 2009. This was dri
growth offset by increases in payroll costs, due to an increase in h
employees is expected to support anticipated revenue growth in th

Private Label Services and Credit. Adjusted EBITDA increased $
$133.2 million for the three months ended June 30, 2010 while ad
decreased slightly to 38.8% for the three months ended June 30, 2
the same period in 2009. On a conformed presentation, adjusting 2
$103.6 million due to the adoption of ASC 860 and ASC 810, adj
$37.3 million, or 38.9%, and adjusted EBITDA margin increased
Adjusted EBITDA and adjusted EBITDA margin were positively
in our average credit card receivable balances which increased 20
improvement in our gross yield and an improvement in credit loss
year.

Corporate/Other. Adjusted EBITDA decreased $7.0 million to a l
three months ended June 30, 2010, as a result of $1.6 million in se
increase in incentive compensation as compared to the second qua
the second quarter of 2009 was impacted by a $2.6 million non-in
which did not reoccur in the second quarter of 2010.

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Results of Continuing Operations

Six months ended June 30, 2010 compared to the six months en

	Six Months Ended June 30, 2010	2009
	(In thousands, ex	
Revenue:		
LoyaltyOne	$ 391,201	$ 327,97
Epsilon	263,331	240,56
Private Label Services and Credit	682,464	345,97
Corporate/Other	1,153	22,46
Eliminations	(4,894)	
Total	$ 1,333,255	$ 936,99
Adjusted EBITDA[1]:		
LoyaltyOne	$ 112,253	$ 93,23
Epsilon	58,563	52,52
Private Label Services and Credit	272,984	148,46
Corporate/Other	(30,183)	(19,94
Eliminations	(3,426)	
Total	$ 410,191	$ 274,28
Stock compensation expense:		
LoyaltyOne	$ 4,528	$ 6,28
Epsilon	4,136	5,22
Private Label Services and Credit	3,539	4,63
Corporate/Other	10,818	12,52
Total	$ 23,021	$ 28,65
Depreciation and amortization:		
LoyaltyOne	$ 12,284	$ 9,91
Epsilon	36,092	33,83
Private Label Services and Credit	17,021	11,93
Corporate/Other	3,195	4,74
Total	$ 68,592	$ 60,41
Operating income from continuing operations:		
LoyaltyOne	$ 95,441	$ 77,04
Epsilon	18,335	13,46
Private Label Services and Credit	252,424	131,90
Corporate/Other	(44,196)	(40,21
Eliminations	(3,426)	
Total	$ 318,578	$ 182,19
Adjusted EBITDA margin[2]:		
LoyaltyOne	28.7%	28.
Epsilon	22.2	21.
Private Label Services and Credit	40.0	42.
Total	30.8%	29.

Segment operating data:		
Private Label statements generated	71,800	63,02
Credit sales	$ 4,073,243	$ 3,492,36
Average credit card receivables	$ 5,088,590	$ 4,187,55
AIR MILES reward miles issued	2,202,768	2,108,79
AIR MILES reward miles redeemed	1,694,264	1,543,96

(1) Adjusted EBITDA is equal to income from continuing operations, plus stock co for income taxes, interest expense, net, merger and other costs, depreciation and reconciliation of adjusted EBITDA to income from continuing operations, the m financial measure, see Use of Non-GAAP Financial Measures included in thi

(2) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Manageme margin to analyze the operating performance of the segments and the impact rev expenses.

* Not Meaningful

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***Consolidated Operating Results*:**

Revenue. Total revenue increased $396.3 million, or 42.3%, to $1.33 billi
June 30, 2010 from $937.0 million for the comparable period in 2009. T
following:

Transaction. Revenue decreased $43.2 million, or 22.8%, to $145
months ended June 30, 2010 due to the following factors:

elimination of servicing fees of $36.2 million from the credit
as a result of the adoption of ASC 860 and ASC 810. In its ca
of our respective banks earns a fee from the credit card secur
and administer its receivables, collect payments, and charge-
receivables. Upon consolidation of the credit card securitizat
eliminated;

a decrease in merchant fees, which are transaction fees charg
million attributable to increases in royalty payments to our re
decline in fees earned from deferred programs; and

a decline in transition services revenue of $18.9 million from
with the acquirers of our merchant services and utility servic
no longer in place in 2010.

These decreases were offset in part by increased AIR MILES reward mi
million due to a favorable foreign currency exchange rate and growth in
miles issued. Our issuance fees, which consist of marketing and administ
sponsors, are recognized pro rata over the estimated life of an AIR MILE
foreign currency exchange rate for the current year period increased to $0
the prior year period. Debt cancellation premiums received from our cre
$8.3 million resulting from higher volumes in part from the October 2009
Shoppes credit card program.

Redemption. Revenue increased $40.2 million, or 17.8%, to $266.
ended June 30, 2010 due to a favorable foreign currency exchange
impacted revenue by $36.8 million. Redemption revenue in local c
increased approximately CAD $3.4 million, or 1.2%, although AI
redeemed increased 9.7%. This is due to the decline in the amortiz
related to the conversion of a certain split fee to non-split fee prog
recognized as these AIR MILES reward miles have been redeeme
there is a minimal amount of deferred revenue related to the conve

Securitization income. Securitization income decreased $216.6 mi
ASC 860 and ASC 810 and the consolidation of the credit card sec
securitization income is no longer reflected. Amounts that were pr
financial statement line item are now reflected in finance charges,
condensed consolidated statements of income.

Finance charges, net. Revenue increased $596.6 million to $625.6
ended June 30, 2010. On a conformed presentation, adjusting 200
securitization funding costs and credit losses which totaled $266.0
$114.0 million. The increase was a result of continued positive tre
21.5% and credit sales growth of 16.6%, offset in part by a slight
which was 24.6% for the current period as compared to 25.9% for

Database marketing fees and direct marketing. Revenue increased
to $260.2 million for the six months ended June 30, 2010. The dat
continue to build from recent client signings and expansion of ser
increasing 12.2%. Our catalog business has shown positive trends
compared to the prior year. Our large catalog coalition database, A
revenue growth of 14.1% as the data sector continues to show pos
the demand that marketers have for rich insight to drive targeted m
growth in strategic database and our catalog business was partially
agency business.

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Other revenue. Revenue decreased $5.6 million, or 13.8%, to $35
ended June 30, 2010 due to (1) the inclusion in 2009 of revenue fr
MasterCard Incorporated class B stock, and (2) the elimination of
million from investments held by LoyaltyOne in the credit card se
their consolidation in 2010 upon adoption of ASC 860 and ASC 8

Cost of operations. Cost of operations increased $70.0 million, or 10.8%,
months ended June 30, 2010. The increase was driven by th

higher payroll and benefit costs in Private Label Services and Cre
Epsilon of $13.0 million due to growth in both of the segments;

increases in the cost of redemptions for the AIR MILES Reward P
driven by the increase in average foreign currency exchange rates.
for the AIR MILES Reward Program in local currency increased C
6.6%, due to an increase in miles redeemed; and

credit card related expenses such as marketing, credit bureau and p
in the current period as compared to the prior year period due to h

Increases in cost of operations were partially offset by a decrease in forei
million. In the second quarter of 2009, we recognized a foreign exchange
to certain U.S. investments held at LoyaltyOne

General and administrative. General and administrative expenses decreas
$43.7 million for the six months ended June 30, 2010. The decrease w
medical and benefit costs for the six months ended June 30, 2010 as co
comparable period.

Provision for loan loss. Provision for loan loss was $184.6 million for the
2010. In 2009, net losses were netted against securitization income. On
provision for loan loss decreased $13.0 million, or 6.6%, as compared to
period provision for loan loss of $197.6 million. The decrease was a resu
the loss rate.

Depreciation and other amortization. Depreciation and other amortizatio
8.4%, to $32.9 million for the six months ended June 30, 2010 due to c
internally developed software projects placed in service during the seco

Amortization of purchased intangibles. Amortization of purchased intangi
or 18.7%, to $35.7 million for the six months ended June 30, 2010 as a re
acquired in the October 2009 acquisition of the Charming Shoppes

Interest expense. Total interest expense, net increased $101.2 million, or
for the six months ended June 30, 2010 from $65.4 million for the comp
increase was due to the following:

Securitization funding costs. Securitization funding costs were $8
months ended June 30, 2010. In 2009, these costs were netted aga
and totaled $68.4 million. Increases in securitization funding costs
borrowings from the growth in the portfolio as compared to June 3

amortization of securitized fees.

Interest expense on certificates of deposit. Interest expense on cert
increased $3.0 million to $16.2 million for the six months ended J
million for the comparable period in 2009 due to higher average b
decline in interest rates.

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Interest expense on long-term and other debt, net. Interest expens
debt, net increased $12.9 million, or 24.7%, to $65.1 million for th
June 30, 2010 from $52.2 million for the comparable period in 20
expense resulted from a $9.9 million increase in the amortization o
with our convertible senior notes, an increase of $1.3 million for o
higher average balances and the amortization of debt issuance cos

Merger costs (reimbursements). In 2010, there were no merger costs or r
six months ended June 30, 2009, we received a reimbursement of $0.5 m
with our proposed merger with an affiliate of The Blackstone Group. We
costs associated with the proposed merger.

Taxes. Income tax expense increased $12.7 million, or 28.0%, to $58.1
ended June 30, 2010 from $45.4 million for the comparable period in 2
taxable income, partially offset by a decrease in our effective tax rate to
ended June 30, 2010 from 38.8% for the comparable peri

Income (Loss) from discontinued operations. In 2010, there were no gai
discontinued operations. Loss from discontinued operations, net of taxes
months ended June 30, 2009 related to the sale of the remaining portio
business, offset by income from the terminated operations of our credit p
retailer VENUE.

***Segment Information*:**

Revenue. Total revenue increased $396.3 million, or 42.3%, to $1.33 billi
June 30, 2010 from $937.0 million for the comparable period in 2009. T
following:

LoyaltyOne. Revenue increased $63.2 million, or 19.3%, to $391.
ended June 30, 2010 due to a favorable foreign currency exchange
currency exchange rate for the current year period increased to $0
the prior year period, which favorably impacted revenue by $53.2
(Canadian dollars), revenue increased approximately CAD $7.1 m
redemption revenue increased CAD $3.4 million, or 1.2%, miles r
This was a result of a decline in the amortization of deferred reven
of a certain split fee to non-split fee program as the AIR MILES r
been redeemed. As of June 30, 2010, there is a minimal amount o
remaining. Issuance revenue in local currency also increased $6.4
reward miles issued grew 4.5%. As 2010 progresses, we expect A
issued to continue to return to a growth rate of 7% 8%, consiste
periods.

Epsilon. Revenue increased $22.8 million, or 9.5%, to $263.3 mil
ended June 30, 2010. The database/digital businesses continued th
organic revenue growth, increasing 12.2% as compared to the six
2009. Momentum in this group continues to build as, increasingly
companies are directing a portion of their marketing spend to Epsi
benefited from the number of client signings in 2009 which has co
large client wins and three expansion agreements. Our large catalo
Abacus, achieved solid revenue growth of 14.1% during the six m
continuing the positive trend from the first quarter of 2010. The da
positive momentum, signifying the demand that marketers have fo
targeted marketing initiatives. The growth in strategic database an

partially offset by declines in our agency business.

Private Label Services and Credit. Revenue increased $336.5 mill
million for the six months ended June 30, 2010. On a conformed p
revenue for

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securitization funding costs and credit losses which totaled $612.0
$70.5 million, or 11.5%. The increase was a result of continued po
growth of 21.5% and credit sales growth of 16.6%. The increase w
slight decline in gross yield, which was 24.6% for the current peri
for the prior period. Gross yields dipped temporarily in February 2
implementation of certain provisions of the CARD Act. However,
implementation of new cardholder terms returned gross yields to h
are anticipated to remain.

Corporate/Other. Revenue decreased $21.3 million to $1.2 millio
June 30, 2010 due to a decline of $18.9 million in transition servic
agreements associated with the acquirers of our merchant services
businesses, which were no longer in place in 2010.

Adjusted EBITDA. For purposes of the discussion below, adjusted EBITI
continuing operations plus stock compensation expense, provision for inc
net, merger and other costs, depreciation and amortization. Adjusted E
million, or 49.6%, to $410.2 million for the six months ended June 30, 20
the comparable period in 2009. The increase was due to th

LoyaltyOne. Adjusted EBITDA increased $19.0 million, or 20.4%
adjusted EBITDA margin increased to 28.7% for the six months e
compared to 28.4% in the same period in 2009. The increase in 20
impact of a foreign exchange loss of $15.9 million in the second q
certain U.S. investments, as well as the impact of a favorable curr
currency, excluding the impact of the foreign currency exchange l
decreased CAD $12.5 million. The decline in adjusted EBITDA is
margins on AIR MILES reward miles redeemed as well as increas
the timing of certain marketing campaigns.

Epsilon. Adjusted EBITDA increased $6.0 million, or 11.5%, to $
EBITDA margin increased to 22.2% for the six months ended Jun
21.8% in the same period in 2009. This was driven by revenue gro
increases in payroll costs due to an increase in headcount. This inc
expected to support anticipated revenue growth in the second half

Private Label Services and Credit. Adjusted EBITDA increased $
$273.0 million for the six months ended June 30, 2010 while adju
decreased to 40.0% for the six months ended June 30, 2010 compa
period in 2009. On a conformed presentation, adjusting 2009 for f
million due to the adoption of ASC 860 and ASC 810, adjusted EI
million, or 25.9%, and adjusted EBITDA margin increased to 40.0
EBITDA and adjusted EBITDA margin were positively impacted
average credit card receivable balances which increased 21.5% fro
credit sales which increased 16.6% from 2009 and an improvemen
compared to the prior year.

Corporate/Other. Adjusted EBITDA decreased $10.2 million to a
the six months ended June 30, 2010 related to $2.6 million in seve
in incentive compensation as compared to the prior year period. A
2009 was impacted by a $2.6 million non-income based tax benef

2010.

Asset Quality

Our delinquency and net charge-off rates reflect, among other factors, th
label credit card receivables, the average age of our various private la
portfolios, the success of our collection and recovery efforts, and general
average age of our private label credit

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card portfolio affects the stability of delinquency and loss rates of the port
resources on refining our credit underwriting standards for new accounts
charge-off recovery efforts to minimize net losse

An older private label credit card portfolio generally drives a more sta
portfolio. At June 30, 2010, 63.4% of our accounts with balances and 64.
accounts with origination dates greater than 24 months old. At June 30, 2
with balances and 62.8% of receivables were for accounts with origin
24 months old.

Delinquencies. A credit card account is contractually delinquent if we do
payment by the specified due date on the cardholder s statement. W
delinquent, we print a message on the cardholder s billing statement re
account becomes 30 days past due, a proprietary collection scoring algorit
risk of the account rolling to a more delinquent status. The collection sy
collection strategy for the past due account based on the collection score
dictates the contact schedule and collections priority for the account. If
collection after exhausting all in-house efforts, we engage collection agenc
continue those efforts.

The following table presents the delinquency trends of our cred

	June 30, 2010	% of total
	(In thousands,	
Receivables outstanding principal	$ 4,816,039	100
Principal receivables balances contractually delinquent:		
31 to 60 days	86,200	1.8
61 to 90 days	60,197	1.2
91 or more days	115,816	2.4
Total	$ 262,213	5.4

Net Charge-Offs. Net charge-offs comprise the principal amount of losses
or unable to pay their account balances, as well as bankrupt and decease
period recoveries. The following table presents our net charge-offs for the
credit card receivables represents the average balance of the cardholder r
of each month in the periods indicated.

	Three Months Ended June 30, 2010	2009	Si 2010
	(In thousands)		
Average credit card receivables	$ 4,992,034	$ 4,136,726	$ 5,088,
Net charge-offs	$ 112,424	103,558	234,
Net charge-offs as a percentage of average credit card receivables (annualized)	9.0%	10.0%	

Liquidity and Capital Resources

Operating Activities. We have historically generated cash flows from o
amount may vary based on fluctuations in working capital and the timin
activity. Our operating cash flow is seasonal, with cash utilization peaki
due to increased activity in our Private Label Services and Credit segme
sales.

We generated cash flow from operating activities of $446.5 million and
months ended June 30, 2010 and 2009, respectively. The increase in oper
increased

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profitability, including non-cash charges to income such as an increase
provision for loan loss as a result of the consolidation of the credit card se
generated positive operating cash flow of $33.5 million from increases in
the timing of payments for other assets. Also impacting cash flow from o
from trusts. In 2009, the amounts due from the trusts were included in ot
use of cash as amounts increased during the period. In 2010, with th
securitization trusts upon the adoption of ASC 860 and ASC 810, amounts
trusts were eliminated. We utilize our cash flow from operations for ong
acquisitions and capital expenditures.

Investing Activities. Cash provided by investing activities was $184.9 m
ended June 30, 2010. Cash used by investing activities was $249.4 millio
June 30, 2009. Significant components of investing activities

Credit Card Receivables Funding. Cash increased $276.4 million
receivables from the seasonal pay down of our credit card receival

Cash Collateral, Restricted. Cash decreased $95.1 million due to
credit card securitization trusts cash collateral accounts.

Capital Expenditures. Our capital expenditures for the six months
$31.5 million compared to $24.2 million for the comparable perio
capital expenditures to be approximately 3% of annual revenue fo

Financing Activities. Cash used in financing activities was $674.3 millio
June 30, 2010 as compared to $8.1 million for the six months ended Jun
activities during the six months ended June 30, 2010 relate primarily to bo
debt, including certificates of deposit and asset-backed securities debt, an
stock.

Adoption of ASC 860 and ASC 810. The consolidation of the WFN Trusts
in $81.6 million in cash and cash equivalents as of January 1, 2010, whic
operating, financing and investing activities.

Liquidity Sources. In addition to cash generated from operating activitie
liquidity include our securitization program, certificates of deposit issued
credit facility and issuances of equity securities

In addition to our efforts to renew and expand our current facilities, we co
of liquidity. We have also expanded our brokered certificates of deposit
our credit card receivables.

We believe that internally generated funds and other sources of liquidit
sufficient to meet working capital needs, capital expenditures, and other b
least the next 12 months.

Securitization Program. Since January 1996, we have sold a majority of
originated by WFNNB to WFN Credit Company, LLC and WFN Fundin
in turn sold them to the WFN Trusts as part of our securitization progran
initiated a securitization program for the credit card receivables originated
World Financial Capital Credit Company, LLC which in turn sold them
securitization programs are the primary vehicle through which we finan
credit card receivables.

Historically, we have used both public and private asset-backed securities
private conduit facilities as sources of funding for our credit card rece
facilities have been used to accommodate seasonality needs and to b
asset-backed securitization transactions.

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We have secured and continue to secure the necessary commitments
securitized credit card receivables originated by WFNNB and WFCB. I
commitments are short-term in nature and subject to renewal. There is
funding sources, when they mature, will be renewed on similar terms
unsuitable volumes and pricing levels in the asset-backed secur

As of June 30, 2010, the WFN Trusts and the WFC Trust had approx
securitized credit card receivables. Securitizations require credit enhance
spread deposits and additional receivables. The credit enhancement is
outstanding balances of the series issued by the WFN Trusts and the
performance of the private label credit cards in these securit

In March 2010, Master Trust II issued $100.8 million of term asset-backed
offering consisted of $65.0 million of Class A Series 2010-1 asset-back
interest rate of 4.2% per year, $9.8 million of Class M Series 2010-1 ass
fixed interest rate of 5.3% per year, $6.6 million of Class B Series 2010
have a fixed interest rate of 6.3% per year, $11.6 million of Class C Serie
that have a fixed interest rate of 7.0% per year and $7.8 million of Class D
notes which were retained by us. The Class A notes will mature in Novem
will mature in December 2012, the Class B notes will mature in January 2
mature in February 2013 and the Class D notes will mature in March 201
the WFN Trusts, the Class D Series 2010-1 notes are eliminated from
consolidated financial statements.

At June 30, 2010, we had $3.4 billion of asset-backed securities debt ow
of which $253.6 million is due within the next 12 m

In July 2010, Master Trust I issued $450.0 million of term asset-backed
public offering. The offering consisted of $355.5 million of Class A Serie
that have a fixed interest rate of 3.96% per year, $16.9 million of Class M
notes that have a fixed interest rate of 5.2% per year, $21.4 million of
asset-backed notes that have a fixed interest rate of 6.75% per year and
Series 2010-A asset-backed notes that have a fixed interest rate of 5.0% p
M, Class B and Class C notes will all mature in June 2015. The Class C
retained by us. With the consolidation of the WFN Trusts, the Class C
eliminated from the unaudited condensed consolidated financ

During the first quarter of 2010, we renewed our $550.0 million 2009-V
Master Trust III, extending the maturity to September

During the second quarter of 2010, we renewed our $1.2 billion 2009-V
Master Trust I, extending the maturity to June 23, 2011, and our $275.0
facility under the WFC Trust, extending the maturity to Ju

Debt

On June 18, 2010, we amended our $750.0 million unsecured revolving
application of ASC 860 and ASC 810 and the calculation of cov

On June 18, 2010, we amended our term loan agreement to clarify the ap
ASC 810 and the calculation of covenant compliance. In addition, the
prepayments that were required beginning June 30, 2010 and now provide
paid at maturity, March 30, 2012.

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On August 6, 2010, we, as borrower, and ADS Alliance Data Systems, In
Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing Service
Management, LLC, as guarantors, entered into a term loan agreement, or
Bank of Montreal, as administrative agent, and various other agents and b
is an unsecured loan in the amount of $200.0 million with the option, up to
date, to increase the amount by $100.0 million up to a total loan amou
borrowed $221.0 million on August 6, 2010, and $79.0 million remains
increase. The proceeds were used to refinance existing indebtedness. An
2010 Term Loan are scheduled to mature on March 3

As of June 30, 2010, we were in compliance with our financial covenant
Notes to Unaudited Condensed Consolidated Financial Statements for mo
debt.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk is the risk of loss from adverse changes in market prices and
risks include interest rate risk, credit risk, foreign currency exchange rate
risk.

There has been no material change from our Annual Report on Form
December 31, 2009 related to our exposure to market risk from interest r
currency exchange rate risk and redemption reward

Item 4. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Contro

As of June 30, 2010, we carried out an evaluation, under the supervision a
our management, including our Chief Executive Officer and Chief F
effectiveness of the design and operation of our disclosure controls an
Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that eva
Officer and Chief Financial Officer concluded that as of June 30, 2010 (t
quarter), our disclosure controls and procedures are effective. Disclosure
controls and procedures designed to ensure that information required to
filed or submitted under the Securities Exchange Act of 1934 is recorded,
reported within the time periods specified in the SEC s rules and form
procedures designed to ensure that information we are required to dis
accumulated and communicated to management, including our Chief Ex
Financial Officer, as appropriate to allow timely decisions regardin

There have been no changes in our internal control over financial reporti
last fiscal quarter that have materially affected, or are reasonably likely
internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

This Form 10-Q and the documents incorporated by reference herein
statements within the meaning of Section 27A of the Securities Act of
Section 21E of the Securities Exchange Act of 1934, as amended. Such
such as anticipate, believe, estimate, expect, intend, pred
relate to us or our management. When we make forward-looking stateme

our management s beliefs and assumptions, using information currently
believe that the expectations reflected in the forward-looking statemen
forward-looking statements are subject to risks, uncertainties and assu
discussed in the Risk Factors section in Item 1A. of our Annual Repo
ended December 31, 2009 and Item 1A. of Part II of this Qu

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If one or more of these or other risks or uncertainties materialize, or if o
prove to be incorrect, actual results may vary materially from wha
forward-looking statements contained in this quarterly report reflect our c
future events and are subject to these and other risks, uncertainties and a
operations, results of operations, growth strategy and liquidity. We have
any obligation, to update or revise any forward-looking statements, w
information, future results or otherwise, except as requir

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PART II

Item 1. Legal Proceedings.
From time to time we are involved in various claims and lawsuits arising i
business that we believe will not have a material adverse effect on our bus
including claims and lawsuits alleging breaches of our contrac

Item 1A. Risk Factors.
Other than as set forth below, there have been no material changes to th
disclosed in our Annual Report on Form 10-K for the year ended Decemb
Report on Form 10-Q for the quarter ended March 31

The Dodd-Frank Wall Street Reform and Consumer Protection Act of Act, may adversely impact our business.

The recently enacted Dodd-Frank Act institutes a wide range of reforms
all financial institutions, including WFNNB and WFCB. It covers chang
and financial regulatory systems, enhanced bank capital requirements,
consumers in financial transactions, and the creation of a new federal a
enforce consumer and fair lending laws. The Dodd-Frank Act also incl
governance and executive compensation standards and disclosures for pu
preemption of state consumer financial laws currently accorded federa
institutions will be reduced as well.

The Dodd-Frank Act requires a study by the Comptroller General of the
whether to eliminate the exceptions to the definition of bank under the
1956 for credit card banks, industrial loan companies, trust companie
associations; the results of the study must be submitted to Congress w
enactment of the Dodd-Frank Act. Any subsequent legislation eliminati
card banks and industrial loan companies could adversely

The Dodd-Frank Act will also increase the regulation of the securitizatio
things, requiring securitizers and originators to retain an economic intere
risk for any asset that they securitize or originate and giving broader pov
credit rating agencies and adopt regulations governing these organizatio
effect of the Dodd-Frank Act and its implementing regulations is uncert
impact our ability and desire to issue asset-backed securities

Many provisions of the Dodd-Frank Act require the adoption of regulation
the Dodd-Frank Act mandates multiple studies, which could result in
regulatory action. The full impact of the Dodd-Frank Act on our business
discernible until regulations implementing the statute are written and ad
imposed by the Dodd-Frank Act may have a material adverse impact o
operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
On January 27, 2010, our Board of Directors authorized a new stock repu
up to $275.1 million of our outstanding common stock, from February 5,
2010, subject to any restrictions under the terms of our credit agre

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The following table presents information with respect to those purchases
during the three months ended June 30, 2010:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number Purchased a Publicly Ann Plans or Pr
During 2010:			
April 1-30	1,358	$ 70.74	
May 1-31	1,787	71.70	
June 1-30	189,499	60.33	
Total	192,644	$ 60.51	

(1) During the period represented by the table, 4,644 shares of our commo
the administrator of our 401(k) and Retirement Saving Plan for the be
participated in that portion of the plan.

(2) On January 27, 2010, our Board of Directors authorized a new stock r
acquire up to $275.1 million of our outstanding common stock, from F
December 31, 2010, subject to any restrictions under the terms of our
otherwise.

Item 3. Defaults Upon Senior Securities.

None

Item 4. (Removed and Reserved).

Item 5. Other Information.

(a) None

(b) None

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Item 6. Exhibits.

(a) *Exhibits:*

EXHIBIT INDEX

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporati (incorporated by reference to Exhibit No. 3.1 to our Regi Form S-1 filed with the SEC on March 3, 2000, File No.
3.2	Second Amended and Restated Bylaws of the Registrant to Exhibit No. 3.2 to our Registration Statement on Form March 3, 2000, File No. 333-94623).
3.3	First Amendment to the Second Amended and Restated B (incorporated by reference to Exhibit No. 3.3 to our Regi Form S-1 filed with the SEC on May 4, 2001, File No. 33
3.4	Second Amendment to the Second Amended and Restate (incorporated by reference to Exhibit No. 3.4 to our Annu filed with the SEC on April 1, 2002, File No. 001-15749)
3.5	Third Amendment to the Second Amended and Restated (incorporated by reference to Exhibit No. 3.2 to our Curr filed with the SEC on February 18, 2009, File No. 001-15
3.6	Fourth Amendment to the Second Amended and Restated (incorporated by reference to Exhibit No. 3.2 to our Curr filed with the SEC on December 11, 2009, File No. 001-
4	Specimen Certificate for shares of Common Stock of the reference to Exhibit No. 4 to our Quarterly Report on For on August 8, 2003, File No. 001-15749).
10.1	Sixth Amendment to Purchase and Sale Agreement, date between WFN Credit Company, LLC and World Financi (incorporated by reference to Exhibit No. 10.1 to our Cur filed with the SEC on June 9, 2010, File No. 001-15749).
10.2	Third Amendment to Credit Agreement, dated as of June Alliance Data Systems Corporation and certain subsidiari Guarantors, Bank of Montreal, as Administrative Agent a banks (incorporated by reference to Exhibit No. 10.1 to o Form 8-K, filed with the SEC on June 21, 2010, File No.
10.3	First Amendment to Term Loan Agreement, dated as of J among Alliance Data Systems Corporation and certain su Guarantors, Bank of Montreal, as Administrative Agent a banks (incorporated by reference to Exhibit No. 10.2 to o Form 8-K, filed with the SEC on June 21, 2010, File No.
10.4	Supplemental Indenture No. 4 to Master Indenture, dated between World Financial Network Credit Card Master N New York Mellon Trust Company, N.A. (incorporated by No. 4.1 to the Current Report on Form 8-K filed with the Network Credit Card Master Note Trust and WFN Credit June 30, 2010, File Nos. 333-113669 and 333-60418).

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Exhibit No.	Description
10.5	Form of Series 2010-A Indenture Supplement, dated as World Financial Network Credit Card Master Note Tru York Mellon Trust Company, N.A. (incorporated by re to the Current Report on Form 8-K filed with the SEC Network Credit Card Master Note Trust and WFN Cre July 7, 2010, File Nos. 333-113669 and 333-60418).
10.6	Seventh Amendment to Second Amended and Restated Agreement, dated as of June 28, 2010, among World F Bank, WFN Credit Company, LLC and The Bank of N Company, N.A. (incorporated by reference to Exhibit N Report on Form 8-K filed with the SEC by World Fina Master Note Trust and WFN Credit Company, LLC on Nos. 333-113669 and 333-60418).
10.7	First Amendment to Receivables Purchase Agreement, between World Financial Network National Bank and LLC (incorporated by reference to Exhibit No. 4.3 to th Form 8-K filed with the SEC by World Financial netw Note Trust and WFN Credit Company, LLC on June 3 Nos. 333-113669 and 333-60418).
10.8	Seventh Amendment to Transfer and Servicing Agreem 2010, among World Financial Network National Bank, LLC, and World Financial Network Credit Card Maste by reference to Exhibit No. 4.4 to the Current Report o SEC by World Financial network Credit Card Master N Company, LLC on June 30, 2010, File Nos. 333-11366
*10.9	Amended and Restated Series 2009-VFN Indenture Su June 24, 2010, between World Financial Network Cred and The Bank of New York Mellon Trust Company, N
*10.10	Amended and Restated Series 2009-VFN Indenture Su June 4, 2010, between World Financial Capital Master National Association.
*10.11	Amendment No. 1 to Receivables Purchase Agreement between World Financial Capital Bank and World Fina Company, LLC.
*10.12	Amendment No. 1 to Transfer and Servicing Agreeme among World Financial Capital Credit Company, LLC Bank and World Financial Capital Master Note Trust.
*10.13	Lease Agreement, dated as of May 19, 2010, between Partnership, L.P. and ADS Alliance Data Systems, Inc
*31.1	Certification of Chief Executive Officer of Alliance Da pursuant to Rule 13a-14(a) promulgated under the Secu 1934, as amended.
*31.2	Certification of Chief Financial Officer of Alliance Da pursuant to Rule 13a-14(a) promulgated under the Secu 1934, as amended.
*32.1	Certification of Chief Executive Officer of Alliance Da pursuant to Rule 13a-14(b) promulgated under the Secu 1934, as amended, and Section 1350 of Chapter 63 of Code.
*32.2	Certification of Chief Financial Officer of Alliance Da pursuant to Rule 13a-14(b) promulgated under the Secu

1934, as amended, and Section 1350 of Chapter 63 of T
Code.

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Exhibit No.	Description
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Docume
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Documen
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Docum

* Filed herewith

\+ Management contract, compensatory plan or arrangement

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as
duly caused this report to be signed on its behalf by the undersigned th

**ALLIANCE
CORPORA**

By: /s/

Presider

Date: August 9, 2010

By: /s/

Execu

Date: August 9, 2010

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