AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 3, 2000

REGISTRATION NO. 333-94623

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ALLIANCE DATA SYSTEMS CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

WITH A COPY TO:

TERRY M. SCHPOK, P.C.	KENNETH M. DORAN, ESQ.
Akin, Gump, Strauss, Hauer & Feld, L.L.P.	Gibson, Dunn & Crutcher LLP
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE ON OR AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

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

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

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

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

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

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

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SUBJECT TO COMPLETION, DATED MARCH 3, 2000

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

PROSPECTUS

20,000,000 SHARES

[LOGO]

COMMON STOCK

This is an initial public offering of 20,000,000 shares of our common stock. We anticipate the initial public offering price will be between $14.00 and $16.00 per share. We are selling all the shares offered under this prospectus.

We have applied to have our common stock listed on the New York Stock Exchange under the symbol "ADD".

SEE "RISK FACTORS" BEGINNING ON PAGE 8 TO READ ABOUT RISKS THAT YOU SHOULD CONSIDER BEFORE BUYING SHARES OF OUR COMMON STOCK.

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

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

The underwriters may purchase up to an additional 3,000,000 shares of our common stock from us at the initial public offering price less the underwriting discounts, solely to cover over-allotments.

The underwriters are severally underwriting the shares being offered. Bear, Stearns & Co. Inc. expects to deliver the shares in New York, New York on , 2000.

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

DONALDSON, LUFKIN & JENRETTE

THE DATE OF THIS PROSPECTUS IS , 2000.

Inside front cover

- Half gatefold with a four colored schematic depicting a "multiple transaction and communications points" process. The schematic show's our client's customer; our client's distribution channel; our process and our target markets including our logo.

The gatefold has the following test: "We provide electronic transactions services, credit services and loyalty and database marketing services. We help our clients manage their customer relationships by:

- Facilitating transactions with their customers through multiple channels including in-store, internet and catalog
- Assisting them in identifying and acquiring new customers
- Increasing both the loyalty and profitability of existing customers

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PROSPECTUS SUMMARY

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

OUR COMPANY

We are a leading provider of electronic transaction services, credit services, and loyalty and database marketing services. We develop and execute programs designed to help our clients target, acquire and retain loyal, profitable customers. We create value for our clients by assisting them in managing their customer relationships. Specifically we:

- facilitate transactions between our clients and their customers through multiple channels including in store, Internet and catalog;

- assist our clients in identifying and acquiring new customers; and

- increase the loyalty and profitability of our clients' existing customers.

On a pro forma basis for our 1998 and 1999 acquisitions, our revenue for the year ended December 31, 1999 was $663.6 million, representing a 9.4% increase over pro forma calendar 1998, and our earnings from continuing operations before interest expense, taxes, depreciation and amortization was $108.3 million, representing a 12.1% increase over pro forma calendar 1998.

OUR MARKET OPPORTUNITY

Our services are applicable to the full spectrum of commerce opportunities involving companies that sell products and services to individual consumers. We currently target our service offerings to select market sectors, including specialty retailers, petroleum retailers, supermarkets and financial services providers, as well as companies in market sectors with rapidly evolving electronic payment and customer management needs such as mass transit, tollways, parking, and gas and electric utilities. Our client base of over 300 companies includes the retail affiliates of The Limited, including Victoria's Secret, Express, Lane Bryant and Structure, Equiva Services, LLC, which is the service provider to Shell branded locations in the U.S., Canada Safeway, Brylane and CITGO.

Common challenges to our clients are the rapid development of new competitors and sales channels, the intensifying competition for customers and the erosion of consumer brand loyalty. The Internet has accelerated these trends by providing consumers with almost instant access to a multitude of competing products and services without traveling to an actual store location. As a result, companies are looking for tools to facilitate transactions and improve customer communications across all channels.

Companies increasingly seek services that compile and analyze customer purchasing behavior, enabling them to more effectively communicate with their customers. The continuing shift to electronic payment systems, namely credit, debit, stored value and pre-paid cards, generates highly valuable information on individual consumers and their purchasing preferences, while the dramatic proliferation of computer technology has enabled companies to capture, access and use this information easily and almost instantaneously. Many retailers, however, lack the economies of scale and core competencies necessary to support their own transaction processing infrastructure and credit card programs, including the extension of credit. In addition, many retailers seek to outsource the development and management of loyalty programs and database marketing services. We believe we are well-positioned to provide these services to meet the evolving needs of our clients and potential clients.

OUR PRODUCTS AND SERVICES

Our products and services are centered around three core capabilities--Transaction Services, which represents 45.0% of our 1999 revenue, Credit Services, which represents 30.8% of our 1999 revenue, and Loyalty and Database Marketing Services, which represents 24.2% of our 1999 revenue.

TRANSACTION SERVICES	CREDIT SERVICES	LOYALTY AND DATABASE MARKETING SERVICES
- Transaction Processing	- Underwriting	- Loyalty Programs
- Network Services	- Risk Management	- Private Label Cards
- Bankcard Settlement		- Air Miles-TM- reward program
- Card Processing and Servicing		- One-to-One Loyalty
- Account Processing		- Database Marketing Services
- Billing and Payment Processing		- Direct Marketing
- Customer Care		- Enhancement Services

We market and sell our services on both a stand-alone and bundled basis. By providing services that span our three core offerings, we believe we can become a key element in our clients' success.

TRANSACTION SERVICES

Providing flexible, convenient, rapid customer payment options is fundamental to customer satisfaction and retention. Through our predecessor company, we have provided these services since 1983. We facilitate and manage transactions between our clients and their customers through multiple distribution channels, including in-store, catalog and the Internet, through our state-of-the-art, highly scalable processing systems. Our services include instantaneous authorizations, effective customer care, efficient payment processing and billing services.

There were approximately 22 billion electronic payment transactions in 1997 in the U.S., and the number of transactions is projected to grow to nearly 63 billion by 2005. We are a leading provider of electronic transaction services, ranked fourth in transaction volume according to the Faulkner and Gray Card Industry 2000 report. On a pro forma basis for recent acquisitions, we processed more than 2.1 billion transactions through 135,000 point of sale terminals during 1999. Additionally, in 1999 we handled over 95 million customer inquiries in our customer care centers and generated approximately 132.8 million statements. By fully integrating our transaction services with our loyalty and database marketing services, we are able to execute more effective customer acquisition and retention strategies for our clients. Our clients within this segment are made up primarily of specialty retailers and petroleum retailers.

CREDIT SERVICES

We have demonstrated to many of our existing clients that a private label credit card is one of the most effective loyalty and marketing tools available. As part of our service, we offer our clients the experience and flexibility to provide a funding vehicle for private label credit card receivables. Through our predecessor company, we have owned and managed private label receivables since 1986. This service appeals to those clients that choose to focus their financial and operational resources on their core operations and prefer a single-source integrated solution. Clients who utilize this service are predominantly specialty retailers. As part of this service, we currently provide underwriting and risk management services to 46 of our 49 private label card clients, representing approximately 52.6 million cardholders and $2.2 billion of receivables as of December 31, 1999. We finance substantially all our credit card receivables through asset securitization transactions.

LOYALTY AND DATABASE MARKETING SERVICES

Our clients are focused on targeting, acquiring and retaining loyal and profitable customers. Since 1992 we have created and managed loyalty programs that have successfully resulted in securing more frequent and sustained customer purchasing. For example,

- we have demonstrated to many of our existing clients that a private label credit card is one of the most effective loyalty and marketing tools available. We manage 49 distinct programs for specialty and petroleum retailers, representing 76.9 million cardholders with annual proprietary credit sales in excess of $3.1 billion as of December 31, 1999. Our private label programs can be further enhanced by our ability to provide database marketing services, which enable us to capture unique and proprietary item-level transaction data and use it to target customers.

- in Canada, we have developed and operate the Air Miles reward program, which we believe to be the largest loyalty program in Canada. The program has over 100 brand names represented by the program sponsors. Based upon the most recent census data available, in 1999 our active participants represented over 55% of all Canadian households. We have issued over six billion Air Miles reward miles since the program's inception in 1992.

- we have also developed an on-line, electronic loyalty program that recognizes, acknowledges and rewards customers at the point of sale. Using the retailer's existing point-of-sale terminal or cash register and our network services, we can capture points, communicate program status and issue targeted awards at the point of sale.

Our loyalty programs provide our clients with tools to help drive customer acquisitions and reward customer loyalty while providing us with the ability to better understand the purchasing behavior of our clients' customers. As a result of these programs and our marketing database programs, we have captured detailed purchase information on approximately 60 million U.S. consumers and 6.1 million Canadian households. By combining massive amounts of detailed data with our proprietary data mining algorithms and our experience in developing and executing marketing campaigns, we provide our clients with highly successful and sophisticated targeted marketing solutions. Our clients within this segment are specialty retailers, petroleum retailers, supermarkets and financial service providers.

CLIENT CASE STUDY

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

OUR STRATEGY

Our strategy is to become a critical component in our clients' success by helping them build loyal customer relationships. We will do this by continuing to build and enhance our consumer databases, our marketing capabilities and our processing efficiencies to help improve our clients' relationships with their customers. To execute this strategy we intend to:

- increase the penetration of products and services we provide to our existing client base;
- expand our client base in our existing market sectors, including potential geographic expansion;
- continue to expand our services and capabilities to help our clients succeed in multi-channel commerce--in-store, catalog and Internet; and
- consider focused, strategic acquisitions and alliances to enhance our core capabilities or increase our scale.

OUR HISTORY AND OWNERSHIP

We are the result of the 1996 merger of two entities acquired by Welsh, Carson, Anderson and Stowe, which involved J.C. Penney's transaction services business, BSI Business Services, Inc., and The Limited's credit card bank operation, World Financial Network National Bank. Since then, we have made the following acquisitions, each accounted for as a purchase, with the results of operations of the acquired businesses included from the respective closing dates:

- In November 1996, we acquired the private label portfolio of National City Bank of Columbus, which consisted of approximately $370.0 million in receivables and represented over 25 retailers in a broad range of industries including soft goods, building materials, furniture and electronics.
- In July 1998, we acquired Loyalty Management Group Canada Inc.
- In September 1998, we acquired Harmonic Systems Incorporated.
- In July 1999, we acquired the network services business of SPS Payment Systems, Inc., a wholly-owned subsidiary of Associates First Capital Corporation.

As of January 31, 2000, Welsh, Carson, Anderson & Stowe beneficially owned 73.7% of our common stock, and The Limited, through its wholly owned subsidiary Limited Commerce Corp., beneficially owned approximately 25.8% of our common stock. Welsh Carson has the right to designate up to three nominees for election to our board of directors, and The Limited has the right to designate up to two nominees. The Limited and its affiliates represented approximately 26.7% of our 1999 consolidated revenue.

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

THE OFFERING

Common stock offered.....	20,000,000 shares
Common stock to be outstanding after the offering.....	76,881,518 shares
Use of proceeds.....	We intend to use approximately $222.4 million of the net proceeds from the offering to retire outstanding debt, and the remaining net proceeds for other general corporate purposes, including working capital. In the event that we identify suitable acquisition candidates or investment opportunities, we may also use a portion of the net proceeds to acquire or invest in complementary businesses, services or products. We currently have no commitments or agreements with respect to any acquisition or investment transactions.
Proposed New York Stock Exchange symbol.....	"ADD"

Unless otherwise indicated, all information in this prospectus:

- gives effect to the 1-for-9 reverse stock split of our common stock to be effected prior to consummation of this offering;

- reflects the conversion of all outstanding shares of our Series A cumulative convertible preferred stock into an aggregate of 9,185,591 shares of common stock as of January 31, 2000; and

- reflects the exercise of all outstanding warrants for an aggregate of 167,084 shares of common stock.

The number of shares of common stock described as being outstanding after this offering excludes the following:

- 2,354,000 shares that we may issue upon the exercise of stock options outstanding at a weighted average exercise price of $9.50 per share;

- 498,813 additional stock options and shares that we may grant or issue under our stock option and restricted stock purchase plan; and

- up to 3,000,000 additional shares that we may issue upon exercise of the underwriters' over-allotment option.

SUMMARY UNAUDITED CALENDAR YEAR AND PRO FORMA CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

Prior to December 31, 1998, our fiscal year was based on a 52/53-week fiscal year ending on the Saturday closest to January 31. We have since changed our fiscal year end to December 31. In order to provide a better basis of comparison, we have recast our historical operating results to a calendar year basis for the years ended December 31, 1997 and 1998. In our opinion, these historical recast financial statements reflect all normal recurring adjustments necessary for a fair presentation of such financial statements.

In addition to the historical recast financial information, we have included the following unaudited pro forma information, which we derived from our unaudited pro forma consolidated financial information included in this prospectus. The data contained in the pro forma columns give effect to the following completed acquisitions as if those acquisitions had been consummated on January 1, 1998, in the case of the income statement and other financial data, and on December 31, 1999, with respect to the balance sheet data:

- the acquisition of Loyalty Management Group Canada Inc. on July 24, 1998;

- the acquisition of Harmonic Systems Incorporated on September 15, 1998; and

- the acquisition of the network transaction processing business of SPS Payment Systems, Inc., a wholly-owned subsidiary of Associates First Capital Corp., on July 1, 1999.

The supplemental pro forma loss per share gives effect to the conversion of all outstanding shares of our Series A preferred stock and the exercise of all outstanding warrants as if the conversion and the exercise had occured at the beginning of the period. The pro forma as adjusted data give effect to this offering as if it occured on December 31, 1999. The unaudited pro forma data do not purport to present what our results of operations or financial position would actually have been, or to project our results of operations or financial position for any future period. You should read the following pro forma information along with the information contained throughout this prospectus, including the financial statements and the related notes that are included in this prospectus.

The operating data include EBITDA, which is equal to operating income plus depreciation and amortization. EBITDA is presented because we use our EBITDA measure as an integral part of our internal reporting and performance evaluation for senior management. In addition, EBITDA eliminates the uneven effect across all segments of considerable amounts of non-cash amortization of purchased intangibles recognized in business combinations accounted for under the purchase method. EBITDA is not intended to be a performance measure that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or to the statement of cash flows as a measure of liquidity. In addition, EBITDA is not intended to represent funds available for dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. The EBITDA measure presented in this prospectus may not be comparable to similarly titled measures presented by other companies.

	FOR THE YEARS ENDED DECEMBER 31,			PRO FORMA	
	RECAST			FOR THE YEARS ENDED DECEMBER 31,	
	1997	1998	1999	1998	1999
	(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)				
INCOME STATEMENT DATA					
Total revenue	$ 339,824	$ 474,933	$ 639,254	$ 606,462	$ 663,576
Operating expenses					
Processing and servicing	164,968	226,525	341,496	325,401	358,443
Salaries and employee benefits	113,752	169,799	193,699	184,493	196,880
Depreciation and other amortization	8,904	8,782	16,183	10,035	16,183
Amortization of purchased intangibles	16,974	36,408	49,777	69,582	55,706
Total operating expenses	304,598	441,514	601,155	589,511	627,212
Operating income	35,226	33,419	38,099	16,951	36,364
Interest expense	15,713	29,295	42,785	38,519	42,785
Income tax expense	6,021	9,970	15,388	7,779	14,416
Income (loss) from continuing operations	13,492	(5,846)	(20,074)	(29,347)	(20,837)
Income (loss) from discontinued operations, net of taxes	(5,635)	(3,948)	7,688	(3,948)	7,688
Loss on disposal of discontinued operations, net of taxes	--	--	(3,737)	--	(3,737)
Net income (loss)	$ 7,857	$ (9,794)	$ (16,123)	$ (33,295)	$ (16,886)
Earnings (loss) from continuing operations--basic and diluted	$ 0.37	$ (0.14)	$ (0.49)	$ (0.78)	$ (0.59)
Earnings (loss) per share--basic and diluted	$ 0.21	$ (0.24)	$ (0.41)	$ (0.86)	$ (0.54)
Weighted average shares used in computing per share amounts--basic and diluted	36,612	41,308	47,498	46,969	47,498
Supplemental pro forma loss from continuing operations--basic and diluted				$ (0.52)	$ (0.37)
Supplemental pro forma loss--basic and diluted				$ (0.59)	$ (0.30)
Weighted average shares used in computing supplemental pro forma per share amounts--basic and diluted				56,025	56,554
OTHER FINANCIAL DATA					
EBITDA	$ 61,104	$ 78,609	$ 104,059	$ 96,568	$ 108,253
EBITDA as a percentage of revenue	18.0%	16.6%	16.3%	15.9%	16.3%
SEGMENT OPERATING DATA					
Air Miles reward miles issued	--	647,357	1,558,427	1,399,077	1,558,427
Transactions processed	922,678	1,134,902	1,810,180	1,814,271	2,104,554
Statements generated	113,940	130,895	132,817	130,895	132,817
Securitized portfolio	$1,821,016	$2,135,340	$2,232,375	$ 2,135,340	$2,232,375
Credit sales	$3,001,461	$3,049,151	$3,132,520	$ 3,049,151	$3,132,520

	AS OF DECEMBER 31,				PRO FORMA AS ADJUSTED
	RECAST			PRO FORMA	
	1997	1998	1999	AS OF DECEMBER 31, 1999	
	(AMOUNTS IN THOUSANDS)				
BALANCE SHEET DATA					
Cash and cash equivalents	$ 29,304	$ 47,036	$ 56,546	$ 56,546	$ 108,050
Credit card receivables and seller's interest	170,938	139,458	150,804	150,804	150,804
Intangibles and goodwill	93,763	305,365	448,017	448,017	448,017
Total assets	596,277	1,010,119	1,185,069	1,185,069	1,231,293
Certificates of deposit	40,300	49,500	116,900	116,900	116,900
Short-term debt	148,000	98,484	--	--	--
Long-term and subordinated debt	117,673	332,000	318,236	318,236	86,236
Total liabilities	386,104	701,980	775,513	775,513	543,513
Series A preferred stock	--	--	119,400	119,400	--
Total stockholders' equity	210,173	308,139	290,156	290,156	687,780

RISK FACTORS

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

RISKS RELATED TO OUR BUSINESS

THE FAILURE TO EFFECTIVELY INTEGRATE RECENT ACQUISITIONS COULD ADVERSELY AFFECT OUR BUSINESS.

We are the result of the August 1996 merger of two entities acquired by our largest stockholder, which involved J.C. Penney's transaction services business, BSI Business Services, Inc., and The Limited's credit card bank operation, World Financial Network National Bank. Since the August 1996 merger, we have made several acquisitions, principally of Loyalty Management Group Canada Inc., Harmonic Systems Incorporated and the network transaction processing business of SPS Payment Systems, Inc. We are currently in the process of integrating the operations of the network transaction processing business of SPS Payment Systems, Inc., acquired in July 1999. We expect this integration process to continue through 2000. If we are unable to successfully integrate the SPS operations or any other acquired businesses, we may incur substantial costs and delays or other operational, technical or financial problems, any of which could harm our business and impact the trading price of our common stock. In addition, the failure to successfully integrate acquisitions may divert management's attention from our existing business and could damage our relationships with key clients and employees.

OUR BUSINESS IS DEPENDENT ON A SMALL NUMBER OF LARGE CLIENTS.

Our 10 largest clients were responsible for approximately 64.1% of our consolidated revenues during the year ended December 31, 1999.

TRANSACTION SERVICES. Our 10 largest clients in this segment were responsible for approximately 70.1% of our Transaction Services revenue in the year ended December 31, 1999. The Limited and its retail affiliates were the largest Transaction Services client in 1999, representing in excess of 10% of this segment's 1999 revenue. Our contracts with The Limited and its retail affiliates expire in 2006. We can give no assurance that these contracts will be renewed on similar terms or at all.

CREDIT SERVICES. Our two largest clients in this segment were responsible for 85.2% of our Credit Services revenue in the year ended December 31, 1999. The Limited and its retail affiliates and Brylane were the largest Credit Services clients in the year ended December 31, 1999. Our contracts with these clients expire in 2006. We can give no assurance that these contracts will be renewed on similar terms or at all.

LOYALTY AND DATABASE MARKETING SERVICES. Our 10 largest clients in this segment were responsible for approximately 64.3% of our Loyalty and Database Marketing Services revenue in the year ended December 31, 1999. Bank of Montreal and Canada Safeway were the two largest Loyalty and Database Marketing Services clients in the year ended December 31, 1999, each representing in excess of 10% of this segment's 1999 revenue. Our contracts with these clients expire between one and three years from now. We can give no assurance that these contracts will be renewed on similar terms or at all.

A significant decrease in revenues attributable to any of our significant clients could have a material adverse effect on our business, financial condition and operating results in general, and those of the affected operating segment, in particular. In addition, if any of our significant clients were acquired and the client's new management team elected to phase-out or discontinue the client's business relationship with us, we could suffer a material adverse effect. This risk is particularly germane as many of our significant clients are in market sectors such as petroleum, specialty retail, supermarkets

and financial services, which have recently experienced, and are experiencing, fairly considerable consolidation.

A LARGE NUMBER OF OUR CLIENTS ARE AFFILIATES OF LIMITED COMMERCE CORP., ONE OF OUR LARGEST PRINCIPAL STOCKHOLDERS.

A large number of our clients are affiliates of Limited Commerce Corp., a wholly owned subsidiary of The Limited, which beneficially owned approximately 25.8% of our common stock as of January 31, 2000 and maintains two designees on our board of directors. The Limited and its affiliates represented approximately 26.7% of our 1999 consolidated revenue. The Limited and its retail affiliates were the largest Transaction Services client in 1999, and together with Brylane were the largest Credit Services clients in 1999. As a significant stockholder, The Limited, unlike our other clients, is able to exercise significant influence over matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. In addition, The Limited, through a stockholders agreement, has the right to maintain up to two members of our board of directors, allowing The Limited to exercise influence over matters requiring board approval.

THE PROFITABILITY OF OUR AIR MILES REWARD PROGRAM, WHICH ACCOUNTS FOR A SUBSTANTIAL PORTION OF OUR REVENUE AND PROFITS, COULD BE MATERIALLY ADVERSELY AFFECTED BY THE ACQUISITION AND POTENTIAL RESTRUCTURING OF CANADIAN AIRLINES.

Canadian Airlines is the major supplier of airline tickets that we issue to collectors of Air Miles reward miles. Canadian Airlines has been acquired by a company in which Air Canada has an interest. Air Canada has announced its intention to merge the operations of Canadian Airlines with those of Air Canada. We expect that this will result in effectively only one major Canadian domestic air carrier for the foreseeable future. Consolidation of route structure between the two airlines has already begun, resulting in the reduction of routes, flights and seats offered by Canadian Airlines. We expect that this consolidation will continue. Although we have a long term contract with Canadian Airlines, we cannot predict what impact the acquisition of Canadian Airlines, route consolidation and any eventual merger of operations will have on the profitability of our Air Miles reward program. The reduction in available routes, flights or seats under the contract for use in connection with Air Miles reward miles redeemed could materially adversely affect the profitability of our Air Miles reward program.

Canadian Airlines is also engaged in ongoing debt restructuring efforts. Under applicable Canadian law if Canadian Airlines commences formal restructuring proceedings, our supply of seats on Canadian Airlines flights under our contract may be terminated, in which case our rights against Canadian Airlines may be limited to an unsecured claim against Canadian Airlines in the restructuring proceedings for the losses we suffer as a result. We have begun negotiations with Canadian Airlines to determine whether mutually acceptable adjustments may be made to our contract so that it will remain in full force despite any restructuring proceedings and airline tickets will continue to be available under the contract. Canadian Airlines has requested significant price increases as a condition to reaching any agreement and as a result we do not know whether an agreement can be reached.

Although our Air Miles reward miles can be redeemed for tickets on other airlines as well as merchandise, approximately 50% of the Air Miles reward miles redeemed during the year ended December 31, 1999 were used for airline tickets on Canadian Airlines. Either termination of our supply of seats under our contract with Canadian Airlines or a dramatic increase in our cost to purchase airline tickets could materially adversely affect the profitability of the Air Miles reward program.

We are seeking solutions that will enable us to continue to operate the Air Miles reward program on an economic basis, however we can make no assurance that we will be successful in finding a solution. We are unable to predict the extent and cost of reducing the adverse consequences of the acquisition and potential restructuring of Canadian Airlines or the outcome of any legal actions arising from these circumstances.

Our Air Miles reward program accounted for approximately 25% of our revenues for the fiscal year ended December 31, 1999. Although we cannot predict the extent to which revenues or the profitability of the Air Miles reward program would be adversely affected by a termination of the

supply of seats under our contract with Canadian Airlines, reductions in available routes, flights and seats or the increased cost of purchasing airline tickets, we anticipate that a material loss of revenue could result if we are not successful in achieving a solution to make Canadian domestic airline tickets available to us on an economic basis. No assurance can be given as to whether we will be successful in achieving an acceptable solution or as to the time period that may be required to implement any proposed solution.

WE ARE SUBJECT TO INTENSE COMPETITION, AND WE EXPECT TO FACE INCREASED COMPETITION IN THE FUTURE.

GENERAL. The markets for our products and services are highly competitive. We compete with traditional and online marketing companies, credit card issuers and data processing companies, as well as with current and potential in-house operations of our clients. Many of our current and potential competitors have greater resources than we do, which may impair our ability to compete. Many of our current and potential competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than we do. In addition, these companies may have existing relationships with our potential clients and may be able to respond to changes in market dynamics and technology faster than we can. We cannot assure you that we will be able to compete successfully against our current and potential competitors. If we are unable to compete successfully against our competitors, our business will suffer.

TRANSACTION SERVICES. The payment processing industry is highly competitive, especially among the five largest payment processors in the U.S., which processed approximately 14 billion transactions during 1998. On a pro forma basis for recent acquisitions, we would have been the fourth largest payment processor in the U.S., processing 2.1 billion transactions during 1999. Such competition requires that we continue to invest resources in technological developments and restricts the prices we can charge for certain services. The market requires that payment processors provide advanced and efficient technology, causing some financial institutions and other payment processors to either leave the business or merge with other providers, resulting in significant consolidation in the payment processing industry. Industry consolidation has enabled a few of our competitors to gain access to significant capital, management, marketing and technological resources that are equal to or greater than ours. We cannot assure you that we will continue to be able to compete successfully with such payment processors.

CREDIT SERVICES. We also face intense and increasing competition from numerous financial services providers, some of which have greater resources than we do. We compete against third party private label credit card issuers who may offer lower discount fees and greater incentives to secure new business. Additionally, our private label cards compete with other card payment types, primarily general-purpose credit cards like Visa, MasterCard and American Express, as well as cash, checks and debit cards.

LOYALTY AND DATABASE MARKETING SERVICES. As a provider of loyalty and database marketing products and services, we generally compete with advertising and other promotional and loyalty programs, both traditional and online, for a portion of a client's total marketing budget. In addition, we compete against internally developed products and services created by our existing and potential clients. For each of our loyalty and database products and services, we expect competition to intensify as more competitors enter our market. In addition, new competitors with our Air Miles reward program may target our sponsors and reward miles collectors as well as draw rewards from our rewards suppliers. Over the past year, over half of the Air Miles reward program revenues came from the top 10-15% of our Air Miles reward miles collectors. The loss of these collectors could impact our ability to generate significant revenue from sponsors and loyalty partners. The continued attractiveness of our loyalty and rewards programs will depend in large part on our ability to remain affiliated with sponsors that are desirable to consumers and to offer rewards that are both attainable and attractive to consumers. For our database marketing services, our ability to continue collecting detailed transaction data on consumers is critical in providing effective customer strategies for our clients.

LOSS OF DATA CENTER CAPACITY OR INTERRUPTION OF TELECOMMUNICATION LINKS COULD ADVERSELY AFFECT OUR BUSINESS.

Our ability to protect our data centers against damage from fire, power loss, telecommunications failure and other disasters is critical to our future. Our services depend on links to telecommunication providers. Any damage to our data centers or any failure of our telecommunication links that causes interruptions in our operations could have a material adverse effect on our ability to meet our clients' requirements, which could adversely effect our business, financial condition and operating results.

In order to provide many of our services, we must be able to store, retrieve, process and manage large databases and periodically expand and upgrade our capabilities. Any interruption or loss of these capabilities from a computer malfunction or other reasons could have a material adverse effect on our business, financial condition and operating results.

We are dependent on a major supplier for transport services to our transaction processing business. Should there be disruption of the services it provides to us, the disruption would require us to redirect service to another provider. To do so would require manual intervention to all locations that are impacted.

FAILURE TO SAFEGUARD OUR DATABASE AND CONSUMER PRIVACY COULD AFFECT OUR REPUTATION AMONG OUR CLIENTS AND THEIR CUSTOMERS.

An important feature of our loyalty and marketing database programs and credit services is our ability to develop and maintain individual consumer profiles. As part of our reward miles redemption and credit services, we maintain a marketing database containing information on consumers' account balances. Although we have extensive security procedures, our databases may be subject to unauthorized access. If we experience a security breach, the integrity of our marketing databases could be affected. With respect to our loyalty and database programs, security and privacy concerns may cause consumers to resist providing the personal data necessary to support this profiling capability. The use of our loyalty and database programs or credit services could decline if any well-publicized compromise of security occurred. We could also be subject to legal claims from consumers. Any public perception that we released consumer information without authorization would adversely affect our ability to attract and retain consumers.

THE FAILURE TO ACCURATELY ESTIMATE THE REDEMPTION OBLIGATION FOR OUR AIR MILES REWARD PROGRAM COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION AND OPERATING RESULTS.

Our historical financial statements reflect our estimates of the future payments to purchase rewards for free travel and other rewards relating to our Air Miles reward program. If actual redemptions or reward costs are greater than our estimates, our redemption obligation may be understated, and that could have a material adverse effect on our business, financial condition and operating results.

We use several components to estimate this future obligation, which is recorded as a redemption obligation on our balance sheet. The most significant component is our estimate of the number of Air Miles reward miles that will ultimately be redeemed. The percentage of unredeemed reward miles is known as "breakage" in the loyalty industry. While our Air Miles reward miles currently do not expire, reward miles are not redeemed by collectors for a number of reasons, including:

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

A second component relates to the reward cost, which is based on the mix of rewards anticipated to be provided. Although we believe that our estimation process is reasonable in light of our analysis and our seven years of operating experience with the Air Miles reward program, we cannot assure you that our actual breakage rates or reward cost estimates will approximate our current assumptions.

FLUCTUATIONS IN THE TIMING OR QUANTITY OF REWARD MILES REDEEMED BY COLLECTORS COULD INCREASE OUR NEED FOR WORKING CAPITAL.

We cannot control the timing of a collector's decision to redeem reward miles or the quantity of reward miles redeemed. We could experience a need for increased working capital to fund redemptions if collectors redeem Air Miles reward miles at a rate that is more rapid than we anticipated, which could have a material adverse effect on our business, financial condition and operating results. We currently maintain cash, cash equivalents and securities in a separate reserve account, which we believe are adequate to fund this obligation. We currently invest some of these reserves in equity securities, and a loss of principal from the investment of these reserves could affect our ability to fund redemptions.

LITIGATION RELATING TO INTELLECTUAL PROPERTY RIGHTS COULD HARM OUR BUSINESS.

Third parties may infringe or misappropriate our trademarks or other intellectual property rights, which could have a material adverse effect on our business, financial condition or operating results. The actions we take to protect our trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. We cannot assure you that we will be able to prevent misappropriation or infringement of our proprietary information. Any infringement or misappropriation could harm any competitive advantage we currently derive or may derive from our proprietary rights.

Third parties may assert infringement claims against us. Any claims and any resulting litigation could subject us to significant liability for damages. An adverse determination in any litigation of this type could require us to design around a third party's patent or to license alternative technology from another party. In addition, litigation is time-consuming and expensive to defend and could result in the diversion of our time and attention. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims.

DEFAULTS AND BANKRUPTCIES RELATED TO OUR CONSUMER UNSECURED LENDING COULD ADVERSELY AFFECT US.

The primary risk associated with unsecured lending is the risk of default or bankruptcy of consumers, resulting in accounts being charged-off as uncollectible. In addition, general economic factors, such as the rate of inflation, unemployment levels and interest rates, may result in greater delinquencies and credit losses among consumers. We may not be able to successfully identify and evaluate the creditworthiness of cardholders to minimize delinquencies and losses. Also, we cannot assure you that our pricing strategy can offset the negative impact on profitability caused by delinquencies and losses. Increases in writeoffs could have a material adverse effect on our business, financial condition and operating results.

AS THE AVERAGE AGE OF OUR LOAN PORTFOLIO INCREASES, WE WILL LIKELY EXPERIENCE INCREASING OR FLUCTUATING LEVELS OF DELINQUENCY AND LOAN LOSSES.

In addition to being affected by general economic conditions and the success of our collection and recovery efforts, our delinquency and net credit card receivable charge-off rates at any point in time are affected by, among other factors, the credit risk of credit card receivables and the average age of our various credit card account portfolios. The credit risk of our credit card receivables, in the aggregate, is impacted by the average age of our credit card portfolio. The average age of credit card receivables affects the stability of delinquency and loss rates of the portfolio in that delinquency and loss rates typically increase as the average age of accounts in a credit card portfolio increases. At December 31, 1999, 20.6% of securitized accounts and 38.1% of securitized loans were less than 24 months old. Accordingly, we believe that our loan portfolio will experience increasing or fluctuating levels of delinquency and loan losses as the average age of our accounts increases. This trend is already reflected in the change in our net charge-off ratio. The net charge-off ratio reflects what percent of the average securitized receivables at the beginning of each month in the period indicated consisted of principal losses from cardholders unwilling or unable to pay their credit card balances, as well as

bankrupt and deceased cardholders, less current period recoveries. For the year ended December 31, 1999, our securitized net charge-off ratio on an annualized basis was 7.2% compared to 7.1% for fiscal 1998 and 8.3% for fiscal 1997. We believe that this ratio will continue to fluctuate but generally rise over the next year, and over future years, as the average age of our accounts increases. Any material increases in delinquencies and losses beyond our expectations could have a material adverse impact on us and the value of our net retained interests in loans securitized.

BILLING DISPUTES BETWEEN A CARDHOLDER AND A MERCHANT AND FRAUDULENT TRANSACTIONS SUBMITTED BY A MERCHANT INVOLVING ELECTRONIC PAYMENT CARDS SUCH AS CREDIT CARDS, DEBIT CARDS OR STORED VALUE CARDS PRESENT RISKS TO OUR PROFITABILITY.

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

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

If we or our clearing banks are unable to collect amounts charged back to a merchant's account, and if the merchant refuses or is unable due to bankruptcy or other reasons to reimburse us for the chargeback, we bear the loss for the amount of the refund paid to the cardholder. Our contingent liability is greater in certain industries, such as the direct response marketing industry, where the cardholder is not present to provide a signature. We attempt to reduce our exposure to such losses by performing initial and periodic credit reviews of our merchant clients, by adjusting our rates based, in part, on the merchant's credit risk, business and industry, and by requiring merchants to create escrow accounts for the purpose of satisfying amounts charged back to the merchant. We face chargeback risks with respect to the private label credit card programs we fund that are similar to the risks we face in our bankcard processing programs. We cannot assure you that we will not experience significant losses from chargebacks in the future. Increases in chargebacks not paid by merchants could have a material adverse effect on our business, financial condition and operating results.

CHANGES IN ASSUMPTIONS OVER TIME, SUCH AS THE AMOUNT OF PREPAYMENTS FROM AND DEFAULTS BY CARDHOLDERS, COULD REQUIRE A DECREASE IN THE ESTIMATED VALUE OF THE INTEREST ONLY STRIPS, AND THE RESIDUAL INTEREST WE RETAIN IN THE CREDIT CARD RECEIVABLES WE SELL IS ILLIQUID.

ASSUMPTIONS REGARDING FUTURE PREPAYMENTS AND DEFAULT ASSUMPTIONS ARE SUBJECT TO VOLATILITY THAT COULD MATERIALLY AFFECT OPERATING RESULTS. We finance substantially all our credit card receivables through asset securitization transactions in which we sell our credit card receivables to a master trust which holds the receivables as trustee for third-party investors. We retain the right to service the receivables we sell. We maintain a residual interest in the credit card receivables and retain an interest only strip representing the present value of the right to the excess cash flows generated by the securitized receivables. We calculate the gain on the sale of receivables and the value of the interest only strips based on the present value of the anticipated cash flow stream from the securitized receivables, which is the difference between (1) interest and other fees paid by cardholders and (2) the sum of the following:

- pass-through interest paid to third-party investors;
- trustee fees;
- servicing fees which we receive from the trust; and
- estimated loan portfolio losses.

A significant factor affecting the level of anticipated cash flows is the rate at which the underlying principal of the securitized credit card receivables is reduced. Prepayments represent principal reductions in excess of the contractually scheduled reductions. Additional assumptions include

estimated future credit losses and a discount rate commensurate with the risks involved. The rate of cardholder prepayments or defaults on credit card balances may be affected by a variety of economic factors, including interest rates and the availability of alternative financing, most of which are not within our control. A decrease in interest rates could cause cardholder prepayments to increase, thereby requiring a write down of the interest only strips.

Assumptions regarding future prepayments and credit losses are subject to volatility that could materially affect operating results. Both the amount and timing of estimated cash flows are dependent on the performance of the underlying credit card receivables, and actual cash flows may vary significantly from expectations. If prepayments from cardholders or defaults by cardholders exceed our estimates, we may be required to decrease the estimated balance sheet value of the interest only strips through a charge against earnings.

THE RESIDUAL INTEREST WE RETAIN IN THE CREDIT CARD RECEIVABLES WE SELL IS ILLIQUID. In addition, we cannot assure you that the interest only strips could in fact be sold at their stated value on the balance sheet, if at all, due to the lack of a known market for interest only strips.

We recognize a gain on sale in the period during which we sell the credit card receivables, while we actually receive the cash payments we receive from our pooling and servicing agreements and servicing fees from the trusts over the lives of the receivables we sell. This difference in the timing of cash flows could cause a cash shortfall, which could have a material adverse effect on our financial condition.

WE DEPEND ON OUR ABILITY TO SELL AND SECURITIZE OUR CREDIT CARD RECEIVABLES TO FUND NEW RECEIVABLES.

Since January 1996, we have used a program involving the sale and securitization of our credit card receivables as our primary funding vehicle for credit card receivables. A number of factors affect securitization transactions, some of which are beyond our control, including:

- conditions in the securities markets in general;
- conditions in the asset-backed securitization market;
- conformity of credit card receivables to rating agency requirements and changes in these requirements; and
- availability of credit enhancement.

These factors could adversely affect our ability to effect securitization transactions or the benefits to us of securitization transactions, including the value of our interest only strips or our ability to sell interest only strips or portions of our interest in the receivables.

In addition, we have overcollateralized and maintained an interest in our securitizations in order to achieve better credit ratings. Failure to obtain acceptable credit ratings or more stringent credit enhancement requirements could decrease the efficiency of or have an adverse effect on the timing of, or our ability to effect, future securitizations. Securitization transactions subject us to covenants such as receivables performance and the continued solvency of private label program participants. If we do not satisfy these covenants, an early amortization event could occur. In an early amortization event, the trustee would hold our interest in the related receivables and excess interest income until such time as the securization investors are fully repaid. The occurrence of an early amortization event would significantly limit our ability to securitize additional receivables.

All receivables held by the World Financial Network Credit Card Master Trust III relate to Service Merchandise, which is in voluntary Chapter 11 bankruptcy. This bankruptcy triggered an early amortization event. As of December 31, 1999, this trust had a balance of $115.4 million in credit card receivables related to this account, which together with excess interest income, is being held in the trust until other holders of interests in the trust are fully repaid.

We intend to continue public securitizations of our credit card receivables. The inability to securitize credit card receivables due to changes in the market, the unavailability of credit enhancements, an early amortization event, or any other circumstance or event would have a material adverse effect on our business, financial condition and operating results.

THE TRUST MAY TERMINATE OUR SERVICING RIGHTS.

Our pooling and servicing agreements related to our securitizations provide that the trustee may terminate our servicing rights if we fail to perform our servicing obligations to the certificate holders, such as the failure to make payments to certificate holders. As of the date of this prospectus, no servicing rights had been terminated. However, we cannot assure you that we will be able to perform our servicing obligations and, if we are unable to perform servicing obligations, that servicing rights will not be terminated. A termination of our servicing rights would have a material adverse effect on our business, financial conditions and operating results.

WE EXPECT GROWTH IN OUR CREDIT SERVICES SEGMENT RESULTING FROM NEW AND ACQUIRED PRIVATE LABEL CARD PROGRAMS, WHOSE CREDIT CARD RECEIVABLE PERFORMANCE MAY NOT BE CONSISTENT WITH THAT OF OUR EXISTING PROGRAMS.

An important source of growth in our private card operations is expected to come from the acquisition of existing private label programs and from initiating new private label programs at retailers that previously did not operate a program. Although we believe our pricing and models for determining credit risk are designed to evaluate the credit risk of existing programs and the credit risk we are willing to assume for start-up programs, and we have demonstrated our ability to integrate and operate private label programs, there can be no assurance that the loss experience on newly acquired and start-up plans will be consistent with our more established programs. The failure to successfully underwrite these private label programs may result in increased portfolio losses and reduce our profitability and could have a material adverse effect on our business, financial condition and operating results.

INTEREST RATE FLUCTUATIONS IMPACT THE YIELD ON OUR ASSETS AND FUNDING EXPENSE.

An increase or decrease in market interest rates could have a negative impact on the amount we realize from the net interest spread between the yield on our assets and our cost of funding. A rise in market interest rates may indirectly impact the payment performance of consumers or the value of, or amount we could realize from sale of, interest only strips. We try to minimize the impact of changes in market interest rates on our cash flow, asset value and net income primarily by funding fixed rate assets with fixed rate funding sources and by using interest-rate derivatives to match asset and liability repricings. Nonetheless, changes in market interest rates may have a negative impact on us.

OUR HEDGING ACTIVITY SUBJECTS US TO OFF-BALANCE SHEET RISK.

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

POSTAL RATE INCREASES COULD LEAD TO REDUCED VOLUME OF BUSINESS.

Postal rate increases have negatively impacted the direct marketing industry during the past years. Any future increases may force us and our clients that are direct mailers to mail fewer pieces and to target our and their prospects more carefully. This response by direct mailers could decrease the amount of processing services purchased from us, which could have a material adverse effect on our business, financial condition and operating results.

FLUCTUATIONS IN THE EXCHANGE RATES BETWEEN THE U.S. DOLLAR AND CANADIAN DOLLAR MAY AFFECT OUR OPERATING RESULTS.

A large portion of our Loyalty and Database Marketing services revenue relates to the Air Miles reward program and is in Canadian dollars. We are exposed to fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar through our operations in Canada. Although we have entered into cross-currency hedge transactions to fix the exchange rate on any Canadian debt repayment due to a U.S. counter party, we do not hedge our U.S./Canadian accounting translations. Significant changes in the exchange rate could have a material adverse effect on our business, financial condition and operating results.

IF OUR BANK SUBSIDIARY FAILS TO MEET CREDIT CARD BANK CRITERIA, WE MAY BECOME SUBJECT TO REGULATION UNDER THE BANK HOLDING COMPANY ACT.

Our bank subsidiary, World Financial, is a limited purpose credit card bank. The Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation, insures the deposits of World Financial. World Financial is subject to regulation and examination by the Office of the Comptroller of the Currency, its primary regulator, and is also subject to regulation by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, as back-up regulators. World Financial is not a "bank" as defined under the Bank Holding Company Act because it is in compliance with the following requirements:

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

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

OUR BUSINESS MAY SUFFER IF WE ARE UNABLE TO RETAIN KEY PERSONNEL.

Our future success is substantially dependent upon the continued services of our senior management team. The loss of the services of any of our executive officers could have a material adverse effect on our business. Many of our executive officers have only been employed by us for a short time. We do not currently have "key person" life insurance policies on any of our employees, and we generally do not enter into employment agreements with our employees. Our future success also depends on our ability to attract and retain highly qualified personnel. The competition for qualified personnel in our markets is intense, and we may be unable to attract or retain highly qualified personnel in the future.

SOME OF OUR STOCKHOLDERS OWN A SIGNIFICANT AMOUNT OF OUR COMMON STOCK.

As of December 31, 1999, Limited Commerce Corp., a wholly owned subsidiary of The Limited, and the affiliated entities of Welsh, Carson, Anderson & Stowe, in the aggregate beneficially owned approximately 99.5% of our outstanding common stock and would have owned 73.6% of our common stock as of that date after giving pro forma effect to this offering. As a result, these stockholders are able to exercise significant influence over, and in most cases control, matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This

concentration of ownership may also have the effect of delaying, preventing or deterring a change in control that may otherwise be beneficial to you.

DELAWARE LAW AND OUR CHARTER DOCUMENTS COULD PREVENT A TAKEOVER THAT MIGHT BE BENEFICIAL TO YOU.

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

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

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

THE FAILURE TO FAVORABLY NEGOTIATE AND INTEGRATE FUTURE ACQUISITIONS COULD ADVERSELY AFFECT OUR BUSINESS.

We have made several acquisitions since August 1996, and we intend to acquire additional complementary businesses as part of our growth strategy. Although we may acquire additional businesses, we may not be able to successfully integrate them in a timely manner or at all. If we are not able to successfully integrate acquired businesses, we may incur substantial costs and delays or other operational, technical or financial problems. In addition, the failure to successfully integrate acquisitions may divert management's attention from our existing business and may damage our relationships with key clients and employees.

To finance future acquisitions, we may issue equity securities that could be dilutive to our stockholders. We may also incur debt and additional amortization expenses related to goodwill and other intangible assets in future acquisitions. The interest expense related to this debt and additional amortization expense may significantly reduce our profitability and could have a material adverse effect on our business, financial condition and operating results.

RISKS RELATED TO OUR INDUSTRY

THE MARKETS FOR THE SERVICES THAT WE OFFER MAY FAIL TO EXPAND OR MAY CONTRACT.

Our growth and continued profitability relies on acceptance of the services that we offer. If demand for loyalty and database marketing, transaction or credit services decreases, the price of our common stock could fall and you could lose value in your investment. The use of loyalty and database marketing by retailers is in its early stages and we cannot guarantee that merchants will continue to use these types of marketing strategies. Changes in technology may enable merchants and retail companies to directly process transactions in a cost efficient manner without the use of our services, which could have a material adverse effect on our business, financial condition and operating results.

INDUSTRY RISKS RELATED TO CONSUMER CREDIT PRODUCTS COULD NEGATIVELY IMPACT US.

We face a number of risks associated with unsecured lending, including the following:

- the risk that delinquencies and credit losses will increase because of future economic downturns;
- the risk that an increasing number of consumers will default on the payment of their outstanding balances or seek protection under bankruptcy laws;
- the risk that fraud by cardholders and third parties will increase;
- the risk that increased criticism from consumer advocates and the media could hurt consumer acceptance of our products; and

- the risk of litigation, including class action litigation, challenging our product terms, rates, disclosures, collections or other practices, under state and Federal consumer protection statutes and other laws.

Our business, financial condition and operating results could be materially adversely affected if any of these risks come to fruition.

LEGISLATION RELATING TO CONSUMER PRIVACY MAY AFFECT OUR ABILITY TO COLLECT DATA.

The enactment of legislation or industry regulations arising from public concern over consumer privacy issues could have a material adverse impact on our loyalty and database marketing services. Any such legislation or industry regulations could place restrictions upon the collection and use of information that is currently legally available, which could materially increase our cost of collecting some data. Legislation or industry regulation could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our clients' requirements.

In November 1999, President Clinton signed into law the Gramm-Leach-Bliley Act, which requires financial institutions to comply with various notice procedures in order to disclose nonpublic personal information about their consumers to nonaffiliated third parties and restricts their ability to share account numbers. The requirements of this law also apply to the disclosure of any list, description or other grouping of consumers derived from nonpublic personal information. This law makes it more difficult to collect and use information that has been legally available and may increase our costs of collecting some data. This law could have a material adverse effect on our business, financial condition and operating results.

The Clinton Administration is investigating further administrative action in the area of privacy. In addition, Congress and a number of states are considering further privacy legislation. It is possible that new privacy protections will not be limited to financial institutions but could broadly apply to the activities of all companies.

The Canadian federal government and Minister of Industry of Canada are sponsoring comprehensive private sector privacy legislation that would apply to organizations engaged in any commercial activities in Canada. Because the legislation has government support, it will likely be enacted in the near term. If enacted as currently proposed, it would enact into law 10 privacy principles from the Canadian Standards Association's Model Privacy Code. The bill would also require organizations to obtain consent to the collection, use or disclosure of personal information. The nature of the required consent will depend on the sensitivity of the personal information and will permit personal information to be used only for the purposes for which it was collected. The Province of Quebec has had similar privacy legislation applicable to the private sector in that province since 1994, and other provinces are considering further privacy legislation.

CURRENT AND PROPOSED REGULATION AND LEGISLATION RELATING TO OUR CREDIT SERVICES COULD LIMIT OUR BUSINESS ACTIVITIES, PRODUCT OFFERINGS AND FEES CHARGED.

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

material adverse effect on our ability to collect our receivables and generate fees on the receivables, thereby adversely affecting our business, financial condition and operating results.

STATE TAX ISSUES COULD HAVE A NEGATIVE EFFECT ON OUR BUSINESS.

Transaction processing companies may be subject to state taxation of certain portions of their fees charged to merchants for their services. If we are required to pay such taxes and are unable to pass this tax expense through to our merchant clients, our business, financial condition and operating results could be adversely affected.

LAWS AND REGULATIONS PERTAINING TO THE INTERNET MAY ADVERSELY AFFECT OUR BUSINESS.

An increasing number of laws and regulations pertain to the Internet. These laws and regulations relate to liability for information retrieved from or transmitted over the Internet, on-line content regulation, user privacy, taxation and the quality of products and services. Moreover, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing. Any new law or regulation pertaining to the Internet, or the application or interpretation of existing laws, could decrease the demand for our promotional services, increase our cost of doing business or otherwise have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATED TO THIS OFFERING

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

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

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

WE HAVE A LARGE NUMBER OF SHARES THAT ARE ELIGIBLE FOR FUTURE SALE AND, IF THESE SHARES ARE SOLD IN THE FUTURE, YOUR INVESTMENT WILL BE DILUTED.

If a large number of shares of our common stock are sold in the open market after this offering, or the market perceives that such sales could occur, the trading price of our common stock could decrease. After this offering, we will have an aggregate of 115,622,721 shares of our common stock authorized but unissued and not reserved for specific purposes. In general, we may issue all of these

shares without any action or approval by our stockholders. We may pursue acquisitions of competitors and related businesses and may issue shares of our common stock in connection with these acquisitions.

Upon consummation of the offering, we will have 76,881,518 shares of our common stock outstanding. Of these shares, all shares sold in the offering, other than shares, if any, purchased by our affiliates, will be freely tradable. Of the remaining 56,881,518 shares, 72,013 shares will be freely transferable and 56,809,505 shares will be "restricted securities" as that term is defined in Rule 144 under the Securities Act. Our executive officers, directors and our principal stockholders have agreed that, subject to various limitations, for a period of 180 days following the date of this prospectus, they will not, without the prior written consent of Bear, Stearns & Co. Inc., offer, sell, or grant any option to purchase or otherwise dispose of our common stock or any securities convertible into or exchangeable for our common stock.

We have also reserved 2,966,667 shares of our common stock for issuance under our stock option and restricted stock purchase plan, of which 2,354,000 are issuable upon exercise of options granted as of January 31, 2000, including options to purchase 1,312,722 shares exercisable as of January 31, 2000 or that will become exercisable within 60 days after such date. Any shares issued in connection with the exercise of currently outstanding stock options or otherwise would further dilute your investment in our common stock.

OUR MANAGEMENT'S BROAD DISCRETION IN THE USE OF THE PROCEEDS OF THIS OFFERING MAY ADVERSELY AFFECT YOUR INVESTMENT.

Our management can spend a significant portion of the proceeds from this offering in ways with which our stockholders may not agree. We intend to use approximately $222.4 million of the net proceeds from the offering to retire outstanding debt. We expect that the remaining net proceeds will be available for general corporate purposes, including working capital. We may, however, also use a portion of the net proceeds to acquire or invest in complementary businesses, technologies, products or services, although we currently have no commitments or agreements with respect to transactions of that type.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents included or incorporated by reference in this prospectus may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. These forward-looking statements are subject to risks, uncertainties and assumptions, including but not limited to, risks, uncertainties and assumptions discussed under the section "Risk Factors" and elsewhere in this prospectus.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements you read in this prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified under the section "Risk Factors" and elsewhere in this prospectus which could cause actual results to differ before making an investment decision.

USE OF PROCEEDS

The net proceeds from this offering will be approximately $282.0 million, or $324.3 million if the underwriters exercise their over-allotment option in full, after deducting estimated underwriting discounts and commissions and estimated offering expenses.

We anticipate amending our current credit agreement to maintain our current borrowing capacity and to allow re-payment of the subordinated notes described below. Following the repayment of $222.4 million of debt, as described below, we expect to use the balance of the net proceeds for working capital and general corporate purposes.

A portion of the net proceeds and funds available under our amended credit agreement may be used to acquire or invest in complementary businesses, technologies, products or services or to invest in geographic expansion. Although we are not contemplating any specific acquisitions at this time and no portion of the net proceeds has been allocated for any acquisition, we evaluate acquisition opportunities on an ongoing basis. Our management will have broad discretion in the application of the net proceeds. Pending use, we intend to invest the net proceeds in short-term interest-bearing, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of government agencies of the United States.

The following is a summary of the intended uses of proceeds from this offering:

Prepayment of 10% Subordinated Note due October 25, 2005 issued to WCAS Capital Partners II, L.P.	$	30,000,000
Prepayment of 10% Subordinated Note due October 25, 2005 issued to Limited Commerce Corp.		20,000,000
Prepayment of 10% Subordinated Note due September 15, 2008 issued to WCAS Capital Partners III, L.P.		52,000,000
Reduction of the outstanding term loan under our credit agreement		120,360,500
Working capital		59,639,500
		282,000,000
Estimated fees, commissions, underwriting discounts and expenses related to this offering		18,000,000
Total proceeds	$	300,000,000

The obligations intended to be repaid, in full or in part, are more fully described as follows:

- a 10% subordinated note issued to WCAS Capital Partners II, L.P., in the principal amount of $30.0 million, and a 10% subordinated note issued to the Limited Commerce Corp., in the principal amount of $20.0 million. Principal on the notes is due on October 25, 2005 and interest is payable semi-annually in arrears on each January 1 and July 1. The notes were originally issued in January 1996 to finance, in part, the acquisition of BSI Business Services, Inc., now known as ADS Alliance Data Systems, Inc.

- a 10% subordinated note issued to WCAS Capital Partners III, L.P. in the principal amount of $52.0 million. Principal is due in two equal installments on September 15, 2007 and September 15, 2008. Interest is payable semi-annually in arrears on each March 15 and September 15. The note was originally issued in September 1998 to finance, in part, the acquisition of Harmonic Systems Incorporated.

- a $330.0 million credit agreement entered into in July 1998 consisting of a $130.0 million U.S. Term Loan, a $50.0 million Canadian A Term Loan and a $50.0 million Canadian B Term Loan, and a $100.0 million revolving loan commitment. The term loans and the revolving loan commitment are at a daily floating rate equal to the sum of the Euro-dollar margin plus the London Interbank Offered Rate applicable to the period for each Euro-dollar loan. Principal is

payable annually. Interest is payable quarterly for the base rate loans and payable on the last day of the Euro-dollar loan period for each Euro-dollar loan. The U.S. Term Loan, the Canadian A Term Loan, and the revolving loan commitment mature on July 25, 2003 and the Canadian B Term Loan matures on July 25, 2005. Since July 1998 we have used approximately $230.0 million of the term loans for general corporate purposes, including working capital. We use drawings under the revolving loan commitment throughout the year for general corporate purposes, including working capital. We are currently amending this agreement.

DIVIDEND POLICY

We have never declared or paid any dividends on our common stock. We do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business. Any future determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our financial condition, operating results, capital requirements and other factors that the board of directors deems relevant. In addition, under the terms of our credit agreement, we cannot declare or pay dividends or return capital to our stockholders, nor can we authorize or make any other distribution, payment or delivery of property or cash to our stockholders.

DILUTION

Our pro forma net deficit in tangible book value as of December 31, 1999 was approximately $38.5 million, or approximately $0.68 per share of common stock, after giving effect to the conversion of all our outstanding shares of Series A preferred stock into common stock and the exercise of all outstanding warrants for common stock. Pro forma net deficit in tangible book value per share represents the amount of tangible assets, less intangibles assets and goodwill and total liabilities, divided by the number of shares of common stock outstanding, after giving effect to the conversion of all our outstanding shares of Series A preferred stock into common stock and the exercise of all outstanding warrants for common stock.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of our common stock in this offering and the pro forma net tangible book value per share of our common stock immediately after the offering. After giving effect to our sale of 20,000,000 shares of common stock in this offering at an assumed initial public offering price of $15.00 per share and after deduction of the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of December 31, 1999 would have been approximately $239.8 million, or $3.12 per share. This represents an immediate increase in pro forma net tangible book value to existing stockholders attibutable to new investors of $3.88 per share and the immediate dilution of $11.88 per share to new investors.

Initial public offering price per share.....		$15.00
Pro forma net deficit in tangible book value per share before offering.....	$(0.68)	
Increase per share attributable to new investors.....	3.80	
Pro forma net tangible book value per share after the offering.....		3.12
Dilution per share to new investors.....		$11.88

The following table sets forth as of December 31, 1999, after giving effect to the conversion of all our outstanding shares of Series A preferred stock into common stock and the exercise of all outstanding warrants for common stock, the total consideration paid and the average price per share paid by our existing stockholders and by new investors, before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us at an assumed initial public offering price of $15.00 per share.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
	(AMOUNTS IN THOUSANDS)				
Existing stockholders.....	56,882	74.0%	$347,552	53.7%	$ 6.11
New investors.....	20,000	26.0	300,000	46.3	15.00
Total.....	76,882	100.0%	$647,552	100.0%	

This table assumes no options were exercised after December 31, 1999. As of December 31, 1999, there were outstanding options to purchase a total of 2,354,000 shares of common stock at a weighted average exercise price of $9.50 per share and 2,966,667 shares of common stock reserved for issuance under our stock option and restricted stock purchase plan. If all outstanding options were exercised on the date of the closing of the offering, new investors purchasing shares in this offering would suffer dilution per share of $11.97.

CAPITALIZATION

Capitalization is the amount invested in a company and is a common measurement of a company's size. The table below shows our capitalization as of December 31, 1999 as follows:

- on an actual basis;
- on a pro forma basis to reflect the conversion of all of our Series A preferred stock into common stock and the exercise of all outstanding warrants for common stock; and
- on a pro forma as adjusted basis to give effect to the sale of the 20,000,000 shares of our common stock offered by this prospectus at an assumed initial public offering price of $15.00 per share and the application of the net proceeds from the sale, having deducted estimated underwriting discounts and commissions and estimated offering expenses.

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

	AT DECEMBER 31, 1999		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Cash and cash equivalents	$ 56,546	$ 58,050	$117,690
Certificates of deposit	$ 86,600	$ 86,600	$ 86,600
Short-term debt	31,625	31,625	4,125
Total short-term debt	$118,225	$118,225	$ 90,725
Long-term debt, excluding current portion:			
Certificates of deposit	$ 30,300	$ 30,300	$ 30,300
Senior credit facility	184,611	184,611	91,751
Subordinated notes	102,000	102,000	--
Series A cumulative convertible preferred stock, $0.01 par value; 120 shares authorized, issued and outstanding, actual; none issued or outstanding, pro forma and as adjusted	119,400	--	--
Stockholders' equity:			
Common stock, $0.01 par value; 66,667 shares authorized, actual and pro forma; 200,000 shares authorized, as adjusted; 47,529 shares issued and outstanding, actual; 56,881 shares issued and outstanding, pro forma; 76,881 shares issued and outstanding, as adjusted	475	569	769
Additional paid-in capital	226,174	346,984	628,784
Retained earnings	63,507	63,507	58,227
Total stockholders' equity	290,156	411,060	687,780
Total capitalization	$726,467	$727,971	$809,831

We expect there to be 76,881,518 shares of common stock outstanding after this offering. In addition to the shares of common stock to be outstanding after this offering, we may issue additional shares of common stock.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

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

The data contained in the pro forma columns give effect to the following completed acquisitions, each accounted for under the purchase method of accounting, as if those acquisitions had been consummated on January 1, 1998, with respect to the income statement:

- the acquisition of Loyalty Management Group Canada Inc., effective July 24, 1998;

- the acquisition of Harmonic Systems Incorporated, effective September 15, 1998; and

- the acquisition of the network transaction processing business of SPS Payment Systems, Inc., effective July 1, 1999.

No pro forma balance sheet as of December 31, 1999 has been presented as there is no difference between the historical and pro forma information as of that date. The unaudited pro forma consolidated financial information does not purport to be indicative of the results that would have been obtained had the transactions been completed as of the assumed dates and for the periods presented or that may be obtained in the future. The unaudited pro forma consolidated financial information is included in this prospectus for informational purposes, and while we believe that it may be helpful in understanding our combined operations for the periods indicated, you should not unduly rely on the information.

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1998
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	CALENDAR YEAR ENDED DECEMBER 31, 1998						
	ADSC	LOYALTY(1)	HARMONIC SYSTEMS(1)	SPS(1)	SUBTOTAL	ADJUSTMENTS	PRO FORMA
Total revenue	$474,933	$71,765	$12,090	$47,674	$606,462	$ --	$606,462
Operating expenses							
Processing and servicing	226,525	51,288	16,328	31,260	325,401	--	325,401
Salaries and employee benefits	169,799	8,363	--	6,331	184,493	--	184,493
Depreciation and other amortization	8,782	805	448	--	10,035	--	10,035
Amortization of purchased intangibles	36,408	2,020	--	--	38,428	31,154 (2)	69,582
Total operating expenses	441,514	62,476	16,776	37,591	558,357	31,154	589,511
Operating income (loss)	33,419	9,289	(4,686)	10,083	48,105	(31,154)	16,951
Interest expense	29,295	203	221	--	29,719	8,800 (3)	38,519
Income tax expense	9,970	4,878	--	3,710	18,558	(10,779)(4)	7,779
Income (loss) from continuing operations	$ (5,846)	$ 4,208	$(4,907)	$ 6,373	$ (172)	$(29,175)	$(29,347)
Earnings (loss) per share from continuing operations -- basic and diluted	$ (0.14)						$ (0.78)
Weighted average shares used in computing per share amounts -- basic and diluted	41,308					5,661	46,949

See the accompanying notes on page 28.

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1999
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31, 1999				
	ADSC	SPS(1)	SUBTOTAL	ADJUSTMENTS	PRO FORMA
Total revenue	$639,254	$24,322	$663,576	$ --	$663,576
Operating expenses					
Processing and servicing	341,496	16,947	358,443	--	358,443
Salaries and employee benefits	193,699	3,181	196,880	--	196,880
Depreciation and other amortization	16,183	--	16,183	--	16,183
Amortization of purchased intangibles	49,777	--	49,777	5,929 (2)	55,706
Total operating expenses	601,155	20,128	621,283	5,929	627,212
Operating income (loss)	38,099	4,194	42,293	(5,929)	36,364
Interest expense	42,785	--	42,785	--	42,785
Income tax expense	15,388	1,543	16,931	(2,515)(4)	14,416
Income (loss) from continuing operations	$(20,074)	$ 2,651	$(17,423)	$(4,957)	$(20,837)
Earnings (loss) per share from continuing operations--basic and diluted	$ (0.49)				$ (0.59)
Weighted average shares used in computing per share amounts--basic and diluted	47,498				47,498

See the accompanying notes on page 28.

ALLIANCE DATA SYSTEMS CORPORATION

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

The Unaudited Pro Forma Consolidated Statements of Operations for the two years ended December 31, 1999 reflect the pro forma adjustments for the acquisitions previously mentioned. The 1998 statements are presented on a recast calendar-year basis so as to provide a better basis of comparison to the 1999 statements.

(1) Represents operating activity for each of the respective acquired businesses for the periods set forth below:

	YEAR ENDED DECEMBER 31,	
	1998	1999
Loyalty	7 months	--
Harmonic Systems	9 months	--
SPS	12 months	6 months

(2) Represents pro forma adjustments to goodwill and other purchased intangibles amortization in connection with the acquisitions as follows:

	YEAR ENDED DECEMBER 31,	
	1998	1999
Loyalty	$14,505	$ --
Harmonic Systems	4,792	--
SPS	11,857	5,929
	$31,154	$5,929

We amortize goodwill over a 20 to 25 year life. We amortize other purchased intangibles over a three to five year period.

(3) Represents pro forma adjustments to interest expense related to debt incurred in connection with the Loyalty and Harmonic Systems acquisitions. The interest expense is as follows:

	YEAR ENDED DECEMBER 31, 1998
Loyalty	$4,900
Harmonic Systems	3,900
	$8,800

(4) Represents the:

- tax effect of pro forma adjustments including amortization expense related to the SPS acquisition but excluding amortization expense related to the Loyalty and Harmonic Systems acquisitions; and

- recognition of tax expense for the acquired businesses which had not recorded tax expense.

We are the result of a 1996 merger of two entities acquired by Welsh, Carson, Anderson & Stowe, which involved J.C. Penney's transaction services business, BSI Business Services, Inc., and The Limited's credit card bank operation, World Financial. Prior to December 31, 1998, our fiscal year was based on a 52/53 week fiscal year ending on the Saturday closest to January 31. We have since changed our fiscal year end to December 31. The following table sets forth our summary historical financial information for the periods ended and as of the dates indicated. Fiscal 1996, fiscal 1997, fiscal 1998, and fiscal 1999 financial statements were audited by Deloitte & Touche LLP. Fiscal 1995 financial statements were audited by other auditors. You should read the following historical financial information along with the information contained throughout this prospectus, including the financial statements and related notes that are included in this prospectus.

	FISCAL				
	1995(1)	1996(2)	1997(3)	1998(4)	1999(5)
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
INCOME STATEMENT DATA					
Total revenue	$178,385	$280,935	$353,399	$434,309	$639,254
Operating expenses					
Processing and servicing	84,883	132,663	161,360	209,013	341,496
Salaries and employee benefits	45,035	100,928	127,087	156,464	193,699
Depreciation and other amortization	3,629	6,318	7,402	8,270	16,183
Amortization of purchased intangibles	--	14,371	19,061	34,321	49,777
Total operating expenses	133,547	254,280	314,910	408,068	601,155
Operating income	44,838	26,655	38,489	26,241	38,099
Interest expense	--	5,649	15,459	27,884	42,785
Income (loss) from continuing operations before income taxes	44,838	21,006	23,030	(1,643)	(4,686)
Income tax expense	15,624	6,239	8,420	6,653	15,388
Income (loss) from continuing operations	29,214	14,767	14,610	(8,296)	(20,074)
Income (loss) from discontinued operations, net of taxes	--	(3,823)	(8,247)	(300)	7,688
Loss on disposal of discontinued operations, net of taxes	--	--	--	--	(3,737)
Net income (loss)	$ 29,214	$ 10,994	$ 6,363	$ (8,596)	$(16,123)
Earnings (loss) from continuing operations--basic and diluted		$ 0.40	$ 0.40	$ (0.20)	$ (0.49)
Earnings (loss) per share--basic and diluted		$ 0.30	$ 0.17	$ (0.21)	$ (0.41)
Weighted average shares used in computing per share amounts--basic and diluted		36,521	36,612	41,729	47,498

	FISCAL				
	1995(1)	1996(2)	1997(3)	1998(4)	1999(5)
	(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)				
OTHER FINANCIAL DATA					
EBITDA(6)	$ 48,467	$ 47,344	$ 64,952	$ 68,832	$ 104,059
EBITDA as a percentage of revenue	27.2%	16.9%	18.4%	15.8%	16.3%
Cash flows from operating activities	121,399	56,608	(30.7)	4,469	252,638
Cash flows from investing activities	1,030,528	(137,633)	(103.7)	(140,534)	(304,451)
Cash flows from financing activities	(1,122,425)	82,011	104,870	163,282	74,929
SEGMENT OPERATING DATA					
Air Miles reward miles issued	--	--	--	647,357	1,558,427
Transactions processed	--	881,316	929,274	1,073,040	1,810,180
Statements generated(7)	100,240	126,114	113,940	117,672	132,817
Securitized portfolio(8)	$ 1,290,581	$1,685,622	$2,021,599	$2,135,340	$2,232,781
Credit sales	$ 2,464,290	$2,902,881	$3,001,029	$2,866,062	$3,132,520

	AS OF					
	JANUARY 28, 1995	FEBRUARY 3, 1996(9)	FEBRUARY 1, 1997	JANUARY 31, 1998	DECEMBER 31, 1998	DECEMBER 31, 1999
	(AMOUNTS IN THOUSANDS)					
BALANCE SHEET DATA						
Cash and cash equivalents	$ 17,416	$ 46,918	$ 50,149	$ 20,595	$ 47,036	$ 56,546
Credit card receivables and seller's interest	1,209,372	90,789	161,686	144,440	139,458	150,804
Intangibles and goodwill	--	--	104,790	104,536	305,365	448,017
Total assets	1,281,960	225,272	499,349	626,809	1,010,119	1,185,069
Certificates of deposit	375,100	67,200	68,400	50,900	49,500	116,900
Short-term debt	531,024	--	80,811	82,800	98,484	--
Long-term and subordinated debt	215,000	--	50,000	180,000	332,000	318,236
Total liabilities	1,185,579	114,677	294,144	415,145	701,980	775,513
Series A preferred stock	--	--	--	--	--	119,400
Total stockholders' equity	96,381	110,595	205,205	211,664	308,139	290,156

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(1) Fiscal 1995 represents the operating results of World Financial Network Holding Corporation for the 52 weeks ended February 3, 1996.

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

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

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

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

(6) EBITDA is defined as operating income plus depreciation and amortization. EBITDA is presented because management uses EBITDA as an integral part of its internal reporting and performance evaluation for senior management. In addition, EBITDA eliminates the uneven effect across all segments of considerable amounts of non-cash amortization of purchased intangibles recognized in business combinations accounted for under the purchase method. EBITDA is not intended to be a performance measure that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or to the statement of cash flows as a measure of liquidity. In addition, EBITDA is not intended to represent funds available for dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted

accounting principles. The EBITDA measure presented in this prospectus may not be comparable to similarly titled measures presented by other companies.

(7) Statements generated represents the number of billing statements generated for both securitized cardholders and cardholders and customers serviced on behalf of other clients.

(8) Securitized portfolio represents outstanding credit card receivables at the end of the period that we have originated or purchased, and have been securitized.

(9) Reduction of credit card receivables in fiscal 1995 is a result of securitizing most of the credit card receivables off-balance sheet.

FORMATION OF ALLIANCE DATA SYSTEMS CORPORATION

Although our predecessor companies have long operating histories, we have largely been built by acquisition and therefore have a relatively short operating history as a combined entity. We are the result of the 1996 merger of two entities acquired by Welsh, Carson, Anderson and Stowe, which involved J.C. Penney's transaction services business, BSI Business Services, Inc., and The Limited's credit card bank operation, World Financial Network National Bank. Since then, we have made the following acquisitions, each accounted for as a purchase, with the results of operations of the acquired businesses included from their respective closing dates:

- In November 1996, we acquired the private label portfolio of National City Bank of Columbus, which consisted of approximately $370.0 million in receivables and represented over 25 retailers in a broad range of industries including soft goods, building materials, furniture and electronics.

- In July 1998, we acquired Loyalty Management Group Canada Inc.

- In September 1998, we acquired Harmonic Systems Incorporated.

- In July 1999, we acquired the network services business of SPS Payment Systems, Inc., a wholly-owned subsidiary of Associates First Capital Corporation.

FISCAL YEAR

In order to have more consistent reporting periods, we changed our year end to a calendar year end basis during 1998. Prior to December 31, 1998, we operated on a 52/53 week fiscal year that ended on the Saturday nearest January 31. Accordingly, fiscal 1997 represents the 53 weeks ended January 31, 1998, fiscal 1998 represents the 11 months ended December 31, 1998 and fiscal 1999 represents the year ended December 31, 1999. In addition to discussing the results of operations on a historical basis, we are also providing a discussion of our results of operations on a pro forma recast basis for the year ended December 31, 1998 and on a pro forma basis for the year ended December 31, 1999.

REVENUE AND EXPENSES

Our three reportable segments derive substantially all of their revenue from two principal sources. We receive fees for providing information and transaction processing services and earn income from our private label credit card receivables portfolio and securitization program.

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

CREDIT SERVICES. We securitize substantially all of our credit card receivables that we underwrite. As a result, our Credit Services segment derives its revenue from the servicing fees and net financing income it receives from the securitization trusts and merchant fees from the processing of private label credit cards for our private label clients. We record gains or losses on the securitization of credit card receivables on the date of sale based on the estimated fair value of assets retained and liabilities incurred in the sale. Gains represent the present value of the anticipated cash flows we have retained over the estimated outstanding period of the receivables. This excess cash flow essentially represents an interest only strip, consisting of the excess of finance charges and past-due fees net of the sum of the return paid to certificateholders, estimated contractual servicing fees and credit losses. The interest only strip is carried at fair value, with changes in the fair value reported as a component of cumulative other comprehensive loss. Factors outside our control influence estimates inherent in the determination of

fair value of the interest only strip, and as a result, such estimates could materially change in the near term. Net financing charges include the gains on securitizations and other income from securitizations. Operating expenses for this segment include salaries and employee benefits and processing and servicing expense, which includes credit bureau, postage, telephone and data processing expense and a portion of interest expense. A portion of our interest expense relates to the funding of our seller's interest in credit card receivables and other securitization assets.

LOYALTY AND DATABASE MARKETING SERVICES. Our Loyalty and Database Marketing Services segment generates the majority of its revenue from our Air Miles reward miles program. Through this program, we charge sponsors a transaction fee for managing each sponsor's membership rewards or loyalty program. In addition, we generate database and direct marketing revenue from building and maintaining marketing databases, as well as managing and marketing campaigns or projects we perform for our clients. Operating costs include salaries and employee benefits, and processing and servicing expense, such as the estimated cost of fulfilling future redemption costs of the Air Miles reward program, marketing, data processing and postage.

INTER-SEGMENT SALES. Our Transaction Services segment performs servicing activities related to our Credit Services segment. For this, Transaction Services receives a fee equal to its direct costs before corporate overhead plus a margin that it would charge an unrelated third party for similar functions. This fee represents an expense to our Credit Services segment and a corresponding revenue for Transaction Services.

USE OF EBITDA. We evaluate operating performance based on several factors of which the primary financial measure is operating income plus depreciation and amortization. EBITDA is presented because we use our EBITDA measure as an integral part of our internal reporting and performance evaluation for senior management. In addition, EBITDA eliminates the uneven effect across all segments of considerable amounts of non-cash amortization of purchased intangibles recognized in business combinations accounted for under the purchase method. We believe that EBITDA is not intended to be a performance measure that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or to the statement of cash flows as a measure of liquidity. In addition, EBITDA is not intended to represent funds available for dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. The EBITDA measure presented in this prospectus may not be comparable to similarly titled measures presented by other companies.

RESULTS OF OPERATIONS

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

	YEAR ENDED DECEMBER 31,					
	REVENUE		EBITDA		OPERATING INCOME	
	1998	1999	1998	1999	1998	1999
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 308,050	$ 362,524	$ 8,683	$ 20,584	$(19,076)	$(8,229)
Credit Services	242,377	247,824	54,175	46,124	50,711	42,840
Loyalty and Database Marketing Services	86,220	194,482	15,751	37,351	1,785	3,488
Other and eliminations	(161,713)	(165,576)	--	--	--	--
Total	$ 474,934	$ 639,254	$78,609	$104,059	$ 33,420	$38,099

	YEAR ENDED DECEMBER 31,					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1998	1999	1998	1999	1998	1999
Transaction Services	64.9 %	56.7 %	2.8%	5.6%	(6.2)%	(2.2)%
Credit Services	51.0	38.8	22.4	18.6	20.9	17.3
Loyalty and Database Marketing Services	18.2	30.4	18.3	19.2	2.1	1.8
Other and eliminations	(34.0)	(25.9)	--	--	--	--
Total	100.0 %	100.0 %	16.6%	16.3%	7.0 %	6.0 %

REVENUE. Total revenue increased $164.3 million, or 34.6%, to $639.3 million for the year ended December 31, 1999 from $474.9 million during 1998. The increase was principally due to a 17.7% increase in Transaction Services revenue, a 2.2% increase in Credit Services revenue and a 125.6% increase in Loyalty and Database Marketing Services revenue as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $54.5 million, or 17.7%, due to the acquisitions of Harmonic Systems in 1998 and SPS in 1999. Fees related to servicing of private label credit card statements increased $11.9 million during the year ended December 31, 1999 over 1998 due to the following: an 11.7% increase in price per statement, a $4.5 million termination fee from a client and a 1.5% increase in the number of statements. The revenue for transaction processing increased 41.4% mainly due to acquisition activity offset by a decrease in average price per transaction.

- CREDIT SERVICES. Credit Services revenue increased $5.4 million, or 2.3%, due to increases in merchant and servicing fees and finance charges, net. Merchant fee income increased $2.5 million, or 3.9%, due to a 2.7% increase in credit sales on our private label credit cards. Additionally, servicing fee income increased by $3.1 million, or 10.1%, during 1999 due to an increase in average outstanding credit card receivables in the securitization trust. Finance charge, net increased $600,000 during the year ended December 31, 1999 over 1998. We recognized a $16.2 million gain on sale of receivables during the year ended December 31, 1998 related to the timing of two securitization transactions with no comparable securitization transactions in 1999. Excess spread income increased 13.5% during the year ended December 31, 1999 over 1998 as a result of a 4.6% higher average outstanding securitized portfolio and an approximate 75 basis point increase in yield.

- LOYALTY AND DATABASE MARKETING SERVICES. Loyalty and Database Marketing Services revenue increased $108.3 million, or 125.6%, due to the acquisition of Loyalty Management Group Canada Inc. on July 24, 1998. Revenue from January 1, 1998 until the date of acquisition was approximately $71.8 million. The remaining increase is primarily related to an increase in Air Miles reward miles activity, which increased 11.4% on a pro forma basis in 1999 compared to 1998. From the date of acquisition through the remainder of 1998, we issued 647.4 million Air Miles reward miles, compared to 1,558.4 million Air Miles reward miles during the year ended December 31, 1999. The increase in Air Miles activity is primarily related to an increase in the number of reward miles collectors.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $138.9 million, or 35.0%, to $535.2 million during the year ended December 31, 1999 from $396.3 million during 1998. Total EBITDA margin decreased 0.3% to 16.3% for the year ended December 31, 1999 from 16.6% for 1998. The decrease in EBITDA margin is due to a decrease in Credit Services margins, partially offset by increases in Loyalty and Database Marketing Services and Transaction Services margins.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $42.5 million, or 14.2%, to $341.9 million for the year ended December 31, 1999 from $299.4 million for 1998, and EBITDA margin increased to 5.6% for the year ended December 31, 1999 from 2.8% during 1998. The EBITDA Margin increased due to the newly acquired SPS Network services business which carries a higher margin than the Company's historical processing business. Additionally, the margin increased due to a shift in the mix of business to higher margin card processing and servicing products.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $13.5 million, or 7.2%, to $201.7 million for the year ended December 31, 1999 from $188.2 million for 1998, and EBITDA margin decreased to 18.6% for the year ended December 31, 1999 from 22.4% during 1998 due to the timing of a $16.2 million gain on sale of receivables in 1998 related to the timing of two securitization transactions with no comparable securitization transactions in 1999.

- LOYALTY AND DATABASE MARKETING SERVICES. Loyalty and Database Marketing Services operating expenses, excluding depreciation and amortization, increased $86.6 million, or 123.0%, to $157.1 million for the year ended December 31, 1999 from $70.5 million for 1998, and EBITDA margin increased to 19.2% for the year ended December 31, 1999 from 18.3% for 1998. The increased margin was partially offset by $3.3 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada during 1999.

- DEPRECIATION AND AMORTIZATION. Depreciation and other amortization increased $7.4 million, or 84.1%, to $16.2 million for the year ended December 31, 1999 from $8.8 million for 1998 due to increases in capital expenditures in 1998 and 1999, especially software development costs that have short amortization periods. Amortization of purchased intangibles increased $13.4 million as a result of recent acquisitions, partially offset by a decrease in amortization expense for some of the intangibles related to the acquisition of the former J.C. Penney business which were fully amortized.

OPERATING INCOME. Operating income increased $4.7 million, or 14.0%, to $38.1 million for the year ended December 31, 1999 from $33.4 million during 1998. Operating income improved primarily from revenue gains offset by a slightly lower margin and increased depreciation and amortization.

INTEREST EXPENSE. Interest expense increased $13.5 million, or 46.1%, to $42.8 million for the year ended December 31, 1999 from $29.3 million for 1998 due to an increase in average debt associated with acquisitions and an increase in debt to fund receivables.

TAXES. Our effective tax rate before non-deductible goodwill for the year ended December 31, 1998 and 1999 was 47.3% and 47.2%, respectively.

DISCONTINUED OPERATIONS. During September 1999, we discontinued our subscriber services business when a major customer was acquired by a third party. As a result of discontinuing our subscriber services, we recognized a loss of $3.7 million, net of income tax, on disposal of discontinued operations. For the year ended December 31, 1999, discontinued operations had income of $7.7 million, net of income tax, compared to a loss of $3.9 million during 1998. The difference is largely related to additional fees we received in connection with services performed for the customer upon termination of its contract.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant, database and direct marketing fees, increased $6.1 million, or 10.4%, to $64.1 million for the year ended December 31, 1999 from $58.0 million for 1998. The increase was primarily the result of increased volume of credit card receivables, credit sales and statements generated.

PRO FORMA YEAR ENDED DECEMBER 31, 1998 (UNAUDITED) COMPARED TO PRO FORMA YEAR ENDED DECEMBER 31, 1999 (UNAUDITED)

The following is a comparison based on pro forma results as shown elsewhere in this prospectus. The results are presented as if the Loyalty, Harmonic Systems and SPS acquisitions had been consummated on January 1, 1998.

	PRO FORMA FOR THE YEAR ENDED DECEMBER 31,					
	REVENUE		EBITDA		OPERATING INCOME	
	1998	1999	1998	1999	1998	1999
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 367,814	$ 386,846	$14,528	$ 24,778	$(30,329)	$(9,964)
Credit Services	242,377	247,824	54,175	46,124	50,711	42,840
Loyalty and Database Marketing Services	157,985	194,482	27,865	37,351	(3,431)	3,488
Other and eliminations	(161,713)	(165,576)	--	--	--	--
Total	$ 606,463	$ 663,576	$96,568	$108,253	$ 16,951	$36,364

	PRO FORMA FOR THE YEAR ENDED DECEMBER 31,					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1998	1999	1998	1999	1998	1999
Transaction Services	60.6 %	58.3 %	3.9%	6.4%	(8.3)%	(2.6)%
Credit Services	40.0	37.3	22.4	18.6	20.9	17.3
Loyalty and Database Marketing Services	26.1	29.3	17.6	19.2	(2.1)	1.8
Other and eliminations	(26.7)	(24.9)	--	--	--	--
Total	100.0 %	100.0 %	15.9%	16.3%	2.8 %	5.5 %

REVENUE. Total revenue increased $57.1 million, or 9.4%, to $663.6 million for the year ended December 31, 1999 from $606.5 million for 1998. The increase was principally due to a 23.1% increase in Loyalty and Database Marketing Services revenue, a 5.2% increase in Transaction Services revenue and a 2.2% increase in Credit Services revenue as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $19.0 million, or 5.2%, due to an increase in the number of transactions processed and statements generated, partially offset by a decrease in the average price per transaction. Fees related to servicing of private label credit

card statements increased $11.9 million during the year ended December 31, 1999 over 1998 due to the following: an 11.7% increase in price per statement, a $4.5 million termination fee from a client and a 1.5% increase in the number of statements. The increase in the number of private label credit card statements processed was due primarily to the addition of new client programs and internal growth. The volume of transactions processed increased 13.8% offset by a decrease in price per transaction processed. The revenue for Transaction Services is affected by a mix of transaction processing and card processing and servicing.

- CREDIT SERVICES. Credit Services revenue increased $5.4 million, or 2.2%, due to increases in merchant and servicing fees and finance charge, net. Merchant fee income increased $2.5 million, or 3.9%, due to a 2.7% increase in credit sales on our private label credit cards. Additionally, servicing fee income increased by $3.1 million, or 10.1%, during 1999 due to an increase in the average outstanding credit card receivables in the securitization trust. Finance charge, net increased $600,000 during the year ended December 31, 1999 over 1998. We recognized a $16.2 million gain on sale of receivables during the year ended December 31, 1998 related to the timing of two securitization transactions with no comparable securitization transactions in 1999. Excess spread income increased 13.5% during the year ended December 31, 1999 over 1998 as a result of a 4.6% higher average outstanding securitized portfolio and an approximate 75 basis point increase in yield.

- LOYALTY AND DATABASE MARKETING SERVICES. Loyalty and Database Marketing Services revenue increased $36.5 million, or 23.1%, mainly due to an increase of approximately $27.5 million in Air Miles reward program revenue, which was principally due to an 11.4% increase in the issuance of Air Miles reward miles and an increase in revenue per Air Miles reward mile issued. We issued 1.6 billion Air Miles reward miles during the year ended December 31, 1999 compared to 1.4 billion Air Miles reward miles during 1998. The increase in Air Miles activity is due to a 15.7% increase in the average number of active collectors, partially offset by the loss of a significant sponsor at the end of 1998. Other increases are related to higher direct marketing fees during 1999 over 1998 as a result of an increased number of campaigns for clients, mostly related to Loyalty clients.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $45.4 million, or 9.0%, to $555.3 million for the year ended December 31, 1999 from $509.9 million for 1998. Total EBITDA margin increased to 16.3% for the year ended December 31, 1999 from 15.9% for the comparable period in 1998. The increase in EBITDA margin is due to an increase in Transaction Services margin, partially offset by decreases in Loyalty and Database Marketing Services and Credit Services margins.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $8.8 million, or 2.5%, to $362.1 million for the year ended December 31, 1999 from $353.3 million for 1998, and EBITDA margin increased to 6.4% for the year ended December 31, 1999 from 3.9% during 1998 partially due to a one-time termination fee received from a client and due to an increase in the higher margin card processing and servicing products.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $13.5 million, or 7.2%, to $201.7 million for the year ended December 31, 1999 from $188.2 million for 1998, and EBITDA margin decreased to 18.6% for the year ended December 31, 1999 from 22.4% for 1998 due to the timing of a $16.2 million gain on sale of receivables in 1998 related to the timing of two securitization transactions with no comparable securitization transactions in 1999.

- LOYALTY AND DATABASE MARKETING SERVICES. Loyalty and Database Marketing Services operating expenses, excluding depreciation and amortization, increased $27.0 million, or 20.8%, to

$157.1 million for the year ended December 31, 1999 from $130.1 million for 1998, and EBITDA margin increased to 19.2% for the year ended December 31, 1999 from 17.6% for 1998. The increased margin is a result of the increase in number of Air Miles reward miles issued partially offset by $3.3 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada during 1999.

- DEPRECIATION AND AMORTIZATION. Depreciation and other amortization increased $6.2 million, or 62.0%, to $16.2 million for the year ended December 31, 1999 from $10.0 million for 1998 due to increases in capital expenditures in 1998 and 1999, especially software development costs that have short amortization periods. Amortization of purchased intangibles decreased $13.9 million as a result of the expiration of intangibles related to the former J.C. Penney business which were fully amortized.

OPERATING INCOME. Operating income increased $19.4 million, or 114.1%, to $36.4 million for the year ended December 31, 1999 from $17.0 million for 1998. Operating income increased as the result of revenue gains, improved margins and reduced depreciation and amortization.

INTEREST EXPENSE. Interest expense increased $4.3 million, or 11.2%, to $42.8 million for the year ended December 31, 1999 from $38.5 million for 1998 due to increased borrowings for acquisitions and operations.

TAXES. Our effective tax rate before non-deductible goodwill amortization for the years ended December 31, 1998 and 1999 was 51.6% and 46.7%, respectively.

DISCONTINUED OPERATIONS. During September 1999, we discontinued our subscriber services business when a major customer was acquired by a third party. As a result of discontinuing our subscriber services, we recognized a loss of $3.7 million, net of income tax, on disposal of discontinued operations. For the year ended December 31, 1999, discontinued operations had income of $7.7 million, net of income tax, compared to a loss of $3.9 million during 1998. The difference is due to additional fees we received in connection with services performed for the customer upon termination of its contract.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant, database and direct marketing fees, increased $6.1 million, or 10.4%, to $64.1 million for the year ended December 31, 1999 from $58.0 million for 1998. The increase was primarily the result of increased volume of credit card receivables, credit sales and statements generated.

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

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

	HISTORICAL FISCAL PERIODS					
	REVENUE		EBITDA		OPERATING INCOME	
	1998	1999	1998	1999	1998	1999
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 286,605	$ 362,524	$13,621	$ 20,584	$(11,798)	$ (8,229)
Credit Services	212,663	247,824	39,396	46,124	36,192	42,840
Loyalty and Database Marketing Services	84,288	194,482	15,815	37,351	1,847	3,488
Other and eliminations	(149,247)	(165,576)	--	--	--	--
Total	$ 434,309	$ 639,254	$68,832	$104,059	$ 26,241	$ 38,099

	HISTORICAL FISCAL PERIODS					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING MARGIN	
	1998	1999	1998	1999	1998	1999
Transaction Services	66.0 %	56.7 %	4.8%	5.6%	(4.1)%	(2.2)%
Credit Services	49.0	38.8	18.5	18.6	17.0	17.3
Loyalty and Database Marketing Services	19.4	30.4	18.8	19.2	2.2	1.8
Other and eliminations	(34.4)	(25.9)	--	--	--	--
Total	100.0 %	100.0 %	15.8%	16.3%	6.0 %	6.0 %

REVENUE. Total revenue increased $204.9 million, or 47.2%, to $639.3 million for fiscal 1999 from $434.3 million during fiscal 1998. The increase was principally due to a 26.5% increase in Transaction Services revenue, a 16.5% increase in Credit Services revenue and a 130.7% increase in Loyalty and Database Marketing Services revenue as follows:

- TRANSACTION SERVICES. Transaction Services revenue increased $75.9 million, or 26.5%, due to the acquisitions of Harmonic Systems in 1998 and SPS in 1999. Fees related to servicing of private label credit card statements increased $15.7 million during the year ended December 31, 1999 over 1998 due to the following: a 12.9% increase in price per statement, a $4.5 million termination fee from a client and a 7.8% increase in the number of statements. The revenue for transaction processing increased 52.7% mainly due to acquisition activity and by fiscal 1998 being one month shorter offset by a decrease in average price per transaction.

- CREDIT SERVICES. Credit Services revenue increased $35.2 million, or 16.5%, due to increases in merchant and servicing fees and finance charges, net. Merchant fee income increased $6.3 million, or 10.1%, due to a 9.3% increase in credit sales on our private label credit cards and fiscal 1998 being one month shorter. Additionally, servicing fee income increased by $5.8 million, or 20.9%, during 1999 due to an increase in average outstanding credit card receivables in the securitization trust and fiscal 1998 being one month shorter. Finance charge, net increased $22.7 million during the year ended December 31, 1999 over 1998. We recognized a $7.2 million gain on sale of receivables during the year ended December 31, 1998 related to the timing of a securitization transaction with no comparable securitization transaction in 1999.

- LOYALTY AND DATABASE MARKETING SERVICES. Loyalty and Database Marketing Services revenue increased $110.2 million, or 130.7%, due to the acquisition of Loyalty Management Group Canada Inc. on July 24, 1998. Revenue from February 1, 1998 until the date of acquisition was

approximately $62.6 million. The remaining increase is primarily related to an increase in Air Miles reward miles activity, which increased 11.4% on a pro forma basis in 1999 compared to 1998, and fiscal 1998 being one month shorter. From the date of acquisition through the remainder of 1998, we issued 647.4 million Air Miles reward miles, compared to 1,558.4 million Air Miles reward miles during the year ended December 31, 1999. The increase in Air Miles activity is primarily related to an increase in the number of reward miles collectors.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $169.7 million, or 46.4%, to $535.2 million during fiscal 1999 from $365.5 million during fiscal 1998. Total EBITDA margin increased 0.5% to 16.3% for fiscal 1999 from 15.8% for fiscal 1998. The increase in EBITDA margin is due to an increase in Credit Services, Loyalty and Database Marketing Services and Transaction Services margins.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $68.9 million, or 25.2%, to $341.9 million for fiscal 1999 from $273.0 million in fiscal 1998, and EBITDA margin increased to 5.6% for fiscal 1999 from 4.8% for fiscal 1998. The EBITDA margin increased due to the newly acquired SPS Network services business which carries a higher margin than the Company's historical processing business. Additionally, the margin increased due to a shift in the mix of business to higher margin card processing and servicing products.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, increased $28.4 million, or 16.4%, to $201.7 million for fiscal 1999 from $173.3 million for fiscal 1998, and EBITDA margin increased to 18.6% for fiscal 1999 from 18.5%. Fiscal 1998 includes a $7.2 million gain on sale of receivables in 1998 related to the timing of a securitization transaction with no comparable securitization transaction in 1999.

- LOYALTY AND DATABASE MARKETING SERVICES. Loyalty and Database Marketing Services operating expenses, excluding depreciation and amortization, increased $88.6 million, or 129.3%, to $157.1 million for fiscal 1999 from $68.5 million for fiscal 1998, and EBITDA margin increased to 19.2% for fiscal 1999 from 18.8% for fiscal 1998. The increased margin was partially offset by $3.3 million of marketing and payroll costs associated with the start-up of a new business-to-business loyalty program in Canada during 1999.

- DEPRECIATION AND AMORTIZATION. Depreciation and other amortization increased $7.9 million, or 95.7%, to $16.2 million for fiscal 1999 from $8.3 million for fiscal 1998 due to increases in capital expenditures in 1998 and 1999, especially software development costs that have short amortization periods. Amortization of purchased intangibles increased $15.5 million as a result of recent acquisitions, partially offset by a decrease in amortization expense for some of the intangibles related to the acquisition of the former J.C. Penney business which were fully amortized.

OPERATING INCOME. Operating income increased $11.9 million, or 45.4%, to $38.1 million for fiscal 1999 from $26.2 million during fiscal 1998. Operating income improved primarily from revenue gains offset by a slightly lower margin and increased depreciation and amortization.

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

TAXES. Our effective tax rate before non-deductible goodwill for fiscal 1998 and fiscal 1999 was 47.3% and 47.2%, respectively.

DISCONTINUED OPERATIONS. During September 1999, we discontinued our subscriber services business when a major customer was acquired by a third party. As a result of discontinuing our

subscriber services, we recognized a loss of $3.7 million, net of income tax, on disposal of discontinued operations. For fiscal 1999, discontinued operations had income of $7.7 million, net of income tax, compared to a loss of $300,000 during fiscal 1998. The difference is largely related to additional fees we received in connection with services performed for the customer upon termination of its contract.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant, database and direct marketing fees, increased $9.3 million, or 17.0%, to $64.1 million for the year ended December 31, 1999 from $54.8 million for fiscal 1998. The increase was primarily the result of increased volume of credit card receivables, credit sales and statements generated.

HISTORICAL ELEVEN MONTHS ENDED DECEMBER 31, 1998 (FISCAL 1998) COMPARED TO HISTORICAL 52 WEEKS ENDED JANUARY 31, 1998 (FISCAL 1997)

Due to the change in our fiscal year, fiscal 1998 is one month shorter than fiscal 1997.

	HISTORICAL FISCAL PERIODS					
	REVENUE		EBITDA		OPERATING INCOME	
	1997	1998	1997	1998	1997	1998
	(AMOUNTS IN THOUSANDS)					
Transaction Services	$ 256,730	$ 286,605	$27,146	$ 13,621	$ 3,713	$(11,798)
Credit Services	211,921	212,663	29,349	39,396	26,319	36,192
Loyalty and Database Marketing Services	23,348	84,288	8,457	15,815	8,457	1,847
Other and eliminations	(138,600)	(149,247)	--	--	--	--
Total	$ 353,399	$ 434,309	$64,952	$ 68,832	$38,489	$ 26,241

	HISTORICAL FISCAL PERIODS					
	PERCENTAGE OF REVENUE		EBITDA MARGIN		OPERATING INCOME	
	1997	1998	1997	1998	1997	1998
Transaction Services	72.6 %	66.0 %	10.6%	4.8%	1.5%	(4.1)%
Credit Services	60.0	49.0	13.8	18.6	12.4	17.0
Loyalty and Database Marketing Services	6.6	19.4	36.2	18.8	36.2	2.2
Other and eliminations	(39.2)	(34.4)	--	--	--	--
Total	100.0 %	100.0 %	18.4%	15.8%	10.9%	6.0 %

REVENUE. Total revenue increased $80.9 million, or 22.9%, to $434.3 million for fiscal 1998 from $353.4 million in fiscal 1997. The increase was principally due to a 261.0% increase in Loyalty and Database Marketing Services revenue, a 11.6% increase in Transaction Services revenue and a 0.4% increase in Credit Services revenue.

- TRANSACTION SERVICES. Transaction Services revenue increased $29.9 million, or 11.6%, due partially to the effect of the acquisition of Harmonic Systems in 1998. Revenue increased in fiscal 1998 relating to servicing of private label credit card statements and network servicing by $11.1 million due to a 15.5% increase in items processed, offset partially by a reduction of transaction fee rates, and a 4.9% increase in statements processed. Additionally, growth was provided by a $12.4 million increase in servicing and processing of our private label credit card portfolio.

- CREDIT SERVICES. Credit Services revenue increased $742,000, or 0.4%, due to increased merchant fee income, partially offset by a decrease in finance charge income. Merchant fee income increased in fiscal 1998 due to a 14.0% increase in cardholders and a 10% increase in merchant

fee rates. Finance charge income decreased due to the shorter period in fiscal 1998 and a $2.0 million decrease in gain on sale of receivables, offset in part by an increase in card balances.

- LOYALTY AND DATABASE MARKETING SERVICES. Loyalty and Database Marketing Services revenue increased $60.9 million, or 261.0%, mainly due to the acquisition of Loyalty in July 1998. Loyalty contributed approximately $60.0 million in revenue for fiscal 1998. Growth in database marketing fees of approximately $3.0 million during fiscal 1998 was offset by decreases in enhancement services due to the shorter period in fiscal 1998.

OPERATING EXPENSES. Total operating expenses, excluding depreciation and amortization, increased $77.1 million, or 26.7%, to $365.5 million during fiscal 1998 from $288.4 million in fiscal 1997. Total EBITDA margin decreased 2.6% to 15.8% for fiscal 1998 from 18.4% for fiscal 1997. The decrease in EBITDA margin is due to decreases in Loyalty and Database Marketing Services and Transaction Services margins, partially offset by an increase in Credit Services margin.

- TRANSACTION SERVICES. Transaction Services operating expenses, excluding depreciation and amortization, increased $43.4 million, or 18.9%, to $273.0 million in fiscal 1998 from $229.6 million in fiscal 1997, and EBITDA margin decreased to 4.8% for fiscal 1998 from 10.6% for fiscal 1997 due to the acquisition of Harmonic Systems, which incurred an operating loss in fiscal 1998.

- CREDIT SERVICES. Credit Services operating expenses, excluding depreciation and amortization, decreased $9.3 million, or 5.1%, to $173.3 million in fiscal 1998 from $182.6 million in fiscal 1997 due primarily to fiscal 1998 being a shorter period. EBITDA margin increased to 18.5% from 13.8% for fiscal 1997 due to a decrease in processing expenses.

- LOYALTY AND DATABASE MARKETING SERVICES. Loyalty and Database Marketing Services operating expenses, excluding depreciation and amortization, increased $53.6 million, or 359.8%, to $68.5 million in fiscal 1998 from $14.9 million in fiscal 1997, and EBITDA margin decreased to 18.8% for fiscal 1998 from 36.2% for fiscal 1997 due to the acquisition of Loyalty. The largest component of the increased expense is related to the estimated redemption cost of the Air Miles reward program and payroll costs associated with Loyalty.

- DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased $16.1 million, or 60.9%, to $42.6 million for fiscal 1998 from $26.5 million for fiscal 1997 due to increased amortization of purchased intangibles from the recent acquisitions in fiscal 1998 offset in part by a shorter period in fiscal 1998.

OPERATING INCOME. Operating income decreased $12.3 million, or 31.8%, to $26.2 million for fiscal 1998 from $38.5 million for fiscal 1997. The decrease is the result of a shorter period, increased depreciation and amortization and a decline in margins.

INTEREST EXPENSE. Interest expense increased $12.4 million, or 80.0%, to $27.9 million for fiscal 1998 from $15.5 million for fiscal 1997 due to an increased debt balance associated with fiscal 1998 acquisitions.

TAXES. Our effective tax rate, before non-deductible goodwill, for fiscal 1998 was 43.4%, an increase of 36.6% compared to fiscal 1997.

TRANSACTIONS WITH THE LIMITED. Revenue from The Limited and its affiliates, which includes merchant, database and direct marketing fees, increased $1.7 million, or 3.2%, to $54.8 million for fiscal 1998 from $53.1 million for fiscal 1997. The increase is the result of increases in credit card receivables, credit sales, and statements generated.

ECONOMIC FLUCTUATIONS

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

Portions of our business are seasonal. Our revenues and earnings are favorably affected by increased transaction volume and credit card balances during the holiday shopping period in the fourth quarter and, to a lesser extent, during the first quarter as credit card balances are paid down. Similarly, our petroleum related businesses are favorably affected by increased volume in the latter part of the second quarter and the first part of the third quarter.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. We generated cash flow from operating activities of $251.6 million during the year ended December 31, 1999, compared to $4.5 million for fiscal 1998 and a cash outflow of $30.7 million for fiscal 1997. Operating cash flow in fiscal 1998 increased due to a significant pay down of trade receivables, and increased operating cash flows from Loyalty, offset by increased interest expense. Our operating cash flow is seasonal with cash utilization peaking at the end of December due to increased activity related to the holidays. We utilize our operating cash flow for ongoing business operations and to pay interest expense.

INVESTING ACTIVITIES. We used cash in investing activities of $309.5 million during the year ended December 31, 1999, compared to $140.5 million for the year ended December 31, 1998 and $103.7 million for the year ended December 31, 1997. Two significant components of investing activities have been acquisitions and receivables funding.

- ACQUISITIONS. Net cash outlays for acquisitions in the year ended December 31, 1999 totaled $171.4 million, compared to $134.0 million in 1998 and $716,000 for fiscal 1997.

- RECEIVABLES FUNDING. Another significant component of investing activity is the funding and securitizing of our private label credit card receivables. We generally fund all private label credit card receivables through a securitization program that provides us with both liquidity and lower borrowing costs. As of December 31, 1999, we had over $2.2 billion of credit card receivables outstanding under securitizations. Securitizations require credit enhancements in the form of cash, spread accounts and additional receivables. We intend to utilize our securitization program for the foreseeable future. We used net cash of $3.9 million during the year ended December 31, 1999, compared to receiving $22.6 million during fiscal 1998 $289.5 million during fiscal 1997, to fund private label credit card receivables.

- Restricted cash and cash equivalents and securities available-for-sale on our balance sheet at December 31, 1999 relate to a reserve fund we have established in connection with the Air Miles reward program. The reserve fund is maintained to fund redemptions of Air Miles reward miles from collectors. We believe the reserve fund is sufficient to meet redemption obligations for the foreseeable future. We currently intend to set aside a portion of future transaction fees received to fund future redemption obligations. Based on various factors, we may reduce the amount of the reserve fund and utilize future cash flows and excess cash for general corporate purposes.

FINANCING ACTIVITIES. Net cash payments on borrowings was $44.8 million in the year ended December 31, 1999, compared to net borrowings of $56.2 million in fiscal 1998 and $104.8 million in fiscal 1997. Our financing activities include primarily net borrowings used to fund acquisitions and working capital. We issued approximately $100.0 million of common stock to fund a portion of the Loyalty acquisition during fiscal 1998.

We issue certificates of deposit through our credit card bank subsidiary, World Financial, which issues $100,000 certificates of deposit in various maturities ranging between three months and two years and with effective annual fixed rates ranging from 5.35% to 6.85%. As of December 31, 1999, we had $116.9 million of certificates of deposit outstanding. We utilize certificates of deposit to finance World Financial's operating activities and to fund credit enhancement activity. World Financial is limited in the amounts that it can dividend to us.

In July 1998 we entered into a $330.0 million credit agreement consisting of a $130.0 million U.S. Term Loan, a $50.0 million Canadian A Term Loan and a $50.0 million Canadian B Term Loan, and a $100.0 million revolving loan commitment. The term loans and the revolving loan commitment are at a daily floating rate equal to the sum of the Euro-dollar margin plus the London Interbank Offered Rate applicable to the period for each Euro-dollar loan. Principal is payable annually, and interest is payable quarterly for the base rate loans and payable on the last day of the Euro-dollar loan period for each Euro-dollar loan. The U.S. Term Loan, the Canadian A Term Loan and the revolving loan commitment mature on July 25, 2003 and the Canadian B Term Loan matures on July 25, 2005. We use the $100.0 million revolving loan commitment for general corporate purposes. From mid-November to late January, we experience increased needs for working capital due to the increased card usage during the holiday season. For additional credit enhancement during this period, our securitization program requires us to maintain a higher percentage of securitized assets through increased seller's interest or excess funding deposits. During 1999, the highest outstanding balance on the revolving loan commitment was $50.0 million. As of December 31, 1999, there was no amount outstanding under the revolving loan commitment.

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

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

The net proceeds from this offering will be approximately $282.0 million. We intend to use the net proceeds to pay down debt of $222.4 million: $102.0 million in subordinated notes and $120.4 million outstanding under our Credit Facility. Following the repayment of the $222.4 million in debt, we will record an extraordinary loss on early extinguishment of debt of between approximately $4.0 million and $5.3 million, net of tax. We expect to use the remaining $282.0 million of the net proceeds for working capital and general corporate purposes.

We are amending our current credit agreement to allow us to maintain our current borrowing capacity and re-pay the subordinated notes. A portion of the net proceeds and funds available under our amended credit agreement may be used to acquire or invest in complementary businesses, technologies, products or services or to invest in geographic expansion. Although we are not contemplating any specific acquisitions at this time and no portion of the net proceeds has been allocated for any acquisition, we evaluate acquisition opportunities on an ongoing basis. We anticipate that funds available under the amended credit agreement will be subject to covenants, and we cannot assure you that the funds required to complete future acquisitions will be available to us when needed. In addition, no assurances can be given that the amended credit agreement will be consummated on terms described herein or at all.

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

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

Quantitative measures established by regulation to ensure capital adequacy require World Financial to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets and of Tier 1 capital to average assets. Under the regulations, a "well capitalized" institution must have a Tier 1 capital ratio of at least six percent, a total capital ratio of at least 10 percent and a leverage ratio of at least five percent and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least four percent, a total capital ratio of at least eight percent and a leverage ratio of at least four percent, but three percent is allowed in some cases. Under these guidelines, World Financial is considered well capitalized. As of December 31, 1999, World Financial's Tier 1 capital ratio was 50.0%, total capital ratio was 51.0% and leverage ratio was 49.1%, and World Financial was not subject to a capital directive order.

YEAR 2000

We expense our costs related to the year 2000 compliance efforts as incurred. Our costs related to year 2000 compliance efforts totalled approximately $7.0 million in each of fiscal 1998 and fiscal 1999. As of December 31, 1999, our estimated aggregate costs to date for year 2000 compliance efforts totalled approximately $14.0 million. We do not anticipate incurring additional costs related to year 2000 compliance.

MARKET RISK

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

OFF-BALANCE SHEET RISK.

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

INTEREST RATE RISK

Interest rate risk affects us directly in our lending and borrowing activities. For the year ended December 31, 1999, our total interest expense was approximately $148.0 million, $42.8 million of which

was attributable to on-balance sheet indebtedness and the remainder of which was attributable to our securitized credit card receivables which are financed off-balance sheet. To manage our direct risk from market interest rates, we actively monitor the interest rates and the interest-sensitive components both on and off-balance sheet to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. To achieve this objective, we manage our exposure to fluctuations in market interest rates by matching asset and liability repricings and through the use of fixed-rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. In addition, we may enter into derivative financial instruments such as interest rate swaps, caps and treasury locks to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes. Approximately 10.5% of our outstanding debt was subject to fixed rates with a weighted average interest rate of 7.55% at December 31, 1999. An additional 72.0% of our outstanding debt at December 31, 1999 was effectively locked at an interest rate of 6.12% through interest rate swap agreements and treasury locks with notional amounts totalling $1.8 billion. We regularly review our interest rate exposure on outstanding borrowings in an effort to minimize the risk of interest rate fluctuations. We do not have any other significant market-sensitive financial instruments.

The approach we use to quantify interest rate risk is a sensitivity analysis which we believe best reflects the risk inherent in our business. This approach calculates the impact on pretax income from an instantaneous and sustained increase in interest rates of 1.0%. Assuming we do not take any counteractive measures, a 1.0% increase in interest rates would result in a decrease to pretax income of approximately $4.0 million. Conversely, a corresponding decrease in interest rates would result in a comparable improvement to pretax earnings. Our use of this methodology to quantify the market risk of financial instruments should not be construed as an endorsement of its accuracy or the accuracy of the related assumptions.

CREDIT RISK

We are exposed to credit risk relating to the credit card loans we make to consumers who shop in our client's stores or through their catalogs or Web sites. Our credit risk relates to the risk that a consumer using the private label credit cards that we issue will not repay their revolving credit card loan balance. We have developed credit risk models designed to identify qualified consumers who fit our risk parameters. To minimize our risk of loan write-off, we control approval rates of new accounts and related credit limits and follow strict collection practices. We monitor the buying limits as well as set pricing regarding fees and interest rates charged.

FOREIGN CURRENCY EXCHANGE RATE RISK

We are exposed to fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar through our operations in Canada. Although we have entered into cross currency hedges to fix the exchange rate on any Canadian debt repayment due to a U.S. counter party, we do not hedge our net investment exposure in our Canadian subsidiary.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments and for hedging activities, and requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133", which deferred the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. Adoption of SFAS No. 137 is not

anticipated to materially impact our consolidated results of operations or financial condition but may require recognition of derivative instruments on the consolidated balance sheet and will require revised disclosures in the notes to the consolidated financial statements.

DESCRIPTION OF OUR BUSINESS

GENERAL

We are a leading provider of electronic transaction services, credit services, and loyalty and database marketing services. We develop and execute programs designed to help our clients target, acquire and retain loyal, profitable customers. We create value for our clients by assisting them in managing their customer relationships. Specifically we:

- facilitate transactions between our clients and their customers through multiple channels including in-store, Internet and catalog;

- assist our clients in identifying and acquiring new customers; and

- increase the loyalty and profitability of our clients' existing customers.

Our services are applicable to the full spectrum of commerce opportunities involving companies that sell products and services to individual consumers. We currently target our service offerings to select market sectors, including specialty retailers, petroleum retailers, supermarkets and financial services providers, as well as companies in market sectors with rapidly evolving electronic payment and customer management needs such as mass transit, tollways, parking, and gas and electric utilities. Our client base of over 300 companies includes the retail affiliates of The Limited, including Victoria's Secret, Express, Lane Bryant and Structure, Equiva Services, LLC, which is the service provider to Shell branded locations in the U.S., Canada Safeway, Brylane and CITGO.

We market and sell our service offerings on both a stand-alone and bundled basis. Our products and services are centered around three core offerings--Transaction Services, Credit Services and Loyalty and Database Marketing Services.

TRANSACTION SERVICES	CREDIT SERVICES	LOYALTY AND DATABASE MARKETING SERVICES
- Transaction Processing	- Underwriting	- Loyalty Programs
- Network Services	- Risk Management	- Private Label Cards
- Bankcard Settlement		- Air Miles reward program
- Card Processing and Servicing		- One-to-One Loyalty
- Account Processing		- Database Marketing Services
- Billing and Payment Processing		- Direct Marketing
- Customer Care		- Enhancement Services

INDUSTRY DYNAMICS

The growing demand for integrated marketing solutions targeting consumers has been fueled by rapid development of new competitors and sales channels, intensifying competition for customers and an erosion of consumer brand loyalty. The Internet has accelerated these trends by providing consumers with almost instant access to a multitude of competing products and services without traveling to an actual store location. As a result, companies are looking for tools aimed at retaining existing customers as well as identifying and targeting new groups of potential customers through any or all distribution channels.

Companies increasingly seek services that compile and analyze customer purchasing behavior, enabling businesses to more effectively communicate with their customers. The continuing shift to electronic payment systems, namely credit, debit, stored value and prepaid cards, generates highly valuable information on individual consumers and their purchasing preferences, while the dramatic proliferation of computer technology has enabled companies to capture, access and use this information easily and almost instantaneously. However, many retailers lack the economies of scale and core competencies necessary to support their own transaction processing infrastructure and credit card

programs, including the extension of credit. In addition, many retailers seek to outsource the development and management of loyalty programs and database marketing services. Thus, companies that provide the infrastructure to create, manage and facilitate electronic payment systems can create a database of valuable information on the purchasing behavior of consumers that is critical for developing more targeted and effective marketing programs. For example, the use of private label credit cards creates an opportunity for retailers to strengthen consumer brand loyalty by encouraging repeat purchases through discounts and other special promotions.

We believe that in today's competitive economy, retailers will find an increasing need to differentiate their products and services from those of their competitors through comprehensive, innovative marketing strategies. These strategies will likely use technology to analyze and predict consumer behavior and to provide the information necessary to execute direct marketing and promotional campaigns more effectively to existing and potential customers.

STRATEGY AND OPPORTUNITIES FOR GROWTH

Our strategy is to become a critical component in our clients' success by helping them build loyal customer relationships. We will do this by continuing to build and enhance our consumer databases, marketing capabilities and processing efficiencies to help improve our clients' relationships with their customers. To execute this strategy we intend to:

INCREASE THE PENETRATION OF PRODUCTS AND SERVICES WE PROVIDE TO OUR EXISTING CLIENT BASE. We plan to further increase the number and types of products and services we provide to our existing client base with a focus on loyalty and database services.

EXPAND OUR CLIENT BASE IN EXISTING MARKET SECTORS, INCLUDING POTENTIAL GEOGRAPHIC EXPANSION. We plan to acquire new clients in our traditional markets by continuing to distinguish ourselves as a provider of customer relationship management solutions. We will further benefit by what we believe will be a continued trend toward outsourcing as our existing clients and potential new clients have increasing needs for new technology and new skill sets. As retailers continue to search for the tools to increase loyal, profitable customer relationships, we believe that our integrated and comprehensive offering of loyalty and database marketing services and transaction processing services will appeal to retailers, including e-commerce businesses, faced with increasing competition and decreasing profit margins.

CONTINUE TO EXPAND OUR SERVICES AND CAPABILITIES TO HELP OUR CLIENTS SUCCEED IN MULTI-CHANNEL COMMERCE. We plan to help our clients be successful in all channels they choose for distribution--whether in-store, catalog or the Internet. Our current client base is predominantly traditional store front and catalog-based retailers. However, our clients recognize the importance of using the Internet as an additional distribution channel. We can apply the systems and marketing programs we have built to support our store and catalog clients using the Internet. As an added benefit we believe our private label credit card system provides additional protection against fraud. Our vision is to provide our clients with a comprehensive view of each customer across all distribution channels and to utilize this information to execute direct marketing programs through multiple distribution channels.

CONSIDER FOCUSED, STRATEGIC ACQUISITIONS AND ALLIANCES TO ENHANCE OUR CORE CAPABILITIES OR INCREASE OUR SCALE. As we identify new opportunities or product gaps, we may consider focused acquisitions and alliances to enhance our competencies or increase our scale.

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

TRANSACTION SERVICES

Effectively managing critical interactions with customers is required to conduct everyday business--whether the business involves store, catalog or Internet commerce. Our services include instantaneous authorizations, effective customer care, efficient payment processing and billing services. By fully integrating our transaction services with our loyalty and database marketing services, we are able to execute more effective customer acquisition and retention strategies for our clients. Our clients within this segment are made up primarily of specialty retailers and petroleum retailers.

TRANSACTION PROCESSING. We are a leading provider of electronic transaction services, ranked fourth in transaction volume, on a pro forma basis, according to the Faulkner and Gray Card Industry 2000 report. On a pro forma basis for recent acquisitions, we processed more than 2.1 billion transactions through 135,000 point of sale terminals during 1999. We believe we are the largest transaction processor to the retail petroleum industry and we have a significant presence in the specialty retail and transportation industries.

NETWORK SERVICES. We have built a fast and highly reliable network that enables us to process all electronic payment types including credit card, debit card, prepaid card, electronic benefits and fleet and check transactions. Our recent acquisition of the network transaction processing business of SPS, has enabled us to offer our existing products to new market segments as well as provide additional products to existing clients. The network services we provide include authorization, data capture and financial settlement of transactions. We also provide merchants with on-line, two-way mail messaging that allows our clients to improve communications with their individual locations by broadcasting and receiving messages through their terminal devices. We support our clients with a comprehensive help desk, operating 24 hours per day and seven days per week, as well as terminal deployment and servicing.

We are one of the leaders in delivering new applications at the point-of-sale, including video and audio electronic frequency and loyalty programs, instant credit applications, and transponder and radio frequency payment devices. We are active participants in establishing industry point-of-sale standards.

MERCHANT BANKING SERVICES. Our merchant banking services include fast and accurate financial settlement of MasterCard, Visa, Discover, American Express and other electronic card transactions, including credit, debit and stored value cards. By providing merchant banking services, we offer our clients the flexibility to maintain their current settlement provider or to streamline their end-to-end transaction processing with one provider. The merchant banking services we provide also include daily deposit verification and accounting reports.

CARDHOLDER PROCESSING AND SERVICING. As reported in the Faulkner & Gray Card Industry 2000 report, we were the second largest outsourcer of retail private label card programs in the U.S. in 1998, with 57 million accounts on file. We assist clients in issuing credit cards branded with the retailer's name or logo that can be used by customers at the client's store locations. We also provide service and maintenance to our clients' private label card programs and can assist our clients in acquiring, retaining and managing valuable repeat customers. Our commercial card processing and servicing capabilities are specifically designed to handle the unique requirements associated with providing a credit card program to businesses. Our services include new account processing, risk management, card embossing, credit authorization, statement and invoice printing and mailing, and customer service.

ACCOUNT PROCESSING. We have developed a proprietary credit card system designed specifically for retailers that offers significant flexibility in processing accounts. We are able to make changes to accommodate our clients' specific needs easily and quickly. We have also built into the system marketing tools to assist our clients in increasing sales. Customer service screens have prompts that, based on information from our client and the private label card program, direct the customer service representative to extend a promotional message. We also provide credit card production services in a secured environment, embossing 9.7 million new cards in 1999.

CUSTOMER CARE. Our retail heritage lies at the core of our culture and is evident in our customer care operations. We answer calls in an average of eight seconds, approximately 12 seconds faster than the industry average. We focus our training programs in all areas on achieving the highest possible standards. We monitor our performance by conducting cardholder and store employee surveys. We have over 5,000 call center seats in 12 locations, handling over 95 million customer inquiries in 1999. Our call centers are equipped to handle phone, mail, fax and Internet inquiries. We also provide collection activities to support our retail private label programs, where we demonstrate our merchant mentality in our approach to maintaining the customer relationship, within reasonable parameters, even when charge privileges have been suspended.

BILLING AND PAYMENT PROCESSING. We use highly automated technology for bill preparation, printing and mailing. Comingling statements, presorting and bar coding allow us to take advantage of postal discounts. In 1999, we generated approximately 132.8 million statements on behalf of our clients. In addition, we also process cardholder remittances using state-of-the-art technology to maximize efficiency. By doing so, we can improve the funds availability for both our clients and for those private label receivables that we own or securitize.

CREDIT SERVICES

We have demonstrated to many of our existing clients that a private label credit card is one of the most effective loyalty and marketing tools available. Through World Financial, we offer our clients the experience and flexibility to provide a funding vehicle for credit card receivables. This service appeals to those clients that choose to focus their financial and operational resources on their core operations and prefer a single-source integrated solution. As part of this service, we currently provide underwriting and risk management services to 46 of our 49 private label credit card clients, representing 52.6 million cardholders and $2.2 billion of receivables as of December 31, 1999. Tracing back to our predecessor company, we have gained significant experience and expertise in successfully managing private label portfolios since 1986. During November 1996, we acquired an approximate $370.0 million private label portfolio for $414.0 million. During 1999, we purchased approximately $32.0 million in private label portfolios for $33.8 million. Our Credit Services segment provides underwriting, risk management and fraud prevention services. Clients who use this service are predominantly specialty retailers.

ACCOUNT UNDERWRITING AND CREDIT GUIDELINES. Our underwriting process involves the purchase of credit bureau information for each credit applicant. We obtain a credit report from one of the major credit bureaus based on the applicant's mailing address and the perceived strength of each credit bureau in that geographic region. The initial credit evaluation process uses one of our six proprietary scorecards that have been refined to reflect performance of the various retail programs. The scorecards are continuously validated, monitored and maintained and the resulting data is used to ensure optimal risk performance.

RISK MANAGEMENT. We monitor and control the quality of our portfolio by using behavioral scoring models to score each active account on its monthly cycle date. The behavioral scoring models dynamically evaluate credit limit assignments to determine whether or not credit limits should be increased, decreased or maintained and to establish pricing on fees based on the credit worthiness of the individual cardholder. Our proprietary scoring models consider such factors as how long the

account has been on file, credit utilization, shopping patterns and trends, payment history and account delinquency.

DELINQUENCY AND COLLECTIONS PROCEDURES. We consider an account delinquent if the minimum payment due is not received by the billing due date. At that time, we give the account a status of 30 days delinquent. Under current policies, we print a message requesting payment on a consumer cardholder's billing statement after a scheduled payment has been missed. After an account becomes 30 days past due, a proprietary collection scoring algorithm system automatically scores the risk of the account rolling to a more delinquent status. The collection system then assigns a collection strategy to the account based on the collection score and account balance. The strategy dictates the contact schedule and collections priority for the account. Using these procedures helps us improve our collection efforts. If we are unable to make a collection after exhausting all in-house efforts, we engage collection agencies and outside attorneys to continue those efforts.

LOYALTY AND DATABASE MARKETING SERVICES

Our clients are focused on targeting, acquiring and retaining loyal and profitable customers. We create and manage loyalty programs that have successfully resulted in securing more frequent and sustained customer purchasing. Our loyalty programs include private label cards, the Air Miles reward program and one-to-one loyalty. We utilize the information and knowledge gathered through our loyalty programs to help our clients design and implement effective marketing programs. Our clients within this segment are specialty retailers, petroleum retailers, supermarkets and financial service providers.

PRIVATE LABEL CARDS. We have demonstrated to our clients that a private label credit card can be one of the most effective loyalty and marketing tools available. By providing a program that has meaningful benefits to the customer, we can assist the retailer in strengthening its relationship with the customer. Our experience indicates that long-term, retail card customers typically remain more loyal to the retailer than general purpose users, both in the number of visits to the retail establishment and the amount spent per visit. With our integrated marketing tools, we can quantify the value of the retail card customer for our clients. Additionally, our private label programs can be further enhanced by our database marketing services that enable us to capture item-level transaction data that is used to enhance communications with customers and create successful customer relationship management strategies, such as targeted promotions and cross-selling opportunities.

AIR MILES REWARD PROGRAM. In Canada, we operate what we believe to be the largest loyalty program in Canada, where a wide variety of sponsors participate. This program, marketed under the Air Miles brand name, enables consumers to earn Air Miles reward miles as they shop across a range of retailers and other sponsors participating in the Air Miles reward program. The program has over 100 brand names represented by the program sponsors, including Shell Canada, Canada Safeway, Amex Bank of Canada (American Express), Bank of Montreal, Goodyear Canada and A&P Canada. Air Miles reward miles collectors can redeem reward miles for products and services such as plane tickets, gift certificates for groceries, movie and theater tickets, and free long distance phone calls, among others. We make these reward opportunities available through over 130 rewards suppliers, including the Toronto Blue Jays, Marine Land, A&P Canada and Canadian Airlines. The Air Miles reward program has enabled sponsors to use this tool to effectively increase revenues by bringing new customers to the sponsor, retaining existing customers and increasing the amount spent by all customers. Based upon the most recent census data available, in 1999 our active participants represented over 55% of all Canadian households. We have issued over six billion Air Miles reward miles since the program's inception in 1992.

We have evaluated the creation of a similar loyalty program in the U.S. Because of the significant funding requirements to establish such a program, we have decided not to pursue the program. Our

existing stockholders have decided to pursue the program through a separate company called U.S. Loyalty Corp., which they will fund. We will not have any ownership interest in U.S. Loyalty Corp. We intend to provide various services including management support, accounting, transaction processing, data processing and marketing services for U.S. Loyalty Corp. under various agreements that we plan to enter into with U.S. Loyalty Corp. prior to this offering. We contemplate that such agreements will include a management agreement, an employee lease agreement, a processing agreement and a royalty agreement. Under the royalty agreement, we will enable U.S. Loyalty Corp. to use the Air Miles brand and business concept in the United States.

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

DATABASE MARKETING SERVICES. We have built and manage a massive database containing information on approximately 60 million U.S. consumers and 6.1 million Canadian households. Through these databases we have developed a suite of data mining and profiling products that enable our clients to better understand their customers and aim their marketing dollars toward the optimum opportunities for developing customer relationships. We use marketing databases to assist our clients in predicting, analyzing and targeting their customers' buying patterns. Our U.S. consumer database contains nearly four years of purchase information on approximately 30% of the adult population, as well as details and results of marketing programs conducted over the last four years.

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

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

- SMART STATEMENTS. Through our Smart Statement capabilities, we have transformed the traditional billing statement into a powerful marketing tool by targeting individual customers with billing statements that contain personalized messages. Additionally, we can promote to small, specially defined groups of the customer base to cross-sell specific products and services. Additionally, our "smart insert" function allows us to insert for each group a specific incentive or coupon into the statement.

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

ENHANCEMENT SERVICES. We develop programs designed to maintain active customers while generating new revenue streams for our clients by cross selling products and services to their existing customers. Services include sourcing, promoting and fulfillment of products. These products are non-competitive with the clients' merchandise offering and include merchandise, travel clubs and credit life insurance programs.

ASSET QUALITY

We securitize substantially all of the credit card receivables that we underwrite. As of December 31, 1999, we had $29.8 million of credit card receivables that had not been securitized. Our delinquency and net credit card receivable charge-off rates at any point in time reflect, among other factors, the credit risk of credit card receivables, the average age of our various credit card account portfolios, the success of our collection and recovery efforts, and general economic conditions. The average age of our credit card portfolio affects the stability of delinquency and loss rates of the portfolio. We continue to focus our resources on refining our credit underwriting standards for new accounts, and on collections and post charge-off recovery efforts to minimize net losses. At December 31, 1999, 20.6% of securitized accounts and 38.1% of securitized loans were less than 24 months old. Accordingly, we believe that our loan portfolio will experience increasing or fluctuating levels of delinquency and loan losses as the average age of our accounts increases.

This trend is reflected in the change in our net charge-off ratio. For the year ended December 31, 1999, our securitized net charge-off ratio on a annualized basis was 7.2% compared to 7.1% for fiscal 1998, and 8.3% for fiscal 1997. We believe, consistent with our statistical models and other credit analyses, that this rate will continue to fluctuate but generally rise over the next year.

Our strategy for managing credit card receivable losses consists of credit line management and customer purchase authorizations. We further manage credit card receivable losses through the offering of credit lines which are generally lower than is currently standard in the industry. We continually manage individual accounts and their related credit lines using various marketing, credit and other management processes in order to continue to maximize the profitability of accounts.

DELINQUENCIES. Delinquencies not only have the potential to affect earnings in the form of net loan losses, but are also costly in terms of the personnel and other resources dedicated to their resolution. A credit card account is contractually delinquent if we do not receive the minimum payment by the specified due date on the cardholder's statement. It is our policy to continue to accrue interest and fee income on all credit card accounts, except in limited circumstances, until the account and all related loans, interest and other fees are charged off. The following table presents the delinquency trends of our credit card loan portfolio on a securitized basis:

	JANUARY 31, 1998	% OF TOTAL	DECEMBER 31, 1998	% OF TOTAL	DECEMBER 31, 1999	% OF TOTAL
Receivables outstanding	$2,021,599	100.0%	$2,135,340	100.0%	$2,232,375	100.0%
Loans contractually delinquent:						
31 to 60 days	62,663	3.1%	52,581	2.5	59,840	2.7
61 to 90 days	33,010	1.6%	29,925	1.4	35,394	1.6
91 or more days	50,312	2.5%	53,885	2.5	60,025	2.7
Total	$ 145,985	7.2%	$ 136,391	6.4%	$ 155,259	7.0%

The above numbers reflect the continued seasoning of our securitized loan portfolio. We intend to continue to focus our resources on our collection efforts to minimize the negative impact to net loan losses that results from increased delinquency levels.

NET CHARGE-OFFS. Net charge-offs include the principal amount of losses from cardholders unwilling or unable to pay their credit card balances, as well as bankrupt and deceased cardholders, less current period recoveries. Net charge-offs exclude accrued finance charges and fees. The following table presents our net charge-offs for the periods indicated on a securitized basis:

	FISCAL		
	1997	1998	1999
	(DOLLARS IN THOUSANDS)		
Average loans outstanding(1)	1,615,196	$1,905,927	$2,004,827
Net charge-offs	133,515	135,478	143,370
Net charge-offs as a percentage of average loans outstanding	8.3%	7.1%	7.2%

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(1) Average loans outstanding is the average of the securitized receivables at the beginning of each month in the period indicated.

AGE OF PORTFOLIO. The following table sets forth, as of December 31, 1999, the number of total accounts and amount of outstanding loans, based upon the age of the securitized accounts:

AGE SINCE ORIGINATION	NUMBER OF ACCOUNTS	PERCENTAGE OF ACCOUNTS	LOANS OUTSTANDING	PERCENTAGE OF LOANS OUTSTANDING
		(DOLLARS IN THOUSANDS)		
0-5 Months	3,452	5.7%	$274,946	12.3%
6-11 Months	2,830	4.7	197,485	8.8
12-17 Months	3,289	5.5	213,265	9.6
18-23 Months	2,813	4.7	164,034	7.4
24-35 Months	6,044	10.1	290,775	13.0
36+ Months	41,624	69.3	1,091,870	48.9
Total	60,052	100.0%	2,$232,375	100.0%

SAFEGUARDS TO OUR BUSINESS

DISASTER AND CONTINGENCY PLANNING. We have a number of safeguards to protect us from the risks we face as a business and as an industry. Given the significant amount of data that we manage, much of which is real-time data to support our clients' commerce initiatives, we have established redundant facilities for our data centers. We operate two data processing centers. In the event we experience an outage in one of our two data centers, we can move all processing to the other data center. Additionally, we have contracted with a third party to provide disaster and contingency planning in the event that both data centers experience an outage.

PROTECTION OF INTELLECTUAL PROPERTY AND OTHER PROPRIETARY RIGHTS. We rely on a combination of copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions and other similar measures to protect our proprietary information and technology. We do not currently hold any patents nor do we have any patent applications pending.

We generally enter into confidentiality or license agreements with our employees, consultants and corporate partners, and generally control access to and distribution of our technology, documentation and other proprietary information. Despite the efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain the use of our products or technology that we consider proprietary and third parties may attempt to develop similar technology independently. We pursue registration and protection of our trademarks primarily in the U.S. and Canada, although we do seek protection elsewhere in selected key markets. Effective protection of intellectual property rights may be unavailable or limited in some countries. The laws of some countries do not protect our proprietary rights to the same extent as in the U.S. and Canada.

COMPETITION

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

LOYALTY AND DATABASE MARKETING SERVICES. As a provider of loyalty and database marketing products and services, we generally compete with advertising and other promotional and loyalty programs, both traditional and online, for a portion of a client's total marketing budget. In addition, we compete against internally developed products and services created by our existing and potential clients. For each of our loyalty and database products and services, we expect competition to intensify as more competitors enter our market. In addition, new competitors with our Air Miles reward program may target our sponsors and reward miles collectors as well as draw rewards from our rewards suppliers. Our ability to generate significant revenue from clients and loyalty partners will depend on our ability to differentiate ourselves through the products and services we provide and the attractiveness of our loyalty and rewards programs to consumers. The continued attractiveness of our loyalty and rewards programs will depend in large part on our ability to remain affiliated with sponsors that are desirable to consumers and to offer rewards that are both attainable and attractive to consumers. Intensifying competition will make it more difficult for us to do this. For our database marketing services, our ability to continue to capture detailed transaction data on consumers is critical in providing effective customer relationship management strategies for our clients.

TRANSACTION SERVICES. The payment processing industry is highly competitive, especially among the five largest payment processors in the U.S., which processed approximately 14 billion transactions during 1998. On a pro forma basis for recent acquisitions, we would have been the fourth largest payment processor in the U.S., processing 2.1 billion transactions during 1999. Our top three competitors have built their businesses by focusing on merchant banking relationships, while our focus has been on industry segments characterized by companies with large customer bases, customer rich data and high transaction volumes. Our focus on specific market sectors allows us to develop and deliver solutions targeted to the needs of these sectors. This focus is consistent with our marketing strategy for all products and services. Additionally, we believe we effectively distinguish ourselves from other payment processors by providing solutions that help our clients leverage investments they have made in their payment systems by using these systems for electronic marketing programs.

CREDIT SERVICES. Within our Credit Services business, our competition consists primarily of financial institutions whose marketing focus has been on developing credit card programs with large revolving balances. Our competition further drives their businesses by cross selling their other financial products to their cardholders. Our focus has been on targeting retailers that understand the competitive advantage of developing loyal customers. Typically these retailers have customers that make more frequent and smaller transactions. This results in the effective capture of detail-rich data within our database marketing services, allowing us to mine and analyze this data to develop successful customer relationship management strategies for our clients.

As an issuer of private label credit cards, we compete with other card payment types, primarily general-purpose credit cards like Visa, MasterCard and American Express, as well as cash, checks and debit cards.

REGULATION

PRIVACY LEGISLATION. The enactment of legislation or industry regulations arising from public concern over consumer privacy issues could have a material adverse impact on our loyalty and database marketing services. Restrictions could be placed upon the collection and use of information, in which case our cost of collecting some kinds of data might be materially increased. Legislation or industry regulation could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our clients' expectations.

In November 1999, President Clinton signed into law the Gramm-Leach-Bliley Act, which requires financial institutions to comply with various notice procedures in order to disclose nonpublic personal information about their consumers to nonaffiliated third parties and restricts their ability to share account numbers. The requirements of this law also apply to the disclosure of any list, description or other grouping of consumers derived from nonpublic personal information. This law makes it more difficult to collect and use information that has been legally available and may increase our costs of collecting some data. This law could have a material adverse effect on our business, financial condition and operating results.

The Clinton Administration is investigating further administrative action in the area of privacy. In addition, Congress and a number of states are considering further privacy legislation. It is possible that new privacy protections will not be limited to financial institutions but could broadly apply to the activities of all companies.

The Canadian federal government and Minister of Industry of Canada are sponsoring comprehensive private sector privacy legislation that would apply to organizations engaged in any commercial activities in Canada. Because the legislation has government support, it will likely be enacted in the near term. If enacted as currently proposed, it would enact into law 10 privacy principles from the Canadian Standards Association's Model Privacy Code. The bill would also require organizations to obtain consent to the collection, use or disclosure of personal information. The nature of the required consent will depend on the sensitivity of the personal information and will permit personal information to be used only for the purposes for which it was collected. The Province of Quebec has had similar privacy legislation applicable to the private sector in that province since 1994 and other provinces are considering further privacy legislation.

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

Our objective is to conduct our operations in a manner that would fall outside the definition of consumer reporting agency under the Fair Credit Reporting Act. If we were deemed to be a consumer reporting agency, however, we would be subject to a number of complex and burdensome regulatory requirements and restrictions. These restrictions could have a significant adverse economic impact on us.

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

REGULATION OF THE BANK. World Financial is a limited purpose credit card bank chartered as a national banking association and a member of the Federal Reserve System. The Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation, insures the deposits of World Financial. World Financial is subject to regulation and examination by the Office of the Comptroller of the Currency, its primary regulator, and is also subject to regulation by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, as back-up regulators. World

Financial is not a "bank" as defined under the Bank Holding Company Act; instead, it is a credit card bank because it is in compliance with the following requirements:

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

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

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

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

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

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

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

COMPTROLLER OF THE CURRENCY

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

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

Quantitative measures established by regulation to ensure capital adequacy require World Financial to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets and of Tier 1 capital to average assets. Under the regulations, a "well capitalized" institution must have a Tier 1 captial ratio of at least six percent, a total capital ratio of at least 10 percent and a leverage ratio of at least five percent and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least four percent, a total capital ratio of at least eight percent and a leverage ratio of at least four percent, but three percent is allowed in some cases. Under these guidelines, World Financial is considered well capitalized. As of December 31, 1999, World Financial's Tier 1 capital ratio was 50.0%, total capital ratio was 51.0% and leverage ratio was 49.1%, and World Financial was not subject to a capital directive order.

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

FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT OF 1991. The Improvement Act requires the Federal Deposit Insurance Corporation to implement a system of risk-based premiums for deposit insurance. Pursuant to this system, the premiums paid by a depository institution will be based on the probability that the Federal Deposit Insurance Corporation will incur a loss in respect of that institution. The Federal Deposit Insurance Corporation has adopted a system that imposes insurance premiums based upon a matrix that takes into account a bank's capital level and supervisory rating. Due to its capital level and supervisory rating, World Financial currently pays the lowest rate on deposit insurance premiums.

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

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

For the purposes of the Office of the Comptroller of the Currency's Community Reinvestment Act Regulations, World Financial has applied for and received a limited purpose designation. The regulations subject banks receiving such a designation to a community development test for evaluating required Community Reinvestment Act compliance. The community development performance of a limited purpose bank is evaluated pursuant to various criteria involving qualified investments and community development services. As of December 31, 1999, World Financial had met its minimum responsibilities under the Act.

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

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

EMPLOYEES

As of December 31, 1999, we employed approximately 5,200 people in the U.S., Canada and New Zealand.

LEGAL PROCEEDINGS

From time to time, we are involved in various claims and lawsuits incidental to our business, including claims and lawsuits alleging breaches of contractual obligations. A breach of contract claim was filed against us in July 1999 by Service Merchandise, Inc. in U.S. Bankruptcy Court for the Middle District of Tennessee. Service Merchandise is in voluntary Chapter 11 bankruptcy and alleges that World Financial breached its contractual obligation by changing its underwriting standards for newly created credit card accounts, causing Service Merchandise to suspend performance under the agreement and subsequently to terminate it. Service Merchandise also alleged violations of various provisions of the U.S. Bankruptcy Code.

In December 1999, the Bankruptcy Court dismissed Service Merchandise's complaint for lack of standing. In February 2000, Service Merchandise and its non-bankrupt subsidiary, Service Corp., filed an amended complaint. The amended complaint again alleges that World Financial breached various contractual provisions by unilaterally revising the credit standards applicable to existing cardholders and withholding monthly program payments from provisions of the U.S. Bankruptcy Code. Alleged damages have not been specified. As of December 31, 1999, we had a balance of $115.4 million in credit card receivables related to the Service Merchandise agreement. We believe this suit is without merit and we intend to defend it vigorously. Although the outcome of this matter is undetermined, we do not believe that this will have a material adverse effect on our business, financial condition or operating results.

PROPERTIES

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

LOCATION	SEGMENT	CURRENT MONTHLY LEASE RATE	APPROXIMATE SQUARE FOOTAGE
Northglenn, Colorado.....	Transaction Services	$ 37,104	65,000
Buffalo Grove, Illinois.....	Transaction Services	$ 35,399	24,136
Lenexa, Kansas.....	Transaction Services	$ 45,244	65,000
Mission, Kansas.....	Transaction Services	$ 14,107	40,019
Minneapolis, Minnesota.....	Loyalty and Database Marketing Services and Transaction Services	$ 4,386	3,105
Minneapolis, Minnesota.....	Loyalty and Database Marketing Services and Transaction Services	$ 31,997	28,442
Voorhees, New Jersey.....	Transaction Services	$ 75, 431	67,050
Columbus, Ohio.....	Transaction Services	$ 36,536	103,161
Columbus, Ohio.....	Transaction Services and Credit Services	$ 69,407	100,800
Columbus, Ohio.....	Transaction Services	$ 14,400	57,600
Columbus, Ohio.....	Loyalty and Database Marketing Services, Transaction Services and Credit Services	$ 40,733	54,615
Columbus, Ohio.....	Transaction Services and Credit Services	$ 25,535	32,255
Columbus, Ohio.....	Loyalty and Database Marketing Services, Transaction Services and Credit Services	$ 10,820	39,951
Marietta, Ohio.....	Credit Services	$ 5,200	6,240
Gray, Tennessee.....	Transaction Services	$ 2,500	1,930
Dallas, Texas.....	Loyalty and Database Marketing Services and Transaction Services	$ 114,228	114,419
Dallas, Texas.....	Loyalty and Database Marketing Services, Transaction Services and Credit Services	$ 57,479	61,750
Dallas, Texas.....	Transaction Services	$ 18,224	72,897
San Antonio, Texas.....	Transaction Services	$ 47,692	67,540
Mississauga, Ontario, Canada.....	Loyalty and Database Marketing Services	$ 42,500	40,000
Toronto, Ontario, Canada....	Loyalty and Database Marketing Services	$ 81,492	91,534
Montreal, Quebec, Canada.....	Loyalty and Database Marketing Services	$ 3,125	5,000
Calgary, Alberta, Canada....	Loyalty and Database Marketing Services	$ 9,066	8,059
Auckland, New Zealand.....	Transaction Services	$ 12,041	11,700
Total.....		$ 834,646	1,162,203

LOCATION	LEASE EXPIRATION DATE
Northglenn, Colorado.....	August 31, 2007
Buffalo Grove, Illinois.....	February 29, 2010
Lenexa, Kansas.....	January 31, 2008
Mission, Kansas.....	June 30, 2000
Minneapolis, Minnesota.....	August 31, 2004
Minneapolis, Minnesota.....	August 31, 2004
Voorhees, New Jersey.....	January 1, 2005
Columbus, Ohio.....	January 31, 2008
Columbus, Ohio.....	January 25, 2001
Columbus, Ohio.....	August 31, 2004
Columbus, Ohio.....	August 31, 2007
Columbus, Ohio.....	August 31, 2007
Columbus, Ohio.....	August 31, 2002
Marietta, Ohio.....	April 30, 2000
Gray, Tennessee.....	November 14, 2000
Dallas, Texas.....	November 30, 2009
Dallas, Texas.....	July 31, 2007
Dallas, Texas.....	April 30, 2006
San Antonio, Texas.....	January 31, 2002
Mississauga, Ontario, Canada.....	August 31, 2009
Toronto, Ontario, Canada....	September 16, 2007
Montreal, Quebec, Canada.....	June 30, 2009
Calgary, Alberta, Canada....	December 31, 2004
Auckland, New Zealand.....	September 13, 2005
Total.....	

We recently signed an amendment to the lease for one of our properties in Dallas, Texas. The amendment provides for the construction and lease of an expansion building adjacent to one of our existing buildings. We expect the expansion building to be completed in October 2000. We believe our current and proposed facilities are suitable to our businesses and that we will be able to lease, purchase or newly construct additional facilities as needed.

The following table sets forth the name, age and positions of each of our executive officers, business unit presidents and directors as of December 31, 1999:

NAME	AGE	POSITION
J. Michael Parks	49	Chairman of the Board of Directors, Chief Executive Officer and President
Ivan Szeftel	46	Executive Vice President and President, Retail Credit Services
John Scullion	42	President and Chief Executive Officer, The Loyalty Group
Ronald G. Carter	48	Executive Vice President and President, Network Services
James E. Anderson	45	Executive Vice President and President, Utilities Services
Michael A. Beltz	44	Executive Vice President and President, Business Development and Planning
Edward K. Mims	50	Executive Vice President and Chief Financial Officer
Dwayne H. Tucker	43	Senior Vice President, Human Resources and Administration
Steven T. Walensky	42	Senior Vice President, Chief Information Officer
Robert P. Armiak	38	Vice President and Treasurer
Michael D. Kubic	44	Vice President, Corporate Controller and Chief Accounting Officer
Carolyn S. Melvin	46	Vice President, Secretary and General Counsel
Richard E. Schumacher, Jr	32	Vice President, Tax
Bruce K. Anderson	59	Director
Anthony J. deNicola	35	Director
Daniel P. Finkelman	44	Director
Robert A. Minicucci	47	Director
Bruce A. Soll	42	Director

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

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

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

RONALD G. CARTER, executive vice president and president of our Network Services business unit, joined us in February 1998. Before joining us, he served as president of BuyPass Corporation, the network services division of Concord EFS, Inc., from June 1995 to February 1998. Prior to BuyPass Corporation, he held positions at First Data Corporation from August 1992 to January 1995. Mr. Carter holds a Bachelor's degree from the University of Tulsa.

JAMES E. ANDERSON, executive vice president and president of our Utilities Services business unit, joined us in May 1997. Before joining us, he was employed from November 1985 to March 1997 by First Data Corporation, serving in various leadership capacities, the most recent of which was executive vice president bankcard services. He holds a Bachelor's degree from the University of Iowa and a Master's degree from National University.

MICHAEL A. BELTZ, executive vice president and president of business development and planning, joined us in May 1997. He is responsible for database marketing services, new market identification, corporate product development and marketing, acquisitions and strategic planning. Before joining us, he served as executive vice president of sales and acquisitions of First Data Corporation from July 1983 to April 1997. Mr. Beltz holds a Bachelor's degree from the University of Nebraska.

EDWARD K. MIMS, executive vice president and chief financial officer, joined us in February 1998. Before joining us, he had served as executive vice president and chief financial officer of Vidpro International Inc. from May 1997 to February 1998. Prior to that, he had served as executive vice president and chief financial officer of Comerica Bank--Texas from October 1983 to March 1997. He holds a Bachelor's degree from Southern Methodist University and is a Certified Public Accountant in the State of Texas.

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

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

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

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

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

RICHARD E. SCHUMACHER, JR., vice president of tax, joined us in October 1999. He is responsible for corporate tax affairs. Before joining us, he served as tax senior manager for Deloitte & Touche, LLP from 1989 to October 1999 where he was responsible for client tax services, practice management and was in the national tax practice serving the banking and financial services industry. Mr. Schumacher holds a Bachelor's degree from Ohio State University and a Master's from Capital University Law and Graduate School and is a Certified Public Accountant in the State of Ohio.

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

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

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

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

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

CLASSES OF BOARD OF DIRECTORS

Our certificate of incorporation authorizes there to be between six and 12 directors. Our board of directors currently consists of six members and we intend to designate three additional independent directors before consummation of this offering. Our board is divided into three classes that serve staggered three-year terms, as follows:

CLASS	EXPIRATION OF TERM	MEMBERS
Class I	2000	Anthony J. deNicola, Bruce A. Soll
Class II	2001	Bruce K. Anderson, Daniel P. Finkelman
Class III	2002	Robert A. Minicucci, J. Michael Parks

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

COMMITTEES OF THE BOARD OF DIRECTORS

Our full board of directors has fulfilled the function of an audit committee and compensation committee for the last fiscal year. Upon the consummation of this offering, our board of directors will establish an audit committee, a compensation committee and an executive committee.

The audit committee, which will consist of , and , will review the scope and approach of the annual audit, our annual financial statements and related auditors' report and the auditors' comments relative to the adequacy of our system of internal controls and accounting systems. The audit committee will also recommend to our board of directors the appointment of independent public accountants for the following year. The audit committee will consist of at least three members, all of whom will be financially literate and will be independent directors. has significant experience in [ACCOUNTING/FINANCE] matters. Our audit committee will adopt and periodically review a written charter that will specify the scope of its responsibilities.

The compensation committee, which will consist of , and , will review management compensation levels and provide recommendations to our board of directors regarding salaries and other compensation for our executive officers, including bonuses and incentive plans, and will administer our stock option plan.

The executive committee, which will consist of , and , will have the power and authority of our board of directors to manage our affairs between meetings. The executive committee will also regularly review significant corporate matters and recommend action as appropriate to our board of directors.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

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

DIRECTOR COMPENSATION

Our directors do not currently receive compensation for their services as members of the board of directors. Non-employee directors currently participate in our stock option and restricted stock purchase plan. All directors are reimbursed for reasonable out-of-pocket expenses incurred while serving on the board of directors and any committee of the board of directors.

Upon consummation of this offering, non-employee directors will receive $1,000 for attending each board meeting and $500 for each committee meeting. In addition, non-employee directors will receive an annual grant of options to purchase 6,500 shares of our common stock. Non-employee directors can also choose to receive their compensation solely in stock options consisting of an annual grant of options to purchase 11,000 shares of our common stock. In addition, newly elected non-employee directors will receive a one-time grant of options to purchase 9,000 shares of our common stock.

EXECUTIVE COMPENSATION

The following table sets forth the annual and long-term compensation for each of the last three fiscal years for our chief executive officer and our four other most highly compensated executive officers during 1999. These five individuals are referred to as the named executive officers.

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS(1)	SECURITIES UNDERLYING OPTIONS, SARS (#)	ALL OTHER COMPENSATION
J. Michael Parks(2).....	1999				
Chairman of the Board,	1998	$ 475,000	$ 440,000	--	$ 18,773
Chief Executive Officer and President	1997	$ 395,833	$ 160,000	333,333	$ 61,474
Ivan Szeftel(3).....	1999				
President, Retail Credit Services	1998	$ 192,115	$ 155,833	111,111	$ 29,430
Michael A. Beltz(4).....	1999				
Executive Vice President and President,	1998	$ 250,000	$ 220,000	66,666	$ 6,448
Business Development and Planning	1997	$ 163,141	$ 125,000	44,444	$ 64,112
Edward K. Mims(5).....	1999				
Executive Vice President and Chief Financial Officer	1998	$ 189,231	$ 123,750	55,555	$ 4,294
James E. Anderson(6).....	1999				
Executive Vice President and	1998	$ 202,500	$ 112,063	27,777	$ 5,770
President, Utilities Services	1997	$ 126,667	$ 70,000	27,777	$ 47,315

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(1) Bonuses represent amounts earned by each executive officer during the referenced year, although paid in the following year. We historically pay bonuses each March for the prior year.

(2) Mr. Parks has been employed with us since March 1997.

(3) Mr. Szeftel has been employed with us since May 1998.

(4) Mr. Beltz has been employed with us since May 1997.

(5) Mr. Mims has been employed with us since February 1998.

(6) Mr. Anderson has been employed with us since May 1997.

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

	YEAR	401(K) PLAN	LIFE INSURANCE PREMIUMS	SERP	RELOCATION	SIGN-ON BONUS
J. Michael Parks	1999				--	--
	1998	$10,743	$180	$7,850	--	--
	1997	$ 3,829	180	--	$57,465	--
Ivan Szeftel	1999				--	
	1998	$ 4,286	$144	--	--	$25,000
Michael A. Beltz	1999				--	--
	1998	$ 4,375	$120	--	$ 1,953	--
	1997	--	$120	--	$63,992	--
Edward K. Mims	1999				--	--
	1998	$ 4,186	$108	--	--	--
James E. Anderson	1999				--	--
	1998	$ 4,100	$ 91	--	$ 1,578	--
	1997	--	$ 91	--	$47,224	--

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth certain information concerning option grants made to the named executive officers during 1999 pursuant to our stock option plan.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM ($)(2)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)	PERCENTAGE OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(1)	EXERCISE PRICE ($/SH)	EXPIRATION DATE	5%	10%
J. Michael Parks	83,333	13.1%	$9.90	2/1/2008	$518,838	$1,314,838
Ivan Szeftel	22,222	3.5%	$9.90	2/1/2008	$138,357	$ 350,623
Michael A. Beltz	22,222	3.5%	$9.90	2/1/2008	$138,357	$ 350,623
Edward K. Mims	33,333	5.2%	$9.90	2/1/2008	$207,535	$ 525,935
James E. Anderson	33,333	5.2%	$9.90	2/1/2008	$207,535	$ 525,935

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(1) In 1999, we granted options to purchase a total of 492,444 shares of common stock at an exercise price of $9.90 per share and options to purchase a total of 146,111 shares of common stock at an exercise price of $11.25 per share.

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

OPTION EXERCISES IN LAST FISCAL YEAR

The following table sets forth certain information concerning all unexercised options held by the named executive officers as of December 31, 1999. No options were exercised during 1999.

	NUMBER OF UNEXERCISED OPTIONS AT FISCAL YEAR-END(#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END(1)	
NAME	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
J. Michael Parks	298,611	118,054	$1,772,910	$652,080
Ivan Szeftel	61,111	72,221	361,661	418,338
Michael A. Beltz	72,222	61,111	415,821	339,166
Edward K. Mims	36,111	52,777	204,155	289,174
James E. Anderson	43,056	45,832	245,825	247,498

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(1) Value for "in-the-money" options represents the positive spread between the respective exercise prices of outstanding options and the anticipated initial public offering price of $15.00 per share.

EMPLOYMENT AND INDEMNIFICATION AGREEMENTS

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

J. MICHAEL PARKS. Mr. Parks entered into an employment agreement effective March 10, 1997 to serve as our chairman of the board and chief executive officer. During the term of this agreement, Mr. Parks will receive a minimum base salary of $475,000. Mr. Parks is entitled to an incentive bonus of $400,000 based on the achievement of our annual financial goals. Under the agreement, Mr. Parks was granted options to purchase 333,332 shares of our common stock at an exercise price of $9.00 per share. Of these shares, 277,778 shares have vested by Mr. Parks' third year anniversary with us. The remaining 55,554 shares vest annually over four years based upon the achievement of corporate performance goals. Additionally, Mr. Parks was granted options to purchase 83,333 shares of our common stock at an exercise price of $9.90 in 1999, of which options to purchase 20,833 shares of our common stock are currently vested. Additionally, Mr. Parks is entitled to participate in our 401(k) and Retirement Savings Plan, our 1999 Incentive Compensation Plan and any other employee benefits as provided to other senior executives.

IVAN SZEFTEL. Mr. Szeftel entered into an employment agreement dated May 4, 1998 to serve as the president of our retail services division. During the remaining term of his agreement, Mr. Szeftel is entitled to receive a minimum base salary of $325,000, subject to increases based on annual reviews. Mr. Szeftel is entitled to an incentive bonus of $200,000 based on the achievement of our annual financial goals. In addition, we granted Mr. Szeftel options to purchase 111,111 shares of our common stock at an exercise price of $9.00 per share. Mr. Szeftel was granted options to purchase 22,222 shares of our common stock at an exercise price of $9.90 in 1999, of which options to purchase 5,555 shares of our common stock are currently vested. Mr. Szeftel is entitled to participate in our 401(k) and Retirement Savings Plan, our 1999 Incentive Compensation Plan and any other employee benefits as provided to other senior executives.

The employment agreement provides severance payments to Mr. Szeftel if we terminate his employment without cause or if Mr. Szeftel terminates his employment for good reason. In such cases, Mr. Szeftel will be entitled to six months base salary if terminated in his first year, nine months base salary if terminated in his second year and 12 months base salary if terminated after his second year.

STOCK OPTION AND RESTRICTED STOCK PURCHASE PLAN

We adopted the Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Purchase Plan in August 1996. This plan provides for grants of incentive stock options, nonqualified stock options and awards to selected employees, officers, directors and other persons performing services for us or any of our subsidiaries. A total of 2,966,667 shares of common stock have been reserved for issuance pursuant to the plan. As of January 31, 1999, there were 2,354,000 shares of common stock subject to options previously granted at a weighted average exercise price of $9.50 per share.

Incentive stock options may be granted to any person, including a director or officer, employed on a full-time basis by us or any of our subsidiaries. Nonqualified stock options and awards may be granted to any of our stockholders, any employees of our stockholders that perform services for us and any person employed by, or performing services for, us or any of our subsidiaries, including our directors and officers.

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

The plan gives the compensation committee or the board of directors the sole discretion to determine the vesting provisions for each individual award. Options issued prior to final approval of the amended plan vest on a common vesting date, which is the first day of February. The normal vesting provision provides for vesting of 33 1/3% of the options each year over a three-year period, beginning on the first day of February of the eighth year after the options have been awarded. Options terminate on the tenth anniversary of the date of grant. However, if we meet the annual operating income goal as determined by our board of directors, vesting can be accelerated. Our board of directors designates a percentage of the options that will vest in this accelerated manner if we meet the annual operating income goal. Historically, this designated percentage has been equal to 25% of the options granted.

Options issued after final approval of the amended plan will vest in thirds over a three-year period commencing on the first anniversary of the date of grant. On the date of the public offering, all exempt employees will receive a one-time grant of options, ranging from amounts of 100 to 1,000 shares.

Restricted stock may be sold to directors, employees and consultants at various prices, but not below par value, and may be made subject to restrictions such as the participant's continued employment or the satisfaction of performance targets. In general, restricted stock may not be sold or transferred until the restrictions are removed or expire. We may repurchase restricted stock from a participant at the original purchase price if the conditions or restrictions are not met.

The compensation committee of our board of directors administers the plan with respect to members of our executive committee and determines the pool of shares available to other participants. Our chairman of the board and chief executive officer is responsible for making individual determinations regarding awards to those participants.

ALLIANCE DATA SYSTEMS 401(K) AND RETIREMENT SAVINGS PLAN

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

plan. All employees who either (1) have been employed for at least one year and are at least 21 years old or (2) are at least 45 years old and are scheduled to work at least 1,000 hours in the plan year are eligible to participate. Effective January 1, 2000, all employees who are at least 21 years old and who we have employed for at least six months and who have worked at least 500 hours will be eligible to participate.

Under this plan, we make regular matching contributions on the first 3% of each participant's contributions. An additional matching contribution on the second 3% of each participant's contributions may be made annually at the discretion of our board of directors. Each of our matching contributions vests 20% over five years for employees with less than five years of service, all contributions vest immediately or earlier if the participating employee retires at age 65, becomes disabled, dies or is terminated. In addition to matching contributions, we make a non-discretionary retirement contribution based on the participant's age and years of service with us. The retirement contributions become 100% vested once the participant has served five years with us.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

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

This plan allows the participant to contribute:

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

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

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

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

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

2000 INCENTIVE COMPENSATION PLAN

The Alliance Data Systems 2000 Incentive Compensation Plan provides an opportunity for certain U.S. employees to be eligible for a cash bonus based on achieving certain objectives. To be eligible under the plan, employees must meet certain eligibility requirements and be selected by the compensation committee.

Under the plan, each participant has an incentive compensation target that is expressed as a percent of annual base earnings. The participant's incentive compensation target is based on various objectives that are weighted to reflect the participant's contributions to company, business unit and individual goals, which are established at the beginning of the plan year. The company objective is based on our operating income, the business unit objective is based on financial and operational

objectives and the individual objectives are items of importance to us that the individual can impact. The amount of compensation a participant receives depends on the percentage of objectives that were achieved. Eighty percent of the objectives must be achieved before a participant is eligible for any payout. The maximum payout is equal to 150% of the participant's incentive compensation target.

PERFORMANCE BASED RESTRICTED STOCK PLAN

Upon consummation of this offering, a performance based restricted stock plan will be implemented for the chief executive officer, his or her direct reports, and approximately 22 other officers. Shares issued under this plan will not vest unless specific performance measures, yet to be determined and agreed upon by our board of directors, are met. These performance measures will include a return on stockholder equity and EBITDA performance. Meeting only threshold performance will cause 40% of the shares to vest, meeting target performance will vest 80% of the shares, and exceeding performance will allow 100% of the shares to vest. Cumulative vesting over the performance period, targeted to be three to five years, will be allowed so that at the end of the performance period, if performance warrants, the shares could still be 100% vested.

The following table sets forth information with respect to the beneficial ownership of our common stock as of January 31, 2000 by:

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

(2) each current director;

(3) each of the named executive officers; and

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

Except as indicated in this table and pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name. Percentage of ownership is based on 56,881,518 shares of our common stock outstanding on January 31, 2000, and 76,881,518 shares of our common stock outstanding after completion of this offering, both of which reflect the conversion of all outstanding shares of Series A preferred stock into common shares and the exercise of all outstanding warrants.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED BEFORE AND AFTER OFFERING(1)	PERCENT OF SHARES BENEFICIALLY OWNED(1)	
		BEFORE OFFERING	AFTER OFFERING
Welsh, Carson, Anderson & Stowe(2) ..... 320 Park Avenue, Suite 2500 New York, New York 10022-6815	41,937,219	73.7%	54.5%
Limited Commerce Corp. ..... Three Limited Parkway Columbus, Ohio 43230	14,663,370	25.8	19.1%
J. Michael Parks(3).....	298,611	*	*
Ivan Szeftel(4).....	61,111	*	*
Michael A. Beltz(5).....	72,222	*	*
Edward K. Mims(6).....	36,111	*	*
James E. Anderson(7).....	43,055	*	*
Bruce K. Anderson(8).....	346,215	*	*
Anthony J. deNicola(8).....	33,240	*	*
Robert A. Minicucci(8).....	114,217	*	*
All directors and executive officers as a group (18 individuals)(9).....	1,149,083	2.0%	1.5%

* Less than 1%

(1) Beneficial ownership is determined in accordance with the SEC's rules. In computing percentage ownership of each person, shares of common stock subject to options, warrants or convertible preferred stock held by that person that are currently exercisable or convertible, or exercisable or convertible within 60 days of January 31, 2000, are deemed to be beneficially owned. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of each other person.

(2) Includes 9,185,591 shares issuable upon conversion of Series A preferred stock owned of record by WCAS VIII L.P., WCAS Information Partners, L.P. and 20 other individuals. Also includes

- 5,555,550 shares of common stock held by Welsh, Carson, Anderson & Stowe VI, L.P.,

- 17,922,447 shares of common stock held by Welsh, Carson, Anderson & Stowe VII, L.P.,

- 7,161,616 shares of common stock held by Welsh, Carson, Anderson & Stowe VIII, L.P.,

- 109,568 shares of common stock held by WCAS Information Partners LP,

- 268,398 shares of common stock held by WCAS Capital Partners II LP,

- 655,555 shares of common stock held by WCAS Capital Partners III LP,

- 1,078,494 shares of common stock held by individual partners of Welsh, Carson.

(3) Represents options to purchase 298,611 shares of common stock which are exercisable within 60 days of January 31, 2000.

(4) Represents options to purchase 61,111 shares of common stock which are exercisable within 60 days of January 31, 2000.

(5) Represents options to purchase 72,222 shares of common stock which are exercisable within 60 days of January 31, 2000.

(6) Represents options to purchase 36,111 shares of common stock which are exercisable within 60 days of January 31, 2000.

(7) Represents options to purchase 43,055 shares of common stock which are exercisable within 60 days of January 31, 2000.

(8) The number of shares beneficially owned by Mr. Anderson includes 100,176 shares issuable upon conversion of Series A preferred stock. The number of shares beneficially owned by Mr. deNicola includes 9,563 shares issuable upon conversion of Series A preferred stock. The number of shares beneficially owned by Mr. Minicucci includes 33,166 shares issuable upon conversion of Series A preferred stock. Each of Bruce K. Anderson, Anthony J. deNicola and Robert A. Minicucci are partners of Welsh, Carson, Anderson & Stowe and certain of its affiliates and may be deemed to be the beneficial owner of the common stock beneficially owned by Welsh Carson and described in note 2 above.

(9) Includes options to purchase an aggregate of 655,411 shares of common stock which are exercisable within 60 days of January 31, 2000 held by Messrs. Parks, Szeftel, Beltz, Mims and Anderson, and 142,905 shares issuable upon conversion of Series A preferred stock.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

TRANSACTIONS WITH WELSH, CARSON, ANDERSON & STOWE

Welsh, Carson, Anderson & Stowe VI, L.P., Welsh, Carson, Anderson & Stowe VII, L.P., Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Capital Partners II, L.P., WCAS Capital Partners III, L.P., WCAS Information Partners, L.P., WCA Management Corporation and various other individuals who are limited partners of the Welsh Carson limited partnerships beneficially owned approximately 73.7% of our outstanding common stock as of January 31, 2000. The individual partners of the Welsh Carson limited partnerships include Bruce K. Anderson, Anthony J. deNicola and Robert A. Minicucci, each of whom is a member of our board of directors.

In July 1999, we sold 120,000 shares of Series A preferred stock to Welsh, Carson, Anderson & Stowe VIII, L.P., WCAS Information Partners, L.P. and 20 individuals who are partners of some or all of the Welsh Carson limited partnerships for an aggregate purchase price of $120.0 million. The preferred shares were issued to finance, in part, the acquisition of the network services business of SPS Payment Systems, Inc. Prior to the completion of this offering, these preferred shares will be converted into an aggregate of 9,185,591 shares of our common stock.

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

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

In September 1998, we issued 655,555 shares of common stock to WCAS Capital Partners III, L.P. and issued a 10% subordinated note to WCAS Capital Partners III, L.P. in the principal amount of $52.0 million to finance, in part, the acquisition of Harmonic Systems Incorporated. Principal on the note is due in two equal installments on September 15, 2007 and September 15, 2008. Interest is payable semi-annually in arrears on each March 15 and September 15. This note will be paid in full with the proceeds of this offering.

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

TRANSACTIONS WITH THE LIMITED

Limited Commerce Corp. beneficially owned approximately 25.8% of our common stock as of January 31, 2000. Limited Commerce Corp. is owned by Structure, Inc., which is owned by The Limited, Inc. Therefore, The Limited, Inc., a significant customer of ours, indirectly owns one of our principal stockholders. Pursuant to a stockholders agreement with Welsh Carson and Limited Commerce Corp., Limited Commerce Corp. has the right to maintain two designees on our board of directors until the completion of this offering. Mr. Finkelman and Mr. Soll are the current Limited Commerce Corp. designees on our board of directors.

The Limited, Inc. operates through a variety of different retail and catalog affiliates that operate under different names, including Bath & Body Works, The Limited Stores, Structure, Victoria's Secret Catalogue, Victoria's Secret Store, Lerner New York, Lane Bryant and Express. Many of these affiliates

have entered into credit card processing agreements with World Financial, and these affiliates of The Limited represented approximately 50% of our credit card receivables as of December 31, 1999.

Pursuant to these credit card processing agreements, World Financial provides credit card processing services and issues private label credit cards on behalf of the businesses. Under these agreements, World Financial pays the business an amount equal to the amount charged by the business's customers using the private label credit card issued by World Financial, less a discount, which varies among agreements. World Financial assumes the credit risk for these credit card transactions. Payments are also made to World Financial from the businesses relating to credit card issuance and processing.

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

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

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

We received total revenues directly from The Limited and its retail affiliates of $53.1 million during fiscal 1997, $54.8 million during fiscal 1998 and $64.1 million during fiscal 1999.

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

The Limited guarantees World Financial's lease obligations under a lease for a 100,800 square foot facility in Columbus, Ohio. The lease expires in January 2001 and the current monthly lease rate is $69,407.

STOCKHOLDERS' AGREEMENT WITH WELSH CARSON AND THE LIMITED

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

Under the new stockholders agreement, the Welsh Carson affiliates and Limited Commerce Corp. will have two demand registration rights and "piggyback" registration rights. The demand rights will enable the Welsh Carson affiliates and Limited Commerce Corp. to require us to register their shares with the SEC under the Securities Act at any time after the consummation of this initial public offering. Piggyback rights will allow the Welsh Carson affiliates and Limited Commerce Corp. to register the shares of our common stock that they purchased along with any shares that we register with the SEC. These registration rights are subject to conditions and limitations, including the right of the underwriters of an offering to limit the number of shares.

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

U.S. LOYALTY PROGRAM

We have evaluated the creation of a loyalty program in the U.S. similar to our Canadian Air Miles reward program. Because of the significant funding requirements to establish such a program, we have decided not to pursue the program. Our existing stockholders have decided to pursue the program through a separate company called U.S. Loyalty Corp., which they will fund. We will not have any ownership interest in U.S. Loyalty Corp.

We intend to provide various services including management support, accounting, transaction processing, data processing and marketing services for U.S. Loyalty Corp. under various agreements that we plan to enter into with U.S. Loyalty Corp. prior to this offering. We contemplate that such agreements will include a management agreement, an employee lease agreement, a processing agreement, and a royalty agreement. Under the royalty agreement, we will allow U.S. Loyalty Corp. to use the Air Miles brand and business concept in the United States.

The stockholders of U.S. Loyalty Corp. include Welsh Carson and Limited Commerce Corp. as well as our directors and officers who have options to purchase shares of our common stock. Robert A. Minicucci, who is a stockholder and one of our directors, is the sole director, only officer and a stockholder of U.S. Loyalty Corp.

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

INTERCOMPANY INDEBTEDNESS

In December 1998, our subsidiaries issued to us revolving promissory notes, due November 30, 2002, as described below. Principal payments are due on demand. The notes accrue interest at the rate of 10% per annum and interest is payable quarterly or upon demand.

	CREDIT LINE	AMOUNT OF PRINCIPAL OUTSTANDING AS OF DECEMBER 31, 1999
World Financial Network National Bank note	$100,000,000	$ --
ADS Alliance Data Systems, Inc. note	200,000,000	120,000,000
Alliance Data Systems (New Zealand) Limited note	11,250,000	9,750,000
Harmonic Systems Incorporated note	62,000,000	52,000,000
Loyalty Management Group Canada Inc. note	20,000,000	--

DESCRIPTION OF CAPITAL STOCK

Upon the completion of this offering, our authorized capital stock will consist of 200,000,000 shares of common stock, par value $0.01 per share, of which 76,881,518 shares will be issued and outstanding, and 20,000,000 shares of preferred stock, par value $0.01 per share, of which no shares will be outstanding. The following summary of our capital stock is qualified in its entirety by reference to our second amended and restated certificate of incorporation and our second amended and restated bylaws.

COMMON STOCK

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

PREFERRED STOCK

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

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

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

SERIES A PREFERRED STOCK

Upon consummation of the offering, all of the outstanding shares of Series A preferred stock will be converted into shares of common stock and there will be no Series A preferred stock outstanding.

EFFECTS OF AUTHORIZED BUT UNISSUED STOCK

Upon consummation of the offering there will be 200,000,000 authorized but unissued shares of our common stock and 20,000,000 shares of preferred stock available for our future issuance without stockholder approval. Of the shares of common stock available for future issuance, 2,966,667 shares have been reserved for issuance under our stock option and restricted stock purchase plan.

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

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

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

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

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

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

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

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

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

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

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

- our board approves the transaction that made the stockholder an "interested stockholder," prior to the date of that transaction;
- after the completion of the transaction that resulted in the stockholder becoming an "interested stockholder," that stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding shares owned by our officers and directors; or
- on or subsequent to the date of the transaction, the business combination is approved by our board and authorized at a meeting of our stockholders by an affirmative vote of at least two-thirds of the outstanding voting stock not owned by the "interested stockholder."

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

LIMITATIONS ON LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS

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

Our certificate of incorporation and bylaws provide that:

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

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

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

TRANSFER AGENT AND REGISTRAR

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

SHARES ELIGIBLE FOR FUTURE SALE

Future sales of a substantial number of shares of our common stock in the public market could adversely affect trading prices prevailing from time to time. As of January 31, 2000, principal stockholders held 56,600,595 shares, representing 99.5% of the outstanding shares of our common stock. After this offering, we will have 76,881,518 shares of our common stock outstanding. Of these shares, all shares sold in the offering, other than shares, if any, purchased by our affiliates, will be freely tradable. Of the remaining 56,881,518 shares, 72,013 shares will be freely transferable and 56,809,505 shares will be "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted shares may be sold in the public market only if such sale is registered under the Securities Act or if such sale qualifies for an exemption from registration, such as the one provided by Rule 144. Sales of the restricted shares in the open market, or the availability of such shares for sale, could adversely affect the trading price of our common stock.

Subject to the lock-up agreements described below and the provisions of Rule 144 and 144(k), additional shares will be available for sale in the public market.

LOCK-UP AGREEMENTS

Our officers, directors and other stockholders who hold in the aggregate shares of our common stock and holders of options to purchase shares of our common stock which vest and are exercisable within the next days, have agreed not to sell or otherwise dispose of any shares of our common stock for a period of 180 days after the date of this prospectus, without the prior written consent of Bear, Stearns & Co. Inc. The underwriters do not intend to release the executive officers, directors or other stockholders, including Welsh, Carson and Limited Commerce Corp., from the lock-up agreements; however, any of these stockholders could be released from the lock-up agreements prior to expiration without notice.

RULE 144

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

- 1% of the number of shares of our common stock then outstanding, approximately shares immediately after this offering; or
- the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a Form 144 with respect to such sale.

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

RULE 144(K)

Under Rule 144(k), a person who is not deemed to have been an affiliate of us at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years following the later of the date of the acquisition of such shares from the issuer or an affiliate of the issuer, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

RULE 701

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

We intend to file registration statements to register shares of common stock reserved for issuance under our stock option plan. These registration statements will permit the resale of shares issued under these plans by non-affiliates in the public market without restriction, subject to the lock-up agreements.

UNDERWRITING

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

UNDERWRITER	NUMBER OF SHARES
Bear, Stearns & Co. Inc.	
Merrill Lynch, Pierce Fenner & Smith, Incorporated	
Donaldson, Lufkin & Jenrette Securities Corporation	
Total	20,000,000

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

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

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

OVER-ALLOTMENT OPTION. We have granted the underwriters an option, which may be exercised within 30 days after the date of this prospectus, to purchase up to 3,000,000 additional shares of common stock to cover over-allotments, if any, at the initial public offering price less the underwriting discount, each as set forth on the cover page of this prospectus. If the underwriters exercise this option in whole or in part, each of the underwriters will be severally committed, subject to certain conditions, to purchase these additional shares of common stock in proportion to their respective purchase commitments as indicated in the preceding table and we will be obligated to sell these additional shares to the underwriters. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the shares of common stock offered by this prospectus. These additional shares will be sold by the underwriters on the same terms as those on which the shares offered by this prospectus are being sold.

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

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

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

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

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

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

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

We intend to apply to have our common stock listed on the New York Stock Exchange under the symbol "ADD". There can be no assurance, however, that an active or orderly trading market will develop for our common stock or that our common stock will trade in the public markets after this offering at or above the initial offering price.

RESERVED SHARE PROGRAM. The underwriters have reserved for sale, at the initial public offering price, up to 1,000,000 shares of our common stock for our employees, directors and other persons or entities with whom we have a business relationship. The number of shares available for sale to the general public in the offering will be reduced to the extent those persons purchase these reserved shares. Purchases of reserved shares are to be made through accounts at Bear, Stearns & Co. Inc., Merrill Lynch, Pierce Fenner & Smith Incorporated or Donaldson, Lufkin & Jenrette Securities Corporation in accordance with their respective procedures for opening accounts and transacting in securities. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares offered in this offering.

PROSPECTUS IN ELECTRONIC FORMAT. A prospectus in electronic format is being made available on an Internet Website maintained by . In addition, all dealers purchasing shares from in the offering have agreed to make an electronic version of this prospectus available on Web sites

maintained by them. We have agreed, upon request by a person who received our prospectus in electronic format, to deliver a prospectus in paper format to such person. Purchases of shares through are to be made through an account at in accordance with 's procedures for opening an account and transacting in securities.

STABILIZATION AND OTHER TRANSACTIONS. In order to facilitate this offering, persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock during and after this offering, including over-allotment, stabilizing and short-covering transactions and the imposition of penalty bids. Specifically, the underwriters may over-allot or otherwise create a short position in the common stock for their own account by selling more shares of common stock than have been sold to them by us. The underwriters may elect to cover this short position by purchasing shares of common stock in the open market or by exercising the over-allotment option granted to the underwriters. In addition, the underwriters may stabilize or maintain the price of the common stock by bidding for or purchasing shares of common stock in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in this offering are reclaimed if shares of common stock previously distributed in this offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the common stock to the extent that it discourages resales. No representation is made as to the magnitude or effect of these stabilization transactions. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

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

LEGAL MATTERS

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

EXPERTS

The consolidated financial statements of Alliance Data Systems Corporation and subsidiaries as of December 31, 1998 and 1999 and for the year ended December 31, 1999, eleven months ended December 31, 1998, and 53 week period ended January 31, 1998 included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The financial statements of SPS Network Services for the six months ended June 30, 1999 and the year ended December 31, 1998 included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

Ernst & Young LLP, independent auditors, have audited the consolidated financial statements of Loyalty Management Group Canada Inc. as of April 30, 1997 and 1998, and for each of the two years in the period ended April 30, 1998, as set forth in their report. We have included these financial statements in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

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

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ALLIANCE DATA SYSTEMS CORPORATION

ALLIANCE DATA SYSTEMS CORPORATION
INDEPENDENT AUDITORS' REPORT

To the Stockholders of
Alliance Data Systems Corporation

We have audited the accompanying consolidated balance sheets of Alliance Data Systems Corporation and subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for the 53 weeks ended January 31, 1998, the eleven months ended December 31, 1998 and the year ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the companies as of December 31, 1998 and 1999 and the results of their operations and their cash flows for the respective stated periods in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP

Columbus, Ohio
March 1, 2000

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	53 WEEKS ENDED JANUARY 31, 1998	11 MONTHS ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1999
Revenues			
Processing and servicing fees	$225,504	$306,366	$483,179
Financing charges, net	127,007	119,352	141,947
Other income	888	8,591	14,128
Total revenue	353,399	434,309	639,254
Operating expenses			
Processing and servicing	161,360	209,013	341,496
Salaries and employee benefit	127,087	156,464	193,699
Depreciation and other amortization	7,402	8,270	16,183
Amortization of purchased intangibles	19,061	34,321	49,777
Total operating expenses	314,910	408,068	601,155
Operating income	38,489	26,241	38,099
Interest expense	15,459	27,884	42,785
Income (loss) from continuing operations before income taxes	23,030	(1,643)	(4,686)
Income tax expense	8,420	6,653	15,388
Income (loss) from continuing operations	14,610	(8,296)	(20,074)
Income (loss) from discontinued operations, net of income taxes	(8,247)	(300)	7,688
Loss on disposal of discontinued operations	--	--	(3,737)
Net income (loss)	$ 6,363	$ (8,596)	$(16,123)
Earnings (loss) from continuing operations per share--basic and diluted	$ 0.40	$ (0.20)	$ (0.49)
Earnings (loss) per share--basic and diluted	$ 0.17	$ (0.21)	$ (0.41)
Weighted average shares--basic and diluted	36,612	41,729	47,498

See accompanying notes

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31, 1998	DECEMBER 31, 1999	
		ACTUAL	PRO FORMA STOCKHOLDERS' EQUITY
			(UNAUDITED)
ASSETS			
Cash and cash equivalents	$ 47,036	$ 56,546	
Restricted cash and cash equivalents	17,909	69,571	
Securities available-for-sale	52,269	64,079	
Trade receivables less allowance for doubtful accounts ($3,576 and $1,079 at December 31, 1998 and 1999, respectively)	143,286	69,085	
Credit card receivables and seller's interest less allowance for doubtful accounts ($4,888 and $3,657 at December 31, 1998 and 1999, respectively)	139,458	150,804	
Deferred tax asset, net	3,051	26,416	
Other current assets	51,551	30,250	
Total current assets	454,560	466,751	
Property and equipment, net	66,339	89,231	
Deferred tax asset, net	14,949	5,116	
Other non-current assets	47,462	31,470	
Due from securitizations	121,442	144,484	
Intangible assets and goodwill, net	305,365	448,017	
Total assets	$ 1,010,117	$ 1,185,069	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	$ 44,327	$ 83,976	
Accrued expenses	58,590	75,646	
Deferred income	17,733	25,805	
Debt, current portion	148,149	118,225	
Total current liabilities	268,799	303,652	
Deferred income and other liabilities	21,131	32,752	
Redemption obligation	80,213	122,198	
Long-term and subordinated debt	331,835	316,911	
Total liabilities	701,978	775,513	
Commitments and contingencies			
Series A cumulative convertible preferred stock, $0.01 par value; 120 shares authorized and issued; pro forma--none outstanding	--	119,400	$ --
Common stock, $0.01 par value; authorized 50,000 shares (December 31, 1998), and 66,667 shares (December 31, 1999), issued 47,487 shares (December 31, 1998) and 47,529 shares (December 31, 1999)	475	475	567
Additional paid-in capital	225,797	226,174	345,482
Retained earnings	83,838	67,715	67,715
Accumulated other comprehensive loss	(1,971)	(4,208)	(4,208)
Total stockholders' equity	308,139	290,156	$ 409,556
Total liabilities and stockholders' equity	$ 1,010,117	$ 1,185,069	

See accompanying notes

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS)

	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL COMPREHENSIVE LOSS	TOTAL STOCKHOLDERS' EQUITY
FEBRUARY 1, 1997	36,608	$ 366	$118,768	$86,071	$ --		$205,205
Net income				6,363			6,363
Common stock issued	11						96
JANUARY 31, 1998	36,619	366	118,864	92,434	--		211,664
Net loss				(8,596)		$ (8,596)	(8,596)
Other comprehensive loss, net of tax:							
Unrealized gains on securities available-for-sale, net					1,207	1,207	1,207
Foreign currency translation adjustments					(3,178)	(3,178)	(3,178)
Other comprehensive loss					(1,971)		
Total comprehensive loss						$(10,567)	
Common stock issued	10,868	109	106,933				107,042
DECEMBER 31, 1998	47,487	475	225,797	83,838	(1,971)		308,139
Net loss				(16,123)		$(16,123)	(16,123)
Other comprehensive loss, net of tax:							
Unrealized loss on securities available-for-sale, net					(4,684)	(4,684)	(4,684)
Foreign currency translation adjustments					2,447	2,447	2,447
Other comprehensive loss					(2,237)		
Total comprehensive loss						$(18,360)	
Common stock issued	42	--	377				377
DECEMBER 31, 1999	47,529	$ 475	$226,174	$67,715	$(4,208)		$290,156

See accompanying notes

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS)

	53 WEEKS ENDED JANUARY 31, 1998	11 MONTHS ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (loss) from continuing operations	$ 14,610	$ (8,296)	$ (20,074)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:			
Income (loss) from discontinued operations	(8,247)	(300)	7,688
Loss on disposal of discontinued operations	--	--	(3,737)
Depreciation and amortization	26,463	43,093	65,960
Provision for doubtful accounts	(294)	(3,383)	(3,540)
Change in operating assets:			
Deferred income taxes	(1,413)	(1,011)	(13,532)
Impairment of assets	--	4,000	--
Accretion of deferred income	(5,934)	(9,395)	(5,950)
Change in trade accounts receivables	(75,876)	(20,868)	81,276
Change in accounts payable and accrued expenses	15,393	6,076	47,667
Change in other assets	1,659	(17,546)	38,207
Change in redemption obligation	--	--	41,985
Other operating activity	--	--	(9,955)
Change in other liabilities	2,961	12,099	25,643
Net cash provided by (used in) operating activities	(30,678)	4,469	251,638
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities	--	(14,704)	(12,314)
Increase in restricted cash and cash equivalents	--	--	(51,662)
Purchase of credit card receivables	(344,464)	--	(33,817)
Change in due from securitizations	(46,456)	5,470	(26,404)
Net cash paid for corporate acquisition	(716)	(133,973)	(171,423)
Change in intangible assets	(8,715)	--	--
Proceeds from sale of credit card receivable portfolios	--	94,091	--
Proceeds from securitization	321,831	--	--
Change in seller's interest	14,130	(76,975)	22,471
Capital expenditures	(39,356)	(14,443)	(36,302)
Net cash used in investing activities	(103,746)	(140,534)	(309,451)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under debt agreements	582,497	382,043	249,625
Repayment of borrowings	(477,723)	(325,803)	(294,473)
Proceeds from issuance of preferred stock	--	--	119,400
Proceeds from issuance of common stock	96	107,042	377
Net cash provided by financing activities	104,870	163,282	74,929
Effect of exchange rate changes	--	(776)	(7,606)
Change in cash and cash equivalents	(29,554)	26,441	9,510
Cash and cash equivalents at beginning of period	50,149	20,595	47,036
Cash and cash equivalents at end of period	$ 20,595	$ 47,036	$ 56,546
SUPPLEMENTAL CASH FLOW DISCLOSURE:			
Interest paid	$ 21,669	$ 33,695	$ 43,215
Income taxes paid	$ 8,466	$ 12,406	$ 25,242

See accompanying notes

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND ACQUISITIONS

DESCRIPTION OF THE BUSINESS--Alliance Data Systems Corporation ("ADSC" or, including its wholly-owned subsidiaries, the "Company") is a leading provider of electronic transaction services, credit services and loyalty and database marketing services. The Company develops and executes programs designed to help its clients target, acquire and retain loyal, profitable customers. The Company creates value for its clients by assisting them in managing their customer relationships. Specifically we: (1) facilitating transactions between its clients and their customers through multiple distribution channels; (2) assisting its clients in identifying and acquiring new customers; and (3) increasing the loyalty and profitability of existing customers.

The Company operates in three reportable segments: Loyalty and Database Marketing Services, Transaction Services and Credit Services. Loyalty and Database Marketing Services provides a membership rewards program for multiple sponsors and marketing services to its customers by way of providing processing services for loyalty and rewards programs, data mining and database tools and reports. Transaction Services encompasses transaction processing, including network services and bank card settlement and card processing and servicing, such as account processing, billing and payment processing and customer care. Credit Services provides underwriting and risk management services. Credit Services generally securitizes the credit card receivables that it underwrites from its private label programs.

BASIS OF PRESENTATION--During fiscal 1998, the Company changed its year end to a calendar year end basis. Prior to December 31, 1998, the Company had a 52/53 week fiscal year that ended on the Saturday nearest January 31. Accordingly, fiscal 1997 represents the 53 weeks ended January 31, 1998, fiscal 1998 represents the 11 months ended December 31, 1998, and fiscal 1999 represents the year ended December 31, 1999.

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

In November 1997, the Company formed a wholly-owned subsidiary, Alliance Data Systems (New Zealand) Limited ("ADSNZ"), to acquire the stock of Financial Automation Limited and Financial Automation Marketing Limited (collectively, "FAL") for approximately $10.5 million, financed through working capital. The acquisition was accounted for using the purchase method of accounting, and the excess purchase price over the fair value of the net identifiable assets acquired, approximately $2.8 million, was allocated to goodwill and is being amortized over 20 years using a straight-line basis. The results of operations of FAL have been included in the consolidated financial statements since November 1997. FAL developed and markets a proprietary fleet management tracking system to companies worldwide.

In July 1998, the Company acquired the stock of Loyalty Management Group Canada, Inc. ("Loyalty") for approximately $183.0 million of net cash financed through a capital infusion of $100.0 million from stockholders and a bank loan of $100.0 million. The acquisition was accounted for using the purchase method of accounting, and the excess purchase price over the fair value of the net identifiable assets acquired, approximately $104.0 million, was allocated to goodwill and is being

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND ACQUISITIONS (CONTINUED)

amortized over 25 years using a straight-line basis. The results of operations of Loyalty have been included in the consolidated financial statements since July 1998.

In September 1998, the Company acquired the stock of Harmonic Systems Incorporated ("HSI") for approximately $51.3 million of net cash financed through subordinated notes of $52.0 million. The acquisition was accounted for using the purchase method of accounting, and the excess purchase price over the fair value of the net identifiable assets acquired, approximately $38.4 million, was allocated to goodwill and is being amortized over 25 years using a straight-line basis. The results of operations of HSI have been included in the consolidated financial statements since September 1998. HSI provides retail chains with private data communications networks for the transmission of electronic data between their stores, a merchant's corporate data center and third party information service providers.

In July 1999, the Company acquired the network services business of SPS Payment Systems, Inc. ("SPS"), a wholly-owned subsidiary of Associates First Capital Corporation, for approximately $170.0 million, which was financed by $120.0 million of Series A Cumulative Convertible Preferred Stock and $50.0 million of working capital. This transaction was accounted for using the purchase method of accounting, and the excess purchase price over the fair value of the net identifiable assets, approximately $142.5 million, was allocated to goodwill and other intangibles and is being amortized over periods ranging from three to 25 years using a straight-line basis. The results of operations of SPS have been included in the consolidated financial statements since July 1999.

SUPPLEMENTARY UNAUDITED PRO FORMA INFORMATION

Unaudited pro forma information for the Company is presented below as if the Loyalty, the HSI and the SPS acquisitions had occurred at the beginning of fiscal 1998 (in thousands, except per share amounts):

	FISCAL	
	1998	1999
Revenue	$592,816	$663,576
Net loss	$(28,522)	$(16,886)
Earnings per share	$ (0.69)	$ (0.36)
Weighted average number of shares	41,729	47,498

2. SUMMARY OF SIGNIFICANT POLICIES

PRINCIPLES OF CONSOLIDATION--The accompanying consolidated financial statements include the accounts of ADSC and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated.

CASH AND CASH EQUIVALENTS--The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

RESTRICTED CASH AND CASH EQUIVALENTS--Restricted cash and cash equivalents relate to a reserve fund for the Air Miles reward program. The reserve fund is maintained to fund redemptions of Air Miles reward miles from collectors.

SECURITIES AVAILABLE-FOR-SALE--Debt securities for which the Company does not have the positive intent and ability to hold to maturity are classified as securities available-for-sale. These securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of cumulative other comprehensive income. These securities relate to the reserve fund for the Air Miles reward miles program and are restricted to funding of the redemption obligation.

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

CREDIT CARD RECEIVABLES--Credit card receivables are generally securitized immediately or shortly after origination. As part of its securitization agreements, the Company is required to retain an interest in the credit card receivables for credit enhancements, which is referred to as seller's interest. Seller's interest is carried at fair value and credit card receivables are carried at lower of cost or market less an allowance for doubtful accounts.

PROPERTY AND EQUIPMENT--Furniture, fixtures, computer equipment and software, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis, using estimated lives ranging from 3 to 15 years. Leasehold improvements are amortized over the remaining useful lives of the respective leases or the remaining useful lives of the improvements, whichever are shorter. Software development (costs to create new platforms for certain of the Company's information systems) and conversion costs (systems, programming and other related costs to convert new client accounts to the Company's processing systems) are amortized on a straight-line basis over the length of the associated contract or benefit period, which generally range from three to 20 years.

REVENUE RECOGNITION POLICY--The Company derives substantially all of its revenue from two principal sources. The Company receives fees for providing information and transaction processing services to sponsors. It also earns financing income from its credit card receivables and securitization program.

PROCESSING AND SERVICING FEES--The Company earns fees from sponsors by charging for participation in its loyalty program, thus allowing several sponsors to operate under a common membership rewards program. The Company is paid for these services on a per transaction basis, subject to certain sponsor-guaranteed minimums. Revenue is recognized upon completion of the related transaction, provided that there are no remaining significant obligations to be performed. Revenue from other processing and servicing fees is recognized as such services are performed.

FINANCING CHARGES, NET--Financing charges, net, represents gains and losses on securitization of credit card receivables and interest income on seller's interest less a provision (credit) for doubtful accounts of $(0.3 million), $(3.4 million) and $(3.7 million) and related interest expense of $9.4 million, $8.4 million and $10.4 million for fiscal 1997, 1998 and 1999, respectively.

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

REDEMPTION OBLIGATION--The Company accrues a liability for its estimated future redemption obligations at the time it recognizes the related revenue. The redemption obligation represents the estimated costs associated with the Company's obligation to redeem outstanding Air Miles reward miles, which may be converted by enrolled collectors into various free travel or other free merchandise. The Company is liable for purchasing the rewards provided to collectors, if and when such members

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

seek to redeem accumulated Air Miles reward miles upon reaching required redemption thresholds. The redemption obligation is determined based on two factors: the number of Air Miles reward miles that are expected to be redeemed and the weighted average cost of rewards. The estimated number of Air Miles reward miles that are expected to be redeemed is based on the Company's historical business experience, patterns of usage and other factors. The weighted average cost of rewards is based on the mix of rewards anticipated to be redeemed and the incremental cost of providing free travel and merchandise. These redemption obligation estimates are evaluated and adjusted quarterly. Any adjustments resulting from such evaluations are included in the results of operations for the periods in which the evaluations are completed.

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

MARKETING--The Company expenses marketing costs as incurred.

EARNINGS PER SHARE--Basic earnings per share is based only on the weighted average number of common shares outstanding, excluding any dilutive effects of options or other dilutive securities. Diluted earnings per share is based on the weighted average number of common and common equivalent shares, dilutive stock options or other dilutive securities outstanding during the year.

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

	FISCAL		
	1997	1998	1999
NUMERATOR			
Income (loss) from continuing operations	$ 14,610	$ (8,296)	$(20,074)
Preferred stock dividends	--	--	(3,377)
Income (loss) from continuing operations available to common stockholders	14,610	(8,296)	(23,451)
Income (loss) from discontinued operations	(8,247)	(300)	7,688
Loss on disposal of discontinued operations	--	--	(3,737)
Net income (loss) available to common stockholders	$ 6,363	$ (8,596)	$(19,500)
DENOMINATOR			
Weighted average shares	36,612	41,729	47,498
Weighted average effect of dilutive securities:			
Net effect of dilutive stock options	--	--	--
Net effect of dilutive stock warrants	--	--	--
Denominator for diluted calculation	36,612	41,729	47,498
Income (loss) from continuing operations--basic and diluted	$ 0.40	$ (0.20)	$ (0.49)
Income (loss) from discontinued operations--basic and diluted	(0.23)	(0.01)	0.08
Net income (loss) per share--basic and diluted	$ 0.17	$ (0.21)	$ (0.41)

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Pro forma basic and diluted loss from continuing operations for the year ended December 31, 1999 of $0.36 per share is computed by dividing the net loss attributable to common stockholders by the sum of the weighted average number of shares of common stock outstanding giving effect to the conversion of all outstanding shares of the Series A preferred stock into 8,888,889 shares of common stock as if the conversion had occurred at the beginning of the period.

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

CURRENCY TRANSLATION--The assets and liabilities of the Company's subsidiaries outside the U.S. are translated into U.S. dollars at the rates of exchange in effect at the balance sheet dates. Income and expense items are translated at the average exchange rates prevailing during the period. Gains and losses resulting from currency transactions are recognized currently in income and those resulting from translation of financial statements are accumulated in a separate component of stockholders' equity.

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

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

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

Swap agreements involve the periodic exchange of payments over the life of the agreements. Amounts to be paid or received are recorded on an accrual basis as an adjustment to the related income or expense of the item to which the agreements are designated. As of December 31, 1998, the related amount receivable from counterparties was $1.7 million. As of December 31, 1999, the related amount payable to counterparties was $1.5 million. Changes in the fair value of interest rate swaps are not reflected in the accompanying financial statements where designated to existing or anticipated assets, liabilities or off-balance sheet items and where swaps effectively modify or reduce interest rate sensitivity.

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

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

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

SEGMENT INFORMATION--Effective December 31, 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". The new rules establish revised standards for public companies relating to the reporting of financial and descriptive information about their operating segments in financial statements. The Company did not previously report segment information.

RECENTLY ISSUED ACCOUNTING STANDARDS--In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which establishes accounting and reporting standards for derivative instruments and for hedging activities, and requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133" which deferred the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. Adoption of this statement is not anticipated to materially impact the Company's results of operations, but may require revised balance sheet classifications and will require revised disclosures in the notes to the consolidated financial statements.

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

PRO FORMA STOCKHOLDERS' EQUITY--If the offering contemplated by this prospectus is consummated, all of the Series A cumulative convertible preferred stock outstanding at the closing date will be converted into shares of common stock. The unaudited pro forma stockholders' equity as of December 31, 1999 reflects the conversion of all outstanding convertible preferred stock at December 31, 1999 into 9,139,020 shares of common stock.

3. SECURITIES AVAILABLE-FOR-SALE

Securities available-for-sale are primarily used to settle the Company's redemption obligation under its Air Miles reward program in Canada. These securities are primarily denominated in Canadian dollars. Realized gains and losses from the sale of investment securities were not material. The principal components of securities available-for-sale, which are carried at fair value, are as follows:

	DECEMBER 31, 1998				DECEMBER 31, 1999			
		UNREALIZED				UNREALIZED		
	COST	GAINS	LOSSES	FAIR VALUE	COST	GAINS	LOSSES	FAIR VALUE
	(IN THOUSANDS)							
Fixed income securities:								
Government	$19,951	$ 554	$ (82)	$20,423	$29,981	$ --	$(1,368)	$28,613
Corporate	10,162	200	(300)	10,062	11,884	9	(540)	11,353
Equity securities	22,420	1,508	(2,144)	21,784	25,385	3,171	(4,443)	24,113
Total	$52,533	$2,262	$(2,526)	$52,269	$67,250	$3,180	$(6,351)	$64,079

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	DECEMBER 31,	
	1998	1999
	(IN THOUSANDS)	
Software development and conversion costs	$ 50,556	$ 55,156
Computer equipment and purchased software	13,649	23,127
Furniture and fixtures	40,197	45,741
Leasehold improvements	28,253	31,593
Construction in progress	2,586	6,624
Total	135,241	162,241
Accumulated depreciation	(68,902)	(73,010)
Property and equipment, net	$ 66,339	$ 89,231

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

5. SECURITIZATION OF CREDIT CARD RECEIVABLES

The Company regularly securitizes its credit card receivables. During fiscal 1997, fiscal 1998 and fiscal 1999, the Company securitized $4.2 billion, $3.9 billion and $4.1 billion, respectively, of credit card receivables. The total amount of securitized credit card receivables outstanding as of December 31, 1998 and 1999 was $2.0 billion and $2.2 billion, respectively, maturing from 1999 to 2003. As of December 31, 1998 and 1999, seller's interest consisted of $139.1 million and $121.9 million, respectively.

5. SECURITIZATION OF CREDIT CARD RECEIVABLES (CONTINUED)

During the initial period of a securitization reinvestment period, the Company generally retains principal collections in exchange for the transfer of additional credit card receivables into the securitized pool of assets. During the amortization or accumulation period of a securitization, the investors' share of principal collections (in certain cases, up to a maximum specified amount each month) is either distributed each month to the investors or held in an account until it accumulates to the total amount, at which time it is paid to the investors in a lump sum. One of the Company's securitization trusts has entered an early amortization period as a result of a private label customer entering bankruptcy proceedings. The receivables associated with the customer are in a different trust from all of the Company's other receivables; therefore, those proceedings will not affect the other trusts. The Company's outstanding securitizations are scheduled to begin their amortization or accumulation periods at various times between 2000 and 2003.

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

	DECEMBER 31,	
	1998	1999
	(IN THOUSANDS)	
Spread deposits	$ 82,875	104,222
I/O strips	21,967	20,289
Excess funding deposits	16,600	19,973
	$121,442	$144,484

The spread deposits, I/O strips and excess funding deposit are initially recorded at their allocated carrying amount based on relative fair value. Fair value is determined by computing the present value of the estimated cash flows, using the dates that such cash flows are expected to be released to the Company, at a discount rate considered to be commensurate with the risks associated with the cash flows. The amounts and timing of the cash flows are estimated after considering various economic factors including prepayment, delinquency, default and loss assumptions.

I/O strips, seller's interest and other interests retained are periodically evaluated for impairment based on the fair value of those assets.

Fair values of I/O strips and other interests retained are based on a review of actual cash flows and on the factors that affect the amounts and timing of the cash flows from each of the underlying credit card receivable pools. Based on this analysis, assumptions are validated or revised as deemed necessary, the amounts and the timing of cash flows are estimated and fair value is determined. The Company has one collateral type, private label credit cards, and used the following assumptions to determine fair value at December 31, 1999:

Discount rate	14.0%
Collected yield	20.1% - 25.2%
Interest expense	6.94%
Credit losses rate	7.3% - 9.8%
Dilution (prepayment) ratio	1.6% to 2.8%
Weighted average life	8 months

5. SECURITIZATION OF CREDIT CARD RECEIVABLES (CONTINUED)

Spread deposits, carried at estimated fair value, represent interest earning deposits that are held by a trustee or agent and are used to absorb losses related to securitized credit card receivables should they exceed the available net cash flows arising from the securitized credit card receivables. The fair value of spread deposits is based on the maturity date of the respected series, ranging from 4 months to 3 years and 4 months, and the discount rate. The discount rate is based on a risk adjusted rate paid on the series less the interest rate earned by the Company on the spread deposits and ranges from 2.1% to 4.0%. The amount required to be deposited is 3.25% of credit card receivables in the trust, other than with respect to the trust in early amortization, for which all excess funds are required to be deposited. Spread deposits are generally released proportionately as investors are repaid, although some spread deposits are released only when investors have been paid in full. None of these spread deposits were required to be used to cover losses on securitized credit card receivables in the three-year period ended December 31, 1999.

The Company is required to maintain minimum interests ranging from 4% to 7% of the securitized credit card receivables. This requirement is met through seller's interest, and is supplemented through the excess funding deposits. Excess funding deposits represent cash amounts deposited with the trustee of the securitizations.

6. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill consist of the following:

	DECEMBER 31,		AMORTIZATION LIFE AND METHOD
	1998	1999	
	(IN THOUSANDS)		
Premium on purchased credit card portfolio	$ 37,539	$ 38,536	15 years--straight line
Customer contracts and lists	27,000	46,700	3-20 years--straight line
Noncompete agreement	19,000	2,300	5 years--straight line
Goodwill	174,338	333,154	20-25 years--straight line
Deferred incentives	10,454	11,086	27 months--straight line
Sponsor contracts	37,244	39,495	5 years--declining balance
Collector database	45,738	48,503	15%--declining balance
Total	351,313	519,774	
Accumulated amortization	(45,948)	(71,757)	
Intangible assets and goodwill, net	$305,365	$448,017	

7. DEBT

Debt consists of the following:

	DECEMBER 31,	
	1998	1999
	(IN THOUSANDS)	
Certificates of deposit	$ 49,500	$ 116,900
Revolving credit loan agreement	98,484	--
Subordinated notes	102,000	102,000
Credit agreement	130,000	120,361
Term loans	100,000	95,875
	479,984	435,136
Less: current portion	(148,149)	(118,225)
Long term portion	$ 331,835	$(316,911)

CERTIFICATES OF DEPOSIT--Terms of the certificates of deposit range from three months to 24 months with annual interest rates ranging from 5.1% to 5.9% at December 31, 1998 and from 5.4% to 6.9% at December 31, 1999. Interest is paid monthly and at maturity.

REVOLVING CREDIT LOAN AGREEMENT--In fiscal 1996, in connection with the Company's purchase of certain trade receivables, the Company entered into a revolving credit loan agreement that provided for revolving credit loans of up to $100.0 million, with interest at a variable rate (5.75% at December 31, 1998). The loan was repaid in December 1999 and this credit agreement has since expired.

SUBORDINATED NOTES--The Company has outstanding a subordinated note with an affiliate in the principal amount of $50.0 million. Such note bears interest at 10% payable semiannually. This note was issued at a discount of approximately $3.6 million, and such discount is accreted into interest expense using the effective rate of approximately 12% over the life of the note. The note is to be repaid on October 25, 2005. The Company may, at its option, prepay the note at its face amount.

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

CREDIT AGREEMENT--In fiscal 1997, the Company entered into a credit agreement to borrow $130.0 million. Funds borrowed under this facility bear interest at the higher of (i) the prime rate for such day or (ii) the sum of 1/2 of 1% plus the Federal funds rate for a base rate loan or (iii) the sum of the Euro-dollar margin plus the LIBOR rate applicable to such period for each Euro-dollar loan. Interest is payable quarterly in arrears. The effective interest rates were 7.94% and 8.0% at December 31, 1998 and 1999, respectively. The credit agreement is payable in installments of $10.0 million on July 28, 2000, $30.0 million on July 27, 2001, $40.0 million on August 2, 2002, and the remaining balance on July 25, 2003. The note is collateralized by the assets of the Company.

7. DEBT (CONTINUED)

TERM LOANS--The Company has outstanding two separate term loan facilities each in the amount of $50.0 million. The first term loan is payable in four separate annual installments of $3.1 million commencing July 30, 1999 with a final lump sum payment of $37.5 million due July 25, 2003. The second term loan is payable in six separate annual installments of $1.0 million commencing July 30, 1999 with a final lump sum payment of $44.0 million due July 25, 2005. Both loans bear interest at the higher of (i) the prime rate for such day or (ii) the sum of 1/2 of 1% plus the Federal funds rate for a base rate loan or (iii) the sum of Euro-dollar margin plus the LIBOR rate applicable to such period for each Euro-dollar loan. Interest is payable quarterly in arrears. The effective interest rates on the two term loans were 7.07% and 8.995%, respectively, at December 31, 1999.

LINE OF CREDIT--The Company has available borrowings under a line of credit agreement of $100.0 million. The line of credit bears interest at the higher of (i) the prime rate for such day, or (ii) the sum of 1/2 of 1% plus the Federal funds rate for a base rate loan or (iii) the sum of Euro-dollar margin plus the LIBOR rate applicable to such period for each Euro-dollar loan. The agreement matures on July 25, 2003. There were no amounts outstanding on the line of credit at December 31, 1998 or 1999.

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

Debt at December 31, 1999 matures as follows (in thousands):

2000	$118,225
2001	64,425
2002	44,125
2003	78,861
2004	1,000
Thereafter	128,500
	$435,136

8. INCOME TAXES

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

	FISCAL		
	1997	1998	1999
	(IN THOUSANDS)		
CURRENT			
Federal	$ 9,464	$ 5,789	$18,827
State	347	98	483
Foreign	22	1,777	9,610
Total current	9,833	7,664	28,920
DEFERRED			
Federal	(1,021)	(1,843)	(12,009)
State	(392)	(808)	1,182
Foreign		1,640	(2,705)
Total deferred	(1,413)	(1,011)	(13,532)
	8,420	6,653	15,388
Tax (benefit) expense related to discontinued operations	(4,440)	(159)	2,127
Total income tax provision	$ 3,980	$ 6,494	$17,515

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

	FISCAL		
	1997	1998	1999
	(IN THOUSANDS)		
Expected (benefit) expense at statutory rate	$8,061	$ (575)	$(1,640)
Increase/(decrease) in income taxes resulting from:			
State and foreign income taxes	225	63	296
Non-deductible foreign losses	159	832	623
Non-deductible acquired goodwill and other intangibles	--	5,944	18,846
Credit to valuation allowance related to state net operating losses	--	--	(3,266)
Other--net	(25)	389	529
Total	$8,420	$6,653	$15,388

8. INCOME TAXES (CONTINUED)

Deferred tax assets and liabilities consist of the following:

	DECEMBER 31,	
	1998	1999
	(IN THOUSANDS)	
DEFERRED TAX ASSETS		
Deferred income	$ 5,424	$13,410
Allowance for doubtful accounts	2,733	1,405
Intangible assets	10,762	10,221
Estimated loss on contracts	1,841	--
Net operating loss carryforwards	10,553	11,966
Depreciation	1,800	2,875
Discontinued operations	--	2,186
Other	3,708	3,936
Total deferred tax assets	36,821	45,999
DEFERRED TAX LIABILITIES		
Servicing rights	7,771	8,120
Accrued expenses	1,283	468
Other	970	348
Total deferred tax liabilities	10,024	8,936
Valuation allowance	(8,797)	(5,531)
Net deferred tax asset	$18,000	$31,532

8. INCOME TAXES (CONTINUED)

At December 31, 1999, the Company had approximately $18.8 million of Federal net operating losses ("NOL's"), which expire at various times through 2013. In addition, the Company has approximately $139.9 million of state NOL's, which expire at various times through 2015. The utilization of the Federal NOL's are subject to limitations under Section 382 of the Internal Revenue Code on account of changes in the equity ownership. NOL's for both financial reporting and tax reporting purposes are subject to a valuation allowance established for the tax benenfit associated with their respective unrealizable federal and state NOL's. In 1999, $7.3 million of the valuation allowance was reversed as a result of final regulations issued by the Internal Revenue Service in June 1999. The Company increased the valuation allowance by $4.0 million in 1999. The valuation allowance relates primarily to state NOL's and reduces deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized.

9. PREFERRED STOCK

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

- Dividends are payable by the Company upon declaration by the Board of Directors. Dividends are cumulative and dividends not paid currently will accrue and compound quarterly at an annual rate of 6.0%.

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

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

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

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

10. STOCKHOLDERS' EQUITY

In connection with an acquisition, the Company issued stock purchase warrants to purchase up to 1.5 million shares of the Company's common stock at $1.00 per share which expires in January 2008. The warrants and any stock issued upon exercise of the warrants contain or will contain transfer restrictions. The value of the stock purchase warrants was included in the acquisition purchase price.

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

11. STOCK COMPENSATION PLANS

Certain of the Company's employees have been granted stock options under the Company's Stock Option and Restricted Stock Purchase Plan (the "Plan"). The purpose of the Plan is to benefit and advance the interests of the Company by rewarding certain key employees for their contributions to the

11. STOCK COMPENSATION PLANS (CONTINUED)

financial success of the Company and thereby motivating them to continue to make such contributions in the future. The stock options generally vest over a three year period, beginning on the first day of February of the eighth year after the date of grant and expire 10 years after the date of grant. Terms of all awards are determined by the Board of Directors at the time of award.

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

	FISCAL		
	1997	1998	1999
Expected dividend yield	--	--	--
Risk-free interest rate	6.0%	6.0%	7.0%
Expected life of options (years)	4.0 yrs	4.0 yrs	4.0 yrs
Assumed volatility	1.0%	1.0%	1.0%

The weighted average fair value of each option as of the grant date was 0.21, 0.31 and 0.27 in fiscal 1997, fiscal 1998, and fiscal 1999, respectively. The Black Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The following table summarizes stock option activity under the Plan:

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
BALANCE AT FEBRUARY 1, 1997	640	$ 9.00
Granted	597	9.00
Exercised	(16)	9.00
Canceled	(65)	9.00
BALANCE AT JANUARY 31, 1998	1,156	9.00
Granted	912	9.45
Exercised	(57)	9.00
Canceled	(194)	9.00
BALANCE AT DECEMBER 31, 1998	1,817	9.18
Granted	639	10.17
Exercised	(42)	9.00
Cancelled	(66)	9.09
BALANCE AT DECEMBER 31, 1999	2,348	9.45

11. STOCK COMPENSATION PLANS (CONTINUED)

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 1999 (in thousands, except per share amounts):

	OUTSTANDING			EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS	REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
$9.00 to $11.25	2,348	8.34	9.45	1,311	9.30

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

	FISCAL		
	1997	1998	1999
Pro forma net income (loss)	$6,228	$(9,233)	$(16,515)
Basic pro forma earnings per share	$ 0.17	$ (0.22)	$ (0.35)
Diluted pro forma earnings per share	$ 0.17	$ (0.22)	$ (0.35)

12. EMPLOYEE BENEFIT PLANS

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

13. COMMITMENTS AND CONTINGENCIES

The Company has entered into certain contractual arrangements that result in a fee being billed to the sponsors upon redemption of Air Miles reward miles. The Company has obtained revolving letters of credit from certain of these sponsors that expire at various dates. These letters of credit total $44.4 million at December 31, 1999, which exceeds the estimated amount of the obligation to provide travel and other rewards.

The Company leases certain office facilities and equipment under noncancellable operating leases and is generally responsible for property taxes and insurance. Future annual minimum rental payments

13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

required under noncancellable operating leases, some of which contain renewal options, as of December 31, 1999 are (in thousands):

YEAR:	
2000	$ 53,002
2001	49,496
2002	28,887
2003	12,009
2004	10,056
Thereafter	34,076
Total	$187,526

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

Quantitative measures established by regulation to ensure capital adequacy require WFNNB to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined) ("total capital ratio", "Tier 1 capital ratio" and "leverage ratio", respectively). Under the regulations, a "well capitalized" institution must have a Tier 1 captial ratio of at least six percent, a total capital ratio of at least 10 percent and a leverage ratio of at least five percent and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least four percent, a total capital ratio of at least eight percent and a leverage ratio of at least four percent, but three percent is allowed in some cases. Under these guidelines, WFNNB is considered well capitalized. As of December 31, 1999, WFNNB's Tier 1 capital ratio was 50.0, total capital ratio was 51.0 and leverage ratio was 49.1, and WFNNB was not subject to a capital directive order.

Holders of credit cards issued by the Company have available lines of credit, which vary by accountholder, that can be used for purchases of merchandise offered for sale by clients of the Company. These lines of credit represent elements of risk in excess of the amount recognized in the financial statements. The lines of credit are subject to change or cancellation by the Company. As of December 31, 1999, WFNNB had approximately 24.0 million active accountholders, having an unused line of credit averaging $684 per account.

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

14. FINANCIAL INSTRUMENTS

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

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

	DECEMBER 31, 1998		DECEMBER	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN THOUSANDS)			
FINANCIAL ASSETS				
Cash and cash equivalents	$ 47,036	$ 47,036	$ 56,546	$ 56,546
Restricted cash and cash equivalents	17,909	17,909	69,571	69,571
Securities available-for-sale	52,269	52,269	64,079	64,079
Trade receivables	143,286	143,286	69,085	69,085
Credit card receivables and seller's interest, net	139,458	139,458	150,804	150,804
Due from securitizations	121,442	121,442	144,484	144,484
FINANCIAL LIABILITIES				
Accounts payable	44,327	44,327	83,976	83,976
Long-term and subordinated debt	479,984	491,192	435,136	447,861
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Interest swaps	$900,000	$(14,148)	$725,000	$ (6,083)

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

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

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

CREDIT CARD RECEIVABLES--The carrying amount of credit card receivables approximates fair value due to the short maturity and the average interest rates approximate current market origination rates.

SECURITIES AVAILABLE-FOR-SALE--Fair value for securities are based on quoted market prices.

DUE FROM SECURITIZATIONS--The carrying amount of the securitization spread account approximates its fair value due to the relatively short maturity period and average interest rates which approximate current market rates.

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

14. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

15. INTEREST SWAPS

INTEREST SWAPS--In March 1997, WFNNB entered into three interest rate swap agreements with JP Morgan Company ("Morgan") with notional amounts totaling $500.0 million. These interest rate swaps effectively change WFNNB's interest rate exposure on $300.0 million and $200.0 million of securitized credit card receivables to a fixed rate of approximately 6.34% and 6.72%, respectively. On January 30, 1998, WFNNB entered into an interest rate swap agreement with Morgan with a notional amount of $300.0 million. This interest rate swap effectively changed WFNNB's interest rate exposure on $300.0 million of securitized accounts receivable to a variable rate based on LIBOR. The notional amount of the swap, $125 million at December 31, 1999, will decrease with a corresponding decrease of the related securitized credit card receivables. In October 1998, Loyalty entered into two cross-currency interest rate swap agreements with Morgan with notional amounts totaling $100.0 million. The interest rate swaps effectively changed Loyalty's interest rate exposure on $50.0 million and $50.0 million of notes payable to a variable rate based on Canadian Bankers Acceptance and to a fixed rate of 7.07% and 8.995%, respectively. The following briefly outlines the terms of each swap agreement:

NOTIONAL AMOUNT	SWAP PERIOD	FIXED/VARIABLE RATE RECEIVED	FIXED/VARIABLE RATE PAID
$250,000,000.....	March 10, 1997 through March 10, 2000	USD-CP-H.15	6.340%
$50,000,000.....	March 10, 1997 through March 10, 2000	USD-LIBOR-BBA	6.345%
$200,000,000.....	May 15, 1997 through May 15, 2004	USD-LIBOR-BBA	6.720%
$125,000,000.....	January 30, 1998 through March 15, 2003	5.67%	USD-LIBOR-BBA
$50,000,000.....	October 26, 1998 through July 25, 2003	USD-LIBOR-BBA+1.75%	CAD-BA-CDOR+1.99%
$50,000,000.....	October 26, 1998 through July 25, 2005	USD-LIBOR-BBA+3.0%	8.995%

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

16. PARENT ONLY FINANCIAL STATEMENTS

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

BALANCE SHEETS	DECEMBER 31, 1998	DECEMBER 31, 1999
	(IN THOUSANDS)	
Assets:		
Cash and cash equivalents	$ 889	$ --
Investment in subsidiaries	191,872	362,194
Loans to subsidiaries	271,750	181,750
Receivables from subsidiaries	--	66,179
Trade receivables	97,635	--
Other	23,151	12,867
Total assets	$585,297	$622,990
Liabilities:		
Long-term and subordinated debt	$330,600	$222,361
Borrowings from subsidiaries	17,510	--
Other	7,324	10,432
Total liabilities	355,434	232,793
Stockholders' equity	229,863	390,197
Total liabilities and stockholders' equity	$585,297	$622,990

STATEMENTS OF INCOME	FISCAL 1997	FISCAL 1998	FISCAL 1999
	(IN THOUSANDS)		
Interest from loans to subsidiaries	$3,578	$17,907	$23,962
Dividends from subsidiary	--	--	40,000
Processing and servicing fees	695	4,457	3,404
Other income	240	156	149
Total revenue	4,513	22,520	67,515
Interest expense	1,945	21,165	25,981
Other expense	17	153	256
Total expense	1,962	21,318	26,237
Income before income taxes	2,551	1,202	41,278
Income tax expense	848	486	720
Net income	$1,703	$ 716	$40,558

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

16. PARENT ONLY FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CASH FLOWS	FISCAL 1997	FISCAL 1998	FISCAL 1999
	(IN THOUSANDS)		
Net cash provided by (used in) operating activities.....	$ (59,919)	$ 25,720	$ 115,555
Investing activities:			
Net cash paid for corporate acquisitions.....	(3,250)	(151,500)	(169,322)
Loans to subsidiaries.....	(137,669)	--	--
Net cash used for investing activities.....	(140,919)	(151,500)	(169,322)
Financing Activities:			
Borrowings from subsidiaries.....	--	17,510	41,331
Issuance of long-term and subordinated debt.....	421,998	327,159	320,624
Repayment of long-term and subordinated debt.....	(220,626)	(221,676)	(428,854)
Net proceeds from preferred stock.....	--	--	119,400
Net proceeds from issuances of common stock.....	96	107,042	377
Net cash provided by (used for) financing activities.....	201,468	230,015	52,878
Increase (decrease) in cash and cash equivalents.....	630	107,869	(889)
Cash and cash equivalents at beginning of period.....	4	634	889
Cash and cash equivalents at end of period.....	$ 634	$ 889	$ --

17. SEGMENT INFORMATION

Operating segments are defined by SFAS 131 as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision making group is the Executive Committee, which consists of the Chairman of the Board and Chief Executive Officer, Presidents of the divisions; Executive Vice Presidents; and certain other officers. The operating segments are reviewed separately because each operating segment represents a strategic business unit that generally offers different products and serves different markets.

The accounting policies of the operating segments are generally the same as those described in the summary of significant accounting policies. Corporate overhead is allocated to the segments based on a percentage of the segment's revenues. Interest expense and income taxes are not allocated to the segments in the computation of segment operating profit for internal evaluation purposes. Transaction Services performs servicing activities related to Credit Services. For this, Transaction Services receives a fee equal to its direct costs before corporate overhead allocation plus a margin that it would charge an

17. SEGMENT INFORMATION (CONTINUED)

unrelated third party for similar functions. Revenues are attributed to geographic areas based on the location of the unit processing the underlying transactions.

FISCAL 1997	LOYALTY AND DATABASE MARKETING	TRANSACTION SERVICES	CREDIT SERVICES	OTHER/ ELIMINATION	TOTAL
			(IN THOUSANDS)		
Revenues	$23,348	$256,730	$211,921	$(138,600)	$353,399
Depreciation and amortization	--	4,323	2,966	19,174	26,463
Operating profit	8,393	22,886	26,384	(19,174)	38,489

FISCAL 1998	LOYALTY AND DATABASE MARKETING	TRANSACTION SERVICES	CREDIT SERVICES	OTHER/ ELIMINATION	TOTAL
			(IN THOUSANDS)		
Revenues	$ 84,288	$286,605	$212,663	$(149,247)	$434,309
Depreciation and amortization	13,968	6,818	3,204	18,601	42,591
Operating profit	1,847	6,804	36,191	(18,601)	26,241

FISCAL 1999	LOYALTY AND DATABASE MARKETING	TRANSACTION SERVICES	CREDIT SERVICES	OTHER/ ELIMINATION	TOTAL
			(IN THOUSANDS)		
Revenues	$194,482	$362,524	$247,824	$(165,576)	$639,254
Depreciation and amortization	33,863	20,335	3,284	8,478	65,960
Operating profit	3,488	249	42,755	(8,393)	38,099

Information concerning principal geographic areas is as follows:

	UNITED STATES	REST OF WORLD(1)	TOTAL
		(IN THOUSANDS)	
Revenues			
Fiscal 1997	$352,975	$ 424	$ 353,399
Fiscal 1998	367,588	66,721	434,309
Fiscal 1999	467,629	171,625	639,254
Total assets			
December 31, 1998	318,397	308,412	626,809
December 31, 1999	819,394	365,675	1,185,069

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

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

18. RELATED PARTY TRANSACTIONS

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

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

18. RELATED PARTY TRANSACTIONS (CONTINUED)

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

- The Company sold 30,303 shares of common stock to WCAS and 20,202 shares of common stock to The Limited, in August 1998, for an aggregate purchase price of $300,000, with $200,000 to The Limited.

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

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

The other significant stockholder of the Company, The Limited (through affiliates), is a significant customer. The Company has entered into credit card processing agreements with several affiliates of The Limited. The Company has received fees from The Limited and its affiliates of $53.1 million for fiscal 1997, $54.8 million for fiscal 1998 and $64.1 million for fiscal 1999.

19. DISCONTINUED OPERATIONS

During September 1999, the Board of Directors decided to discontinue the Company's subscriber services business when the Company a major customer was acquired by a third party. The business is expected to wind down by second quarter 2000. The business had revenues of approximately $27.4 million, $44.9 million, $43.1 million in fiscal 1997, 1998 and 1999, respectively. The net assets of the business were immaterial.

20. SUBSEQUENT EVENTS

On March 1, 2000, the Company's Board of Director and stockholders approved a change in number of authorized shares of common stock to 200,000,000, and approved a 1-for-9 reverse stock split. Such change in authorized shares and stock split became effective March 1, 2000. All per share data in the financial statements have been restated to give effect to the reverse stock split.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Alliance Data Systems Corporation

We have audited the accompanying statements of income, changes in net assets and cash flows of SPS Network Services for the year ended December 31, 1998 and for the six months ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the results of operations and cash flows of SPS Network Services for the year ended December 31, 1998 and the six months ended June 30, 1999, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Columbus, Ohio
March 1, 2000

SPS NETWORK SERVICES

STATEMENTS OF INCOME

(AMOUNTS IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1998	SIX MONTHS ENDED JUNE 30, 1999
Processing and servicing fees	$ 47,674	$24,322
Operating expenses:		
Processing and servicing	31,260	16,947
Salaries and employee benefits	6,331	3,181
Total operating expenses	37,591	20,128
Net income before income taxes	10,083	4,194
Income taxes	3,711	1,543
Net income	$ 6,372	$ 2,651

See accompanying notes.

SPS NETWORK SERVICES

STATEMENTS OF CHANGES IN NET ASSETS

(AMOUNTS IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1998	SIX MONTHS ENDED JUNE 30, 1999
Net assets at beginning of period	$ 9,074,428	$10,092,862
Net income	6,372,419	2,650,430
Distribution of net income to parent	(5,353,985)	(4,094,706)
Net assets at end of period	$10,092,862	$ 8,648,586

See accompanying notes.

SPS NETWORK SERVICES

STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1998	SIX MONTHS ENDED JUNE 30, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$6,372.419	$2,650,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	394,880	205,035
Change in accounts receivable	(1,434,519)	(336,379)
Change in other assets	103,021	(54,224)
Change in other liabilities	56,243	1,708,169
Net cash provided by operating activities	5,492,044	4,173,031
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(138,059)	(78,325)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distribution to parent	(5,353,985)	(4,094,706)
Change in cash and cash at end of period	$ 0	$ 0

See accompanying notes.

1. DESCRIPTION OF THE BUSINESS

SPS Network Services (the "Company") provides a range of technology outsourcing services including the processing of credit and debit card transactions in the United States.

On July 1, 1999, the Company was purchased by Alliance Data Systems Corporation ("ADSC"). The Company is a wholly owned subsidiary of ADSC. Prior to July 1, 1999, the Company provided network services for SPS Payment Systems, Inc., a wholly-owned subsidiary of Associates First Capital Corporation ("Associates").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MANAGEMENT ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PROCESSING AND SERVICE FEES--Processing and service revenues include fees from transaction processing services which are recognized as such services are performed.

3. INCOME TAXES

Prior to July 1, 1999 the Company was included in the consolidated tax returns of Associates. Associates allocated income tax expense to the Company based on its proportionate share of the consolidated federal tax return. There was no deferred tax provision or benefit in 1998 or for the six months ended June 30, 1999.

A reconciliation of recorded income tax expense to the expected expense computed by applying the federal statutory rate of 35% to income before income taxes for 1998 and the six months ended June 30, 1999 is as follows (in thousands):

	1998	SIX MONTHS ENDED JUNE 30, 1999
Expected expense at statutory rate	$3,529	$1,468
Other	182	75
Total	$3,711	$1,543

LOYALTY MANAGEMENT GROUP CANADA INC.
REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
Loyalty Management Group Canada Inc.

We have audited the consolidated balance sheets of Loyalty Management Group Canada Inc. as at April 30, 1997 and April 30, 1998 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 1997 and April 30, 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Toronto, Canada
June 12, 1998, except as to
Note 14, which is as at
January 12, 2000

/s/ Ernst & Young LLP
Ernst & Young LLP
Chartered Accountants

LOYALTY MANAGEMENT GROUP CANADA INC.

CONSOLIDATED BALANCE SHEETS

(CANADIAN DOLLARS IN THOUSANDS)

	AS OF APRIL 30,	
	1997	1998
ASSETS		
Cash and cash equivalents	$11,371	$ 10,691
Trade receivables	15,269	20,841
Prepaid expenses and deposits	236	1,261
Total current assets	26,876	32,793
Restricted marketable securities and cash	46,002	76,613
Deferred financing costs, net	1,615	--
Furniture, fixtures and equipment, net	2,745	6,170
Deferred income taxes	400	560
Goodwill, net	11,254	9,917
Total assets	$88,892	$126,053
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Accounts payable and accrued liabilities	$12,801	$ 18,597
Income taxes payable	3,878	4,355
Deferred revenue and deposits	2,938	4,804
Due to related parties	307	412
Current portion of leasehold inducement	--	184
Current portion of term loan payable	3,750	--
Total current liabilities	23,674	28,352
Redemption obligation	60,237	90,555
Leasehold inducement	--	1,539
Term loan payable	6,563	--
Total liabilities	90,474	120,446
Capital stock; 1,434,464 authorized common shares; 1,189,542 issued common shares	730	730
Retained earnings (deficit)	(2,312)	4,877
Total shareholders' equity (deficiency)	(1,582)	5,607
Total liabilities and shareholders' equity (deficiency)	$88,892	$126,053

See accompanying notes

LOYALTY MANAGEMENT GROUP CANADA INC.
CONSOLIDATED STATEMENTS OF
OPERATIONS AND RETAINED EARNINGS (DEFICIT)

(CANADIAN DOLLARS IN THOUSANDS)

	YEAR ENDED APRIL 30,	
	1997	1998
REVENUES		
Air Miles revenue	$ 91,393	$143,723
Other income	6,248	9,492
Total revenues	97,641	153,215
OPERATING EXPENSES		
Program operations	73,142	119,331
General and administrative	9,380	12,518
Marketing	5,094	2,742
Amortization of goodwill	1,337	1,337
Amortization of deferred financing costs	669	1,615
Total operating expenses	89,622	137,543
Operating income	8,019	15,672
Interest expense	1,130	718
Income before income taxes	6,889	14,954
Income tax expense	3,500	7,765
Net income for the year	3,389	7,189
Deficit, beginning of year	(5,701)	(2,312)
Retained earnings (deficit), end of year	$ (2,312)	$ 4,877

See accompanying notes

LOYALTY MANAGEMENT GROUP CANADA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(CANADIAN DOLLARS IN THOUSANDS)

	YEAR ENDED APRIL 30,	
	1997	1998
OPERATING ACTIVITIES		
Net income	$ 3,389	$ 7,189
Add (deduct) items not affecting cash:		
Depreciation and amortization	3,679	4,715
Deferred income taxes	(400)	(160)
Increase in redemption obligation	12,930	30,318
Net change in non-cash working capital balances related to operations	1,323	1,647
	20,921	43,709
Increase in restricted marketable securities and cash	(10,639)	(30,611)
Cash provided by operating activities	10,282	13,098
INVESTING ACTIVITIES		
Capital expenditures	(1,587)	(5,188)
Cash used in investing activities	(1,587)	(5,188)
FINANCING ACTIVITIES		
Repayment of term loan payable	(4,688)	(10,313)
Leasehold inducement	--	1,723
Cash used in financing activities	(4,688)	(8,590)
Net increase (decrease) in cash during the year	4,007	(680)
Cash and cash equivalents, beginning of year	7,364	11,371
Cash and cash equivalents, end of year	$ 11,371	$ 10,691
Supplementary cash flow information:		
Interest paid	$ 1,130	$ 718
Income taxes paid	$ 20	$ 7,450

See accompanying notes

1. THE COMPANY

Loyalty Management Group Canada Inc. (the "Company") was incorporated under the laws of Ontario on May 23, 1990, and operates under the registered trademark name of The Loyalty Group. Its business is to design, develop, market and manage loyalty programs (the "programs") in Canada.

The Company's program, the Air Miles reward program, was launched in March 1992 and provides travel and other awards to participating consumers and businesses ("collectors") for purchases of products and services marketed by sponsors. The Company provides these awards through a subsidiary company under long-term exclusive arrangements with suppliers, including major airlines, certain hotels and other ancillary reward-related businesses.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Significant differences between U.S. and Canadian GAAP are discussed in Note 14.

BASIS OF CONSOLIDATION

The consolidated financial statements of the Company include the assets, liabilities and results of operations of its wholly-owned subsidiary, LMG Travel Services Limited.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and short-term investments with original maturities of less than 90 days.

FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets as follows:

Office equipment and furniture	20%
Computers and telephone equipment	33%
Leasehold improvements	10%

GOODWILL

Goodwill acquired is amortized on a straight-line basis over its expected life of ten years.

On an ongoing basis, the Company determines whether there has been a permanent impairment in unamortized goodwill based on an estimation of undiscounted long-term cash flow of the operations. To date, no such impairment has been incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASEHOLD INDUCEMENTS

Leasehold inducements received upon the Company's move to new premises have been deferred in the accounts and are being amortized over the ten-year term of the lease.

INCOME TAXES

The Company follows the deferral method of accounting for income taxes. Accordingly, the provision for income taxes reflects the income tax effects of timing differences between amounts claimed for income tax purposes and amounts deducted for accounting purposes. The benefits resulting therefrom are shown as deferred income taxes.

REVENUE RECOGNITION

The Company records revenue for Air Miles reward miles issued through sponsors to collectors, and provides for the cost of estimated redemptions by collectors in the year during which the Air Miles reward miles are issued.

Other revenue consists primarily of ancillary revenue derived from operation of the program and is recorded when the services are rendered.

REDEMPTION OBLIGATION

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

The redemption obligation is estimated as the cost of providing travel and other awards to collectors and related redemption service expenses required to redeem Air Miles reward miles in the future based on management's best estimate of the Air Miles reward miles currently issued that will ultimately be redeemed. These estimates are revised periodically to reflect current expectations of future redemption costs. Significant changes in future conditions or assumptions could require a material change in the estimated amount of the redemption obligation. The redemption obligation is expected to be partially discharged in the following year in the amount of approximately $25.0 million due to redemptions by collectors and the same amount of cash is expected to be drawn from the restricted cash account to fund these payments. Due to significant uncertainty in the estimation of the amount and the timing of redemption activity, no current portion of the respective asset and liability are set out in the consolidated balance sheet.

RESTRICTED MARKETABLE SECURITIES AND CASH

In order to receive program awards, collectors must collect a specified number of Air Miles reward miles to qualify for a particular award. Currently, Air Miles reward miles in collector accounts which are active have no expiration date. As such, demand for redemption is expected to occur over a considerable period of time. This timing difference results in the availability of liquid assets, a portion of which must be segregated to satisfy expected future redemption costs under the terms of agreements with the Company's suppliers and sponsors ("restricted cash"). The Company funds a segregated

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

investment account with a portion of amounts paid by sponsors for Air Miles reward miles. These amounts, which earn investment income, are maintained under the terms of agreements with a trust company entered into in December 1992.

FINANCIAL INSTRUMENTS

The carrying amounts in the consolidated financial statements for cash, accounts receivable, accounts payable and accrued liabilities and deferred revenue and deposits approximate fair values due to the immediate or short-term maturities of these financial instruments.

The fair values of short-term investments and marketable securities are recorded at quoted market value which is considered to be the closing market price at year end.

3. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents are short-term investments as follows:

	1997		1998	
	COST	FAIR VALUE	COST	FAIR VALUE
Short-term investments	$3,501	$3,505	$1,493	$1,500

4. RESTRICTED MARKETABLE SECURITIES AND CASH

Restricted marketable securities and cash consist of the following:

	1997		1998	
	COST	FAIR VALUE	COST	FAIR VALUE
Cash on hand	$11,756	$11,756	$11,909	$11,909
Short-term deposits--treasury bills, bankers' acceptances, corporate paper	15,462	15,523	14,695	14,695
Fixed income securities--government	17,075	17,332	22,394	22,414
Fixed income securities--corporate	1,709	1,767	4,978	4,915
Equity	--	--	22,637	22,399
	$46,002	$46,378	$76,613	$76,332

5. FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment consists of the following:

	1997	1998
Office equipment and furniture	$1,941	$ 2,963
Computer equipment	2,429	3,494
Telephone equipment	948	1,546
Leasehold improvements	730	2,508
	6,048	10,511
Less accumulated depreciation and amortization	3,303	4,341
	$2,745	$ 6,170

6. GOODWILL

On October 2, 1995, a financial restructuring took place involving the purchase of the minority interest in the Company. The transaction was accounted for under the purchase method of accounting and resulted in goodwill approximately equal to the cash consideration paid.

Goodwill consists of the following:

	1997	1998
Goodwill	$13,371	$13,371
Less accumulated amortization	2,117	3,454
	$11,254	$ 9,917

7. RELATED PARTY TRANSACTIONS

Amounts due to related parties represent amounts due to a shareholder and its subsidiaries. These amounts are non-interest bearing and due on demand.

Transactions with these related parties are recorded on a fair value basis. During the year, transactions with related parties were as follows:

	1997	1998
Royalty expense paid to subsidiaries of a shareholder	$957	$1,501
Management fees paid to a shareholder	120	120

8. CAPITAL STOCK

The Company has approved stock options to management totalling 234,774 shares, 209,207 of which were granted as of April 30, 1997 and 234,774 of which were granted as of April 30, 1998. The options are exercisable under certain terms and conditions at a nominal price and expire on January 6, 2003.

9. INCOME TAXES

A reconciliation of the combined basic federal and provincial income tax rate to the related effective rate is as follows:

	1997	1998
Combined basic Canadian federal and provincial income tax rate	44.6%	44.6%
Non-deductible amortization of goodwill	8.8	4.0
Other	(1.7)	3.3
Effective income tax rate	51.7%	51.9%

10. LEASE COMMITMENTS

Future minimum annual rental payments required under non-cancelable operating leases are as follows:

1999	$1,615
2000	1,418
2001	1,337
2002	1,303
2003 and thereafter	7,245

The Company is also committed to its share of operating costs with respect to office leases.

11. MARKETING AND PROGRAM OPERATIONS EXPENSES

Under the terms of contracts with certain sponsors, the Company is able to recover a specified amount of Air Miles reward program marketing expenses. Marketing expenses are presented net of these cost recoveries which amounted to $2.1 million during 1997 and $3.6 million during 1998. Program operations expenses are also presented net of cost recoveries which are received by the Reward Services department to offset the costs of processing redemptions. Total cost recoveries amount to $6.2 million in 1997 and $9.6 million in 1998.

12. CONTRACTUAL COMMITMENTS

The Company has entered into certain contractual arrangements that result in an obligation to provide travel and other awards upon redemption of Air Miles reward miles for a fee to be billed upon redemption to certain sponsors. The Company has obtained revolving letters of credit from certain of these sponsors that expire at various dates. The amounts of these letters of credit total $106.4 million, which exceeds the estimated amount of the fees to be received from these sponsors.

13. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 1998 consolidated financial statements.

14. DIFFERENCES BETWEEN CANADIAN AND U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Significant differences between U.S. and Canadian GAAP for these consolidated financial statements are as follows:

(i) Under Canadian GAAP, restricted marketable securities and cash are carried at cost. Under U.S. GAAP, restricted marketable securities and cash are carried at fair value with the resulting difference between cost and fair value being recorded as a separate component of equity, net of tax. The differences as of April 30, 1997 and 1998 would not be material to the balance sheets or shareholders' equity (deficit).

(ii) Other differences between Canadian and U.S. GAAP are immaterial.

Inside back cover

Includes an example of our "Smart Statement" and our logo

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

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

TABLE OF CONTENTS

Dealer Prospectus Delivery Obligation:

Until , 2000 (25 days after the date of this prospectus), all dealers that buy, sell or trade these shares of common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

[LOGO]

20,000,000 SHARES

COMMON STOCK

PROSPECTUS

BEAR, STEARNS & CO. INC.
MERRILL LYNCH & CO.
DONALDSON, LUFKIN & JENRETTE

, 2000

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13--OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

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

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

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* To be completed by amendment

ITEM 14--INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

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

Alliance Data Systems Corporation's Bylaws provide for indemnification by it of its directors, officers and certain non-officer employees under certain circumstances against expenses (including attorneys' fees, judgments, fines and amounts paid in settlement) reasonably incurred in connection with the defense or settlement of any threatened, pending or completed legal proceeding in which any such person is involved by reason of the fact that such person is or was an officer or employee of Alliance Data Systems

Corporation if such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of Alliance Data Systems Corporation, and, with respect to criminal actions or proceedings, if such person had no reasonable cause to believe his or her conduct was unlawful. Alliance Data Systems Corporation's Certificate of Incorporation also provides that, to the fullest extent permitted by the Delaware General Corporation Law, no director shall be personally liable to Alliance Data Systems Corporation or its stockholders for monetary damages resulting from breaches of their fiduciary duty as directors.

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

ITEM 15--RECENT SALES OF UNREGISTERED SECURITIES

Since January 1997, Alliance Data Systems Corporation has issued and sold the following unregistered securities:

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

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

(3) In September 1998, 655,555 shares of common stock were sold to WCAS Capital Partners III, LP to finance, in part, the acquisition of Harmonic Systems Incorporated.

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

(5) Since February 1997, Alliance Data Systems Corporation has granted stock options to purchase shares of its common stock under its stock option plan covering an aggregate of 2,354,000 shares, at exercise prices ranging from $9.00 to $11.25 per share. Since February 1997, Alliance Data Systems Corporation has issued 16,354 shares of Alliance Data Systems Corporation's common stock pursuant to the exercise of stock options. Since February 1997, 41,423 stock options have lapsed without being exercised.

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

ITEM 16--EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) EXHIBITS

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

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**10.5	Credit Card Processing Agreement between World Financial Network National Bank, Express, Inc., and Retail Factoring, Inc., dated January 31, 1996.
**10.6	Credit Card Processing Agreement between World Financial Network National Bank, The Limited Stores, Inc., and American Receivable Factoring, Inc., dated January 31, 1996.
**10.7	Credit Card Processing Agreement between World Financial Network National Bank, Structure, Inc., and Mountain Factoring, Inc., dated January 31, 1996.
**10.8	Credit Card Processing Agreement between World Financial Network National Bank, Lane Bryant, Inc., and Sierra Nevada Factoring, dated January 31, 1996, and amended August 4, 1998 and September 12, 1999.
**10.9	Credit Card Processing Agreement between World Financial Network National Bank, Henri Bendel, Inc., and Western Factoring, Inc., dated January 31, 1996 and amended May 13, 1998.
**10.10	Supplier Agreement between Canadian Airlines International Ltd. and Loyalty Management Group Canada Inc., dated March 15, 1996, as amended.
*10.11	Lease between Deerfield and Weiland Office Building, L.L.C. and ADS Alliance Data Systems, Inc., dated July 30, 1999.
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10.13	Build-to-Suit Net Lease between Opus South Corporation and ADS Alliance Data Systems, Inc., dated January 29, 1998, as amended.
*10.14	Industrial Lease Agreement between CIBC Development Corporation and Loyalty Management Group Canada Inc., dated October 19, 1998, amended January 26, 1999.
*10.15	Lease between YCC Limited and London Life Insurance Company and Loyalty Management Group Canada Inc. dated May 28, 1997 and amended June 19, 1997 and January 15, 1998.
*10.16	Deed of Lease between Boswell International Marine (PTE) Limited and Financial Automation Limited, dated August 3, 1999.
*10.17	Office Lease between Office City, Inc. and World Financial Network National Bank, dated December 24, 1986, and amended January 19, 1987, May 11, 1988, August 4, 1989 and August 18, 1999.
*10.18	Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated July 2, 1990, and amended September 11, 1990, November 16, 1990 and February 18, 1991.
*10.19	Lease Agreement by and between Americana Parkway Warehouse Limited and World Financial Network National Bank, dated June 28, 1994.
*10.20	Lease Agreement by and between Morrison Taylor II, Ltd. and ADS Alliance Data Systems, Inc., dated June 18, 1998, and amended June 18, 1998.
*10.21	Lease Agreement between Morrison Taylor, Ltd. and ADS Alliance Data Systems, Inc. dated July 1, 1997, and amended June 18, 1998.
*10.22	Commercial Lease Agreement between Waterview Parkway, L.P. and ADS Alliance Data Systems, Inc., dated July 16, 1997.

EXHIBIT NO.	EXHIBITS
*10.23	Preferred Stock Purchase Agreement by and between Alliance Data Systems Corporation and several persons named in Schedule I thereto, dated July 12, 1999.
*10.24	Amended and Restated Stockholder Agreement, by and between World Financial Network Holding Corporation, Limited Commerce Corp., Welsh, Carson, Anderson, and Stowe VII, L.P., and the several other investors named in Annex 1 thereto dated August 30, 1996, and amended July 24, 1998, August 31, 1998 and July 12, 1999.
*10.25	Securities Purchase Agreement, by and between Business Services Holdings, Inc., and the several purchasers named in Schedule 1 and Schedule II thereto, dated January 24, 1996, and amended August 31, 1998.
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*10.28	10% Subordinated Note due September 15, 2008 issued by Alliance Data Systems Corporation to WCAS Capital Partners III, L.P. dated September 15, 1998.
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*10.31	Amended and Restated Credit Agreement between Alliance Data Systems Corporation, and Loyalty Management Group Canada Inc., the Guarantors party thereto, the Banks party thereto, and Morgan Guaranty Trust Company of New York, dated July 24, 1998.
*10.32	Pooling and Servicing Agreement, dated as of January 30, 1998, by and between World Financial Network National Bank, as Transferor and as Servicer, and The Bank of New York, as Trustee.
*10.33	ADS Alliance Data Systems, Inc. Supplemental Executive Retirement Plan, effective May 1, 1999.
*10.34	Alliance Data Systems Corporation Stock Option and Restricted Stock Purchase Plan, as amended.
*10.35	Form of Alliance Data Systems Corporation Incentive Stock Option Agreement.
*10.36	Form of Alliance Data Systems Corporation Non-Qualified Stock Option Agreement.
*10.37	Form of Alliance Data Systems Corporation Confidentiality and Non-Solicitation Agreement.
*10.38	Alliance Data Systems Corporation 1999 Incentive Compensation Plan.
*10.39	Letter employment agreement with J. Michael Parks, dated February 19, 1997.
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EXHIBIT NO.	EXHIBITS
*10.41	Registration Rights Agreement dated as of January 24, 1996 between Business Services Holdings, Inc. and Welsh Carson, Andersen, and Stowe VII, L.P., WCAS Information Partners, L.P., WCA Management Corporation, Patrick J. Welsh, Russell L. Carson, Bruce K. Anderson, Richard H. Stowe, Andrew M. Paul, Thomas E. McInerney, Laura VanBuren, James B. Hoover, Robert A. Minicucci, Anthony J. deNicola, and David Bellet.
*10.42	Securities Purchase Agreement, dated as of August 30, 1996, by and among World Financial Network Holding Corporation, Limited Commerce Corp., and several persons named in Schedules I and II thereto, and WCAS Capital Partners II, L.P., as amended August 31, 1998.
*10.43	Amended and Restated License to Use the Air Miles Trade Marks in Canada, dated as of July 24, 1998, by and between Air Miles International Holdings N.V. and Loyalty Management Group Canada Inc.
*10.44	Amended and Restated License to Use and Exploit the Air Miles Scheme in Canada, dated July 24, 1998, by and between Air Miles International Trading B.V. and Loyalty Management Group Canada Inc.
*10.45	License to Use the Air Miles Trademarks in the United States, dated as of July 24, 1998, by and between Air Miles International Holdings N.V. and Loyalty Management Group Canada Inc.
*10.46	License to Use and Exploit the Air Miles Scheme in the United States, dated as of July 1998, by and between Air Miles International Trading B.V. and Alliance Data Systems Corporation.
10.47	Form of Retainer Agreement entered into between ADS Alliance Data Systems, Inc. and certain affiliates of The Limited, Inc.
10.48	Form of Business Solutions Master Agreement between ADS Alliance Data Systems, Inc. and certain affiliates of The Limited, Inc.
*21	Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP with regard to Alliance Data Systems Corporation and SPS Network Services.
23.2	Consent of Ernst & Young LLP with regard to Loyalty Management Group Canada Inc.
23.3	Consent of Akin, Gump, Strauss, Hauer & Feld, L.L.P. (included in its opinion filed as Exhibit 5 hereto).
*24	Power of Attorney (included on the signature page hereto)
27	Financial Data Schedule (included in SEC-filed copy only).

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

* Previously filed.

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

\+ To be filed by amendment.

(b) Financial Statement Schedules

None.

ITEM 17--UNDERTAKINGS

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

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

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas, on March 3, 2000.

ALLIANCE DATA SYSTEMS CORPORATION

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

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on March 3, 2000:

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

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

EXHIBIT INDEX

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23.2	Consent of Ernst & Young LLP with regard to Loyalty Management Group Canada Inc.
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*24	Power of Attorney (included on the signature page hereto)
27	Financial Data Schedule (included in SEC-filed copy only).

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

* Previously filed.

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

\+ To be filed by amendment.

Exhibit 3.1

SECOND AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

ALLIANCE DATA SYSTEMS CORPORATION

ALLIANCE DATA SYSTEMS CORPORATION, a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

1. The name of the Corporation is Alliance Data Systems Corporation.

2. The Corporation was originally incorporated under the name "Limited Marketing Services, Inc.", the original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on February 23, 1995, and the Restated Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on July 12, 1999.

3. This Second Amended and Restated Certificate of Incorporation restates and integrates and further amends the provisions of the Restated Certificate of Incorporation of the Corporation and was duly authorized by written consent of the requisite percentage of stockholders of the Corporation, after having been declared advisable by the Board of Directors of the Corporation (the "Board of Directors"), all in accordance with the provisions of Sections 141, 228, 242 and 245 of the General Corporation Law of the State of Delaware.

4. The Certificate of Incorporation of the Corporation, as amended and restated herein, shall, upon the effective date of this Second Amended and Restated Certificate of Incorporation, read as follows:

ARTICLE I

The name of the Corporation is Alliance Data Systems Corporation.

ARTICLE II

The purpose for which the Corporation is organized is the transaction of any or all lawful acts and activities for which corporations may be incorporated under the General Corporation Law of the State of Delaware.

ARTICLE III

Effective as of the close of business on the date of filing this Second Amended and Restated Certificate of Incorporation (the "Effective Time"), such filing shall effect a one for

nine reverse stock split. As of the Effective Time, each nine (9) issued and outstanding shares of previously authorized common stock, $.01 par value per share, of the Corporation (the "Old Common Stock"), shall thereby and thereupon be combined into one (1) validly issued, fully paid and nonassessable share of common stock, par value $.01 per share, of the Corporation (the "Common Stock"). Each certificate that theretofore represented shares of Old Common Stock shall thereafter represent that number of shares of Common Stock into which the shares of Old Common Stock represented by such certificate shall be combined; provided, however, that each person holding of record a stock certificate or certificates that represented shares of Old Common Stock shall receive, upon surrender of such certificate or certificates, a new certificate or certificates evidencing and representing the number of shares of Common Stock to which such person is entitled, and provided further that the Corporation shall not issue fractional shares with respect to the combination. To the extent a stockholder holds a number of shares of Old Common Stock not evenly divisible by nine (9), such stockholder will receive cash for each fractional interest resulting from such division in an amount equal to $1.67 per 1/9th new share.

Following the reverse stock split, the total number of shares of all classes of capital stock which the Corporation shall have authority to issue is 220,000,000 consisting of:

(i) 200,000,000 shares of Common Stock, and

(ii) 20,000,000 shares of preferred stock, $.01 par value per share, of which 120,000 shares of Series A Preferred Stock have been designated.

The Board of Directors may determine the powers, designations, preferences and relative, participating, optional or other special rights, including voting rights, and the qualifications, limitations or restrictions thereof, of each class of capital stock and of each series within any such class and may increase or decrease the number of shares within each such class or series; provided, however, that the Board of Directors may not decrease the number of shares within a class or series to less than the number of shares within such class or series that are then issued and may not increase the number of shares within a series above the total number of authorized shares of the applicable class for which the powers, designations, preferences and rights have not otherwise been set forth herein.

The following is a statement of the designations and the powers, privileges and rights, and the qualifications, limitations and restrictions in respect of the Common Stock and the Series A Preferred Stock of the Corporation.

A. COMMON STOCK.

1. GENERAL. The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights of the holders of any series of preferred stock.

2. VOTING. Each holder of Common Stock is entitled to one vote for each share of Common Stock held by such holder with respect to each matter submitted to the stockholders of the Corporation for a vote at a meeting of stockholders of the Corporation or by written consent in lieu of a meeting. There shall be no cumulative voting.

3. DIVIDENDS. Dividends may be declared and paid on the Common Stock from funds lawfully available therefor as and when determined by the Board of Directors and subject to any dividend rights of any then outstanding shares of any series of preferred stock

4. LIQUIDATION. Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Common Stock will be entitled to receive all assets of the Corporation available for distribution to its stockholders, subject to the rights of any then outstanding shares of any series of preferred stock.

B. SERIES A PREFERRED STOCK

1. DIVIDENDS.

(a) Beginning on the date of issuance of the Series A Preferred Stock (the "Issue Date"), each holder of outstanding shares of Series A Preferred Stock shall be entitled to receive cash dividends on each share of Series A Preferred Stock held by such holder at a per annum rate of six percent (6%) on the sum of (x) One Thousand Dollars ($1,000) PLUS (y) any and all accrued but theretofore unpaid dividends in respect of such share (the amounts referred to in (x) and (y), collectively, the "Per Share Preference Amount"). Dividends hereunder shall accrue daily based on a year of 365 days and compounded quarterly. From and after the Issue Date, all Dividends shall be cumulative, whether or not earned or declared by the Board of Directors and whether or not there are any funds of the Corporation legally available for the payment of dividends, and shall be paid quarterly in arrears on the first Business Day of each January, April, July and October beginning in October 1999 (each a "Dividend Payment Date"); PROVIDED, that with respect to any Dividend Payment Date, the Board of Directors may elect not to pay cash dividends on the Series A Preferred Stock, in which case, the amount of any unpaid dividends shall be considered an unpaid dividend arrearage until paid in full in cash (I.E., such amount shall be added to the Preference Amount in effect immediately prior to such Dividend Payment Date); PROVIDED, FURTHER, that with respect to any Dividend Payment Date, no dividends shall be paid to the extent payment thereof would result in a breach of or default under any debt agreement to which the Corporation is a party on the applicable Dividend Payment Date, in which case, the amount of any unpaid dividends shall be considered an unpaid dividend arrearage until paid in full in cash (I.E., such amount shall be added to the Per Share Preference Amount in effect immediately prior to such Dividend Payment Date). The Board of Directors may fix in advance a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a dividend hereunder, which record date shall be no more than thirty (30) and no less than ten (10) days prior to the date fixed for payment thereof.

(b) In no event, so long as any shares of Series A Preferred Stock shall remain outstanding, whether accomplished directly or indirectly through another corporation or entity controlled by the Corporation, shall any dividend whatsoever be declared or paid upon, nor shall any distribution be made upon, any Common Stock, other than a dividend or distribution payable in shares of Common Stock, nor shall any shares of Common Stock be purchased or redeemed by the Corporation, nor shall any moneys be paid to or made available for a sinking fund for the purchase or redemption of any Common Stock,

unless, in each such case (other than in the case of repurchase by the Corporation of shares of Common Stock pursuant to the terms of any employment agreement, stock restriction agreement, stock purchase agreement, stock option agreement or similar arrangement between the Corporation and any employee, director, consultant or group thereof, none of which shall be restricted), full cumulative dividends on the Series A Preferred Stock through the most recent Dividend Payment Date shall have been declared and paid and any arrears in the redemption of the Series A Preferred Stock shall have been satisfied.

2. LIQUIDATION, DISSOLUTION OR WINDING UP.

(a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation (each a "Liquidation"), the holders of shares of Series A Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, before any payment shall be made to the holders of Common Stock or any other class or series of capital stock of the Corporation by reason of their ownership thereof, in respect of each outstanding share of Series A Preferred Stock then held by such holder, an amount equal to the then Per Share Preference Amount. If upon any such Liquidation the remaining assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series A Preferred Stock the full amount to which they shall be entitled under this Second Amended and Restated Certificate of Incorporation, the holders of shares of Series A Preferred Stock shall share ratably in any distribution of the remaining assets and funds of the Corporation in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

(b) After the payment of all preferential amounts required to be paid to the holders of Series A Preferred Stock upon the Liquidation, the holders of shares of Common Stock then outstanding shall share in any distribution of the remaining assets and funds of the Corporation.

(c) Except as provided in (d) below, neither the merger or consolidation of the Corporation into or with any other corporation, nor the sale of all or substantially all the assets of the Corporation, shall be deemed to be a Liquidation for purposes of this Section 2.

(d) A Sale of the Corporation (as hereinafter defined) shall be deemed to be a Liquidation for purposes of this Section 2 if (x) holders of shares of Common Stock shall be entitled to receive in connection with such Sale of the Corporation per share consideration in an amount which is less than the then Conversion Price (as hereinafter defined) and (y) a majority of the then outstanding shares of Series A Preferred Stock (voting as a single class) so elect (such election to be made within 20 days of the delivery of the notice required by Section 7(n)(B) in respect of such Sale of the Corporation), in which case the holders of outstanding shares of Series A Preferred Stock shall be entitled to receive, upon the closing of such transaction, the amount payable to such holders pursuant to (a) above. If no such notice is given, the provisions of Section 8 shall apply

and the consummation of such Sale of the Corporation shall be deemed to be a Mandatory Conversion Event. The amount "per share consideration" payable to holders of Common Stock in connection with any Sale of the Corporation shall be the cash or the value of the property, rights or securities distributed to such holders of Common Stock by the acquiring person, firm or other entity as determined in good faith by the Board of Directors. For purposes of this Section 2(d), a "Sale of the Corporation" shall mean (i) the merger or consolidation of the Corporation into or with another corporation (other than a merger or consolidation in which if the holders of capital stock of the Corporation immediately prior to such merger or consolidation continue to hold a majority of the voting power of the capital stock of the surviving corporation), or (ii) the sale, lease, transfer or disposition of all or substantially all the assets of the Corporation.

3. VOTING.

(a) The holders of shares of Series A Preferred Stock (and any other class or series of stock entitled to vote together as one class with the Common Stock) shall be entitled to vote as a single class (on an as-converted basis) with the holders of Common Stock on each matter submitted to the stockholders of the Corporation for a vote.

(b) Notwithstanding anything herein to the contrary, the shares of Series A Preferred Stock to be issued to Welsh, Carson, Anderson & Stowe VIII, L.P. (the "Restricted Stockholder"), pursuant to the Preferred Stock Purchase Agreement dated as of July 12, 1999 among the Corporation, the Restricted Stockholder and the other purchasers signatory thereto, shall not entitle the Restricted Stockholder to have any voting rights, including any rights to vote for the directors of the Corporation, except as may be required by applicable law, until the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 shall have expired or shall have been terminated with respect to the acquisition by such Restricted Stockholder of each shares of Series A Preferred Stock.

4. RESTRICTIONS. So long as any shares of Series A Preferred Stock remain outstanding, except where the vote or written consent of the holders of a greater number of shares of the Corporation is required by law or by this Second Amended and Restated Certificate of Incorporation, and in addition to any other vote required by law, the Corporation shall not, without the consent of the holders of a majority of the outstanding shares of Series A Preferred Stock voting together as a single class, either given by affirmative vote in person or by proxy at a meeting duly called and held for that purpose or by written consent in lieu of a meeting, by amendment of this Second Amended and Restated Certificate of Incorporation, by resolution of the Board of Directors, or by consolidation of the Corporation with, or merger of the Corporation with or into another entity, or in any other manner:

(i) amend, alter or repeal any provision of, or add any provision to this Second Amended and Restated Certificate of Incorporation and/or its Bylaws if such action would adversely alter or affect the preferences, powers, privileges and/or special or relative rights of, or restrictions provided for the benefit of, holders of Series A Preferred Stock;

(ii) increase or decrease the authorized number of shares of Series A Preferred Stock or decrease the authorized number of shares of Common Stock;

(iii) authorize the issuance of, increase the authorized number of, or issue, shares of (or securities convertible or exercisable into or exchangeable for) any class or series of the Corporation's capital stock the terms of which provide that shares of such class or series rank senior to or on parity with shares of Series A Preferred Stock with respect to dividends, redemptions or distributions of cash or other assets of the Corporation, including, without limitation, with respect to distributions upon Liquidation;

(iv) authorize the issuance of or issue any securities of the Corporation if the issuance of such securities would give rise to an adjustment to the then Conversion Price pursuant to Section 7(f)(iv) of this Article III;

(v) reclassify any shares of capital stock of the Corporation into shares of (or securities convertible or exercisable into or exchangeable for) any class or series of the Corporation's capital stock the terms of which provide that shares of such class or series rank senior to or on parity with shares of Series A Preferred Stock with respect to dividends, redemptions or distributions of cash or other assets of the Corporation, including, without limitation, with respect to distributions upon Liquidation;

(vi) amend, alter or repeal any provision of this Section 4; or

(vii) agree to do any of the foregoing.

5. REDEMPTION.

(a) All issued and outstanding shares of Series A Preferred Stock shall be redeemed at a per share redemption price (the "Redemption Price") equal to the then Per Share Preference Amount on July 12, 2007 (the "Redemption Date").

(b) At least 30 days (and not more than 60 days) prior to the Redemption Date, written notice shall be mailed, by first class or registered mail, postage prepaid, to each holder of record of Series A Preferred Stock to be redeemed, at his, her or its address last shown on the records of the transfer agent of the Series A Preferred Stock (or the records of the Corporation, if it serves as its own transfer agent), notifying such holder of the upcoming redemption of such shares, specifying the Redemption Date and the Redemption Price and calling upon such holder to surrender to the Corporation, in the manner and at the place designated, his, her or its certificate or certificates representing the shares to be redeemed (such notice is hereafter referred to as the "Redemption Notice"). On or prior to the Redemption Date, each holder of Series A Preferred Stock to be redeemed shall surrender his, her or its certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Redemption Notice, and against such surrender the Redemption Price of such shares shall be paid to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. From and after the

Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of the shares of Series A Preferred Stock designated for redemption in the Redemption Notice as holders of such shares of Series A Preferred Stock of the Corporation (except the right to receive the Redemption Price without interest against surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of the Corporation or be deemed to be outstanding for any purpose whatsoever.

(c) If the funds of the Corporation legally available for redemption of Series A Preferred Stock on the Redemption Date are insufficient to redeem the number of shares of Series A Preferred Stock required under this Section 5 to be redeemed on such date, those funds that are legally available will be used to redeem the maximum possible number of such shares of Series A Preferred Stock ratably on the basis of the number of shares of Series A Preferred Stock that would be redeemed on such date if the funds of the Corporation legally available therefor had been sufficient to redeem all shares of Series A Preferred Stock required to be redeemed on such date. At any time thereafter when additional funds of the Corporation become legally available for the redemption of Series A Preferred Stock, such funds will be promptly used to redeem the balance of the shares which the Corporation was theretofore obligated to redeem, ratably on the basis set forth in the preceding sentence.

6. REACQUIRED SHARES. Any shares of Series A Preferred Stock purchased, redeemed or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof and the number of authorized shares of Series A Preferred Stock shall be reduced accordingly.

7. OPTIONAL CONVERSION. The holders of the Series A Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) Each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the Issue Date, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the then Per Share Preference Amount by the Conversion Price (as defined below).

(b) The conversion price at which shares of Common Stock shall be deliverable upon conversion of Series A Preferred Stock without the payment of additional consideration by the holder thereof (the "Conversion Price") shall initially be $1.50 per share. The initial Conversion Price (and, accordingly, the rate at which shares of Series A Preferred Stock may be converted into shares of Common Stock) shall be subject to adjustment as provided below.

(c) Subject to timely receipt of the notice required by Section 7(n), in the event of a liquidation, dissolution or winding-up of the Corporation, the Conversion Rights shall terminate at the close of business on the first full day preceding the date fixed for the payment of any amounts distributable on such liquidation, dissolution or winding-up of the Corporation to the holders of Series A Preferred Stock pursuant to Section 2(a).

(d) FRACTIONAL SHARES. No fractional shares of Common Stock shall be issued upon conversion of the Series A Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the fair market value of a share of Common Stock (as determined in good faith by the Board of Directors).

(e) MECHANICS OF CONVERSION.

(i) In order for a holder of Series A Preferred Stock to convert shares of Series A Preferred Stock into shares of Common Stock, such holder shall surrender the certificate or certificates for such shares of Series A Preferred Stock at the office of the transfer agent for the Series A Preferred Stock (or at the principal office of the Corporation if the Corporation serves as its own transfer agent), together with written notice that such holder irrevocably elects to convert all or any number of the shares of the Series A Preferred Stock represented by such certificate or certificates. Such notice shall state such holder's name or the names of the nominees in which such holder wishes the certificate or certificates for shares of Common Stock to be issued. If required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or his or its attorney duly authorized in writing. The date of receipt of such certificates and notice by the transfer agent (or by the Corporation if the Corporation serves as its own transfer agent) shall be the conversion date ("Conversion Date"). The Corporation shall, as soon as practicable after the Conversion Date (and in any event within five business days after the Conversion Date) issue and deliver at such office to such holder of Series A Preferred Stock, or to his or its nominees, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled, together with cash in lieu of any fraction of a share.

(ii) The Corporation shall at all times when the Series A Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued stock, for the purpose of effecting the conversion of the Series A Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series A Preferred Stock and all other outstanding Options (as hereinafter defined) and Convertible Securities (as hereinafter defined). Before taking any action which would cause an adjustment reducing the Conversion Price below the then par value of the shares of Common Stock issuable upon conversion of the Series A Preferred Stock, the Corporation will take any lawful corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and nonassessable shares of Common Stock at such adjusted Conversion Price.

(iii) All shares of Series A Preferred Stock that shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares, including the rights, if any,

to receive notices and to vote, shall immediately cease and terminate on the Conversion Date, except only the right of the holders thereof to receive shares of Common Stock in exchange therefor. Such conversion shall be deemed to have been made at the close of business on the Conversion Date, and the person entitled to receive the shares of Common Stock shall be treated for all purposes as having become the record holder of such shares of Common Stock at such time.

(f) ADJUSTMENTS TO CONVERSION PRICE FOR DILUTING ISSUES.

(i) SPECIAL DEFINITIONS. As used herein, the following definitions shall apply.

(A) "OPTION" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(B) "CONVERTIBLE SECURITIES" shall mean any evidence of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock.

(C) "ADDITIONAL SHARES OF COMMON STOCK" shall mean all shares of Common Stock issued (or, pursuant to Subsection 7(d)(iii) below, deemed to be issued) by the Corporation after the Issue Date, other than shares of Common Stock issued or issuable:

(I) upon conversion of shares of Series A Preferred Stock;

(II) upon exercise of the Stock Purchase Warrant originally dated January 24, 1996 and currently registered in the name of JCP Telecom Systems, Inc., a Delaware corporation (as in effect on the date hereof);

(III) as a dividend or distribution of Series A Preferred Stock, or

(IV) to employees, officers, directors or consultants of the Corporation pursuant to any plan adopted by, or agreed to or approved by the Board of Directors.

(ii) NO ADJUSTMENT OF CONVERSION PRICE. No adjustment in the number of shares of Common Stock into which the Series A Preferred Stock is convertible shall be made pursuant to Subsection 7(f)(iv), by adjustment in the Conversion Price: (a) unless the consideration per share (determined pursuant to Subsection 7(f)(v)) for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Conversion Price in effect on the date of, and immediately prior to, the issue of such Additional Shares, or (b) if prior to such issuance, the Corporation receives written notice from the holders of

at least 80% of the then outstanding shares of Series A Preferred Stock agreeing that no such adjustments shall made as the result of the issuance of Additional Shares of Common Stock.

(iii) ISSUANCE OF SECURITIES DEEMED ISSUE OF ADDITIONAL SHARES OF COMMON STOCK. For purposes of this Subsection 7(f), if the Corporation at any time or from time to time after the Issue Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have bee fixed, as of the close of business on such record date, PROVIDED that Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to Subsection 7(f)(v) hereof) of such Additional Shares of Common Stock would be less than the Conversion Price in effect on the date of and immediately prior to such issue, or such record date, as the case may be, PROVIDED FURTHER that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(A) No further adjustment in the Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(B) If such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase in the consideration payable to the Corporation, or decrease in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities.

(C) No readjustment pursuant to clause (B) above shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (i) such Conversion Price on the original adjustment date, or (ii) the Conversion Price that would have resulted had such original adjustment not been made but all other required adjustments had been made in respect of issuances of Additional Shares of Common Stock between the original adjustment date and such readjustment date:

(D) Notwithstanding clause (B) above, upon the expiration or termination of any unexercised Option, the Conversion Price shall not be readjusted, but the Additional Shares of Common Stock deemed issued as the result of the original issue of such Option shall not be deemed issued for the purposes of any subsequent adjustment of the Conversion Price; and

(E) In the event of any increase in the number of share of Common Stock issuable upon the exercise, conversion or exchange of any Option or Convertible Security, including, but not limited to, an increase resulting from the antidilution provisions thereof, the Conversion Price then in effect shall forthwith be readjusted to such Conversion Price as would have been obtained had the adjustment (if any) which was made upon the issuance of such Option or Convertible Security not exercised or converted prior to such increase been made upon the basis of such increased number of shares, but no further adjustment shall be made for the actual issuance of Common Stock upon the exercise or conversion of any such Option or Convertible Security; PROVIDED that if the event giving rise to such increase in the number of shares issuable in respect of such Option or Convertible Security would also, independent of this subsection (E), give rise to an adjustment to the Conversion Price pursuant to this Section 7(f), the Conversion Price shall not be adjusted pursuant to both this subsection (E) and such other provision, but rather, the Conversion Price will be adjusted pursuant to either this subsection (E) or such other provision, the provision which results in a lower post-adjustment Conversion Price to control.

(iv) ADJUSTMENT OF CONVERSION PRICE UPON ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK. In the event the Corporation shall at any time after the Issue Date issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Subsection 7(f)(iii), but excluding shares issued upon a stock split or combination as provided in Subsection 7(g) or as a dividend or distribution as provided in Subsection 7(h)), without consideration or for a consideration per share less than the Conversion Price in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) determined by multiplying such Conversion Price by a fraction, (A) the numerator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issuance or deemed issuance plus (2) the number of shares of Common Stock which the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued or deemed issued would purchase at such Conversion Price; and (B) the denominator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issuance or deemed issuance plus (2) the number of such Additional Shares of Common Stock so issued or deemed issued; PROVIDED that, immediately after any Additional Shares of Common Stock are deemed issued pursuant to Subsection 7(f)(iv), then

such Additional Shares of Common Stock shall be deemed to be outstanding for all subsequent applications of this Subsection 7(f)(iv). Notwithstanding the foregoing, the Conversion Price shall not be so reduced at such time if the amount of such reduction would be an amount less than $.01, but any such amount shall be carried forward and reduction with respect thereto made at the time of and together with any subsequent reduction which, together with such amount and any other amount or amounts so carried forward, shall aggregate $.01 or more.

(v) DETERMINATION OF CONSIDERATION. For purposes of this Subsection 7(f), the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(A) CASH AND PROPERTY: Such consideration shall:

(I) insofar as it consists of each, be computed at the aggregate of cash received by the Corporation, excluding amounts paid or payable for accrued interest or accrued dividends;

(II) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(III) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (I) and (II) above, as determined in good faith by the Board of Directors.

(B) OPTIONS AND CONVERTIBLE SECURITIES. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Subsection 7(f)(iii), relating to Options and Convertible Securities, shall be determined by dividing:

(I) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by

(II) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of

such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities.

(g) ADJUSTMENT FOR STOCK SPLITS AND COMBINATIONS. If the Corporation shall at any time or from time to time after the Issue Date effect a subdivision (through a stock split or otherwise) of the outstanding Common Stock, the Conversion Price then in effect immediately before the subdivision shall be proportionately decreased. If the Corporation shall at any time or from time to time after the Issue Date combine (through a reverse stock split or otherwise) the outstanding shares of Common Stock, the Conversion Price then in effect immediately before the combination shall be proportionately increased. Any adjustment under this paragraph shall become effective at the close of business on the date the subdivision or combination becomes effective.

(h) ADJUSTMENT FOR CERTAIN DISTRIBUTIONS. In the event the Corporation at any time, or from time to time, after the Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a distribution payable in additional shares of Common Stock, then and in each such event the Conversion Price then in effect shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price, as the case may be, then in effect by a fraction:

(i) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(ii) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution;

PROVIDED, HOWEVER, if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this paragraph as of the time and to the extent of actual payment of such dividends or distributions.

(i) ADJUSTMENTS FOR OTHER DIVIDENDS AND DISTRIBUTIONS. In the event the Corporation at any time or from time to time after the Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation other than shares of Common Stock, then and in each such event provision shall be made so that the holders of Series A Preferred Stock shall receive, upon conversion thereof, in addition to the

number of shares of Common Stock receivable thereupon, the amount of securities of the Corporation that they would have received had their Series A Preferred Stock been converted into Common Stock on the date of such event and had they thereafter, during the period from the date of such event to and including the actual conversion date, retained such securities receivable by them as aforesaid during such period giving application to all adjustments called for during such period, under this paragraph with respect to the rights of the holders of the Series A Preferred Stock.

(j) ADJUSTMENT FOR RECLASSIFICATION, EXCHANGE, OR SUBSTITUTION. If the Common Stock issuable upon the conversion of the Series A Preferred Stock shall be changed into the same or a different number of shares of any class or classes of stock, whether by capital reorganization, reclassification, or otherwise, then and in each such event the holder of each such share of Series A Preferred Stock shall have the right thereafter to convert such share into the kind and amount of shares of stock and other securities and property receivable upon such reorganization, reclassification, or other change, by holders of the number of shares of Common Stock into which such shares of Series A Preferred Stock were convertible immediately prior to such reorganization, reclassification, or change, all subject to further adjustment as provided herein.

(k) ADJUSTMENT FOR MERGER OR REORGANIZATION, ETC. In case of any consolidation or merger of the Corporation with or into another corporation (other than a Sale of the Corporation), each share of Series A Preferred Stock shall thereafter be convertible into the kind and amount of shares of stock or other securities or property to which a holder of the number of shares of Common Stock of the Corporation deliverable upon conversion of such Series A Preferred Stock would have been entitled upon such consolidation, merger or sale; and, in such case, appropriate adjustment (as determined in good faith by the Board of Directors) shall be made in the application of the provisions in this Section 7 set forth with respect to the rights and interest thereafter of the holders of the Series A Preferred Stock, to the end that the provisions set forth in this Section 7 (including provisions with respect to changes in and other adjustments of the Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the conversion of the Series A Preferred Stock.

(l) NO IMPAIRMENT. The Corporation will not, by amendment of this Second Amended and Restated Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 7 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series A Preferred Stock against impairment.

(m) CERTIFICATE AS TO ADJUSTMENTS. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Section 7, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Series A Preferred Stock a certificate setting

forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Series A Preferred Stock, furnish or cause to be furnished to such holder a similar certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price then in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which then would be received upon the conversion of the Series A Preferred Stock.

(n) NOTICE OF RECORD DATE. In the event:

(i) that the Corporation declares a dividend (or any other distribution) on its Common Stock (whether payable in debt or equity securities of the Corporation or cash or other property of the Corporation);

(ii) that the Corporation subdivides or combines its outstanding shares of Common Stock;

(iii) of any reclassification of the Common Stock of the Corporation (other than a subdivision or combination of its outstanding shares of Common Stock or a stock dividend or stock distribution thereon), or of any consolidation or merger of the Corporation into or with another corporation, or of the sale of all or substantially all of the assets of the Corporation;

(iv) of the involuntary or voluntary dissolution, liquidation or winding up of the Corporation

then the Corporation shall cause to be filed at its principal office or at the office of the transfer agent of the Series A Preferred Stock at their last addresses as shown on the records of the Corporation or such transfer agent, at least fifteen days prior to the record date specified in (A) below or thirty days before the date specified in (B) below, a notice stating

(A) the record date of such dividend, distribution, subdivision or combination, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, subdivision or combination are to be determined, or

(B) the date on which such reclassification, consolidation, merger, sale, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, consolidation, merger, sale, dissolution or winding up.

8. MANDATORY CONVERSION.

(a) Immediately prior to, and subject to the consummation (the date of such consummation, the "Mandatory Conversion Date") of:

(1) any underwritten public offering of equity securities of the Corporation pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of equity securities for the account of the Corporation in which the aggregate net proceeds to the Corporation equal or exceed $75,000,000 (a "Qualified Public Offering") or

(2) a Sale of the Corporation other than a Sale of the Corporation which is treated at the election of the holders of the Series A Preferred Stock as a Liquidation pursuant to Section 2(d),

each outstanding share of Series A Preferred Stock shall automatically be converted into that number of fully paid and nonassessable shares of Common Stock as is determined by dividing the then Per Share Preference Amount by (A) in the case of (1) above, the lower of (x) then effective Conversion Price and (y) the price at which shares of Common Stock are sold to the public in such Qualified Public Offering and (B) in the case of (2) above, then effective Conversion Price.

(b) All holders of record of shares of Series A Preferred Stock will be given written notice of the Mandatory Conversion Date and the place designated for mandatory conversion of all such shares of Series A Preferred Stock pursuant to this Section 8. Such notice will be sent by first class or registered mail, postage prepaid, to each record holder of Series A Preferred Stock at such holder's address last shown on the records of the transfer agent for the Series A Preferred Stock (or the records of the Corporation, if it serves as its own transfer agent). Upon receipt of such notice, each holder of shares of Series A Preferred Stock shall surrender his, her or its certificate or certificates for all such shares to the Corporation at the place designated in such notice, and shall thereafter receive certificates for the number of shares of Common Stock to which such holder is entitled pursuant to this Section 8. On the Mandatory Conversion Date, all rights with respect to the Series A Preferred Stock so converted, including the rights, if any, to receive notices and vote, will terminate, except only the rights of the holders thereof, upon surrender of their certificate or certificates therefor, to receive certificates for the number of shares of Common Stock into which such Series A Preferred Stock has been converted. If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his, her or its attorney duly authorized in writing. As soon as practicable after the Mandatory Conversion Date and the surrender of the certificate or certificates for Series A Preferred Stock, the Corporation shall cause to be issued and delivered to such holder, or on his, her or its written order, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions hereof and cash in respect of any fraction of a share of Common Stock otherwise issuable upon such conversion (the amount of which shall be determined in the manner described in Section 7(d)).

(c) All certificates evidencing shares of Series A Preferred Stock which are required to be surrendered for conversion in accordance with the provisions hereof shall, from and after the Mandatory Conversion Date, be deemed to have been retired and

canceled and the shares of Series A Preferred Stock represented thereby shall, from and after the Mandatory Conversion Date, be deemed for all purposes to have been converted into that number of fully paid and nonassessable shares of Common Stock into which such shares of Series A Preferred Stock are then convertible in accordance with this Section 8, notwithstanding the failure of the holder or holders thereof to surrender such certificates on or prior to such date.

ARTICLE IV

The street address of the registered office of the corporation is Corporate Trust Center, 1209 Orange Street in the City of Wilmington, County of New Castle, and the name of its registered agent at such address is The Corporation Trust Company.

ARTICLE V

1. Election of directors at an annual or special meeting of stockholders need not be by written ballot unless the bylaws of the Corporation shall provide otherwise.

2. The Board of Directors shall be divided into three classes, designated Class I, Class II, and Class III. The number of directors in each class shall be the whole number contained in the quotient arrived at by dividing the authorized number of directors by three, and if a fraction is also contained in such quotient, then if such fraction is one-third, the extra director shall be a member of Class I, and if the fraction is two-thirds, one of the extra directors shall be a member of Class I and the other shall be a member of Class II. The term of the initial Class I directors shall terminate on the date of the 2001 annual meeting; the term of the initial Class II directors shall terminate on the date of the 2002 annual meeting; and the term of the initial Class III directors shall terminate on the date of the 2003 annual meeting. At each succeeding annual meeting of stockholders beginning in 2001, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. Notwithstanding the foregoing formula provisions, in the event that, as a result of any change in the authorized number of directors, the number of directors in any class would differ from the number allocated to that class under the formula provided in this ARTICLE V immediately prior to such change, the following rules shall govern:

(a) each director then serving as such shall nevertheless continue as a director of the class of which such director is a member until the expiration of his current term, or his prior death, resignation or removal;

(b) at each subsequent election of directors, even if the number of directors in the class whose term of office then expires is less than the number then allocated to that class under said formula, the number of directors then elected for membership in that class shall not be greater than the number of directors in that class whose term of office then expires, unless and to the extent that the aggregate number of directors then elected plus the number of directors in all classes then duly continuing in office does not exceed the then authorized number of directors of the Corporation;

(c) at each subsequent election of directors, if the number of directors in the class whose term of office then expires exceeds the number then allocated to that class under said formula, the Board of Directors shall designate one or more of the directorships then being elected as directors of another class or classes in which the number of directors then serving is less than the number then allocated to such other class or classes under said formula;

(d) in the event of the death, resignation or removal of any director who is a member of a class in which the number of directors serving immediately preceding the creation of such vacancy exceeded the number then allocated to that class under said formula, the Board of Directors shall designate the vacancy thus created as a vacancy in another class in which the number of directors then serving is less than the number then allocated to such other class under said formula;

(e) In the event of any increase in the authorized number of directors, the newly created directorships resulting from such increase shall be apportioned by the Board of Directors to such class or classes as shall, so far as possible, bring the composition of each of the classes into conformity with the formula in this ARTICLE V, as it applies to the number of directors authorized immediately following such increase; and

(f) designation of directorships or vacancies into other classes and apportionments of newly created directorships to classes by the Board of Directors under the foregoing items (c), (d) and (e) shall, so far as possible, be effected so that the class whose term of office is due to expire next following such designation or apportionment shall contain the full number of directors then allocated to said class under said formula. Notwithstanding any of the foregoing provisions of this ARTICLE V, each director shall serve until his successor is elected and qualified or until his death, resignation or removal.

3. The number of directors of the Corporation shall not be less than six nor more than twelve, the exact number of directors to be such number as may be set from time to time within the limits set forth above by resolution adopted by affirmative vote of a majority of the Board of Directors.

4. Any director may be removed at any annual or special stockholders' meeting upon the affirmative vote of the holders of more than 50 percent of the outstanding shares of voting stock of the Corporation at that time entitled to vote thereon; provided, however, that such director may be removed only for cause and shall receive a copy of the charges against him, delivered to him personally or by mail at his last known address at least ten days prior to the date of the stockholders' meeting.

5. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to adopt the bylaws of the Corporation, to amend or repeal the bylaws or to adopt new bylaws, subject to any limitations that may be contained in such bylaws.

ARTICLE VI

To the fullest extent permitted by the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended, a director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Any repeal or amendment of this ARTICLE VI by the stockholders of the Corporation or by changes in applicable law shall, to the extent permitted by applicable law, be prospective only, and shall not adversely affect any limitation on the personal liability of any director of the Corporation at the time of such repeal or amendment.

ARTICLE VII

The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative, any appeal in such an action, suit or proceeding and any inquiry or investigation that could lead to such an action, suit or proceeding (whether or not by or in the right of the Corporation), by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another corporation, partnership, joint venture, sole proprietorship, trust, nonprofit entity, employee benefit plan or other enterprise, against all judgments, penalties (including excise and similar taxes), fines, settlements and expenses (including attorneys' fees and court costs) actually and reasonably incurred by such person in connection with such action, suit or proceeding to the fullest extent permitted by any applicable law, and such indemnity shall inure to the benefit of the heirs, executors and administrators of any such person so indemnified pursuant to this ARTICLE VII. The right to indemnification under this ARTICLE VII shall be a contract right and shall include, with respect to directors and officers, the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its disposition; provided, however, that, if the General Corporation Law of the State of Delaware requires, the payment of such expenses incurred by a director or officer in advance of the final disposition of a proceeding shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this ARTICLE VII or otherwise. The Corporation may, by action of its Board of Directors, pay such expenses incurred by employees and agents of the Corporation upon such terms as the Board of Directors deems appropriate. The indemnification and advancement of expenses provided by, or granted pursuant to, this ARTICLE VII shall not be deemed exclusive of any other right to which those seeking indemnification may be entitled under any law, bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. Any repeal or amendment of this ARTICLE VII by the stockholders of the Corporation or by changes in applicable law shall, to the extent permitted by applicable law, be prospective only, and not adversely affect the indemnification of any person who may be indemnified at the time of such repeal or amendment.

ARTICLE VIII

No contract or other transaction between the Corporation and any other Corporation and no other acts of the Corporation with relation to any other corporation shall, in the absence of fraud, in any way be invalidated or otherwise affected by the fact that any one or more of the directors or officers of the Corporation are pecuniarily or otherwise interested in, or are directors or officers of, such other corporation. Any director or officer of the Corporation individually, or any firm or association of which any director or officer may be a member, may be a party to, or may be pecuniarily or otherwise interested in, any contract or transaction of the Corporation, provided that the fact that such person individually or as a member of such firm or association is such a party or is so interested shall be disclosed or shall have been known to the Board of Directors or a majority of such members thereof as shall be present at any meeting of the Board of Directors at which action upon any such contract or transaction shall be taken; and any director of the Corporation who is also a director or officer of such other corporation or who is such a party or so interested may be counted in determining the existence of a quorum at any meeting of the Board of Directors during which any such contract or transaction shall be authorized and may vote thereat to authorize any such contract or transaction, with like force and effect as if such person were not such a director or officer of such other corporation or not so interested. Any director of the Corporation may vote upon any contract or any other transaction between the Corporation and any subsidiary or affiliated corporation without regard to the fact that such person is also a director or officer of such subsidiary or affiliated corporation.

Any contract, transaction or act of the Corporation or of the directors that shall be ratified at any annual meeting of the stockholders of the Corporation, or at any special meeting of the stockholders of the corporation, or at any special meeting called for such purpose, shall, insofar as permitted by law, be as valid and as binding as though ratified by every stockholder of the Corporation; provided, however, that any failure of the stockholders to approve or ratify any such contract, transaction or act, when and if submitted, shall not be deemed in any way to invalidate the same or deprive the Corporation, its directors, officers or employees, of its or their right to proceed with such contract, transaction or act.

Subject to any express agreement that may from time to time be in effect, any stockholder, director or officer of the Corporation may carry on and conduct in such person's own right and for such person's own personal account, or as a partner in any partnership, or as a joint venturer in any joint venture, or as an officer, director or stockholder of any corporation, or as a participant in any syndicate, pool, trust or association, any business that competes with the business of the Corporation and shall be free in all such capacities to make investments in any kind of property in which the Corporation may make investments.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused this Second Amended and Restated Certificate of Incorporation to be duly signed by J. Michael Parks, its Chairman of the Board and Chief Executive Officer, who hereby acknowledges under penalties of perjury that the facts herein stated are true and this Second Amended and Restated Certificate of Incorporation is the act and the deed of the Corporation, this ___ day of _____, 2000.

ALLIANCE DATA SYSTEMS CORPORATION

By:

J. Michael Parks
Chairman of the Board and Chief Executive Officer

SECOND AMENDED AND RESTATED BYLAWS

OF

ALLIANCE DATA SYSTEMS CORPORATION

A DELAWARE CORPORATION

(THE "COMPANY")

(ADOPTED AS OF JANUARY 4, 2000)

SECOND AMENDED AND RESTATED BYLAWS

OF

ALLIANCE DATA SYSTEMS CORPORATION

ARTICLE I
OFFICES

Section 1.1 REGISTERED OFFICE. The registered office of the Company within the State of Delaware shall be located at either (i) the principal place of business of the Company in the State of Delaware or (ii) the office of the corporation or individual acting as the Company's registered agent in Delaware.

Section 1.2 ADDITIONAL OFFICES. The Company may, in addition to its registered office in the State of Delaware, have such other offices and places of business, both within and without the State of Delaware, as the Board of Directors of the Company (the "Board") may from time to time determine or as the business and affairs of the Company may require.

ARTICLE II
STOCKHOLDERS MEETINGS

Section 2.1 ANNUAL MEETINGS. Annual meetings of stockholders shall be held at a place and time on any weekday that is not a holiday and that is not more than 120 days after the end of the fiscal year of the Company as shall be designated by the Board and stated in the notice of the meeting, at which the stockholders shall elect the directors of the Company and transact such other business as may properly be brought before the meeting.

Section 2.2 SPECIAL MEETINGS. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by law or by the certificate of incorporation, (i) may be called by the chairman of the board or the president and (ii) shall be called by the president or the secretary at the written request of a majority of the Board. Such request shall state the purpose or purposes of the proposed meeting. At a special meeting of stockholders, only such business shall be conducted as shall be specified in the notice of meeting.

Section 2.3 NOTICES. Written notice of each stockholders meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote thereat by or at the direction of the officer calling such meeting not less than ten nor more than sixty days before the date of the meeting. If said notice is for a stockholders meeting other than an annual meeting, it shall in addition state the purpose or purposes for which said meeting is called, and the business transacted at such meeting shall be limited to the matters so stated in said notice and any matters reasonably related thereto.

Section 2.4 QUORUM. The presence at a stockholders meeting of the holders, present in person or represented by proxy, of capital stock of the Company representing a majority of the

votes of all capital stock of the Company entitled to vote thereat shall constitute a quorum at such meeting for the transaction of business except as otherwise provided by law, the certificate of incorporation or these Bylaws. If a quorum shall not be present or represented at any meeting of the stockholders, a majority of the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such reconvened meeting at which a quorum shall be present or represented, any business may be transacted that might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the reconvened meeting, a notice of said meeting shall be given to each stockholder entitled to vote at said meeting. The stockholders present at a duly convened meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 2.5 ADVANCE NOTICE OF SHAREHOLDER PROPOSALS. In order to properly submit any business to a meeting of stockholders, a stockholder must give timely notice in writing to the secretary of the Company. To be considered timely, a stockholder's notice must be delivered either in person or by United States certified mail, postage prepaid, and received at the principal executive offices of the Company (a) not less than 120 days nor more than 150 days before the first anniversary date of the Company's proxy statement in connection with the last annual meeting of stockholders, or (b) if no annual meeting was held in the previous year, or if the date of the applicable annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, or if the stockholder proposal is for a special meeting, not less than a reasonable time, as determined by the Board, prior to the date of the applicable meeting. The secretary of the Company shall deliver any stockholder proposals and nominations received in a timely manner for review by the Board or a committee designated by the Board. A stockholder's notice to submit business to a meeting of stockholders shall set forth (i) the name and address of the stockholder, (ii) the class and number of shares of stock beneficially owned by such stockholder, (iii) the name in which such shares are registered on the stock transfer books of the Company, (iv) a representation that the stockholder intends to appear at the meeting in person or by proxy to submit the business specified in such notice, (v) any material interest of the stockholder in the business to be submitted, and (vi) a brief description of the business desired to be submitted to the annual meeting, including the complete text of any resolutions to be presented at the annual meeting, and the reasons for conducting such business at the annual meeting. In addition, the stockholder making such proposal shall promptly provide any other information reasonably requested by the Company. Notwithstanding the foregoing prvisions of this Section 2.5, a stockholder who seeks to have any proposal included in the Company's proxy statement shall comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended.

Section 2.6 VOTING OF SHARES.

Section 2.6.1 VOTING LISTS. The officer or agent who has charge of the stock ledger of the Company shall prepare, at least ten days and no more than sixty days before every meeting of stockholders, a complete list of the stockholders entitled to vote thereat arranged in alphabetical order and showing the address and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of

any such stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The original stock transfer books shall be prima facie evidence as to who are the stockholders entitled to examine such list or transfer books or to vote at any meeting of stockholders. Failure to comply with the requirements of this section shall not affect the validity of any action taken at said meeting.

Section 2.6.2 VOTES PER SHARE. Unless otherwise provided in the certificate of incorporation, each stockholder shall be entitled to one vote in person or by proxy at every stockholders meeting for each share of capital stock held by such stockholder.

Section 2.6.3 PROXIES. Every stockholder entitled to vote at a meeting or to express consent or dissent without a meeting or a stockholder's duly authorized attorney-in-fact may authorize another person or persons to act for him by proxy. Each proxy shall be in writing, executed by the stockholder giving the proxy or by his duly authorized attorney. No proxy shall be voted on or after three years from its date, unless the proxy provides for a longer period. Unless and until voted, every proxy shall be revocable at the pleasure of the person who executed it, or his legal representatives or assigns, except in those cases where an irrevocable proxy permitted by statute has been given.

Section 2.6.4 REQUIRED VOTE. When a quorum is present at any meeting, the vote of the holders, present in person or represented by proxy, of capital stock of the Company representing a majority of the votes of all capital stock of the Company entitled to vote thereat shall decide any question brought before such meeting, unless the question is one upon which, by express provision of law or the certificate of incorporation or these Bylaws, a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 2.6.5 CONSENTS IN LIEU OF MEETING. Any action required to be or that may be taken at any meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt, written notice of the action taken by means of any such consent which is other than unanimous shall be given to those stockholders who have not consented in writing.

ARTICLE III
DIRECTORS

Section 3.1 POWERS. The business of the Company shall be managed by or under the direction of the Board, which may exercise all such powers of the Company and do all such lawful acts and things as are not by law, the certificate of incorporation or these Bylaws directed or required to be exercised or done by the stockholders. Directors need not be stockholders or residents of the State of Delaware.

Section 3.2 NUMBER. The number of directors constituting the Board shall not be less than six nor more than twelve, the exact number of directors to be such number as may be set from time to time within the limits set forth above by resolution adopted by affirmative vote of a majority of the Board.

Section 3.3 ELECTION. Directors shall be elected by the stockholders by plurality vote at an annual stockholders meeting as provided in the certificate of incorporation, except as hereinafter provided. The directors shall be divided into three classes as provided in the certificate of incorporation. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

Section 3.4 NOMINATION. Nominations for the election of directors may be made by the Board or by any stockholder entitled to vote for the election of directors. Such nominations, if not made by the Board, shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the secretary of the Company not less than 14 days nor more than 50 days prior to any meeting of the stockholders called for the election of directors; provided, however, that if less than 21 days' notice of the meeting is given to stockholders, such written notice shall be delivered or mailed, as prescribed, to the secretary of the Company not later than the close of the seventh day following the day on which notice of the meeting was mailed to stockholders. Each such notice shall set forth (i) the name and address of the nominating stockholder (ii) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (iii) the principal occupation or employment of each such nominee, and (iv) the number of shares of stock of the Company which are beneficially owned by each such nominee, (v) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors or is otherwise required by the rules and regulations of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended, (vi) the written consent of such person to be named in the proxy statement as a nominee and to serve as a director if elected and (f) a description of all arrangements or understandings between such stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such stockholder. Notice of nominations which are proposed by the Board shall be given on behalf of the Board by the chairman of the meeting. The chairman of the meeting may, if the facts warrant, determine and declare to the meeting that a nomination wasnot made in accordance with the foregoing procedure, and if the chairman should so determine, the chairman shall so declare to the meeting and the defective nomination shall be disregarded.

Section 3.5 VACANCIES. Vacancies and newly-created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until their successors are duly elected and qualified. If there are no directors in office, then an election of directors may be held in the manner provided by law. If, at the time of filling any vacancy or any newly-created directorship, the directors then in office shall constitute less than a majority of the whole Board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly-created directorships, or to replace the directors chosen by the directors then in office. No decrease in the size of the Board shall serve to shorten the term of an incumbent director.

Section 3.6. REMOVAL. Unless otherwise restricted by law, the certificate of incorporation or these Bylaws, any director may be removed at any annual or special stockholders' meeting upon the affirmative vote of the holders of a majority of the outstanding shares of voting stock of the Company at that time entitled to vote thereon; provided, however, that such director may be removed only for cause and shall receive a copy of the charges against him, delivered to him personally or by mail at his last known address at least 10 days prior to the date of the stockholders' meeting.

Section 3.7 COMPENSATION. Unless otherwise restricted by the certificate of incorporation or these Bylaws, the Board shall have the authority to fix the compensation of directors. The directors may be reimbursed their expenses, if any, of attendance at each meeting of the Board and may be paid either a fixed sum for attendance at each meeting of the Board or a stated salary as director. No such payment shall preclude any director from serving the Company in any other capacity and receiving compensation therefor. Members of committees of the Board may be allowed like compensation for attending committee meetings.

ARTICLE IV
BOARD MEETINGS

Section 4.1 ANNUAL MEETINGS. The Board shall meet as soon as practicable after the adjournment of each annual stockholders meeting at the place of the stockholders meeting. No notice to the directors shall be necessary to legally convene this meeting, provided a quorum is present.

Section 4.2 REGULAR MEETINGS. Regularly scheduled, periodic meetings of the Board may be held without notice at such times and places as shall from time to time be determined by resolution of the Board and communicated to all directors.

Section 4.3 SPECIAL MEETINGS. Special meetings of the Board (i) may be called by the chairman of the board or president and (ii) shall be called by the president or secretary on the written request of two directors or the sole director, as the case may be. Notice of each special meeting of the Board shall be given, either personally or as hereinafter provided, to each director

at least 24 hours before the meeting if such notice is delivered personally or by means of telephone, telegram, telex or facsimile transmission and delivery; two days before the meeting if such notice is delivered by a recognized express delivery service; and three days before the meeting if such notice is delivered through the United States mail. Any and all business that may be transacted at a regular meeting of the Board may be transacted at a special meeting. Except as may be otherwise expressly provided by law, the certificate of incorporation or these Bylaws, neither the business to be transacted at, nor the purpose of, any special meeting need be specified in the notice or waiver of notice of such meeting.

Section 4.4 QUORUM; REQUIRED VOTE. A majority of the directors shall constitute a quorum for the transaction of business at any meeting of the Board, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board, except as may be otherwise specifically provided by law, the certificate of incorporation or these Bylaws. If a quorum shall not be present at any meeting, a majority of the directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

Section 4.5 CONSENT IN LIEU OF MEETING. Unless otherwise restricted by the certificate of incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board or any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

ARTICLE V
COMMITTEES OF DIRECTORS

Section 5.1 ESTABLISHMENT; STANDING COMMITTEES. The Board may by resolution establish, name or dissolve one or more committees, each committee to consist of one or more of the directors. Each committee shall keep regular minutes of its meetings and report the same to the Board when required. There shall exist the following standing committees, which committees shall have and may exercise the following powers and authority:

Section 5.1.1 AUDIT COMMITTEE. The Audit Committee shall from time to time, but no less than two times per year, meet to review and monitor the financial and cost accounting practices and procedures of the Company and all of its subsidiaries and to report its findings and recommendations to the Board for final action. The Audit Committee shall not be empowered to approve any corporate action of whatever kind or nature, and the recommendations of the Audit Committee shall not be binding on the Board, except when, pursuant to the provisions of Section 5.2 hereof, such power and authority have been specifically delegated to such committee by the Board by resolution. In addition to the foregoing, the specific duties of the Audit Committee shall be determined by the Board by resolution.

Section 5.1.2 COMPENSATION COMMITTEE. The Compensation Committee shall from time to time meet to review the various compensation plans, policies and practices of the Company and all of its subsidiaries and to report its findings and recommendations

to the Board for final action. The Compensation Committee shall not be empowered to approve any corporate action of whatever kind or nature, and the recommendations of the Compensation Committee shall not be binding on the Board, except when, pursuant to the provisions of Section 5.2 hereof, such power and authority have been specifically delegated to such committee by the Board by resolution. In addition to the foregoing, the specific duties of the Compensation Committee shall be determined by the Board by resolution.

Section 5.2 AVAILABLE POWERS. Any committee established pursuant to Section 5.1 hereof, including the Audit Committee and the Compensation Committee, but only to the extent provided in the resolution of the Board establishing such committee or otherwise delegating specific power and authority to such committee and as limited by law, the certificate of incorporation and these Bylaws, shall have and may exercise all of the powers and authority of the Board in the management of the business and affairs of the Company, and may authorize the seal of the Company to be affixed to all papers that may require it. Without limiting the foregoing, such committee may, but only to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board as provided in Section 151(a) of the General Corporation Law of the State of Delaware, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Company or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Company.

Section 5.3 UNAVAILABLE POWERS. No committee of the Board shall have the power or authority to (1) approve or adopt, or recommend to the stockholders, any action or matter expressly required by the General Corporation Law of the State of Delaware to be submitted to stockholders for approval or (2) adopt, amend or repeal any provision in these Bylaws.

Section 5.4 ALTERNATE MEMBERS. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not the member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member.

Section 5.5 PROCEDURES. Time, place and notice, if any, of meetings of a committee shall be determined by such committee. At meetings of a committee, a majority of the number of members designated by the Board shall constitute a quorum for the transaction of business. The act of a majority of the members present at any meeting at which a quorum is present shall be the act of the committee, except as otherwise specifically provided by law, the certificate of incorporation or these Bylaws. If a quorum is not present at a meeting of a committee, the members present may adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is present.

ARTICLE VI
OFFICERS

Section 6.1 ELECTED OFFICERS. The Board shall elect a chairman of the Board, a treasurer and a secretary (collectively, the "Required Officers") having the respective duties enumerated below and may elect such other officers having the titles and duties set forth below that are not reserved for the Required Officers or such other titles and duties as the Board may by resolution from time to time establish:

Section 6.1.1 CHAIRMAN OF THE BOARD. The chairman of the board shall be the ranking chief executive officer of the Company, shall have general supervision of the affairs of the Company and general control of all of its business and shall see that all orders and resolutions of the Board are carried into effect. The chairman of the board, or in his or her absence, the president, shall preside when present at all meetings of the shareholders and the Board. The chairman of the board may execute bonds, mortgages and other contracts requiring a seal under the seal of the Company, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board to some other officer or agent of the Company. The chairman of the board may delegate all or any of his or her powers or duties to the president, if and to the extent deemed by the chairman of the board to be desirable or appropriate.

Section 6.1.2 PRESIDENT. The president shall be the chief operating officer of the Company and shall, subject to the supervision of the chairman of the board and the Board, have general management and control of the day-to-day business operations of the Company. The president shall put into operation the business policies of the Company as determined by the chairman of the board and the Board and as communicated to him or her by such officer and bodies. The president shall make recommendations to the chairman of the board on all matters that would normally be reserved for the final executive responsibility of the chairman of the board. In the absence of the chairman of the board or in the event of his or her inability or refusal to act, the president shall perform the duties and exercise the powers of the chairman of the board.

Section 6.1.3 VICE PRESIDENTS. In the absence of the president or in the event of the president's inability or refusal to act, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated by the Board, or in the absence of any designation, then in the order of their election or appointment) shall perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions upon the president. The vice presidents shall perform such other duties and have such other powers as the Board may from time to time prescribe.

Section 6.1.4 SECRETARY. The secretary shall attend all meetings of the stockholders, the Board and (as required) committees of the Board and shall record all the proceedings of such meetings in books to be kept for that purpose. The secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board and shall perform such other duties as may be prescribed by the Board or the

president. The secretary shall have custody of the corporate seal of the Company and the secretary, or an assistant secretary, shall have authority to affix the same to any instrument requiring it, and when so affixed, it may be attested by his or her signature or by the signature of such assistant secretary. The Board may give general authority to any other officer to affix the seal of the Company and to attest the affixing thereof by his or her signature.

Section 6.1.5 ASSISTANT SECRETARIES. The assistant secretary, or if there be more than one, the assistant secretaries in the order determined by the Board (or if there be no such determination, then in the order of their election or appointment) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

Section 6.1.6 TREASURER. Unless the Board by resolution otherwise provides, the treasurer shall be the chief accounting and financial officer of the Company. The treasurer shall have the custody of the corporate funds and securities, shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board. The treasurer shall disburse the funds of the Company as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the president and the Board, at its regular meetings, or when the Board so requires, an account of all his or her transactions as treasurer and of the financial condition of the Company.

Section 6.1.7 ASSISTANT TREASURERS. The assistant treasurer, or if there shall be more than one, the assistant treasurers in the order determined by the Board (or if there be no such determination, then in the order of their election or appointment) shall, in the absence of the treasurer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

Section 6.1.8 DIVISIONAL OFFICERS. Each division of the Company, if any, may have a president, secretary, treasurer or controller and one or more vice presidents, assistant secretaries, assistant treasurers and other assistant officers. Any number of such offices may be held by the same person. Such divisional officers will be appointed by, report to and serve at the pleasure of the Board and such other officers that the Board may place in authority over them. The officers of each division shall have such authority with respect to the business and affairs of that division as may be granted from time to time by the Board, and in the regular course of business of such division may sign contracts and other documents in the name of the division where so authorized; provided that in no case and under no circumstances shall an officer of one division have authority to bind any other division of the Company except as necessary in the pursuit of the normal and usual business of the division of which he or she is an officer.

Section 6.2 ELECTION. All elected officers shall serve until their successors are duly elected and qualified or until their earlier death, resignation or removal from office.

Section 6.3 APPOINTED OFFICERS. The Board may also appoint or delegate the power to appoint such other officers, assistant officers and agents, and may also remove such officers and agents or delegate the power to remove same, as it shall from time to time deem necessary, and the titles and duties of such appointed officers may be as described in Section 6.1 hereof for elected officers; provided that the officers and any officer possessing authority over or responsibility for any functions of the Board shall be elected officers.

Section 6.4 MULTIPLE OFFICEHOLDERS; STOCKHOLDER AND DIRECTOR OFFICERS. Any number of offices may be held by the same person, unless the certificate of incorporation or these Bylaws otherwise provide. Officers need not be stockholders or residents of the State of Delaware. Officers, such as the chairman of the board, possessing authority over or responsibility for any function of the Board must be directors.

Section 6.5 COMPENSATION; VACANCIES. The compensation of elected officers shall be set by the Board. The Board shall also fill any vacancy in an elected office. The compensation of appointed officers and the filling of vacancies in appointed offices may be delegated by the Board to the same extent as permitted by these Bylaws for the initial filling of such offices.

Section 6.6 ADDITIONAL POWERS AND DUTIES. In addition to the foregoing especially enumerated powers and duties, the several elected and appointed officers of the Company shall perform such other duties and exercise such further powers as may be provided by law, the certificate of incorporation or these Bylaws or as the Board may from time to time determine or as may be assigned to them by any competent committee or superior officer.

Section 6.7 REMOVAL. Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the Board.

ARTICLE VII
SHARE CERTIFICATES

Section 7.1 ENTITLEMENT TO CERTIFICATES. Every holder of the capital stock of the Company, unless and to the extent the Board by resolution provides that any or all classes or series of stock shall be uncertificated, shall be entitled to have a certificate, in such form as is approved by the Board and conforms with applicable law, certifying the number of shares owned by such holder.

Section 7.2 MULTIPLE CLASSES OF STOCK. If the Company shall be authorized to issue more than one class of capital stock or more than one series of any class, a statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences and/or rights shall, unless the Board shall by resolution provide that such class or series of stock shall be uncertificated, be set forth in full or summarized on the face or back of the certificate that the Company shall issue to represent such class or series of stock; provided that, to the extent allowed by law, in lieu of such statement, the face or back of such certificate may state that the Company will furnish a copy of such statement without charge to each requesting stockholder.

Section 7.3 SIGNATURES. Each certificate representing capital stock of the Company shall be signed by or in the name of the Company by (1) the chairman of the board, the president or a vice president; and (2) the treasurer, an assistant treasurer, the secretary or an assistant secretary of the Company. The signatures of the officers of the Company may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to hold such office before such certificate is issued, it may be issued by the Company with the same effect as if he or she held such office on the date of issue.

Section 7.4 ISSUANCE AND PAYMENT. Subject to the provisions of law, the certificate of incorporation or these Bylaws, shares may be issued for such consideration and to such persons as the Board may determine from time to time. Shares may not be issued until the full amount of the consideration has been paid, unless upon the face or back of each certificate issued to represent any partly paid shares of capital stock there shall have been set forth the total amount of the consideration to be paid therefor and the amount paid thereon up to and including the time said certificate is issued.

Section 7.5 LOST CERTIFICATES. The Board may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Company alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or such owner's legal representative, to advertise the same in such manner as it shall require and/or to give the Company a bond in such sum as it may direct as indemnity against any claim that may be made against the Company with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 7.6 TRANSFER OF STOCK. Upon surrender to the Company or its transfer agent, if any, of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer and of the payment of all taxes applicable to the transfer of said shares, the Company shall be obligated to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books; provided, however, that the Company shall not be so obligated unless such transfer was made in compliance with applicable state and federal securities laws.

Section 7.7 REGISTERED STOCKHOLDERS. The Company shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, vote and be held liable for calls and assessments and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any person other than such registered owner, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VIII
INDEMNIFICATION

Section 8.1 GENERAL. The Company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company), by reason of the fact that the person is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, have reasonable cause to believe that his or her conduct was unlawful.

Section 8.2 ACTIONS BY OR IN THE RIGHT OF THE COMPANY. The Company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture or trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Company and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Company unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 8.3 INDEMNIFICATION AGAINST EXPENSES. To the extent that a present or former director or officer of the Company has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 8.1 and 8.2 hereof, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 8.4 BOARD DETERMINATIONS. Any indemnification under Sections 8.1 and 8.2 hereof (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the person has met the applicable standard of conduct set forth in Sections 8.1 and 8.2 hereof. Such determination shall be made,

with respect to a person who is a director or officer at the time of such determination, (1) by a majority vote of the directors who were not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if there are no such disinterested directors or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the stockholders.

Section 8.5 ADVANCEMENT OF EXPENSES. Expenses including attorneys' fees incurred by an officer or director in defending a civil or criminal action, suit or proceeding may be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Company as authorized by law or in this section. Such expenses incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the Company deems appropriate.

Section 8.6 NONEXCLUSIVE. The indemnification and advancement of expenses provided by, or granted pursuant to, this section shall not be deemed exclusive of any other rights to which any director, officer, employee or agent of the Company seeking indemnification or advancement of expenses may be entitled under any other bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, and shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent of the Company and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 8.7 INSURANCE. The Company may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity or arising out of such person's status as such, whether or not the Company would have the power to indemnify such person against such liability under the provisions of applicable statutes, the certificate of incorporation or this section.

Section 8.8 CERTAIN DEFINITIONS. For purposes of this Section 8.8, (a) references to "the Company" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger that, if its separate existence had continued, would have had power and authority to indemnify its directors, officers and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this section with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued; (b) references to "other enterprises" shall include employee benefit plans; (c) references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and (d)

references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company that imposes duties on, or involves services by, such director, officer, employee or agent with respect to any employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this section.

Section 8.9 CHANGE IN GOVERNING LAW. In the event of any amendment or addition to Section 145 of the General Corporation Law of the State of Delaware or the addition of any other section to such law that limits indemnification rights thereunder, the Company shall, to the extent permitted by the General Corporation Law of the State of Delaware, indemnify to the fullest extent authorized or permitted hereunder, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Company), by reason of the fact that he or she is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding.

ARTICLE IX
INTERESTED DIRECTORS, OFFICERS AND STOCKHOLDERS

Section 9.1 VALIDITY. Any contract or other transaction between the Company and any of its directors, officers or stockholders (or any corporation or firm in which any of them are directly or indirectly interested) shall be valid for all purposes notwithstanding the presence of such director, officer or stockholder at the meeting authorizing such contract or transaction, or his or her participation or vote in such meeting or authorization.

Section 9.2 DISCLOSURE; APPROVAL. The foregoing shall, however, apply only if the material facts of the relationship or the interests of each such director, officer or stockholder are known or disclosed:

(A) to the Board and it nevertheless in good faith authorizes or ratifies the contract or transaction by a majority of the directors present, each such interested director to be counted in determining whether a quorum is present but not in calculating the majority necessary to carry the vote; or

(B) to the stockholders and they nevertheless in good faith authorize or ratify the contract or transaction by a majority of the shares present, each such interested person to be counted for quorum and voting purposes.

Section 9.3 NONEXCLUSIVE. This provision shall not be construed to invalidate any contract or transaction that would be valid in the absence of this provision.

ARTICLE X
MISCELLANEOUS

Section 10.1 PLACE OF MEETINGS. All stockholders, directors and committee meetings shall be held at such place or places, within or without the State of Delaware, as shall be designated from time to time by the Board or such committee and stated in the notices thereof. If no such place is so designated, said meetings shall be held at the principal business office of the Company.

Section 10.2 FIXING RECORD DATES.

(a) In order that the Company may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty nor less than ten days prior to any such action. If no record date is fixed by the Board, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

(b) In order that the Company may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board. If no record date has been fixed by the Board, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board is otherwise required, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Company by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Company having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Company's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board and prior action by the Board is required, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board adopts the resolution taking such prior action.

(c) In order that the Company may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change,

conversion or exchange of stock, or for the purpose of any other lawful action, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

Section 10.3 MEANS OF GIVING NOTICE. Whenever under applicable law, the certificate of incorporation or these Bylaws, notice is required to be given to any director or stockholder, such notice may be given in writing and delivered personally, through the United States mail, by a recognized express delivery service (such as Federal Express) or by means of telegram, telex or facsimile transmission, addressed to such director or stockholder at his or her address or telex or facsimile transmission number, as the case may be, appearing on the records of the Company, with postage and fees thereon prepaid. Such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail or with an express delivery service or when transmitted, as the case may be. Notice of any meeting of the Board may be given to a director by telephone and shall be deemed to be given when actually received by the director.

Section 10.4 WAIVER OF NOTICE. Whenever any notice is required to be given under applicable law, the certificate of incorporation or these Bylaws, a written waiver of such notice, signed before or after the date of such meeting by the person or persons entitled to said notice, shall be deemed equivalent to such required notice. All such waivers shall be filed with the corporate records. Attendance at a meeting shall constitute a waiver of notice of such meeting, except where a person attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 10.5 ATTENDANCE VIA COMMUNICATIONS EQUIPMENT. Unless otherwise restricted by applicable law, the certificate of incorporation or these Bylaws, members of the Board, any committee thereof or the stockholders may hold a meeting by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can effectively communicate with each other. Such participation in a meeting shall constitute presence in person at the meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 10.6 DIVIDENDS. Dividends on the capital stock of the Company, paid in cash, property or securities of the Company and as may be limited by applicable law and applicable provisions of the certificate of incorporation (if any), may be declared by the Board at any regular or special meeting.

Section 10.7 RESERVES. Before payment of any dividend, there may be set aside out of any funds of the Company available for dividends such sum or sums as the Board from time to time, in its absolute discretion, determines proper as a reserve or reserves to meet contingencies, for equalizing dividends, for repairing or maintaining any property of the Company or for such other purpose as the Board shall determine to be in the best interest of the Company; and the Board may modify or abolish any such reserve in the manner in which it was created.

Section 10.8 REPORTS TO STOCKHOLDERS. The Board shall present at each annual meeting of stockholders, and at any special meeting of stockholders when called for by vote of the stockholders, a statement of the business and condition of the Company.

Section 10.9 CONTRACTS AND NEGOTIABLE INSTRUMENTS. Except as otherwise provided by applicable law or these Bylaws, any contract or other instrument relative to the business of the Company may be executed and delivered in the name of the Company and on its behalf by the chairman of the board or the president; and the Board may authorize any other officer or agent of the Company to enter into any contract or execute and deliver any contract in the name and on behalf of the Company, and such authority may be general or confined to specific instances as the Board may by resolution determine. All bills, notes, checks or other instruments for the payment of money shall be signed or countersigned by such officer, officers, agent or agents and in such manner as are permitted by these Bylaws and/or as, from time to time, may be prescribed by resolution (whether general or special) of the Board. Unless authorized so to do by these Bylaws or by the Board, no officer, agent or employee shall have any power or authority to bind the Company by any contract or engagement, or to pledge its credit, or to render it liable pecuniarily for any purpose or to any amount.

Section 10.10 FISCAL YEAR. The fiscal year of the Company shall be fixed by resolution of the Board.

Section 10.11 SEAL. The seal of the Company shall be in such form as shall from time to time be adopted by the Board. The seal may be used by causing it or a facsimile thereof to be impressed, affixed or otherwise reproduced.

Section 10.12 BOOKS AND RECORDS. The Company shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its stockholders, Board and committees and shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of the shares held by each.

Section 10.13 RESIGNATION. Any director, committee member, officer or agent may resign by giving written notice to the chairman of the board, the president or the secretary. The resignation shall take effect at the time specified therein, or immediately if no time is specified. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 10.14 SURETY BONDS. Such officers and agents of the Company (if any) as the president or the Board may direct, from time to time, shall be bonded for the faithful performance of their duties and for the restoration to the Company, in case of their death, resignation, retirement, disqualification or removal from office, of all books, papers, vouchers, money and other property of whatever kind in their possession or under their control belonging to the Company, in such amounts and by such surety companies as the president or the Board may determine. The premiums on such bonds shall be paid by the Company and the bonds so furnished shall be in the custody of the Secretary.

Section 10.15 PROXIES IN RESPECT OF SECURITIES OF OTHER CORPORATIONS. The chairman of the board, the president, any vice president or the secretary may from time to time appoint an attorney or attorneys or an agent or agents for the Company to exercise, in the name and on behalf of the Company, the powers and rights that the Company may have as the holder of stock or other securities in any other corporation to vote or consent in respect of such stock or other securities, and the chairman of the board, the president, any vice president or the secretary may instruct the person or persons so appointed as to the manner of exercising such powers and rights; and the chairman of the board, the president, any vice president or the secretary may execute or cause to be executed, in the name and on behalf of the Company and under its corporate seal or otherwise, all such written proxies or other instruments as he or she may deem necessary or proper in order that the Company may exercise such powers and rights.

Section 10.16 AMENDMENTS. These Bylaws may be altered, amended, repealed or replaced by the stockholders, or by the Board when such power is conferred upon the Board by the certificate of incorporation, at any annual stockholders meeting or annual or regular meeting of the Board, or at any special meeting of the stockholders or of the Board if notice of such alteration, amendment, repeal or replacement is contained in the notice of such special meeting. If the power to adopt, amend, repeal or replace these Bylaws is conferred upon the Board by the certificate of incorporation, the power of the stockholders to so adopt, amend, repeal or replace these Bylaws shall not be divested or limited thereby.

BELINDA 2.25.99 H-65380 ETHER 32 RM

COMMON STOCK

INCORPORATED UNDER THE LAWS
OF THE STATE OF DELAWARE

PAR VALUE $.01

NUMBER

SHARES

[PHOTO]

C

THIS CERTIFICATE IS TRANSFERABLE IN
NEW YORK, NY OR BOSTON, MA

CUSIP 018581 10 8
SEE REVERSE FOR CERTAIN DEFINITIONS

ALLIANCE DATA SYSTEMS CORPORATION

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY-PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK OF

[LOGO]

A L L I A N C E
DATA SYSTEMS

ALLIANCE DATA SYSTEMS CORPORATION transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are issued and shall be subject to all the provisions of the Certificate of Incorporation of the Corporation, as now or hereafter amended, to all of which the holder hereof by acceptance hereof assents. This Certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar.

Witness the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

DATED

COUNTERSIGNED AND REGISTERED:
EQUISERVE TRUST COMPANY, N.A.
TRANSFER AGENT
AND REGISTRAR

BY:

CHIEF EXECUTIVE OFFICER
AND PRESIDENT

SECRETARY

AUTHORIZED SIGNATURE

AMERICAN BANK NOTE
COMPANY

ALLIANCE DATA SYSTEMS CORPORATION

THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OR SERIES THEREOF OF THE CORPORATION, AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND/OR RIGHTS. SUCH REQUEST SHOULD BE MADE TO THE CORPORATION OR TO THE TRANSFER AGENT.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common	UNIF GIFT MIN ACT-_____ Custodian _____
TEN ENT - as tenants by the entireties	(Cust) (Minor)
JT TEN - as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts to Minors Act_____ (State)

Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

_____

_____

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE

_____

_____ Shares of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____

Attorney to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated_____

X_____
(SIGNATURE)

NOTICE:

THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE --- > FACE OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

X_____
(SIGNATURE)

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

SIGNATURE(S) GUARANTEED BY:

AMERICAN BANK NOTE COMPANY
55TH AND SANSOM STREET
PHILADELPHIA, PA 19139
(215) 764-8600

SALES: M. GARRETT: 214-823-2700

/ HOME 15 / LIVE JOBS / A / ALLIANCE 65380

PRODUCTION COORDINATOR: BELINDA BECK: 215-764-8619

PROOF OF FEBRUARY 23, 2000

ALLIANCE DATA SYSTEMS CORPORATION

H 65380 bk

OPERATOR: JW

NEW

[LETTERHEAD]

March 3, 2000

Alliance Data Systems Corporation
17655 Waterview Parkway
Dallas, Texas 75252

Ladies and Gentlemen:

We have acted as counsel to Alliance Data Systems Corporation, a Delaware corporation (the "COMPANY"), in connection with the proposed public offering of up to 20,000,000 shares of the Company's Common Stock, par value $0.01 per share (the "COMMON STOCK"), as described in Registration Statement No. 333-94623 on Form S-1 (the "REGISTRATION STATEMENT") filed with the Securities and Exchange Commission.

We have, as counsel, examined originals or certified copies of such corporate records of the Company, certificates and other documents and reviewed such questions of law as we have deemed necessary, relevant or appropriate to enable us to render the opinions listed below. In rendering such opinions, we have assumed the genuineness of all signatures and the authenticity of all documents examined by us. As to various questions of fact material to such opinions, we have relied upon representations of the Company.

Based upon such examination and representations, we advise you that, in our opinion:

A. The shares of Common Stock that are to be sold and delivered by the Company as contemplated by the Underwriting Agreement (the "UNDERWRITING AGREEMENT"), the form of which is filed as Exhibit 1 to the Registration Statement, have been duly authorized by the Company.

B. The shares of Common Stock that are to be sold and delivered by the Company as contemplated by the Underwriting Agreement will, when issued and delivered in accordance with the terms of the Underwriting Agreement, be validly issued, fully paid and non-assessable.

We consent to the filing of this opinion as Exhibit 5 to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the Prospectus contained therein.

Sincerely,

/s/ Akin, Gump, Strauss, Hauer & Feld, L.L.P.
AKIN, GUMP, STRAUSS, HAUER & FELD, L.L.P.

BUILD-TO-SUIT NET LEASE

BETWEEN

OPUS SOUTH CORPORATION

AS LANDLORD

AND

ADS ALLIANCE DATA SYSTEMS, INC.,

AS TENANT

JANUARY ___, 1998

BUILD-TO-SUIT NET LEASE

THIS BUILD-TO-SUIT NET LEASE ("LEASE") is entered into as of January __, 1998 by and between the Landlord and Tenant identified in SECTION 1.1.

1. DEFINITIONS AND EXHIBITS

1.1 DEFINITIONS. In this Lease, the following defined terms have the meanings set forth for them below or in the section of this Lease indicated below:

"ADA" means the Americans with Disabilities Act, as amended from time to time.

"ADDITIONAL RENT" means all amounts required to be paid by Tenant under this Lease in addition to Basic Rent including, without limitation, Taxes and insurance premiums.

"AFFILIATES" means, with respect to any party, any entities or individuals that control, are controlled by or are under common control with such party, together with its and their respective partners, venturers, directors, officers, shareholders, trustees, trustors, beneficiaries, agents, employees and spouses.

"ALLOWANCE" has the meaning set forth in SECTION 3.10.

"APPROVED EXPANSION BASE BUILDING PLANS" has the meaning set forth in SECTION 18(b).

"APPROVED EXPANSION COSTS" has the meaning set forth in SECTION 18(d).

"APPROVED EXPANSION LEASEHOLD IMPROVEMENTS PLANS" has the meaning set forth in SECTION 18(c).

"APPROVED EXPANSION RENTABLE SQUARE FEET" has the meaning set forth in SECTION 18(f).

"APPROVED ORIGINAL BASE BUILDING PLANS" has the meaning set forth in SECTION 3.2.

"APPROVED ORIGINAL LEASEHOLD IMPROVEMENTS PLANS" has the meaning set forth in SECTION 3.3.

"APPROVED ORIGINAL RENTABLE SQUARE FEET" has the meaning set forth in SECTION 3.6.

"APPROVED TENANT'S COSTS" has the meaning set forth in SECTION 3.4.

"BASIC RENT" means the Original Basic Rent and, if applicable, the Expansion Basic Rent.

"BUILDING" means the Original Building and the Expansion Building.

"CORE BUILDING SYSTEMS" means the items delineated on EXHIBIT K.

"DEADLINE EXTENSION" has the meaning set forth in SECTION 3.2.

"ENVIRONMENTAL LAWS" means the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 ET SEQ., the Comprehensive Environmental Response, Compensation and Liability Act, U.S.C. Section 9601 ET SEQ. (including the so-called "Superfund" amendments thereto), any other applicable Laws governing or pertaining to any hazardous substances, hazardous wastes, chemicals or other materials, including, without limitation, asbestos, polychlorinated biphenyls, radon, petroleum and any derivative thereof or any common law theory based on nuisance or strict liability.

"EVENT OF DEFAULT" has the meaning set forth in SECTION 15.2.

"EXPANSION BASE BUILDING" has the meaning set forth in SECTION 18(a).

"EXPANSION BASE BUILDING PLANS" has the meaning set forth in SECTION 18(b).

"EXPANSION BASIC RENT" has the meaning set forth in SECTION 18(j)(II)(B).

"EXPANSION BUILDING" has the meaning set forth in SECTION 18(a).

"EXPANSION CHANGE ORDER" has the meaning set forth in SECTION 18(e).

"EXPANSION COMMENCEMENT DATE" has the meaning set forth in SECTION 18(j)(I).

"EXPANSION COSTS" means the actual amount of those costs described on EXHIBIT J which Landlord incurs in connection with the construction of the Expansion Building. Expansion Costs specifically do not include any acquisition or carrying costs for any portion of the Land, it being understood that those costs are included in the Original Basic Rent for the Original Premises. Landlord and Tenant further agree that Expansion Costs will include (a) the cost of general conditions and insurance, not to exceed three percent (3%) of the cost of the construction work, excluding soft costs, (b) overhead, not to exceed three percent (3%) of the cost of the construction work, excluding soft costs and the general conditions and insurance and (c) a general contractor's fee payable to Landlord in an amount equal to five percent (5%) of the construction work, excluding soft costs and overhead.

"EXPANSION LEASEHOLD IMPROVEMENTS" has the meaning set forth in SECTION 18(a).

"EXPANSION LEASEHOLD IMPROVEMENTS PLANS" has the meaning set forth in SECTION 18(c).

"EXPANSION PUNCH LIST" has the meaning set forth in SECTION 18(h).

"FAIR MARKET RENT" has the meaning set forth in SECTION 2.5.

"FINAL COMPLETION" means that all Landlord's Original Work or Landlord's Expansion Work, as the case may be, has been fully and finally completed.

"FINANCED AMOUNT" has the meaning set forth in SECTION 3.10.

"FIRST RENEWAL TERM" has the meaning set forth in SECTION 2.5.

"FIRST STAGE COMPLETION" means that Landlord's Original Work on the first floor of the Original Building has been Substantially Completed and the first floor of the Original Building is ready for and can be occupied by Tenant.

"FORCE MAJEURE" means any delays due to strikes, riots, acts of God, war, or any other causes of any kind whatsoever which are beyond the control of Landlord or Tenant at any time during the term of this Lease, it being agreed that the inability to perform financial obligations (including, without limitation, paying the Basic Rent and other charges due under this Lease), shortages of labor or materials, and governmental laws, rules or restrictions shall not constitute events beyond the reasonable control of Landlord or Tenant.

"GUARANTOR" means Alliance Data Systems Corporation, a Delaware corporation, but the term "GUARANTOR" means any then-existing guarantor of Tenant's obligations under this Lease pursuant to a guaranty agreement substantially similar to the form attached to this Lease as EXHIBIT G or another form reasonably acceptable to Landlord.

"HAZARDOUS SUBSTANCE" means any substance, chemical or material declared to be, or regulated as, hazardous or toxic under any Environmental Law or the presence of which may give rise to liability under any Environmental Law.

"IMPROVEMENTS" means the Building, the Leasehold Improvements, and any other structures, pavement, landscaping, lighting fixtures or other improvements now or later constructed or installed upon the Land.

"INTEREST RATE" means the prime interest rate (as published from time to time by THE WALL STREET JOURNAL, and with any changes in such rate to be effective on the date such change is published) plus 5% per annum, but if such rate exceeds the maximum interest rate permitted by law, such rate will be reduced to the highest rate allowed by law under the circumstances.

"LAND" means the real property located on Waterview Parkway in the City of Dallas, Collin County, Texas (including all of its appurtenant rights and easements) and legally described on EXHIBIT A.

"LANDLORD" means Opus South Corporation, a Florida corporation.

"LANDLORD'S EXPANSION WORK" has the meaning set forth in SECTION 18(a).

"LANDLORD'S NOTICE ADDRESS" means:

12225 Greenville Avenue
Suite 900
Dallas, Texas 75243-9363
Telecopy: (972) 669-2216

with a copy to:

700 Opus Center
9900 Bren Road East

Minnetonka, Minnesota 55343
Attention: Legal Department
Telecopy: (612) 936-9808

"LANDLORD'S ORIGINAL WORK" means the construction and installation of the Original Base Building and the Original Leasehold Improvements.

"LANDLORD'S RENT ADDRESS" means:

5401 Corporate Woods Drive
Suite 100
Pensacola, Florida 32504

"LANDLORD'S REPRESENTATIVE" means Lamar Lawson.

"LAWS" means any and all present or future federal, state or local laws, statutes, ordinances, rules, regulations or orders of any and all governmental or quasi-governmental authorities having jurisdiction.

"LEASEHOLD IMPROVEMENTS" means the Original Leasehold Improvements and the Expansion Leasehold Improvements.

"ORIGINAL BASE BUILDING" means those portions of the Original Building and the associated site Improvements on the Land (such as driveways, parking areas, landscaping and exterior lighting) that are specified on EXHIBIT B and are identified with an asterisk (*) on EXHIBIT C under the column "Base Building Core & Shell".

"ORIGINAL BASE BUILDING PLANS" has the meaning set forth in SECTION 3.2.

"ORIGINAL BASIC RENT" means the rent payable according to SECTION 4.1.

"ORIGINAL BUILDING" means the building containing approximately 114,419 rentable square feet to be constructed by Landlord for Tenant upon the Land according to SECTION 3 and includes both the Original Base Building and the Original Leasehold Improvements.

"ORIGINAL CHANGE ORDER" has the meaning set forth in SECTION 3.5.

"ORIGINAL COMMENCEMENT DATE" means the first day of the Term, which will be the Third Stage Completion Date, unless the Original Commencement Date is extended according to SECTION 3.6.

"ORIGINAL LEASEHOLD IMPROVEMENTS" means all leasehold improvements and installations, in addition to the Original Base Building, that are to be constructed or installed by Landlord for Tenant according to SECTION 3, and which are identified with an asterisk (*) on EXHIBIT C under the column "Tenant Improvement".

"ORIGINAL LEASEHOLD IMPROVEMENTS PLANS" means construction plans and specifications for the Original Leasehold Improvements.

"ORIGINAL PREMISES" means the Land and the Original Building.

"ORIGINAL PUNCH LIST" has the meaning set forth in SECTION 3.8.

"ORIGINAL TERM" means the period between the Original Commencement Date and the Expiration Date.

"PERMITTED EXPANSION FORCE MAJEURE DELAYS" has the meaning set forth in SECTION 18(g).

" PERMITTED ORIGINAL FORCE MAJEURE DELAYS" has the meaning set forth in SECTION 3.7.

"PLAN APPROVAL DELAY" has the meaning set forth in SECTION 3.2 AND SECTION 3.3.

"PREMISES" means the Land and all then-existing Improvements.

"PROJECTED EXPANSION COMPLETION DATE" has the meaning set forth in SECTION 18(f).

"RELEASE CONDITIONS" means all of the following conditions have been met: (a) the assignee of this Lease or sublessee of all of the Premises has a net worth (excluding goodwill) of at least $75 million, (b) if such assignee or sublessee is a subsidiary of any entity, Tenant has obtained and delivered to Landlord a guaranty by such parent entity of the assignee or sublessee's obligations under this Lease, and (c) in the event Tenant subleases the entire Premises (it being understood and agreed that this condition does not apply in the case of an assignment), Tenant has obtained and delivered to Landlord a written agreement from such sublessee assuming the obligations of Tenant under this Lease from and after the effective date of such sublease.

"RENEWAL NOTICE" has the meaning set forth in SECTION 2.5.

"RENEWAL NOTICE DATE" has the meaning set forth in SECTION 2.5.

"RENEWAL TERM" has the meaning set forth in SECTION 2.5.

"RENT" means Basic Rent, Expansion Basic Rent (if applicable), and all Additional Rent.

"RENTABLE SQUARE FEET" means the standard for "Rentable Area" as promulgated by the Building Owners and Managers Association International and approved by the American National Standards Institute, Inc. on June 7, 1996 (reference number ANSI/BOMA Z65.1-1996).

"REPORT" has the meaning set forth in SECTION 6.3(c).

"SECOND RENEWAL TERM" has the meaning set forth in SECTION 2.5.

"SECOND STAGE COMPLETION" means that the Landlord's Original Work on the first floor and the second floor of the Original Building has been Substantially Completed and the first floor and second floor of the Original Building are ready for occupancy and can be occupied by Tenant.

"SUBSTANTIALLY COMPLETED" or "SUBSTANTIAL COMPLETION" or "SUBSTANTIALLY COMPLETE" means that the applicable portion of the Premises is broom clean, free of construction tools and materials, and Landlord's Original Work has been completed according to the Approved Original Base Building Plans and the Approved Original Leasehold Improvements Plans or Landlord's Expansion Work has been completed according to the Approved Expansion Base Building Plans and the Approved Expansion Leasehold Improvements Plans, as the case may be, with only minor punch list items that will not interfere to more than a minor extent with Tenant's use and enjoyment of the Premises remaining to be completed or corrected pursuant to the terms of this Lease; that an unconditional certificate of occupancy for the applicable portion of the Premises has been issued (unless the issuance thereof is conditioned upon any work or installations the responsibility of which is not included within Landlord's Original Work or Landlord's Expansion Work, as the case may be) and not suspended or revoked or amended in a manner that would prevent Tenant from occupying the applicable portion of the Premises for the purposes for which they were designed; and that all utilities called for in the Approved Original Base Building Plans or Approved Expansion Base Building Plans, as the case may be, or the Approved Original Leasehold Improvements Plans or the Approved Expansion Leasehold Improvements Plans, as the case may be, are installed and operable with all hook-up, tap or similar fees paid.

"TAXES" means, subject to the terms of SECTION 5.3 below, all ad valorem real and personal property taxes and assessments, special or otherwise, levied upon or with respect to the Premises, the personal property used in operating the Premises, and the rents and additional charges payable by Tenant according to this Lease, and imposed by any taxing authority having jurisdiction; and all taxes, levies and charges which may be assessed, levied or imposed in replacement of, or in addition to, all or any part of ad valorem real or personal property taxes or assessments as revenue sources, and which in whole or in part are measured or calculated by or based upon the Premises, the leasehold estate of Landlord or Tenant in and to the Premises, or the rents and other charges payable by Tenant according to this Lease. Taxes will not include any net income, franchise, inheritance or similar taxes of Landlord.

"TAX YEAR" means a 12-month period for which Taxes are assessed.

"TENANT" means ADS Alliance Data Systems, Inc., a Delaware corporation.

"TENANT'S COST" means the total cost of preparing the Original Leasehold Improvements Plans, obtaining all necessary permits for, and constructing and installing, the Original Leasehold Improvements in the Original Base Building, and providing any required services during construction of the Original Leasehold Improvements (such as electricity and other utilities and refuse removal). Landlord and Tenant agree that Tenant's Cost will include (a) the cost of general conditions and insurance, not to exceed three percent (3%) of the cost of the construction work, excluding soft costs, (b) overhead, not to exceed three percent (3%) of the cost of the construction work, excluding soft costs and the general conditions and insurance and (c) a general contractor's fee payable to Landlord in an amount equal to five percent (5%) of the construction work, excluding soft costs and overhead.

"TENANT'S COST PROPOSAL" has the meaning set forth in SECTION 3.9.

"TENANT'S EXPANSION COST PROPOSAL" has the meaning set forth in SECTION 18(d).

"TENANT ORIGINAL DELAY" has the meaning set forth in SECTION 3.7.

"TENANT EXPANSION DELAY" has the meaning set forth in SECTION 18(g).

"TENANT'S NOTICE ADDRESS" means,

for notices given before the Original Commencement Date:

5001 Spring Valley Road
Dallas, Texas 75244
Attention: Mr. Robert S. Murphy
Telecopy: (972) 960-5275
with a copy at the same time to:

4590 East Broad Street
Columbus, Ohio 43213
Attention: General Counsel
Telecopy: (614) 863-5965

and

Harriet Anne Tabb
Tabb & Associates
8333 Douglas Avenue
Suite 1250
Dallas, Texas 75225

and for notices given after the Original Commencement Date:

Tenant's address at the Premises, with a copy at the same time to:

4590 East Broad Street
Columbus, Ohio 43213
Attention: General Counsel

and

Harriet Anne Tabb
Tabb & Associates
8333 Douglas Avenue
Suite 1250
Dallas, Texas 75225

"TENANT'S REPRESENTATIVE" means Robert S. Murphy.

"TERM" means the duration of this Lease, which will be approximately 11 years beginning on the Original Commencement Date and ending on the "EXPIRATION DATE" (as defined below), unless terminated earlier or extended further as provided in this Lease. The "EXPIRATION DATE" means (i) if the Original Commencement Date is the first day of a month, the 11-year anniversary of the day immediately preceding the Original Commencement

Date; or (ii) if the Original Commencement Date is not the first day of a month, the 11-year anniversary of the last day of the month in which the Original Commencement Date occurs. The Term will also include any exercised Renewal Term.

"THIRD STAGE COMPLETION" means that all of Landlord's Original Work in the Original Building is Substantially Completed and all of the Original Building is ready for and can be occupied by Tenant.

1.2 EXHIBITS. The Exhibits listed below are attached to and incorporated in this Lease. In the event of any inconsistency between such Exhibits and the terms and provisions of this Lease, the terms and provisions of the Exhibits will control, but the terms of this Lease may specifically modify the exhibits. The Exhibits to this Lease are:

Exhibit A	-	Legal Description of the Land
Exhibit B	-	Base Building Specifications (including Building Elevation, Site Plan, Floor Plan and Building Specifications)
Exhibit C	-	Base Building/Tenant Matrix
Exhibit D	-	Matters Affecting Landlord's Title
Exhibit E	-	Memorandum of Lease
Exhibit F	-	NDA
Exhibit G	-	Lease Guaranty
Exhibit H	-	2-Story Plan
Exhibit I	-	3-Story Plan
Exhibit J	-	Expansion Cost Summary
Exhibit K	-	Core Building Systems

2. GRANT OF LEASE; RENEWAL OPTIONS

2.1 DEMISE. Subject to the terms, covenants, conditions and provisions of this Lease, Landlord leases to Tenant and Tenant leases from Landlord the Premises for the Term.

2.2 QUIET ENJOYMENT. Landlord covenants that Tenant, upon paying the Basic Rent and Additional Rent and performing all other obligations of Tenant under this Lease, will have quiet and peaceful possession of the Premises during the Term, and such possession will not be disturbed by Landlord or anyone claiming by, through or under Landlord. Upon Landlord's acquisition of the Land, Landlord will own the Land in fee simple, subject only to the matters set forth on EXHIBIT D. Landlord hereby represents and warrants that the execution of this Lease, the construction of the Original Building, and the construction of the Expansion Building will not violate the terms of any of the items described on EXHIBIT D and that Landlord has received or will receive all approvals necessary for the construction of the Original Building and the Expansion Building.

2.3 LANDLORD AND TENANT COVENANTS. Landlord covenants to observe and perform all of the terms, covenants and conditions applicable to Landlord in this Lease. Tenant covenants to pay the Rent when due, and to observe and perform all of the terms, covenants and conditions applicable to Tenant in this Lease.

2.4 MEMORANDUM OF LEASE. Promptly after execution of this Lease, Landlord and Tenant will execute and acknowledge a recordable memorandum of lease on the form attached as EXHIBIT E, which memorandum must be recorded immediately after the deed into Landlord (i.e., with no intervening document). After the occurrence of the Original Commencement Date, either party will, upon the other's request, execute and acknowledge a recordable memorandum setting forth

the date on which the Original Commencement Date occurred and the date on which the Expiration Date is scheduled to occur.

2.5 TENANT'S RENEWAL OPTIONS. Subject to the terms and provisions of this SECTION 2.5, Tenant, at its option, may extend the Original Term of this Lease for one five-year period at the end of the Original Term (the "FIRST RENEWAL TERM") and, if Tenant exercises its option with respect to the First Renewal Term, for an additional five-year period at the end of the First Renewal Term (the "SECOND RENEWAL TERM"). The First Renewal Term and the Second Renewal Term are individually referred to herein as a "RENEWAL TERM." To exercise each such option, Tenant must deliver written notice of the exercise thereof (a "RENEWAL NOTICE") to Landlord no later than nine months prior to the expiration of (i) the Original Term, in the case of Tenant's option with respect to the First Renewal Term, or (ii) the First Renewal Term, in the case of Tenant's option with respect to the Second Renewal Term. The dates by which Tenant is required to deliver its Renewal Notices will each be referred to hereinafter as a "RENEWAL NOTICE DATE." If Tenant fails to give its Renewal Notice with respect to either Renewal Term by the applicable Renewal Notice Date, such Renewal Notice Date will be extended until the first to occur of (A) the 15th day after Landlord gives Tenant notice that Tenant has failed to exercise its option with respect to the subject Renewal Term; or (B) the last day of the then-current Term. Landlord and Tenant agree that once Tenant has delivered a Renewal Notice, both parties will be responsible for their respective obligations under this Lease for the subject Renewal Term, regardless of the outcome of the Basic Rent determination for such Renewal Term as described below. During each Renewal Term, all of the terms and provisions of this Lease will apply, except that after the Second Renewal Term there will be no further right of renewal, and except that the Basic Rent payable for each month of the First Renewal Term will be 90% of the "FAIR MARKET RENT" (as defined below), but in no event less than 100%, or more than 118%, of the monthly Basic Rent payable during the last year of the initial Term, and the Basic Rent payable for each month of the Second Renewal Term will be 90% of the Fair Market Rent, but in no event less than 100%, or more than 118%, of the monthly Basic Rent payable during the last year of the First Renewal Term. As used herein, "FAIR MARKET RENT" will mean an amount of rent per month equal to the prevailing monthly rent then being obtained by landlords of premises comparable to the Land and the Base Building and the Expansion Base Building, if appropriate (I.E., the Premises, but excluding the Original Leasehold Improvements, the Expansion Leasehold Improvements, and any subsequent Improvements made by Tenant) in the Dallas, Texas metropolitan area (or that such landlords would then be able to obtain) under leases of premises comparable to the Land and the Base Building and the Expansion Base Building, if appropriate, for terms comparable to the subject Renewal Term. Landlord and Tenant will, for a period of 30 days from and after the subject Renewal Notice Date, meet with each other and negotiate in good faith to agree upon the then-current Fair Market Rent (using the criteria set forth above) acceptable to both parties. If the parties are unable to agree upon the Fair Market Rent during such 30-day period, then, within seven days after such 30-day period expires, Landlord and Tenant will each appoint a certified MAI appraiser who has at least five years' full-time commercial appraisal experience in the Dallas, Texas market. If one party fails to so appoint an appraiser within such seven-day period, the determination of the Fair Market Rent by the one appraiser who was timely appointed by the other party will be binding on both parties. The appraisers will, within 30 days of their appointment, submit their determinations of the Fair Market Rent to both parties. If the difference between the two determinations is 10% or less of the higher appraisal, then the average between the two determinations will be the Fair Market Rent. If the difference between the two determinations is greater than 10% of the higher thereof, then within 10 days of the date the second determination is submitted to the parties, the two appraisers will designate a third appraiser who must also meet the qualifications described above and, further, must not have previously acted for either party in any capacity. The sole responsibility of the third appraiser will be to determine which of the determinations made by the first two appraisers is more accurate. The third appraiser will

have no right to propose a middle ground or any modifications to either of the prior determinations made by the first appraisers. The third appraiser's choice will be submitted to the parties within 20 days after his or her selection. Such determination will bind both parties, and the determination of the Fair Market Rent made by one of the first two appraisers and selected by the third appraiser as the more accurate will be the Fair Market Rent. All appraisers will be instructed, in making their required determinations, to use the criteria as to the Fair Market Rent set forth above. Each party will pay the fees and expenses of the appraiser selected by it, and they will pay equal shares of the fees and expenses of the third appraiser. Tenant will have no right to extend the Term and a Renewal Notice will be ineffective if an Event of Default exists at the time such notice is given or at the commencement of the subject Renewal Term. Any termination of this Lease terminates all rights under this SECTION 2.5.

3. CONSTRUCTION; DELIVERY AND ACCEPTANCE OF PREMISES

3.1 LANDLORD'S CONSTRUCTION OBLIGATIONS. Subject to and in accordance with the provisions of this SECTION 3, Landlord will (i) at Landlord's sole cost and expense, design (consistent with the terms of EXHIBIT B and EXHIBIT C), construct and install the Original Base Building on the Land in accordance with the Approved Original Base Building Plans (as defined below); and (ii) subject to the provisions of SECTION 3.5, construct and install the Original Leasehold Improvements in accordance with the Approved Original Leasehold Improvements Plans (as defined below). Landlord must perform the Landlord's Original Work in a good and workmanlike manner, using new materials, and in accordance with all applicable laws, ordinances, rules, and regulations, including, without limitation, ADA and all applicable environmental laws, as interpreted and enforced by the governmental bodies having jurisdiction thereof at the time of construction.

3.2 ORIGINAL BASE BUILDING PLANS. On or before January 15, 1998, Landlord delivered to Tenant preliminary plans and specifications for the Base Building (the "ORIGINAL BASE BUILDING PLANS"), which plans are described as follows: Shell Building Plans for Alliance Data Systems - Corporate Headquarters, Dallas, Texas (dated 1/15/98) and Specifications for Alliance Data Systems - Corporate Headquarters, Dallas, Texas (dated 1/14/98). Landlord acknowledges that Tenant responded to such delivery within five (5) business days. The specifications attached as EXHIBIT B are the Original Base Building Plans described above and although there are not yet any Approved Original Base Building Plans, neither have any Plan Approval Delays, Tenant Original Delays, or Deadline Extensions accrued during the period before lease execution. The revised preliminary Original Base Building Plans are due from Landlord on January 29, 1998. Within five (5) business days after Tenant receives such revised preliminary Original Base Building Plans, Tenant will either approve the same in writing or notify Landlord in writing of Tenant's objections to the revised preliminary Original Base Building Plans and how the revised preliminary Original Base Building Plans must be changed in order to make them acceptable to Tenant. Each day following the fifth (5th) business day after the revised preliminary Original Base Building Plans are submitted to Tenant until Tenant either approves them or delivers a notice of objections to Landlord will be a day of Tenant Original Delay (as that term is defined in SECTION 3.7 hereof). Within five (5) business days after Landlord's receipt of Tenant's notice of objections, Landlord will cause its architect to prepare revised Original Base Building Plans according to such notice and submit the revised Original Base Building Plans to Tenant. In any review, Tenant cannot object to any aspect of the proposed Original Base Building Plans if (i) subject to the next-succeeding sentence, such objection would require material deviations from the terms of EXHIBIT B AND EXHIBIT C attached to this Lease, or (ii) such objection was not included within any of the previous objections made by Tenant to the Original Base Building Plans, unless the item objected to was not included in any of the previous

versions of the Original Base Building Plans or such item was so included, but has been affected by a subsequent change to the Original Base Building Plans. However, it is understood and agreed that Tenant has the right to select the following items, even if such items are not consistent with the guidelines detailed in the Base Building Specifications attached as EXHIBIT B, as long as such items are available to comply with the schedule of construction of the Original Building: exterior brick, glass, and metal frames; restroom finishes (including, without limitation, ceramic tile and toilet partitions); lobby finishes; elevator cab finishes; landscaping; and common area interior finishes, doors and hardware. Upon submittal to Tenant of the revised Original Base Building Plans, and upon submittal of any further revisions, the procedures described above will be repeated until Landlord and Tenant have reached agreement. Once they have reached agreement, Landlord must promptly prepare permit-ready Original Base Building Plans and submit them to Tenant for Tenant's approval. The only grounds upon which Tenant can object to such permit-ready Original Base Building Plans is that they materially differ from the final approved preliminary Original Base Building Plans. Tenant's failure to respond to Landlord's submission within five (5) business days after Landlord delivers such permit-ready Original Base Building Plans to Tenant constitutes Tenant's approval of such permit-ready Original Base Building Plans. The final permit-ready Original Base Building Plans, as approved by Landlord and Tenant, constitute the "APPROVED ORIGINAL BASE BUILDING PLANS" under this Lease. Each day following March 1, 1998, that the Approved Original Base Building Plans have not been approved by Landlord and Tenant for any reason other than Landlord's failure to perform or respond as required by this SECTION 3.2 shall constitute a "PLAN APPROVAL DELAY". Each day that Landlord does not perform or respond as required by this SECTION 3.2 will extend such March 1, 1998 deadline by one (1) day and will constitute a day of "DEADLINE EXTENSION."

3.3 LEASEHOLD IMPROVEMENT PLANS. On or before April 6, 1998 (extended by one (1) day for each day of Deadline Extension), Tenant will cause its architect to prepare and deliver to Landlord preliminary plans and specifications for the Original Leasehold Improvements (the "ORIGINAL LEASEHOLD IMPROVEMENTS PLANS"). While these preliminary plans and specifications are not required to be permit-ready, they must show sufficient detail concerning all aspects of the Original Leasehold Improvements Plans so that making them permit-ready is only a matter of incorporating technical details. Each day following April 6, 1998 (extended by one (1) day for each day of Deadline Extension), until Tenant delivers the preliminary Original Leasehold Improvements Plans will be a day of Plan Approval Delay. Within five (5) business days after receipt of the preliminary Leasehold Improvement Plans, Landlord will either approve the same in writing or notify Tenant in writing of Landlord's objections to the preliminary Original Leasehold Improvements Plans and how the preliminary Original Leasehold Improvements Plans must be changed in order to make them acceptable to Landlord. Landlord can only object to the preliminary Original Leasehold Improvements Plans on the grounds that they would adversely affect the structural integrity of the Original Base Building or materially modify any portion of the Core Building Systems and cannot object in any subsequent review to any matter not raised in a preceding review, unless the item objected to was not included in any of the previous versions of the Original Leasehold Improvements Plans or such item was so included, but has been affected by a subsequent change to the Original Leasehold Improvements Plans. However, under all circumstances, Tenant has the right to select the following items as they apply to the Original Leasehold Improvements, but only as long as such items are available to comply with the schedule of construction of the Original Building: exterior brick, glass, and metal frames; restroom finishes (including, without limitation, ceramic tile and toilet partitions); lobby finishes; elevator cab finishes; landscaping; and common area interior finishes, doors and hardware. If Landlord fails to respond in the manner set forth above within five (5) business days after the date Tenant delivers the preliminary Original Leasehold Improvements Plans to Landlord or objects to the preliminary Original Leasehold Improvements Plans on any grounds other than those set forth in this SECTION 3.3, then Landlord will be

conclusively deemed to have approved the preliminary Original Leasehold Improvements Plans. Within five (5) business days after Tenant's receipt of Landlord's notice of objections (if such objections meet the requirements set forth above), Tenant will cause its architect to prepare revised Original Leasehold Improvements Plans according to such notice and submit the revised Original Leasehold Improvements Plans to Landlord. Upon submittal to Landlord of the revised Original Leasehold Improvements Plans, and upon submittal of any further revisions, the procedures described above will be repeated until Landlord and Tenant have reached agreement. Once they have reached agreement, Tenant must promptly prepare permit-ready Original Leasehold Improvements Plans to Landlord for Landlord's approval. The only grounds upon which Landlord can object to such permit-ready Original Leasehold Improvements Plans is that they materially differ from the final approved Original Leasehold Improvements Plans. Landlord's failure to respond to Tenant's submissions within five (5) business days after Tenant delivers such permit-ready Original Leasehold Improvements Plans to Landlord constitutes Landlord's approval of such permit-ready Original Leasehold Improvements Plans. The permit-ready Original Leasehold Improvements Plans, as finally approved, are referred to in this Lease as the "APPROVED LEASEHOLD IMPROVEMENTS PLANS." Each day following April 20, 1998 (extended by one (1) day for each day of Deadline Extension), that the Approved Original Leasehold Improvements Plans have not been approved by Landlord and Tenant for any reason other than Landlord's failure to perform or respond as required by this SECTION 3.3 shall constitute a Plan Approval Delay. Each day that Landlord does not perform or respond as required by this SECTION 3.3 will constitute a day of Deadline Extension.

3.4 TENANT'S COST PROPOSAL. At such time as Landlord and Tenant have approved the Approved Original Leasehold Improvements Plans (and in any event within fifteen (15) days thereafter), Landlord will (i) obtain at least three bids for each of the major trades that will be involved in the construction of the Original Leasehold Improvements (with Landlord agreeing to solicit and consider bids from subcontractors selected by Tenant), unless less than three qualified subcontractors exist for a given trade, in which case Landlord will obtain a bid from all qualified subcontractors of such trade; (ii) using the lowest qualified bid (which, in order to be qualified, must fully comply with all bid requirements, including but not limited to any time requirements specified) from each of the bids so received (unless (a) Landlord advises Tenant in writing within five (5) business days after the bids are received that Landlord believes the lowest bidder will be unable to perform the work upon which it has bid in a timely manner or to the quality required by Tenant, giving written evidence of its reasons for such belief, it being understood and agreed that if Landlord fails to so notify Tenant within such five (5) business day period, Landlord will be deemed to have waived any objection to any subcontractor, and (b) Tenant has consented to the use of a bidder other than the lowest bidder, which consent Tenant will not unreasonably withhold and which consent shall be deemed granted unless Tenant expressly denies such consent by written notice to Landlord within 3 business days after Landlord's notice of objection to the subcontractor), prepare a proposed budget for all items to be included in Tenant's Cost ("TENANT'S COST PROPOSAL"); and (iii) submit copies of all bids and the Tenant's Cost Proposal to Tenant for Tenant's review and approval. Tenant, at Tenant's option, may either approve the Tenant's Cost Proposal in writing, or elect to eliminate or revise one or more items of Original Leasehold Improvements shown on the Original Leasehold Improvements Plans, or request additional bids so as to reduce the costs shown in the Tenant's Cost Proposal. Tenant may then approve in writing the reduced Tenant's Cost Proposal (based on revised Original Leasehold Improvements Plans (which will be deemed the Approved Original Leasehold Improvements Plans for all purposes under this Lease) prepared by Tenant's architect or revised bids, as the case may be). However, each business day following May 1, 1998 (extended by one (1) day for each day of Deadline Extension) until the day on which Landlord has received Tenant's written approval of the Tenant's Cost Proposal will be a day of Plan Approval Delay. The Tenant's Cost Proposal, as finally approved, is referred to in this Lease as the "APPROVED TENANT'S COSTS." Each day that Landlord does not perform or respond as required by

this SECTION 3.4 will constitute a day of Deadline Extension.

3.5 ORIGINAL CHANGE ORDERS. Tenant's Representative may request and authorize changes in the Landlord's Original Work as long as such changes (i) are consistent with the scope of Landlord's Original Work, and (ii) do not affect the Original Base Building or any portion of the Core Building Systems. All other changes will be subject to Landlord's prior written approval, which approval Landlord cannot unreasonably withhold, delay, or condition. Within five (5) business days after Tenant requests a change in the Landlord's Original Work and prior to commencing any change, Landlord will prepare and deliver to Tenant, for Tenant's approval, a change order ("ORIGINAL CHANGE ORDER") identifying the total cost or savings of such change, which will include associated architectural, engineering and construction contractor's fees, and the total time that will be added to or subtracted from the construction schedule by such change. Once Landlord delivers an Original Change Order to Tenant for Tenant's approval, Tenant must either affirmatively approve or disapprove of the Original Change Order within three (3) business days following Tenant's receipt of the Original Change Order. In the event Tenant fails to respond within the three (3) business day period, then each day thereafter that Tenant fails to respond shall be a Tenant Original Delay. Alternatively, Landlord may deliver to Tenant, within the same five (5) business day period, an estimate of the time and costs to be expended in calculating the Original Change Order. In the event Tenant does not respond or fails to affirmatively authorize Landlord to proceed on the third (3rd) business day following Tenant's receipt of such estimate, then it shall be conclusively deemed that Tenant withdrew its request for any change in Landlord's Original Work. If Tenant authorizes Landlord to proceed with calculating the cost of the Original Change Order, then Tenant shall be responsible for all reasonable costs associated therewith (and pay same to Landlord within 30 days following Landlord's written request) and any delay in connection with such calculation shall be a Tenant Original Delay, whether or not Tenant ultimately approves the Original Change Order.

3.6 DELIVERY OF POSSESSION. Landlord acknowledges and agrees that Tenant is terminating an existing lease on a specific date in reliance upon Landlord's commitment to deliver the Original Building to Tenant in accordance with the schedule set forth below, subject only to Plan Approval Delays (as defined in SECTIONS 3.2 AND 3.3 above), Tenant Original Delays (as defined in SECTION 3.7 below) and Permitted Original Force Majeure Delays (as defined in SECTION 3.7 below), which exceed, when taken together, ten (10) days:

First Stage Completion:	August 31, 1998
Second Stage Completion:	September 10, 1998
Third Stage Completion:	September 20, 1998
Final Completion:	Thirty (30) days after Original Punch List delivery

Therefore, Landlord must deliver the Original Building to Tenant in accordance with the foregoing schedule as such scheduled dates have been delayed due to Plan Approval Delays, Tenant Original Delays and Permitted Original Force Majeure Delays which exceed, when taken together, ten (10) days only, it being understood and agreed that such dates cannot be extended for any reason other than Plan Approval Delays, Tenant Original Delays and Permitted Original Force Majeure Delays which exceed, when taken together, ten (10) days. If Landlord is unable to deliver possession of the Original Building in accordance with the foregoing schedule, as it may be extended, (i) the Original Commencement Date will be extended automatically by one day for each day of the period after the Third Stage Completion Date to the day on which Landlord tenders possession of the Original Building to Tenant with Landlord's Original Work Substantially Completed, less any portion of that period attributable to Tenant Original Delays; and (ii) Landlord will pay Tenant, as liquidated damages, an amount equal to $2,000.00 per day for each day after August 31, 1998 (as such date may be extended) that the First Stage Completion has not occurred; and (iii) if the First Stage

Completion has occurred, Landlord will pay to Tenant, as liquidated damages, $2,000.00 per day for each day after September 10, 1998 (as such date may be extended) that the Second State Completion has not occurred; and (iv) Landlord will pay to Tenant, as liquidated damages, $4,000.00 per day for each day after September 20, 1998 (as such date may be extended) to the day upon which Landlord tenders possession of the Original Building to Tenant with Landlord's Original Work Substantially Completed; and (v) if Landlord has Substantially Completed the Original Building, Landlord will pay to Tenant $500.00 per day for each day after the thirtieth day after Tenant delivers the Original Punch List to Landlord that the Final Completion has not occurred; and (vi) if Landlord does not tender possession of the Original Building to Tenant with the Landlord's Original Work Substantially Completed on or before December 1, 1998 (plus any period of delay caused by Plan Approval Delays, Tenant Original Delays or Permitted Force Majeure Delay which exceed, when taken together, ten (10) days), Tenant will have the right to terminate this Lease by delivering written notice of termination to Landlord not more than 30 days after such deadline date. Upon a termination under clause (vi) above, each party will, upon the other's request, execute and deliver an agreement in recordable form containing a release and surrender of all right, title and interest in and to this Lease; neither Landlord nor Tenant will have any further obligations to each other, including, without limitation, any obligations to pay for work previously performed in the Original Building through the date of such termination except as set forth in this sentence; all improvements to the Premises will become and remain the property of Landlord; and Landlord will refund to Tenant any sums paid to Landlord by Tenant in connection with this Lease, including, without limitation, any payments to Landlord of portions of Tenant's Cost and pay to Tenant the amounts that have accrued under clauses (ii) through (v) above. Such postponement of the commencement of the Term, payment of liquidated damages and termination and refund right will be in full settlement of all claims that Tenant might otherwise have against Landlord by reason of Landlord's failure to have complied with the schedule set forth above. If Landlord delivers possession of the Original Building with the Landlord's Original Work Substantially Completed prior to the dates specified in the schedule set forth above, then Tenant may either accept such delivery (in which case such date will be the Original Commencement Date hereunder) or may refuse to accept delivery until any date selected by Tenant that is no later than the dates specified in the schedule set forth above. Within sixty (60) days after the Original Commencement Date, Landlord will provide to Tenant a complete set of as-built drawings of Landlord's Original Work and manuals for all equipment incorporated into the Improvements as a part of Landlord's Original Work. Landlord and Tenant have sixty (60) days after Landlord notifies Tenant that the Original Building has been Substantially Completed in which to remeasure the Original Building, but after the expiration of such sixty (60) day period, neither Tenant nor Landlord may remeasure the Original Building. Landlord and Tenant agree that provided the Original Building is otherwise Substantially Completed, a variance in the size of the Original Building (as the same may change due to any Original Change Order) by more or less than one percent (1%) shall be permitted and shall have no effect on the Original Building being Substantially Completed, nor on the calculation of the Original Basic Rent, Allowance or Financed Amount. In the absence of such remeasurement or the right to do so, it shall be conclusively deemed that the Original Building contains 114,419 Rentable Square Feet (subject to any approved revisions to the Approved Original Base Building Plans, with the final Rentable Square Feet as shown in the Approved Original Base Building Plans being sometimes referred to as the "APPROVED ORIGINAL RENTABLE SQUARE FEET"). If Tenant does timely elect to remeasure the Original Building, and the variance is greater than one percent (1%) but less than two percent (2%), the variance shall be permitted and have no affect on the Original Building being Substantially Completed, but (A) the Basic Rent (as provided in SECTION 4.1) will be adjusted to be $5.95 per Rentable Square Foot under clause (a) of SECTION 4.1, $11.98 per Rentable Square Foot under clause (b) of SECTION 4.1 and $13.45 per Rentable Square Foot under clause (c) of SECTION 4.1, (B) the Allowance (as provided in SECTION 3.10) will be adjusted to be $20.00 per Rentable Square Foot and (C) the Financed Amount (as provided in SECTION 3.10) will be adjusted to be $5.00 per Rentable Square Foot. If the

Original Building contains more than 102% of the Approved Original Rentable Square Feet, then the Allowance and Financed Amount will be adjusted based on the actual amount of square feet in the Original Building, but all other amounts will be calculated as if the Original Building contains 102% of the Approved Original Rentable Square Feet. If the Original Building contains less than 98% of the Approved Original Rentable Square Feet, then Landlord must make all alterations necessary to increase the size of the Original Building to at least 98% of the Approved Original Rentable Square Feet and the Original Building will be deemed to be not Substantially Complete. If, in such event, Tenant fails to terminate this Lease pursuant to SECTION 3.6(VI) above, then Tenant will be deemed to have accepted the size of the Original Building and the Original Building will be deemed to have been Substantially Complete on the day Landlord delivered the Original Building to Tenant with Landlord's Original Work (other than the area of the Original Building) Substantially Complete. In such event, the Allowance and Financed Amount will be calculated based on Approved Original Rentable Square Feet, but all other amounts will be calculated on the actual size of the Original Building.

3.7 PLAN APPROVAL DELAYS, TENANT ORIGINAL DELAYS AND PERMITTED ORIGINAL FORCE MAJEURE DELAYS. As provided in SECTION 3.6, the Term of this Lease (and therefore Tenant's obligation for the payment of Rent) will not commence until Landlord has Substantially Completed Landlord's Original Work; provided, however, that if Landlord is delayed in causing Landlord's Original Work to be Substantially Completed as a result of: (a) any Plan Approval Delays described in SECTIONS 3.2 AND 3.3, (b) any Tenant Original Delays described in SECTIONS 3.2, 3.3, 3.4 AND 3.5, or any Original Change Orders or changes in any drawings, plans or specifications requested by Tenant or any other act or omission of Tenant or Tenant's architects, engineers, constructors or subcontractors, all of which will be deemed to be delays caused by Tenant (with each individual occurrence constituting a "TENANT ORIGINAL DELAY" and the cumulative occurrences constituting "TENANT ORIGINAL DELAYS"), or (c) force majeure delays with such force majeure delays being referred to in this Lease as "PERMITTED ORIGINAL FORCE MAJEURE DELAYS"), then, if such delays exceed, in total, ten (10) days, the Original Commencement Date will only be extended under SECTION 3.6 until the date on which Landlord would have Substantially Completed the performance of Landlord's Original Work but for such delays. The aggregate delays described in this SECTION 3.7 will be reduced by the number of days deducted from the construction schedule on account of Original Change Orders. As a condition to claiming a Permitted Original Force Majeure Delay or a Tenant Original Delay, the day of delay must have otherwise been a day upon which Landlord intended to work on the item affected by the delay and Landlord must advise Tenant of the circumstances giving rise to the claim within ten (10) business days after they arise, the estimated cost that Tenant can pay at that time to effect any available remedy to eliminate or reduce such delay (for example, overtime work), and the cumulative total number of Permitted Original Force Majeure Delays, Tenant Original Delays, and Plan Approval Delays through the date of each event. If the number of Permitted Original Force Majeure Delays exceeds ninety (90) days then Tenant may terminate this Lease by written notice to Landlord at any time before the Original Commencement Date actually occurs and in such event Landlord must return to Tenant all amounts previously paid by Tenant and must pay Tenant $350,000.00, but will not be required to make any payment of liquidated damages under SECTION 3.6 of this Lease (and if Landlord has done so, Landlord will be permitted to offset the amount so paid against the $350,000.00 due to Tenant). If, under such circumstances, Tenant does not terminate this Lease as set forth above, then the maximum amount Landlord would be required to pay to Tenant as liquidated damages under SECTION 3.6 above would be $350,000.00.

3.8 ORIGINAL PUNCH LIST. Tenant's taking possession of any portion of the Original Building will be conclusive evidence that such portion of the Original Building was in good order and satisfactory condition, and that all of Landlord's Original Work in or to such portion of the Original Building was satisfactorily completed, when Tenant took possession, except as to any patent defects

or uncompleted items identified on a punch list (the "ORIGINAL PUNCH LIST") prepared by Tenant's Representative after an inspection of the Original Building by both Tenant's Representative and Landlord's Representative (unless Landlord's Representative fails to attend an inspection scheduled by Tenant's Representative, with Tenant acknowledging that Tenant's Representative must cooperate with Landlord's Representative in attempting to establish a mutually-acceptable date and time of inspection) made within thirty (30) days after Tenant takes possession, and except as to any latent defects in Landlord's Original Work. Landlord will not be responsible for any items of damage caused by Tenant, its agents, independent contractors or suppliers, except that in connection with Tenant's "phased" move-in to the Original Building, Landlord must repair damage caused by Tenant as part of its move-in and cannot claim such damage and repair constitutes any form of permitted delay, unless caused by Tenant's gross negligence or wilful misconduct. No promises to construct, alter, remodel or improve the Original Building, and no representations concerning the condition of the Original Building, have been made by Landlord to Tenant other than as may be expressly stated in this Lease.

3.9 REPRESENTATIVES. Landlord appoints Landlord's Representative to act for Landlord in all matters covered by this SECTION 3. Tenant appoints Tenant's Representative to act for Tenant in all matters covered by this SECTION 3. All inquiries, requests, instructions, authorizations and other communications with respect to the matters covered by this SECTION 3 will be made to Landlord's Representative or Tenant's Representative, as the case may be. Tenant will not make any inquiries of or requests to, and will not give any instructions or authorizations to, any other employee or agent of Landlord, including Landlord's architect, engineers and contractors or any of their agents or employees, with regard to matters covered by this SECTION 3. Either party may change its representative at any time by three days' prior written notice to the other party.

3.10 PAYMENT OF TENANT'S COST. Landlord and Tenant acknowledge that the Basic Rent has been computed based on Landlord's allowance of $2,288,380.00 (the "ALLOWANCE") towards the cost of the Original Leasehold Improvements. To the extent the Approved Tenant's Costs (as increased or decreased by Original Change Orders): (A) are less than the Allowance, the "savings" will be credited to the next installment(s) of Original Basic Rent due after such determination, (B) exceed the Allowance, Tenant will pay such excess to Landlord as herein required. Any such excess sums owing by Tenant to Landlord pursuant to this SECTION 3.10 (up to a maximum of an amount equal to $572,095.00 (the "FINANCED AMOUNT") shall be paid by Tenant to Landlord in monthly installments, amortized over the remaining months of the initial 11-year term of this Lease at a rate of nine percent (9%) per annum, with the Original Basic Rent to be increased by an amount equal to such amortized installments. Landlord and Tenant will, upon request of the other, promptly enter into an amendment to this Lease to evidence the increase in the Original Basic Rent. Any such excess sums owing by Tenant to Landlord pursuant to this SECTION 3.10 in excess of the Financed Amount shall be paid by Tenant to Landlord within thirty (30) days following the determination of the sum due to Landlord by Tenant and delivery to Tenant of supporting documentation of the entire amount paid. Tenant will own all of the Original Leasehold Improvements until the end of the Term, at which time the Original Leasehold Improvements will become Landlord's property in accordance with SECTION 14.1. During the Term, Tenant may, in its sole discretion, remove or replace any of the personal property, equipment, trade fixtures or movable partitions owned by Tenant and placed or installed in the Premises at Tenant's expense. Subject to SECTION 10.1, Tenant may also remove or replace the Original Leasehold Improvements. Landlord warrants that the Original Base Building and Original Leasehold Improvements will be free of all defects in design, materials or construction for a period of one year from the Original Commencement Date.

3.11 REASONABLENESS AND GOOD FAITH STANDARD. Landlord and Tenant acknowledge that they must work together cooperatively in order to design the Original Building and therefore

agree to act reasonably and in good faith in such design process.

40 RENT

4.1 BASIC RENT AND ORIGINAL BASIC RENT. Commencing on the Original Commencement Date and then throughout the Term, Tenant agrees to pay Landlord Basic Rent according to the following provisions. Basic Rent throughout the Term will be payable in monthly installments, in advance, on or before the first day of each and every month during the Term. The Original Basic Rent is in the amount of (a) during the portion of the Term beginning on the Original Commencement Date and ending on the first anniversary of the last day of the month preceding the month in which the Original Commencement Date occurs, $56,732.75 per month; (b) during the portion of the Term beginning on the second anniversary of the first day of the month in which the Original Commencement Date occurs and ending on the last day of the month preceding the sixth anniversary of the Original Commencement Date, $114,228.30 per month; (c) during the portion of the Term beginning on the sixth anniversary of the first day of the month in which the Original Commencement Date occurs to the Expiration Date of the initial Term, $128,244.62 per month; and (d) during each Renewal Term with respect to which Tenant exercises its option, the amount per month determined pursuant to SECTION 2.5. However, if the Term commences on other than the first day of a month or ends on other than the last day of a month, Basic Rent for such month will be appropriately prorated.

4.2 NET LEASE. Neither Landlord nor Tenant will be required to pay any costs or expenses or provide any services in connection with the Premises except as expressly provided in this Lease.

4.3 TERMS OF PAYMENT. All Rent will be paid to Landlord in lawful money of the United States of America, at Landlord's Rent Address or to such other person or at such other place as Landlord may from time to time designate in writing, without notice or demand and without right of deduction, abatement or setoff, except as otherwise expressly provided in this Lease. Tenant's covenants to pay Basic Rent and Additional Rent are independent of any other covenant, condition, provision or agreement contained in this Lease; provided, however, that the foregoing statement cannot be deemed in any way to limit Tenant's rights and remedies set forth elsewhere in this Lease.

4.4 LATE PAYMENTS. Any payment of Rent which is not received within five days after it is due will be subject to a late charge equal to 5% of the unpaid payment, or $100.00, whichever is greater. This amount is in compensation of Landlord's additional cost of processing late payments. In addition, any Rent which is not paid within five days after it is due will accrue interest at the Interest Rate from the date on which it was due until the date on which it is paid in full with accrued interest.

4.5 RIGHT TO ACCEPT PAYMENTS. No receipt by Landlord of an amount less than Tenant's full amount due will be deemed to be other than payment "on account," nor will any endorsement or statement on any check or any accompanying letter effect or evidence an accord and satisfaction. Landlord may accept such check or payment without prejudice to Landlord's right to recover the

balance or pursue any right of Landlord. No payments by Tenant to Landlord after the expiration or other termination of the Term, or after the giving of any notice (other than a demand for payment of money) by Landlord to Tenant, will reinstate, continue or extend the Term or make ineffective any notice given to Tenant prior to such payment. After notice or commencement of a suit, or after final judgment granting Landlord possession of the Premises, Landlord may receive and collect any sums of Rent due under this Lease, and such receipt will not void any notice or in any manner affect any pending suit or any judgment obtained. Any amounts received by Landlord may be allocated to any specific amounts due from Tenant to Landlord as Landlord determines.

50 TAXES

5.1 PAYMENT OF TAXES. Except as provided in SECTION 5.3 and SECTION 5.4 below, Tenant will pay before delinquency, directly to the taxing authority, all Taxes which accrue during or are attributable to any part of the Term. Within 10 days after Landlord's written request, Tenant will provide Landlord with evidence of Tenant's payment of Taxes for the most recent Tax Year for which Taxes have been paid. Landlord will use reasonable efforts to have the real property tax notices and bills issued directly to Tenant, but if Landlord is unable to do so, Landlord will promptly (and in any event with fifteen (15) days after Landlord's receipt thereof) forward all such notices and bills directly to the address to which Landlord is then required to send notices to Tenant.

5.2 PRORATION AT BEGINNING AND END OF TERM. If the Term begins on other than the first day of a Tax Year or if the Term expires or otherwise terminates on other than the last day of a Tax Year, Taxes for the Tax Year in which the Term begins or ends, as the case may be, will be prorated between Landlord and Tenant, based on the most recent levy and most recent assessment. Such proration will be subsequently adjusted when the actual bills become available for Taxes for the Tax Year for which Taxes were prorated. The parties' obligations under this SECTION 5 will survive the expiration of the Term or other termination of this Lease.

5.3 SPECIAL ASSESSMENTS. Tenant will pay, as Taxes, all special assessments and other like impositions; provided, however, that Tenant may pay in installments any such special assessments or like impositions that may be so paid according to applicable Laws and, in such event, Tenant will only be required to pay those installments of any such assessments or impositions that are assessed or imposed for periods of time within the Term and with proration, as provided above, of any installment due period at the beginning or end of the Term that covers a period of time that includes both a portion of the Term and an additional period either before or after the Term. The Premises are not now, and Landlord will take no action to cause or permit the Premises on the Original Commencement Date to be, located in a special improvement district or otherwise subject to special assessments. Landlord will not consent to the inclusion of the Premises in a special improvement district or other district that would subject the Premises to special assessments without Tenant's prior written approval and without giving Tenant the right and sufficient notice to allow Tenant to object to the inclusion in Landlord's name and on Landlord's behalf.

5.4 TAX CONTESTS. Tenant will have the right to contest any Taxes payable by Tenant; provided, however, that Tenant will make timely payment of the contested Taxes notwithstanding the pendency of any such contest unless applicable Laws permit the withholding of payment without delinquency, in which case Tenant may withhold payment of the contested Taxes until such time as payment thereof (or of such Taxes as the same may be reduced by such contest) is required to be made by applicable Laws in order to avoid delinquency. Tenant will notify Landlord within five business days of the commencement of any such contest. So long as Tenant complies with the terms of this SECTION 5.4, Tenant will have the right, in connection with any such contest, at its sole expense, to institute and prosecute, in good faith and with due diligence and in Landlord's name if necessary, any appropriate proceedings, and Landlord will, at Tenant's expense, fully cooperate with Tenant's efforts to contest any such Taxes or special assessments.

60 USE, OCCUPANCY AND COMPLIANCE

6.1 USE. Tenant may use the Premises for any and all uses and purposes that are from time to time permitted by Laws. Tenant will not keep anything on or about the Premises which would

invalidate any insurance policy required to be carried on the Premises by Tenant pursuant to this Lease. Tenant will not cause or permit to exist any public or private nuisance on or about the Premises.

6.2 COMPLIANCE. On the Original Commencement Date, the Premises will comply with all Laws applicable to their use and occupancy for the purposes for which they were designed. Tenant will comply with all Laws applicable to the use and occupancy of the Premises during the Term and will keep and maintain the Premises in compliance with all applicable Laws. Tenant will have the right, however, to contest or challenge by appropriate proceedings the enforceability of any Law or its applicability to the Premises or the use or occupancy thereof by Tenant so long as Tenant diligently prosecutes the contest or challenge to completion and, in the event Tenant loses the contest or challenge, thereafter abides by and conforms to such Law. In the event of Tenant's challenge or contest of such Law, Tenant may elect not to comply with such Law during such challenge or contest; provided, however, that such election not to comply will not result in any material risk of forfeiture of Landlord's interest in the Premises. Tenant will indemnify and hold Landlord harmless from and against all claims, damages or judgments resulting from any such election not to comply.

6.3 HAZARDOUS SUBSTANCES.

(a) TENANT'S COVENANTS. Tenant will not allow any Hazardous Substance to be located on the Premises and will not conduct or authorize the use, generation, transportation, storage, treatment or disposal at the Premises of any Hazardous Substance other than in quantities incidental to the conduct of Tenant's business in the Premises and in compliance with Environmental Laws; provided, however, nothing herein contained will permit Tenant to allow any so-called "acutely hazardous," "ultra-hazardous," "imminently hazardous chemical substance or mixture" or comparable Hazardous Substance to be located on or about the Premises. If the presence, release, threat of release, placement on or in the Premises or the generation, transportation, storage, treatment or disposal at the Premises of any Hazardous Substance as a result of Tenant's use or occupancy of the Premises (i) gives rise to liability (including, but not limited to, a response action, remedial action or removal action) under Environmental Laws; (ii) causes a significant public health effect; or (iii) pollutes or threatens to pollute the environment, Tenant will promptly take any and all remedial and removal action necessary to clean up the Premises and mitigate exposure to liability arising from the Hazardous Substance, whether or not required by Laws.

(b) TENANT'S INDEMNITY. Tenant will indemnify, defend and hold Landlord harmless from and against all damages, costs, losses, expenses (including, without limitation, actual attorneys' fees and engineering fees) arising from or attributable to (i) the existence of any Hazardous Substance at the Premises as a result of the acts of Tenant or its agents, employees or contractors or Tenant's use and occupancy of the Premises, and (ii) any breach by Tenant of any of its covenants contained in this SECTION 6.3.

(c) LANDLORD'S REPRESENTATION AND INDEMNITY. Landlord has delivered to Tenant copies of all studies in Landlord's possession concerning the presence of Hazardous Substances on the Premises and will promptly furnish Tenant with a copy of any additional such study that Landlord obtains on or within two months after the Original Commencement Date. Landlord represents to Tenant that, to Landlord's current actual knowledge (without any investigation other than as described in Phase I Environmental Site Assessment; 10.32 Acres of Undeveloped Land, Waterview Parkway, Dallas, Texas, Terracon Project No. 54975133, December 31, 1997, Prepared for Opus South Corporation, 12225 Greenville

Avenue, #900, Dallas, Texas 75243 and prepared by Terracon Environmental, Inc., Dallas, Texas (the "REPORT") and subject to all matters reflected or referenced thereon), there are no Hazardous Substances present on the Premises as of the date of this Lease in any manner or quantity that violates any Environmental Laws. Landlord will indemnify, defend and hold Tenant harmless from and against all damages, costs, losses, expenses (including, without limitation, actual attorneys' fees and engineering fees) arising from or attributable to (i) the existence of any Hazardous Substance at the Premises as a result of the acts of Landlord or its agents, employees or contractors, and (ii) any breach by Landlord of its representation contained in this SECTION 6.3.

(d) SURVIVAL. The parties' obligations under this SECTION 6.3 will survive the expiration of the Term or other termination of this Lease.

6.4 AMERICANS WITH DISABILITIES ACT. Landlord will be obligated to design and construct the Original Base Building and, if applicable, the Expansion Base Building in accordance with the ADA and Texas Accessibility Standards and if Landlord fails to do so, Landlord will have the continuing obligation to cause the Original Base Building and, if applicable, the Expansion Base Building to meet such requirement. Subject to the terms of the preceding sentence, Tenant will, at its expense, cause the Premises and the operation of any business within the Premises to comply with the ADA, and if Tenant fails to maintain the Premises in compliance with the ADA, Landlord will have the right, but not the obligation, at Tenant's expense, to enter the Premises and cause the Premises to comply with the ADA; and Tenant will indemnify, defend and hold Landlord harmless from and against any and all costs, claims and liabilities, including, without limitation, attorneys' fees and court costs, arising from or related to Tenant's failure to maintain the Premises in compliance with the ADA; provided, however, Landlord will cause the Original Base Building and, if applicable, the Expansion Base Building to be designed and constructed in accordance with the "ADA Guidelines for Buildings and Facilities" attached as "Appendix A" to the rules and regulations implementing the ADA, as the same are interpreted as of the date Landlord submits its complete application for a building permit for such construction, and provided, further, that any such obligation of Landlord will be subject to and based upon Tenant's representations concerning Tenant's status as a "Public Accommodation" and concerning the location of any "area of primary function." Without limiting the generality of the foregoing, if work is performed by, through or under Tenant after the Original Commencement Date, Tenant will, at Tenant's expense, cause such work to be designed and constructed in compliance with the ADA, and Tenant will be responsible for (i) the cost of any work required as a result of (A) Tenant or an assignee or subtenant being deemed a "Public Accommodation" or the Premises being deemed a "Place of Public Accommodation," or (B) such work being deemed to affect an "Area of Primary Function" (as such terms are defined in the ADA); and (ii) the cost of the installation or implementation of any "Auxiliary Aid" required under the ADA as a result of the operation of any business within the Premises.

6.5 SIGNS. Tenant may erect, maintain or replace from time to time upon the Premises at Tenant's cost all signs that Tenant deems appropriate to the conduct of its business, including, without limitation, pylon signs, monument signs, roof signs, banners, signage on the exterior of the Building or glass surfaces of the windows and doors of the Building, provided that all of such signs and signage are in compliance with applicable Laws. Landlord will, at Tenant's expense, cooperate and assist Tenant in obtaining any permits for signage, including variances from Laws.

70 UTILITIES

7.1 PAYMENT; INTERRUPTION OF SERVICES. Landlord will cause all utilities described in the Approved Original Base Building Plans and Approved Original Leasehold Improvements Plans and, if applicable, the Approved Expansion Base Building Plans and the Approved Expansion Leasehold Improvements Plans to be brought to the applicable portion of the Premises and hooked-up, and will pay the applicable tap, hook-up or similar fees. Tenant will pay for all electricity, gas, water, sewer or other utility service provided to the Premises from and after the Original Commencement Date. Landlord will not be liable in damages or otherwise, nor will there be an abatement of Rent, if the furnishing by any supplier of any utility service or other service to the Premises is interrupted or impaired by fire, accident, riot, strike, act of God, the making of necessary repairs or improvements, or by any causes beyond Landlord's reasonable control.

7.2 HVAC. From and after the Original Commencement Date, Tenant will pay the cost for all heating, air conditioning and ventilation service provided to the Premises, including the cost of maintenance, repair and replacement of same. Tenant may maintain a preventative maintenance contract on the HVAC units in the Premises, which contract will provide for periodic maintenance in accordance with the manufacturer's specifications, or Tenant may perform such preventative maintenance itself. In the event Tenant fails to maintain such preventative maintenance contract or to perform such preventative maintenance itself, Landlord, at its option and after giving Tenant notice

and an opportunity to cure pursuant to SECTION 15.2, may arrange for such a preventative maintenance contract for the HVAC units, in which event the cost of such preventative HVAC maintenance will be billed directly to Tenant and will be paid within 10 days of receipt of invoice therefor.

80 REPAIRS AND MAINTENANCE

8.1 TENANT'S OBLIGATIONS. Tenant will, at its expense (a) maintain, replace and repair all of the Premises (including, without limitation, all non-structural components of the walls, all flooring, ceilings and fixtures, all windows, window fittings and sashes, all interior and exterior doors, and all paved and landscaped areas on the Land), except those portions the maintenance of which is expressly Landlord's responsibility pursuant to SECTION 8.2, in a good, clean, safe, orderly and sanitary condition, ordinary wear and tear excepted; (b) keep the Premises free of insects, rodents, vermin and other pests; (c) repair and maintain all heating, ventilating and air conditioning equipment that serves the Premises and all utility systems, lines, conduits and appurtenances thereto that serve the Premises; (d) keep any garbage, trash, rubbish or refuse removed on a regular basis and temporarily stored on the Premises in accordance with local Laws; and (e) provide such janitorial services to the Building and such snow and ice removal from the paved areas on the Land as may be required by Laws or otherwise necessary for the operation of Tenant's business.

8.2 LANDLORD'S OBLIGATIONS. Landlord will, at its expense (a) maintain, replace and repair the roof and structural elements of the Building (including the foundations, structural components of the walls and structural columns and beams) and all utility lines and facilities serving the Premises that extend beyond the exterior walls of the Building in good condition, ordinary wear and tear excepted; and (b) make all capital repairs and replacements (but not ordinary maintenance and repairs) required to keep the driveways and parking areas on the Land in good condition, ordinary wear and tear excepted (including such resurfacing thereof as may from time to time be necessary and any restriping required in connection with such resurfacing); provided however, that subject to the penultimate sentence of SECTION 3.8, if the need for any such repair is caused by (i) Tenant or anyone claiming by or through Tenant; or (ii) the installation or removal of Tenant's property, regardless of fault or by whom such damage is caused (unless caused by Landlord, its agents, contractors, servants, employees or licensees), then, in any such case, subject to SECTION 9.4, Tenant agrees to reimburse Landlord for all costs and expenses incurred by Landlord with respect to such repair. Landlord will commence repairs it is required to do hereunder as soon as reasonably practicable after receiving written notice from Tenant of the necessity of such repairs.

8.3 LANDLORD'S RIGHT OF ENTRY. For purposes of performing Landlord's obligations under SECTION 8.2, or performing any of Tenant's obligations under SECTION 8.1 that Tenant fails to perform within the cure period provided in SECTION 15.2, or to inspect the Premises, Landlord may enter the

Premises upon reasonable prior notice to Tenant (except in cases of actual or suspected emergency, in which case no prior notice will be required) without liability to Tenant for any loss or damage incurred as a result of such entry (excluding, subject to SECTION 9.4, any damage to Tenant's personal property or equipment caused by the negligence of Landlord or its agents, employees or contractors), provided that Landlord will take reasonable steps in connection with such entry to minimize any disruption to Tenant's business or its use of the Premises.

90 INSURANCE, WAIVERS AND INDEMNITY

9.1 PROPERTY INSURANCE. Landlord will throughout the Term, provide and maintain a "special form" insurance policy (including fire and standard extended coverage perils, leakage from fire protective devices and other water damage) covering loss or damage to the Improvements (including, without limitation, the Original Base Building, the Original Leasehold Improvements, the Expansion Base Building, and the Expansion Leasehold Improvements, and any alterations made to the Premises from time to time) on a full replacement cost basis, excluding excavations, footings and foundations and providing for a deductible of no greater than $10,000.00 (unless Landlord can obtain a smaller deductible and Tenant approves of such deductible and the increased cost in such insurance arising from such smaller deductible). Tenant agrees to pay Landlord, as Additional Rent, Landlord's cost of maintaining such insurance, said payments to be made to Landlord within ten (10) days after Landlord presents Tenant a statement setting forth the amount due, together with reasonable supporting documentation. In the event of a casualty, Tenant shall pay to Landlord the lesser of the amount of the deductible or the full amount of the loss in the case of a loss in an amount less than the deductible, subject in both cases, to the $10,000.00 limit set forth above, in respect of any insured loss, which payment shall be treated in the same manner as insurance proceeds. Tenant will provide and maintain throughout the Term, at its expense, such property insurance covering Tenant's machinery, equipment, furniture, fixtures, personal property (including also property under the care, custody, or control of Tenant) and business interests which may be located in, upon or about the Premises in such amounts as Tenant may from time to time deem prudent. All of such property policies will permit Tenant's waiver of claims against Landlord under SECTION 9.4 for matters covered thereby.

9.2 LIABILITY AND OTHER INSURANCE. Tenant will throughout the Term, at its expense as Additional Rent, provide and maintain the following insurance, in the amounts specified below:

(a) bodily injury and property damage liability insurance, with a combined single occurrence limit of not less than $5,000,000.00; such insurance will be on a commercial general liability form including, without limitation, personal injury and assumed contractual liability for the performance by Tenant of the indemnity agreements set forth in SECTION 9.5; Landlord and its mortgagee will be named as an additional insureds in the policy providing such liability insurance, which will include cross liability and severability of interests clauses

or endorsements; unless otherwise approved in writing by Landlord, such policy will have a deductible of $5,000.00 or less and will not have a retention or self-insurance provision;

(b) worker's compensation insurance insuring against and satisfying Tenant's obligations and liabilities under the worker's compensation laws of the State of Texas and employers' liability insurance in the limit of $100,000/500,000/100,000 (provided that Tenant may self-insure this obligation pursuant to a program of self-insurance); and

(c) if Tenant operates owned, hired or nonowned vehicles on the Premises, comprehensive automobile liability will be carried at a limit of liability not less than $1,000,000.00 combined bodily injury and property damage.

9.3 GENERAL INSURANCE REQUIREMENTS. All insurance required to be maintained by Landlord and Tenant pursuant to SECTIONS 9.1 AND 9.2 will be maintained with insurors licensed to do business in the State of Texas and having a Best's Key Rating of at least A-:XII. Tenant and Landlord will each file with the other, on or before the Original Commencement Date and at least 10 days before the expiration date of expiring policies, such copies of either current policies or certificates as may be reasonably required to establish that the insurance coverage required by SECTIONS 9.1 AND 9.2 is in effect from time to time and that the insuror(s) have agreed to give the other party at least 30 days notice prior to any cancellation of, or material modification to, the required coverage. Landlord and Tenant will cooperate with each other in the collection of any insurance proceeds which may be payable in the event of any loss, including the execution and delivery of any proof of loss or other actions required to effect recovery. All commercial general liability and property policies maintained by Tenant will be written as primary policies, not contributing with and not supplemental to any coverage that Landlord may carry.

9.4 WAIVERS. Except to the extent caused by the willful or negligent act or omission or breach of this Lease by Landlord, its agents or employees or anyone else for whom Landlord is legally responsible, Landlord and its Affiliates will not be liable or in any way responsible for, and Tenant waives all claims against Landlord and its Affiliates for, any loss, injury or damage suffered by Tenant or others relating to (a) loss or theft of, or damage to, property of Tenant or others; (b) injury or damage to persons or property resulting from fire, explosion, falling plaster, escaping steam or gas, electricity, water, rain or snow, or leaks from any part of the Improvements or from any pipes, appliances or plumbing, or from dampness; or (c) damage caused by persons on or about the Premises, or caused by the public or by construction of any private or public work. Provided that Landlord maintains the insurance required to be maintained by Landlord pursuant to SECTION 9.1, Landlord and its Affiliates will not be liable or in any way responsible to Tenant for, and Tenant waives all claims against Landlord and its Affiliates for, any loss, injury or damage that is insured under SECTION 9.1 or required to be insured by Tenant under SECTION 9.1. Provided that Tenant maintains the insurance required to be maintained by Tenant pursuant to SECTION 9.1, Tenant and its Affiliates will not be liable or in any way responsible to Landlord for, and Landlord waives all claims against Tenant and its Affiliates for, any loss, injury or damage that is insured by Tenant under SECTION 9.1.

9.5 INDEMNITY. Except to the extent caused by the willful or negligent act or omission or breach of this Lease by Landlord, its agents or employees or anyone else for whom Landlord is legally responsible, Tenant will indemnify and hold Landlord harmless from and against any and all liability, loss, claims, demands, damages or expenses (including reasonable attorneys' fees) due to or arising out of any accident or occurrence on or about the Premises during the Term (including, without limitation, accidents or occurrences resulting in injury, death, property damage or theft) or any willful or negligent act or omission of or breach of this Lease by Tenant or anyone for whom Tenant is legally responsible.

100 ALTERATIONS; MECHANICS' LIENS

10.1 ALTERATIONS. Tenant will not make any modifications, improvements, alterations, additions or installations in or to the Premises that affect the Original Building's structural systems, the Expansion Building's structural systems, or the Core Building Systems, or that will cost more than $50,000.00 per building, without Landlord's prior written consent, which consent will not be unreasonably withheld. Tenant will notify Landlord prior to making any modifications, improvements, alterations, additions or installations in or to the Premises (referred to in this section as the "work"), regardless of whether Landlord's consent is required in connection with such work. Along with any request for Landlord's consent and at least 15 days before commencement of any work or delivery of any materials to be used in any work to the Premises, Tenant will furnish Landlord with plans and specifications, estimated commencement and completion dates, the name and address of Tenant's general contractor, and the necessary permits and licenses. Landlord will have the right to post notices of non-responsibility or similar notices on the Premises in order to protect the Premises against any liens resulting from such work. Tenant agrees to indemnify, defend and hold Landlord harmless from any and all claims and liabilities of any kind and description which may arise out of or be connected in any way with such work. Tenant will pay the cost of all such work, and also the cost of painting, restoring or repairing the Premises occasioned by such work. Upon completion of the work, Tenant will furnish Landlord with contractor's affidavits that include full and final waivers of liens and receipts for all amounts due for labor and materials. In the case of any work that required Landlord's consent, Tenant will also provide Landlord with as-built plans and specifications of the Premises as altered by such work. All work will comply with all insurance requirements and all applicable Laws (including, without limitation, the ADA) and will be constructed in a good and workmanlike manner, using materials of first-class quality and free and clear of all liens or claims therefor. Tenant will permit Landlord to inspect construction operations in connection with any such work. Landlord's approval of any plans for any modifications, improvements, alterations, additions or installations proposed by Tenant will not constitute a representation that the same will comply with

Laws or be fit for any particular purpose; such approval will merely constitute Landlord's consent to construct or install the same in the Premises.

10.2 MECHANICS' LIENS. Tenant will not permit any mechanic's lien or other lien to be filed against the Premises by reason of any work performed by or for, or material furnished to, Tenant (including, without limitation, any work undertaken by Tenant pursuant to SECTION 10.1). If any such lien is filed at any time against the Premises, Tenant will cause the same to be discharged of record (including by bonding) within 10 days after the date of filing the same. If Tenant fails to discharge any such lien within such period, then, in addition to any other right or remedy of Landlord, after 10 days prior written notice to Tenant, Landlord may, but will not be obligated to, discharge the same by paying to the claimant the amount claimed to be due or by procuring the discharge of such lien as to the Premises by deposit in the court having jurisdiction of such lien, the foreclosure thereof or other proceedings with respect thereto, of a cash sum sufficient to secure the discharge of the same, or by the deposit of a bond or other security with such court sufficient in form, content and amount to procure the discharge of such lien, or in such other manner as is now or may in the future be provided by present or future Laws for the discharge of such lien as a lien against the Premises. Any amount paid by Landlord, or the value of any deposit so made by Landlord, together with all costs, fees and expenses in connection therewith (including reasonable attorney's fees of Landlord), together with interest thereon at the Interest Rate, will be repaid by Tenant to Landlord on demand

by Landlord and if unpaid may be treated as Additional Rent. Notwithstanding the foregoing, if Tenant desires to contest any such lien, Tenant may do so provided that, within 10 days after Tenant learns of the filing thereof, Tenant notifies Landlord of Tenant's intention to do so and, until such time as Tenant causes such lien to be removed by the payment thereof or by bonding over such lien in the manner provided by law or posting with Landlord such security as Landlord may reasonably request to provide funds with which Landlord may discharge such lien in the event Tenant is unsuccessful in its contest and then fails to discharge such lien. Tenant will indemnify and defend Landlord against and save Landlord and te Premises harmless from all losses, costs, damages, expenses, liabilities, suits, penalties, claims, demands and obligations, including, without limitation, reasonable attorney's fees resulting from the assertion, filing, foreclosure or other legal proceedings with respect to any such mechanic's lien or other lien.

110 ASSIGNMENT AND SUBLETTING

11.1 NOTICE AND CONSENT. Tenant may, upon notice to Landlord but without obtaining Landlord's consent, assign this Lease or sublet all or any portion of the Premises to any of Tenant's Affiliates. Tenant will not, however, assign this Lease or sublet all or any portion of the Premises to any assignee or subtenant that is not one of Tenant's Affiliates without first obtaining Landlord's written consent, which consent will not be unreasonably withheld, conditioned or delayed. It is not reasonable for Landlord to withhold its consent to an otherwise acceptable assignee or sublessee on the grounds that Tenant and its guarantor would or could be released from liability as a result of such assignment or sublease or on the grounds that such assignee or sublessee would be entitled to exercise the expansion right set forth in SECTION 18 below, it being understood and agreed that Landlord's recapture remedy described below is sufficient. If Tenant desires to effect an assignment or subletting that will require Landlord's consent, Tenant will seek such written consent of Landlord by a written request therefor, setting forth the date (which will not be less than 30 days after date of Tenant's notice) on which Tenant desires to assign this Lease or to sublet all or any portion of the Premises, the name and address of the proposed assignee or sublessee and its proposed use of the Premises, copies of the proposed assignee's or subtenant's financial statements (or, if not available, any other information in Tenant's possession concerning the proposed assignee's or

subtenant's financial condition and business), and the proposed form of assignment or sublease. If Landlord does not withhold its consent in writing, stating the reason for withholding such consent, within twenty (20) days after Tenant submits the documentation required by the terms of the preceding sentence, then Landlord will be deemed to have approved of such assignment or subletting. If it would be unreasonable for Landlord to withhold, condition or delay its consent, but Landlord for whatever reason does not wish an assignment or subletting of the entire Premises to be consummated, Landlord's sole and exclusive right in such situation shall be to terminate this Lease by written notice to Tenant, which notice must specify a termination date no earlier than sixty (60) days after the date of such notice and no later than one hundred twenty (120) days after the date of such notice. Such termination notice must be given within twenty (20) days after the date upon which Tenant requests Landlord's consent to such assignment or subletting. If such termination notice is not given within such twenty (20)-day period of time, then Landlord shall be deemed to have consented to such assignment or subletting.

11.2 DEEMED ASSIGNMENTS. Any change in the partners or members of Tenant (except to any of Tenant's Affiliates), if Tenant is a partnership or limited liability company, or, if Tenant is a corporation, any transfer of any or all of the shares of stock of Tenant (except to any of Tenant's Affiliates), resulting in a change in the identity of the person or persons owning a majority of equity interests in Tenant as of the date of this Lease, will be deemed to be an assignment within the meaning of this SECTION 11. However, a transfer of the stock or partnership or membership interests of Tenant if Tenant is a publicly held entity whose equity interests are traded on a national stock exchange, or in an initial public offering, will not constitute an assignment requiring Landlord's consent pursuant to this SECTION 11. A transfer of interests in Tenant's parent entity does not constitute a violation of this SECTION 11.2.

11.3 GENERAL PROVISIONS. No subletting or assignment by Tenant hereunder, regardless of whether the same requires Landlord's consent, will release or discharge Tenant of or from any liability, whether past, present or future, under this Lease, and Tenant will continue fully liable hereunder. Notwithstanding the foregoing, in the event the Release Conditions, as defined above, are met, then Tenant and Guarantor will be automatically released from all obligations arising under this Lease from and after the date of such assignment or sublease and Landlord agrees to execute an agreement confirming such release within ten (10) days after requested to do so by Tenant or Guarantor, or both, although execution of such document will not be necessary for such release to be effective. The sublessee or assignee will agree to comply with and be bound by all of the terms,

covenants, conditions, provisions and agreements of this Lease to the extent of the space sublet or assigned from and after the date of such assignment or subletting, and Tenant will deliver to Landlord promptly after execution an executed copy of each such sublease or assignment and such an agreement of compliance by each such sublessee or assignee. Consent by Landlord to any assignment of this Lease or to any subletting of the Premises will not be a waiver of Landlord's rights under this section as to any subsequent assignment or subletting. Any sale, assignment, mortgage, transfer or subletting of this Lease which is not in compliance with the provisions of this SECTION 11 will be of no effect and void. Landlord will not assign its interest in this Lease before the Original Commencement Date. After the Original Commencement Date, Landlord's right to assign its interest in this Lease will remain unqualified. Landlord may charge Tenant up to $1,000.00 for attorneys' fees and administrative expenses incident to a review of any documentation related to any proposed assignment or subletting by Tenant.

120 CASUALTY

12.1 LANDLORD'S OBLIGATIONS.

(a) Subject to subsections (b) and (c) below, in the event the Improvements shall be damaged by fire or other casualty, Landlord shall, at its own expense, cause such damage to be repaired, and the Rent shall be abated from the date of the occurrence of such fire or other casualty until such repair work is completed.

(b) Subject to subsection (c) below, if a fire or other casualty occurs during the last two (2) years of the Term of this Lease and (A) the cost of repairing or restoring the Improvements to their condition existing prior to such casualty, as determined by an architect or contractor selected by Landlord and reasonably approved by Tenant, is equal to or greater than 75% of the market value of the Improvements immediately preceding such casualty, as determined by an appraiser selected by Landlord and reasonably approved by Tenant or (B)

the time required to repair and restore the Improvements to their condition existing prior to such casualty, using a reasonable construction schedule as determined by an architect or contractor selected by Landlord and reasonably approved by Tenant, will exceed 180 days from the commencement of repairs and restoration, then either Landlord or Tenant may, at its option, elect to terminate this Lease by giving the other written notice of termination within thirty (30) days from the date of such occurrence. In such event, the proceeds of insurance will belong to the party carrying such insurance, Tenant will not be required to pay the deductible, and the Rent shall abate completely from and after the date of the occurrence of such fire or other casualty.

(c) Notwithstanding the foregoing, in the event that the Improvements shall be damaged by any casualty not covered by Landlord's insurance as required by SECTION 9.1, Landlord shall have the option to terminate this Lease by notice to Tenant within sixty (60) days of the occurrence; provided, that Tenant may nullify Landlord's notice of termination in such case by notifying Landlord within ten (10) days thereafter that Tenant will make available to Landlord funds sufficient to cover the uninsured damage and making arrangements reasonably satisfactory to Landlord to make such funds available to Landlord as needed. If Tenant makes such funds available to Landlord, Landlord shall have no obligation to repay such funds to Tenant any time or in any manner.

12.2 TIME FOR REPAIRS. In the event of partial damage to the Improvements, Landlord shall advise Tenant in writing within thirty (30) days of the occurrence the time that Landlord estimates will be required to repair or restore the Improvements, using a reasonable construction schedule. If Landlord is obligated to repair or to restore the Improvements damaged by fire other casualty, Landlord shall commence to repair any such damage or to restore the Improvements as soon as reasonably possible (and in any event, within sixty (60) days after the date of such occurrence) and shall diligently pursue completion of such repairs or restoration. In the event Landlord does not complete such repairs within the time period specified in such estimate (as extended by one (1) day of each day of each day of delay after the tenth (10th) day of delay due to force majeure), then Landlord must pay to Tenant $2,000 per day for the period of time after the date specified in such estimate until Landlord completes such repairs. If Landlord does not complete such repairs within one hundred eighty (180) days after commencement of such repairs and restoration, then Tenant may also terminate this Lease by written notice to Landlord at any time before Landlord completes such repairs. In such event, Landlord and Tenant will have no further obligations to each other except that Landlord must return all Basic Rent and other charges paid by Tenant for the period after the occurrence of such event and must pay to Tenant the amounts accruing under this SECTION 12.2 for Landlord's failure to complete such repairs and Tenant will not be required to pay the deductible to Landlord.

13. EMINENT DOMAIN

13.1 TERMINATION. If the whole of the Premises is taken by any public authority under the power of eminent domain, this Lease will terminate as of the day possession is taken by such public authority. If more than 30% of the floor area of the Building is taken, or if so much of the Land is taken that Tenant is permanently deprived of the use of more than 30% of the parking spaces previously available on the Land (and such spaces cannot be reconstructed on the remaining Land or any adjacent land acquired by Landlord for that purpose within 90 days after Tenant is so deprived of such use), by any public authority under the power of eminent domain, then Tenant may, by notice to Landlord, terminate this Lease as of the day possession is taken by such public authority. In case of any such termination, Landlord will make a pro rata refund of any prepaid Rent.

13.2 RESTORATION; AWARD. Anything in this SECTION 13 to the contrary notwithstanding, in the event of a partial condemnation of the Premises where this Lease is not terminated, (i) Landlord will, at its sole cost and expense, restore the Premises (other than any alterations or improvements installed by Tenant) to a complete architectural unit (but Landlord's restoration obligations will be limited to restoration and repair of the Original Building and, if applicable, the Expansion Building, including all sitework), and (ii) the Basic Rent provided for herein during the period from and after the date of delivery of possession pursuant to such proceedings to the termination of this Lease will be reduced to a sum equal to the product of the Basic Rent provided for herein multiplied by a fraction, the numerator of which is the area of the Premises remaining after such taking and after the same has been restored to a complete architectural unit, and the denominator of which is the area of the Premises prior to such taking. In the event of any such taking or purchase in lieu thereof and neither Landlord nor Tenant terminates this Lease, Landlord shall be entitled to receive the entire price or award from any such taking or private purchase in lieu thereof without any payment to Tenant, and Tenant hereby assigns to Landlord Tenant's interest, if any, in such award. If this Lease terminates for any reason, then Landlord and Tenant may prosecute their claims in any condemnation proceedings for the value of their respective interest. Landlord shall be entitled to the condemnation award attributable to the real property and improvements and Tenant shall be entitled to the condemnation award for the taking of its personalty (store fixtures and equipment), relocation expenses, goodwill, loss of business and any other award not related to the value of the real property and improvements, but shall not be entitled to make a claim for the leasehold improvements or the leasehold estate.

14. END OF TERM

14.1 SURRENDER. On the last day of the Term, or on the sooner termination thereof, Tenant will peaceably surrender the Premises in good condition and repair (ordinary wear and tear and damage by casualty excepted), consistent with Tenant's duty to make repairs as herein provided. Tenant will give written notice to Landlord at least 30 days prior to vacating the Premises for the express purpose of arranging a meeting with Landlord for a joint inspection of the Premises. On or before the last day of the Term, or the date of sooner termination thereof, Tenant may, at its sole cost and expense, remove all of its property and trade fixtures and equipment from the Premises and repair all damage to the Premises caused by such removal. All property not removed will be deemed abandoned. Tenant hereby appoints Landlord its agent to remove all property of Tenant not so removed from the Premises upon termination of this Lease and to cause its transportation and storage for Tenant's benefit, all at the sole cost and risk of Tenant, and Landlord will not be liable for damage, theft, misappropriation or loss thereof, nor will Landlord be liable in any manner in respect thereto. Tenant will reimburse Landlord upon demand for any expenses incurred by Landlord with respect to removal, transportation or storage of abandoned property and with respect to restoring such Premises to good order, condition and repair. All Leasehold Improvements and any other modifications, improvements, alterations, additions and fixtures, other than Tenant's trade fixtures and equipment, which have been made or installed by either Landlord or Tenant upon the Premises, will become the property of Landlord on the last day of the Term or sooner termination thereof and will be surrendered with the Premises as a part thereof. Tenant will promptly surrender all keys for the Premises to Landlord at the place then fixed for the payment of Rent and will inform Landlord of combinations on any vaults, locks and safes left on the Premises.

14.2 HOLDING OVER. In the event Tenant remains in possession of the Premises after expiration of this Lease without Landlord's consent, Tenant will be deemed to be occupying the Premises without claim of right, and Tenant will indemnify Landlord against loss or liability resulting from delay by Tenant in surrendering the Premises, including, without limitation, claims made by any succeeding tenants founded on such delay and any attorneys' fees resulting therefrom. In addition,

if Tenant remains in possession of the Premises after expiration of this Lease without a written agreement with Landlord as to (i) the amount Rent to be paid for such occupancy, Tenant will pay a charge for each day of occupancy in an amount equal to 150% of the Basic Rent (on a daily basis) payable immediately prior to such expiration, plus 100% of all Additional Rent (also on a daily basis); or (ii) the duration of Tenant's holdover tenancy, Tenant will be deemed a tenant at sufferance.

15. DEFAULTS AND REMEDIES

15.1 GENERAL. All rights and remedies of Landlord and Tenant enumerated in this Lease are cumulative and are not intended to be exclusive of any other remedies or means of redress at law or in equity to which either party may be lawfully entitled in case of any breach or threatened breach by the other party of any provision of this Lease. The failure of either party to insist in any one or more cases upon the strict performance of any of the covenants of this Lease or to exercise any option herein contained will not be construed as a waiver or relinquishment for the future of such covenant or option. A receipt by Landlord of Rent with knowledge of the breach of any covenant hereof (other than breach of the obligation to pay the portion of such Rent paid) will not be deemed a waiver of such breach, and no waiver by either party of any provisions of this Lease will be deemed to have been made unless expressed in writing and signed by such party. Each party agrees to pay, upon demand, all of the other party's costs, charges and expenses, including the reasonable fees and out-of-pocket expenses of counsel, agents, and others retained, incurred in successfully enforcing the other party's obligations under this Lease.

15.2 EVENTS OF DEFAULT. Each of the following events will constitute an "EVENT OF DEFAULT" under this Lease:

(a) FAILURE TO PAY RENT. Tenant fails to pay Basic Rent or any other Rent payable by Tenant under the terms of this Lease when due, and such failure continues for 10 days after notice from Landlord to Tenant of such failure (provided that, with respect to monthly installments of Basic Rent, Tenant will only be entitled to two notices of such failure during any calendar year and if, after two such notices are given in any calendar year, Tenant fails, during such calendar year, to pay any further monthly installment of Basic Rent when due, such failure will constitute an Event of Default hereunder without any further notice from Landlord or additional cure period).

(b) FAILURE TO PERFORM OTHER OBLIGATIONS. Tenant breaches or fails to comply with any provision of this Lease applicable to Tenant other than a covenant to pay Rent, and such breach or noncompliance continues for a period of 30 days after notice thereof from Landlord to Tenant; or, if such breach or noncompliance cannot be reasonably cured within such 30-day period, Tenant does not commence to cure such breach or noncompliance within such 30-day period or, after commencing to cure such breach or noncompliance, does not thereafter diligently pursue such cure in good faith to completion.

(c) EXECUTION AND ATTACHMENT AGAINST TENANT. Tenant's interest under this Lease or in the Premises is taken upon execution or by other process of law directed against Tenant, or is subject to any attachment by any creditor or claimant against Tenant and such attachment is not discharged or disposed of within 60 days after levy.

(d) BANKRUPTCY OR RELATED PROCEEDINGS. Tenant files a petition in bankruptcy or insolvency, or for reorganization or arrangement under any bankruptcy or insolvency Laws, or voluntarily takes advantage of any such Laws by answer or otherwise, or dissolves or

makes a general assignment for the benefit of creditors, or involuntary proceedings under any such Laws or for the dissolution of Tenant are instituted against Tenant, or a receiver or trustee is appointed for the Premises or for all or substantially all of Tenant's property, and such involuntary proceedings are not dismissed or such receivership or trusteeship vacated within 60 days after such institution or appointment.

15.3 LANDLORD'S REMEDIES. Time is of the essence. If any Event of Default occurs, Landlord will have the right, at Landlord's election, then or at any later time, to exercise any one or more of the following remedies:

(a) CURE BY LANDLORD. Landlord may, at Landlord's option but without obligation to do so, and without releasing Tenant from any obligations under this Lease, make any payment or take any action as Landlord deems necessary or desirable to cure any Event of Default in such manner and to such extent as Landlord in good faith deems necessary or desirable. Tenant will pay Landlord, upon demand, all reasonable advances, costs and expenses of Landlord in connection with making any such payment or taking any such action, including reasonable attorney's fees, together with interest at the Interest Rate, from the date of payment of any such advances, costs and expenses by Landlord.

(b) TERMINATION OF LEASE AND DAMAGES. Landlord may terminate this Lease, effective at such time as may be specified by notice to Tenant, and demand (and, if such demand is refused, recover) possession of the Premises from Tenant. In such event, Landlord will be entitled to recover from Tenant, as damages for loss of the bargain and not as a penalty, an aggregate sum equal to (i) all unpaid Basic Rent and other Rent for any period prior to the termination date of this Lease (including interest from the due date to the date of the award at the Interest Rate); plus (ii) the present value at the time of termination (calculated by discounting on a monthly basis at a discount rate equal to the rate payable on U.S. Treasury securities offered at the time of award having a maturity closest to the date on which the Term would have expired but for such termination) of the amount, if any, by which (A) the aggregate of the Basic Rent and all other Rent payable by Tenant under this Lease that would have accrued for the balance of the Term after termination, exceeds (B) the amount of such Basic Rent and other Rent which could reasonably be recovered by reletting the Premises for the remainder of the Term at the then-current fair rental value; plus (iii) interest on the amount described in (ii) above from the termination date to the date of the award at the Interest Rate.

(c) REPOSSESSION AND RELETTING. Landlord may reenter and take possession of all or any part of the Premises, without additional demand or notice unless required by applicable Laws, and repossess the same and expel Tenant and any party claiming by, through or under Tenant, and remove the effects of both using such force for such purposes as may be necessary, without being liable for prosecution for such action or being deemed guilty of any manner of trespass, and without prejudice to any remedies for arrears of Rent or right to bring any proceeding for breach of covenants or conditions. No such reentry or taking possession of the Premises by Landlord will be construed as an election by Landlord to terminate this Lease unless a notice of such intention is given to Tenant. No notice from Landlord or notice given under a forcible entry and detainer statute or similar Laws will constitute an election by Landlord to terminate this Lease unless such notice specifically so states. Landlord reserves the right, following any reentry or reletting, to exercise its right to terminate this Lease by giving Tenant such notice, in which event this Lease will terminate as specified in such notice. After recovering possession of the Premises, Landlord will use reasonable efforts to relet the Premises on commercially reasonable terms and conditions.

Landlord may collect and receive the rents for such reletting. Landlord may apply the same first to the payment of such expenses as Landlord may have incurred in recovering possession of the Premises, including attorneys' fees and expenses for putting the same into good order and condition (but specifically excluding the cost of any lease commission or the cost of preparing or altering the same for re-rental), and then to the fulfillment of the covenants of Tenant hereunder. Any such reletting herein provided for may be for the remainder of the Term or any renewal term of this Lease, as originally granted, or for a longer or shorter period; Landlord will have the right to change the character and use made of the Premises, and Landlord will not be required to accept any substitute tenant offered by Tenant or to observe any instructions given by Tenant about reletting. Regardless of Landlord's recovery of possession of the Premises, so long as this Lease is not terminated Tenant will continue to pay (and Landlord may recover, if Tenant fails to do so), on the dates specified in this Lease, the Basic Rent and other Rent which would be payable if such repossession had not occurred, less a credit for the net amounts, if any, actually received by Landlord through any reletting of the Premises as long as Landlord gives Tenant at least thirty (30) days' notice of the net amount due (which notice Landlord may change from time to time as the facts change). Tenant will have thirty (30) days after receipt of notice from Landlord of any other amount due in which to pay such amount.

(d) BANKRUPTCY RELIEF. Nothing contained in this Lease will limit or prejudice Landlord's right to prove and obtain as liquidated damages in any bankruptcy, insolvency, receivership, reorganization or dissolution proceeding, an amount equal to the maximum allowable by any Laws governing such proceeding in effect at the time when such damages are to be proved, whether or not such amount be greater, equal or less than the amounts recoverable, either as damages or Rent, under this Lease.

15.4 LANDLORD'S DEFAULT; TENANT'S REMEDIES. If, during the Term, Landlord defaults in fulfilling any of its covenants, obligations or agreements set forth in this Lease, Tenant may give Landlord notice of such default and, if at the expiration of 30 days after delivery of such notice, such default continues to exist, or in the event of a default which cannot with due diligence be cured within a period of 30 days, if Landlord fails to proceed promptly after the delivery of such notice and with all due diligence to commence to cure the same and thereafter to prosecute the curing of such default with all due diligence to completion as soon as reasonably possible, then Tenant will be entitled to exercise any right or remedy available to Tenant at law or in equity by reason of such default, except to the extent expressly waived or limited by the terms of this Lease, and, provided that Tenant stated in such notice of default to Landlord that Tenant intended to effect its self-help and offset rights under this SECTION 15.4, Tenant may proceed to cure Landlord's default and offset the amount reasonably expended by Tenant in doing so, plus interest thereon at the Interest Rate from the date incurred to the date offset, against the next accruing amounts of Basic Rent due hereunder; provided, however, in no event may Tenant offset against any monthly installment of Basic Rent an amount exceeding 25% of such installment and if such monthly offset is less than the total amount of Tenant's expenses which are allowable for offset, the remaining balance thereof may be carried forward and offset against future installments of Basic Rent (but never more than 25% of any month's Basic Rent); provided further that, if the balance of the Term will not allow full recovery of the offset amount at the rate of 25% of each installment of Basic Rent, Tenant may amortize the full offset over the balance of the remaining monthly installments of Basic Rent, even if the monthly amortized offsets are in excess of 25% of those installments. Notwithstanding the foregoing, however, if Tenant has been notified of the name and address of any mortgagee, ground lessor, trust deed holder, and/or sale-leaseback lessor of Landlord's interest in the Premises, then Tenant will not exercise any remedy as a result of Landlord's default unless and until Tenant has given any such mortgagee,

ground lessor, trust deed holder and/or sale-leaseback lessor, by registered or certified mail, a copy of any notice of default served upon Landlord simultaneously with the delivery of notice to Landlord.

15.5 DISCLAIMER OF LANDLORD'S LIEN. Landlord disclaims and waives any statutory or common law lien (excluding, however, any judgment lien) on the Leasehold Improvements or any personal property of Tenant in or on the Premises.

16. SUBORDINATION

16.1 SUBORDINATION, NONDISTURBANCE AND ATTORNMENT. This Lease will be subject and subordinate to any mortgage, deed of trust, ground lease or sale-leaseback now placed upon the Premises by Landlord, and to amendments, renewals and extensions thereof. Landlord must obtain from any holder of any mortgage, deed of trust, ground lease, or sale-leaseback interest which has priority over this Lease at the time of execution of this Lease and recording of the Memorandum of Lease a Non-disturbance Agreement on the form attached to this Lease as EXHIBIT F or such other form as is acceptable to Tenant (an "NDA") and if Landlord does not do so before the Original Commencement Date, all Rent will be forgiven from the Original Commencement Date through the date that Landlord delivers such NDA, executed by such holder and Landlord, to Tenant. Tenant agrees to subordinate this Lease to any mortgage, deed of trust, ground lease, or sale-leaseback interest placed upon the Premises by Landlord after the Original Commencement Date and to any amendments, renewals, and extensions thereof upon the condition that the holder of the instrument to which this Lease is subordinated has given Tenant an NDA upon the form attached as EXHIBIT F or such other form as is acceptable to Tenant.

16.2 OPTION TO MAKE LEASE SUPERIOR. Notwithstanding anything contained in SECTION 16.1, in the event the holder of any mortgage, deed of trust, ground lease or sale-leaseback instrument at any time elects to have this Lease constitute a prior and superior lien to its mortgage, deed of trust, ground lease or sale-leaseback instrument, then, and in such event, upon any such holder or Landlord notifying Tenant to that effect in writing, this Lease in its entirety will be deemed prior and superior in lien to such mortgage, deed of trust, ground lease or sale-leaseback instrument, whether this Lease is dated prior to or subsequent to the date of such mortgage, deed of trust, ground lease or sale-leaseback instrument.

17. MISCELLANEOUS

17.1 BROKERS. Landlord and Tenant represent and warrant that no broker or agent negotiated or was instrumental in negotiating or consummating this Lease except Peterson Realty Group. Neither party knows of any other real estate broker or agent who is or might be entitled to a commission or compensation in connection with this Lease. Landlord will pay any and all fees, commissions or other compensation payable to Peterson Realty Group. Tenant and Landlord will indemnify and hold each other harmless from all damages paid or incurred by the other resulting from any claims asserted against either party by brokers or agents claiming through the other party (other than Peterson Realty Group, who will be paid by Landlord as provided above).

17.2 ESTOPPEL CERTIFICATES. Landlord and Tenant agree, from time to time, upon not less than 10 days' prior written request by the other party, to deliver to the other party a statement in writing certifying (i) this Lease is unmodified and in full force and effect (or if there have been modifications, that this Lease as modified is in full force and effect and stating the modifications); (ii) the dates to which Basic Rent and other Rent have been paid; (iii) the other party is not in default in any provision of this Lease or, if in default, the nature thereof specified in detail; (iv) the amount of monthly Basic Rent currently payable by Tenant; (v) the amount of any prepaid Rent; (vi) that Tenant has taken possession of the Original Premises (if Tenant has in fact done so) and that Landlord has performed all of its obligations under SECTION 3 with respect to the design, construction and installation of the Original Base Building and the Original Leasehold Improvements, or if there are any such obligations remaining to be performed, specifying the same in detail; (vii) if applicable, that Tenant has taken possession of the Expansion Building (if Tenant has in fact done so) and that Landlord has performed all of its obligations under SECTION 18 with respect to the design, construction and installation of the Expansion Base Building and the Expansion Leasehold Improvements, or if there are any such obligations remaining to be performed, specifying the same in detail; and (viii) such other matters as may be reasonably requested by the requesting party or any mortgagee or prospective purchaser of the Premises.

17.3 NOTICES. All notices required or permitted under this Lease must be in writing and will only be deemed properly given and received (i) when actually given and received, if delivered in person to a party who acknowledges receipt in writing or, for purposes of notice pursuant to SECTION 3, if transmitted by telecopier; or (ii) one business day after deposit with a private courier or overnight delivery service, if such courier or service obtains a written acknowledgment of receipt; or (iii) three business days after deposit in the United States mails, certified or registered mail with return receipt requested and postage prepaid. All such notices must be transmitted by one of the methods described above to the party to receive the notice at, in the case of notices to Landlord, Landlord's Notice Address, and in the case of notices to Tenant, the applicable Tenant's Notice Address, or, in either case, at such other address(es) as either party may notify the other of according to this SECTION 17.3.

17.4 ACTIONS BY AGENTS. All rights and remedies of Landlord and Tenant under this Lease or that may be provided by law may be executed by the applicable party in its own name, individually, or in the name of its agent, and all legal proceedings for the enforcement of any such rights or remedies, including those set forth in SECTION 15, may be commenced and prosecuted to final judgment and execution by the applicable party in its own name or in the name of its agent. The applicable party will, upon the other's request, provide written evidence of the authority of any agent of Landlord to act on Landlord's behalf.

17.5 SEVERABILITY; GOVERNING LAW. If any term or provision of this Lease is to any extent held invalid or unenforceable, the remaining terms and provisions of this Lease will not be affected thereby, but each term and provision of this Lease will be valid and enforced to the fullest extent permitted by law. This Lease will be construed and enforced in accordance with the laws of the State of Texas.

17.6 TRANSFERS OF LANDLORD'S INTEREST. The term "LANDLORD" as used in this Lease, so far as covenants or obligations on the part of Landlord are concerned, will be limited to mean and include only the owner or owners of the Premises at the time in question, and in the event of any transfer or conveyance after the Original Commencement Date, the then-grantor will be automatically freed and released from all personal liability accruing from and after the date of such transfer or conveyance as respects the performance of any covenant or obligation on the part of Landlord contained in this Lease to be performed, it being intended hereby that the covenants and obligations contained in this Lease on the part of Landlord will be binding, subject to SECTION 17.11, on the then-Landlord only during and in respect to its period of ownership. In the event of a sale or conveyance by Landlord of the Premises after the Original Commencement Date, the same will operate to release Landlord from any future liability upon any of the covenants or conditions herein contained and in such event Tenant agrees to look solely to the responsibility of the successor in interest of Landlord in and to this Lease. This Lease will not be affected by any such sale or conveyance, and Tenant agrees to attorn to the purchaser or grantee, which will be obligated on this Lease only so long as it is the owner of Landlord's interest in and to this Lease. In the event Landlord sells or otherwise transfers the Premises, Tenant will be entitled to pay all Rent and other amounts due under the terms of this Lease to Landlord at Landlord's last known address unless and until Tenant receives written notice from Landlord authorizing Tenant to pay such amounts to the new owner of the Premises and a written assumption by such new owner of all Landlord's duties and obligations under this Lease which arise after the transfer.

17.7 HEADINGS. The marginal or topical headings of the several sections are for convenience only and do not define, limit or construe the contents of such sections.

17.8 COMPLETE AGREEMENT; MODIFICATION. All of the representations and obligations of the parties are contained in this Lease and no modification, waiver or amendment of this Lease or of any of its conditions or provisions will be binding upon a party unless in writing signed by such party.

17.9 NO OFFER. The submission of this document for examination does not constitute an offer to lease, or a reservation of, or option for, the Premises. This document becomes effective and binding only upon the execution and delivery hereof by the proper officer of Landlord and by Tenant.

17.10 SURVIVAL. All obligations of Tenant hereunder not fully performed as of the expiration or earlier termination of the Term will survive the expiration or earlier termination of the Term, including, without limitation, all payment obligations with respect to Taxes and all obligations concerning the condition of the Premises.

17.11 LIMITATION ON LANDLORD'S LIABILITY. Tenant agrees to look solely to Landlord's interest in the Premises for the recovery of any judgment from Landlord, it being agreed that Landlord, and if Landlord is a partnership, its partners whether general or limited, and if Landlord is a corporation, its directors, officers or shareholders, and if Landlord is a limited liability company, its managers or members, will never be personally liable for any such judgment.

17.12 AUTHORITY. Tenant will furnish to Landlord and Landlord will furnish to Tenant, promptly upon demand, a corporate resolution, proof of due authorization of partners, or other appropriate documentation reasonably requested by the other party evidencing the due authorization of Tenant or Landlord, as the case may be, to enter into this Lease.

17.13 NO PARTNERSHIP. This Lease will not be deemed or construed to create or establish any relationship or partnership or joint venture or similar relationship or arrangement between Landlord and Tenant hereunder.

17.14 FORCE MAJEURE. Whenever a period of time is herein prescribed for action to be taken by either party, such party will not be liable or responsible for, and there will be excluded from the computation of any such period of time, any delays due to force majeure.

17.15 FINANCIAL STATEMENTS. Tenant acknowledges that it has provided Landlord with its financial statement as a material inducement to Landlord's agreement to lease the Premises to Tenant, and that Landlord has relied on the accuracy of such financial statement in entering into this Lease. Tenant represents and warrants that the information contained in such financial statement is true, complete and correct in all material aspects. Within 10 days from request by Landlord, Tenant will make available to Landlord or to any prospective purchaser or lender of the Premises, audited financial statements of Tenant or any guarantor, provided, that Landlord or any such prospective purchaser or lender agrees to maintain such statements in confidence, and provided further that if audited financial statements of Tenant are not available at the time of such request, Tenant may deliver unaudited statements prepared in accordance with generally accepted accounting principles consistently applied and certified to be true and correct by Tenant's chief financial officer.

17.16 BINDING EFFECT. The covenants and agreements herein contained will bind and inure to the benefit of Landlord and its successors and assigns, and Tenant and its permitted successors and assigns. All obligations of each party constituting Tenant hereunder will be the joint and several obligations of each such party.

17.17 LEASE GUARANTY. Tenant covenants and agrees to cause Guarantor to execute and deliver to Landlord a Lease Guaranty in form and substance as that which is attached hereto as EXHIBIT G. In the event a fully executed original of the Lease Guaranty is not provided to Landlord within three (3) days following the date of this Lease, then Landlord may, at its option and as its sole and exclusive remedy, terminate this Lease.

17.18 CORPORATE AUTHORITY. Contemporaneous with the execution of this Lease, Tenant shall provide to Landlord the following:

(a) A copy of Tenant's Good Standing, or similar certificate, issued by the Secretary of State of the State of Tenant's incorporation;

(b) Evidence that Tenant is qualified to do business in the State wherein the Land is located; and

(c) A copy of the appropriate corporate resolutions, certified by the secretary or the assistant secretary of the Tenant, evidencing the authorization of the Tenant to execute this Lease.

In the event a guaranty agreement is executed with respect to this Lease, Tenant shall additionally provide to Landlord, contemporaneous with the execution of this Lease, the items listed above for the guarantor.

18. EXPANSION OPTION. Landlord hereby grants to Tenant the right to expand the Improvements on the Land in accordance with the terms of this SECTION 18. Such expansion right is a continuing right that expires on the Expiration Date, and inures solely to the benefit of (A) Tenant, Tenant's corporate successors and assigns (including, without limitation, any person or entity that acquires Tenant), and (B) any assignee of this Lease (including, without limitation, Tenant's Affiliates) to whom Tenant assigns such right unless Landlord is entitled to and recaptures the Premises in accordance with the terms of SECTION 11.1 above and their corporate successors and assigns (with all such persons or entities being deemed included in the term "TENANT"). Tenant cannot assign this expansion option to any person or entity other than an assignee of this Lease. Tenant cannot exercise this expansion option (Y) if an Event of Default has occurred and is ongoing, or (Z) if neither Tenant nor its guarantor has a net worth (excluding goodwill) greater than or equal to $75 million at the time Tenant (or its assignee, as the case may be) exercises such expansion option.

(a) In the event Tenant wishes to exercise this right, Tenant must notify Landlord of such fact, which notice must specify that Tenant wishes to go forward with the expansion pursuant to the specifications of EXHIBIT H to this Lease (the "2-STORY PLAN") or the specifications of EXHIBIT I to this Lease (the "3-STORY PLAN"). The building shell for the building that Tenant elects to have constructed is referred to in this Lease as the "EXPANSION BASE BUILDING" and the Tenant improvements to the Expansion Base Building are referred to as the "EXPANSION LEASEHOLD IMPROVEMENTS." The Expansion Base Building and the Expansion Leasehold Improvements are collectively referred to as the "EXPANSION BUILDING" and the work of constructing the Expansion Building is referred to as "LANDLORD'S EXPANSION WORK".

(b) On or before thirty (30) days after Tenant delivers such notice to Landlord, Landlord will cause its architect to prepare and deliver to Tenant preliminary plans and specifications for the Expansion Base Building (the "EXPANSION BASE BUILDING PLANS"), which plans must be based on an exterior appearance substantially similar to the Original Base Building. While these preliminary plans and specifications are not required to be permit-ready, they must contain a site plan, floor plan, one-quarter inch (0.25") scale core building plans, elevations of the Expansion Base Building and a riser diagram of the mechanical, electrical and plumbing systems. Within five (5) business days after Tenant receives such preliminary Expansion Base Building Plans, Tenant will either approve the same in writing or notify Landlord in writing of Tenant's objections to the preliminary Expansion Base Building Plans and how the preliminary Expansion Base Building Plans must be changed in order to make them acceptable to Tenant. Each business day following the fifth (5th) business day after the preliminary Expansion Base Building Plans are submitted to Tenant until Tenant either approves them or delivers a notice of objections to Landlord will be a day of Tenant Expansion Delay. Within five (5) business days after Landlord's receipt of Tenant's notice of objections, Landlord will cause its architect to prepare revised Expansion Base Building Plans according to such notice and submit the revised Expansion Base Building Plans to Tenant. In any review, Tenant cannot object to any aspect of the proposed Expansion Base Building Plans (i) if such objection would require material deviations from the terms of EXHIBIT H or EXHIBIT I attached to this Lease, as the case may be, or (ii) such objection was not included within any of the previous objections made by Tenant to the Expansion Base Building Plans unless the item objected to was not included in any of the previous versions of the Expansion Base Building Plans or such item was so included, but has been affected by a subsequent change to the Expansion Base Building Plans. However, it is understood

and agreed that Tenant has the right to select the following items, even if such items are not consistent with the guidelines detailed in the Base Building Specifications attached as EXHIBIT B or with the same items in the Original Building , as long as they are available to comply with the schedule for construction of the Expansion Building: exterior brick, glass, and metal frames; restroom finishes (including, without limitation, ceramic tile and toilet partitions); lobby finishes; elevator cab finishes; landscaping; and common area interior finishes, doors and hardware. Upon submittal to Tenant of the revised Expansion Base Building Plans, and upon submittal of any further revisions, the procedures described above will be repeated until Landlord and Tenant have reached agreement. Once they have reached agreement, Landlord must promptly prepare permit-ready Expansion Base Building Plans and submit them to Tenant for Tenant's approval. The only grounds upon which Tenant can object to such permit-ready Expansion Base Building Plans is that they materially differ from the final approved preliminary Expansion Base Building Plans. Tenant's failure to respond to Landlord's submission within five (5) business days after Landlord delivers such permit-ready Expansion Base Building Plans to Tenant constitutes Tenant's approval of such permit-ready Expansion Base Building Plans. The final permit-ready Expansion Base Building Plans, as approved by Landlord and Tenant, constitute the "APPROVED EXPANSION BASE BUILDING PLANS" under this Lease.

(c) On or before seventy-five (75) days after Landlord and Tenant have approved the Approved Expansion Base Building Plans, Tenant will cause its architect to prepare and deliver to Landlord preliminary plans and specifications for the Expansion Leasehold Improvements (the "EXPANSION LEASEHOLD IMPROVEMENTS PLANS"). While these preliminary plans and specifications are not required to be permit-ready, they must show sufficient detail concerning all aspects of the Expansion Leasehold Improvements so that making them permit-ready is only a matter of incorporating technical details. Each day following the expiration of such seventy-five (75)-day period until Tenant delivers the preliminary Expansion Leasehold Improvements Plans will be a day of Expansion Tenant Delay. Within five (5) business days after receipt of the preliminary Expansion Leasehold Improvements Plans, Landlord will either approve the same in writing or notify Tenant in writing of Landlord's objections to the preliminary Expansion Leasehold Improvements Plans and how the preliminary Expansion Leasehold Improvements Plans must be changed in order to make them acceptable to Landlord. Landlord can only object to the preliminary Expansion Leasehold Improvements Plans on the grounds that they would adversely affect the structural integrity of the Expansion Base Building or materially modify any portion of the Core Building Systems of the Expansion Base Building and cannot object in any subsequent review to any matter not raised in a preceding review, unless the item objected to was not included in any of the previous versions of the Expansion Leasehold Improvements Plans or such item was so included, but has been affected by a subsequent change to the Expansion Leasehold Improvements Plans. However, under all circumstances, Tenant has the right to select the following items as they apply to the Expansion Leasehold Improvements, but only as long as such items are available to comply with the schedule of construction of the Expansion Building: exterior brick, glass, and metal frames; restroom finishes (including, without limitation, ceramic tile and toilet partitions); lobby finishes; elevator cab finishes; landscaping; and common area interior finishes, doors and hardware. If Landlord fails to respond in the manner set forth above within five (5) business days after the date Tenant delivers the preliminary Expansion Leasehold Improvements Plans to Landlord or objects to the preliminary Expansion Leasehold Improvements Plans on any grounds other than those set forth in the immediately-preceding sentence, then Landlord will be conclusively deemed to have approved the preliminary Expansion Leasehold Improvements Plans. Within five (5) business days after Tenant's receipt of Landlord's notice of objections (if such objections

meet the requirements set forth above), Tenant will cause its architect to prepare revised Expansion Leasehold Improvements Plans according to such notice and submit the revised Expansion Leasehold Improvements Plans to Landlord. Upon submittal to Landlord of the revised Expansion Leasehold Improvements Plans, and upon submittal of any further revisions, the procedures described above will be repeated until Landlord and Tenant have reached agreement. Once they have reached agreement, Tenant must promptly prepare permit-ready Expansion Leasehold Improvements Plans and submit them to Landlord for Landlord's approval. The only grounds upon which Landlord can object to such permit-ready Expansion Leasehold Improvements Plans is that they materially differ from the final approved Expansion Leasehold Improvements Plans. Landlord's failure to respond to Tenant's submissions within five (5) business days after Tenant delivers such permit-ready Expansion Leasehold Improvements Plans to Landlord constitutes Landlord's approval of such permit-ready Expansion Leasehold Improvements Plans. The permit-ready Expansion Leasehold Improvements Plans, as finally approved, are referred to in this Lease as the "APPROVED EXPANSION LEASEHOLD IMPROVEMENTS PLANS."

(d) At such time as Landlord and Tenant have approved the Approved Expansion Leasehold Improvements Plans (and in any event within fifteen (15) days thereafter), Landlord will (i) obtain at least three bids for each of the major trades that will be involved in the construction of the Expansion Building, unless less than three qualified subcontractors exist for a given trade, in which case Landlord will obtain a bid from all qualified subcontractors of such trade (with Landlord agreeing to solicit and consider bids from subcontractors selected by Tenant); (ii) using the lowest qualified bid (which, in order to be qualified, must fully comply with all bid requirements, including but not limited to any time requirements specified) from each of the bids so received, prepare a proposed budget for all items to be included in Expansion Costs ("TENANT'S EXPANSION COST PROPOSAL"); and (iii) submit copies of all bids, the Tenant's Expansion Cost Proposal, and the Expansion Basic Rent that Tenant would be required to pay based on the costs set forth in the Tenant's Expansion Cost Proposal to Tenant for Tenant's review and approval. Tenant, at Tenant's option, may either approve Tenant's Expansion Cost Proposal in writing, or elect to eliminate or revise one or more items of Expansion Building shown on the Approved Expansion Base Building Plans or the Approved Expansion Leasehold Improvements Plans, or request additional bids so as to reduce the costs shown in the Tenant's Expansion Cost Proposal. Tenant may then approve in writing the reduced Tenant's Expansion Cost Proposal (based on revised Approved Expansion Base Building Plans or Approved Expansion Leasehold Improvements Plans prepared by Tenant's architect or revised bids, as the case may be, which will then be deemed the Approved Expansion Base Building Plans and the Approved Expansion Leasehold Improvements Plans for all purposes under this Lease). However, each day following the fifth (5th) business day after Tenant's receipt of Tenant's Expansion Cost Proposal until the day on which Landlord has received Tenant's written approval of Tenant's Expansion Cost Proposal will be a day of Expansion Tenant Delay. The Tenant's Expansion Cost Proposal, as finally approved, is referred to in this Lease as the "APPROVED EXPANSION COSTS."

(e) Tenant's Representative may request and authorize changes in Landlord's Expansion Work as long as such changes (i) are consistent with the scope of Landlord's Expansion Work, and (ii) do not affect the Expansion Base Building or any portion of the Core Building Systems relating to the Expansion Base Building. All other changes will be subject to Landlord's prior written approval, which approval Landlord cannot unreasonably withhold, delay, or condition. Within five (5) business days after Tenant requests a change in Landlord's Expansion Work and prior to commencing any change, Landlord will prepare and

deliver to Tenant, for Tenant's approval, a change order ("EXPANSION CHANGE ORDER") identifying the total cost or savings of such change, which will include associated architectural, engineering and construction contractor's fees, and the total time that will be added to or subtracted from the construction schedule by such change. Once Landlord delivers an Expansion Change Order to Tenant for Tenant's approval, Tenant must either affirmatively approve or disapprove of the Expansion Change Order within three (3) business days following Tenant's receipt of the Expansion Change Order. In the event Tenant fails to respond within the three (3) business day period, then each day thereafter that Tenant fails to respond shall be a Tenant Expansion Delay. Alternatively, Landlord may deliver to Tenant, within the same five (5) business day period, an estimate of the time and costs to be expended in calculating the Expansion Change Order. In the event Tenant does not respond or fails to affirmatively authorize Landlord to proceed on the third (3rd) business day following Tenant's receipt of such estimate, then it shall be conclusively deemed that Tenant withdrew its request for any change in Landlord's Expansion Work. If Tenant authorizes Landlord to proceed with calculating the cost of the Expansion Change Order, then Tenant shall be responsible for all reasonable costs associated therewith (and pay same to Landlord within 30 days following Landlord's written request) and any delay in connection with such calculation shall be an Expansion Tenant Delay, whether or not Tenant ultimately approves the Expansion Change Order.

(f) Landlord must deliver the Expansion Building to Tenant, with Landlord's Expansion Work Substantially Completed, on or before two hundred ten (210) days after Landlord and Tenant approve the Approved Expansion Leasehold Improvements Plans (the "PROJECTED EXPANSION COMPLETION DATE"), as such date has been delayed due to any Tenant Expansion Delays and Permitted Expansion Force Majeure Delays only, it being understood and agreed that such date cannot be extended for any reason other than Tenant Expansion Delays and Permitted Expansion Force Majeure Delays. If Landlord is unable to deliver possession of the Expansion Building, with Landlord's Expansion Work Substantially Completed by the Projected Expansion Completion Date, as it may be extended, (i) the Expansion Commencement Date (as that term is defined in SECTION 18(j)(I) below) will be extended automatically by one day for each day of the period after the Projected Expansion Completion Date to the day on which Landlord tenders possession of the Expansion Building to Tenant with Landlord's Expansion Work Substantially Completed, less any portion of that period attributable to Tenant Expansion Delays; and (ii) Landlord will pay Tenant, as liquidated damages, an amount equal to $2,000.00 per day for each day after such Projected Expansion Completion Date (as it may be extended) until Landlord tenders possession of the Expansion Building to Tenant with Landlord's Expansion Work Substantially Completed and, if Landlord has tendered the Expansion Building to Tenant with Landlord's Expansion Work Substantially Complete, Landlord will pay to Tenant, as liquidated damages, $500.00 per day after the thirtieth (30th) day after Tenant delivers the Expansion Punch List to Landlord until Final Completion of Landlord's Expansion Work; and (iv) if Landlord does not tender possession of the Expansion Building to Tenant with the Landlord's Expansion Work Substantially Completed on or before two hundred seventy (270) days after Landlord and Tenant approve the Approved Expansion Leasehold Improvements Plans (plus any period of delay caused by Tenant Expansion Delays or Permitted Expansion Force Majeure Delay), Tenant will have the right to terminate this Lease by delivering written notice of termination to Landlord not more than 30 days after such deadline date. Upon a termination under clause (iv) above, each party will, upon the other's request, execute and deliver an agreement in recordable form containing a release and surrender of all right, title and interest in and to this Lease; neither Landlord nor Tenant will have any further obligations to each other, including, without limitation, any obligations to pay for work previously performed in the Expansion Building or

the Premises, except as set forth in this sentence; all Improvements to the Original Building and the Expansion Building will become and remain the property of Landlord; and Landlord will refund to Tenant any sums paid to Landlord by Tenant in connection with this Lease, including, without limitation, any payments to Landlord of portions of Tenant's Expansion Cost and pay to Tenant the amounts that have accrued under clause (ii) above. Such postponement of the Expansion Commencement Date, payment of liquidated damages and termination and refund right will be in full settlement of all claims that Tenant might otherwise have against Landlord by reason of Landlord's failure to have Substantially Completed its obligations by the Projected Expansion Completion Date (as it may be extended). If Landlord delivers possession of the Expansion Building with the Landlord's Expansion Work Substantially Completed prior to the Projected Expansion Completion Date, then Tenant may either accept such delivery (in which case such date will be the Expansion Commencement Date hereunder) or may refuse to accept delivery until any date selected by Tenant that is no later than the Projected Expansion Completion Date (as it may be extended). Within sixty (60) days after the Expansion Commencement Date, Landlord will provide to Tenant a complete set of as-built drawings of Landlord's Expansion Work and manuals for all equipment incorporated into the Improvements as a part of Landlord's Expansion Work. Landlord and Tenant have sixty (60) days after Landlord notifies Tenant that the Expansion Building has been Substantially Completed in which to remeasure the Expansion Building, but after the expiration of such sixty (60) day period, neither Landlord nor Tenant may remeasure the Expansion Building. The final Rentable Square Feet as shown in the Approved Expansion Base Building Plans are sometimes referred to as the "APPROVED EXPANSION RENTABLE SQUARE FEET". In the absence of such remeasurement or the right to do so, it shall be conclusively deemed that the Expansion Building contains the Approved Expansion Rentable Square Feet. If Tenant timely elects to remeasure the Expansion Building, and the variance is greater than one percent (1%) but less than two percent (2%), the variance shall be permitted and have no effect on the Expansion Building being Substantially Completed, but the Expansion Basic Rent for the Expansion Building and all other amounts calculated based on the area of the Expansion Building will be modified accordingly. If the Expansion Building contains more than 102% of the Approved Expansion Rentable Square Feet, all amounts will be calculated as if the Expansion Building contains 102% of the Approved Expansion Rentable Square Feet. If the Expansion Building contains less than 98% of the Approved Expansion Rentable Square Feet, then Landlord must make all alterations necessary to increase the size of the Expansion Building to at least 98% of the Approved Expansion Rentable Square Feet, and the Expansion Building will not be deemed to be Substantially Completed. If, under such circumstances, Tenant fails to terminate this Lease pursuant to the termination right set forth in SECTION 18(f)(iv) above, then Tenant will be deemed to have accepted the size of the Expansion Building and the Expansion Building will be deemed to have been Substantially Completed on the day Landlord delivered the Expansion Building to Tenant with the Landlord's Expansion Work (other than the area of the Expansion Building) Substantially Complete. In such event, all amounts will be calculated on the actual size of the Expansion Building.

(g) As provided in SECTION 18(j)(I) , the Expansion Commencement Date (and therefore Tenant's obligation for the payment of Expansion Basic Rent) will not commence until Landlord has Substantially Completed Landlord's Expansion Work; provided, however, that if Landlord is delayed in causing Landlord's Expansion Work to be Substantially Completed as a result of: (a) any Change Orders or changes in any drawings, plans or specifications requested by Tenant (with each individual occurrence constituting a "TENANT EXPANSION DELAY" and the cumulative occurrences constituting TENANT EXPANSION DELAYS"), or (b) force majeure delays (with such force majeure delays being referred to in this Lease as "PERMITTED EXPANSION FORCE MAJEURE DELAYS"), then, if such delays exceed ten (10) days, the

Expansion Commencement Date will only be extended under SECTION 18(f) until the date on which Landlord would have Substantially Completed the performance of such work but for such delays. As a condition to claiming a Permitted Expansion Force Majeure Delay or a Tenant Expansion Delay, the day of delay must have otherwise been a day upon which Landlord intended to work on the item affected by the delay and Landlord must advise Tenant of the circumstances giving rise to the claim within ten (10) business days after they arise, the estimated cost that Tenant can pay as that time to effect any available remedy to eliminate or reduce such delay (for example, overtime work), the cumulative total number of Permitted Expansion Force Majeure Delays and Tenant Expansion Delays through the date of each event.

(h) Landlord must perform the Landlord's Expansion Work in accordance with the Approved Expansion Base Building Plans and the Approved Expansion Leasehold Improvements Plans and in a good and workmanlike manner, using new materials, and in accordance with all applicable laws, ordinances, rules, and regulations, including without limitation, ADA (as it exists at the time) and all applicable environmental laws as interpreted and enforced by the governmental bodies having jurisdiction thereof at the time of construction. Tenant's taking possession of any portion of the Expansion Building will be conclusive evidence that such portion of the Expansion Building was in good order and satisfactory condition, and that all of Landlord's Expansion Work in or to such portion of the Expansion Building was satisfactorily completed, when Tenant took possession, except as to any patent defects or uncompleted items identified on a punch list (the "EXPANSION PUNCH LIST") prepared by Tenant's Representative after an inspection of the Expansion Building by both Tenant's Representative and Landlord's Representative (unless Landlord's Representative fails to attend an inspection scheduled by Tenant's Representative, with Tenant acknowledging that Tenant's Representative must cooperate with Landlord's Representative in attempting to establish a mutually-acceptable date and time of inspection) made within thirty (30) days after Tenant takes possession, and except as to any latent defects in Landlord's Expansion Work. Landlord will not be responsible for any items of damage caused by Tenant, its agents, independent contractors or suppliers. No promises to construct, alter, remodel or improve the Expansion Building, and no representations concerning the condition of the Expansion Building, have been made by Landlord to Tenant other than as may be expressly stated in this Lease.

(i) Landlord appoints Landlord's Representative to act for Landlord in all matters covered by this SECTION 18. Tenant appoints Tenant's Representative to act for Tenant in all matters covered by this SECTION 18. All inquiries, requests, instructions, authorizations and other communications with respect to the matters covered by this SECTION 18 will be made to Landlord's Representative or Tenant's Representative, as the case may be. Tenant will not make any inquiries of or requests to, and will not give any instructions or authorizations to, any other employee or agent of Landlord, including Landlord's architect, engineers and contractors or any of their agents or employees, with regard to matters covered by this SECTION 18. Either party may change its representative at any time by three days' prior written notice to the other party. Landlord and Tenant acknowledge that they must work together cooperatively in order to design the Expansion Building and therefore agree to act reasonably and in good faith in such design process

(j) Upon Tenant's approval of the Tenant's Expansion Cost Proposal, this Lease will automatically be amended as follows (with Landlord and Tenant each agreeing to execute a written agreement confirming these amendments upon delivery of such an amendment to such party by the other party):

(I) The Term of this Lease will be extended so that it ends on the day before the tenth (10th) anniversary of the date of Substantial Completion of the Expansion Building (the "EXPANSION COMMENCEMENT DATE"). The options to extend the Term of this Lease granted in SECTION 2.5 above will remain in full force and effect and may be exercised at the end of the Term of this Lease, as so extended, subject to the notice and other requirements of SECTION 2.5. Any exercise of the option to extend will apply to and include both the Original Building and the Expansion Building.

(II) The Basic Rent will be as follows:

(A) for the Original Building, the Original Basic Rent will be the same as provided in SECTION 4.1 above for the number of years which represents the balance of the Original Term as defined in SECTION 1.1 above. Thereafter, the Original Basic Rent will increase on the first day after the original expiration date of the Original Term to an amount equal to one hundred twelve and one-half percent (112.5%) of the Original Basic Rent in effect for the immediately preceding period and will increase every fifth (5th) anniversary of the original expiration date of the Original Term through the end of the then-existing initial term (i.e., excluding the renewal terms) to an amount equal to one hundred twelve and one-half percent (112.5%) of the Original Basic Rent in effect for the immediately preceding period. For example, if the Original Basic Rent were $128,244.62 per month, then for the period beginning on the day after the original expiration date of the Original Term and extending for the lesser of five (5) years or the date of the expiration of the then-existing initial term, the Basic Rent would be $144,275.19.

(B) for the Expansion Building, the monthly rent (the "EXPANSION BASIC RENT") will be equal to the amount determined by multiplying the Expansion Costs (up to or equal to the Approved Expansion Costs) by 11.4% and then dividing the result thus obtained by twelve (12).

IN WITNESS WHEREOF, the parties have executed this Lease as of the date first set forth above.

LANDLORD:	TENANT:
OPUS SOUTH CORPORATION, a Florida corporation	ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation
By: _____	By: _____
Neil J. Rauenhorst, President	Its: _____

And: _____
Its: _____

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of January, 1998 by Neil J. Rauenhorst as President of Opus South Corporation, a Texas corporation.

Witness my hand and official seal.

_____
Notary Public

My commission expires: _____

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of January, 1998 by _____ as _____ and _____ as _____ of ADS Alliance Data Systems, Inc., a Delaware corporation.

Witness my hand and official seal.

_____
Notary Public

My commission expires: _____

EXHIBIT A

LEGAL DESCRIPTION OF THE LAND

BEING a parcel or tract of land situated in the City of Dallas, Collin County, Texas, and being part of the John Clay Survey, Abstract 223, and being part of Phase I, U.T.D. Synergy Park, an Industrial Addition to the City of Dallas, filed for record in Cabinet F, Page 483 and 484 of the Deed Records of Collin County, Texas; and being part of the tract of land conveyed to the Board of Regents, the University of Texas System as recorded in Volume 835, Page 713 of the Deed Records of Collin County, Texas, and being more particularly described as follows:

BEGINNING at an Iron rod on the west right of way line of Waterview Parkway (120 feet wide) and the northeast corner of the Smith/Allen Matuschka - One Tract and the southEAST corner of the herein described tract;

THENCE South 90 degrees 00 minutes 00 seconds West a distance of 700.39 feet following the north line of the Smith/Allen Matuschka - One tract to an iron rod found for corner, said iron rod being in the easterly line of Texas A & M University System tract;

THENCE North 00 degrees 12 minutes 12 seconds West a distance of 642.68 feet following the east line of the Texas A & M System tract to the intersection with the southwest corner of the Intervoice tract and an iron rod found for corner;

THENCE North 90 degrees 00 minutes 00 seconds East a distance of 700.39 feet following the south line of the Intervoice tract to an iron rod found for corner in the westerly right of way line of Waterview Parkway, said point being the southeast corner of the Intervoice tract;

THENCE South 00 degrees 12 minutes 12 seconds East, a distance of 642.68 feet following the westerly right of way line of Waterview Parkway to the Point of Beginning and containing 450,125 square feet or 10.3334 acres, more or less.

EXHIBIT B

BASE BUILDING SPECIFICATIONS

EXHIBIT C

BASE BUILDING/TENANT MATRIX

EXHIBIT D

MATTERS AFFECTING LANDLORD'S TITLE

1. Restrictive covenants recorded in Volume 1959, Page 755, Land Records of Collin County, Texas.

2. Restrictive covenants recorded in Volume 2007, Page 475, Land Records of Collin County, Texas.

3. 12.5' water main easement granted by Board of Regents of the University of Texas Systems to City of Richardson, filed 03/25/77, recorded in Volume 1042, Page 840, Deed Records of Collin County, Texas, and as shown on survey of BSM Engineers, Inc., certified to by Arthur F. Beck, R.P.L.S. #2130, dated 12/19/97, And as shown on plat recorded in Volume F, Page 483, Map Records of Collin County, Texas.

4. Easement granted by Board of Regents of the University of Texas Systems to Dallas Power & Light Company and Southwestern Bell Telephone Company, recorded in Volume 1444, Page 555, Land Records of Collin County, Texas, and as shown on survey of BSM Engineers, Inc., certified to by Arthur P. Beck, R.P.L.S. #2130, dated 12/19/97, And as shown on plat recorded in Volume F, Page 483, Map Records of Collin County, Texas.

5. Easement granted by Board of Regents of the University of Texas Systems to City of Dallas, filed 04/09/86, recorded in Volume 2343, page 314, Land Records of Collin County, Texas, and as shown on survey of BSM Engineers, Inc., certified to by Arthur F. Beck, R.P.L.S. #2130, dated 12/19/97.

6. Easement granted by Board of Regents of the University of Texas Systems to Texas Utilities Electric Company, filed 10/06/97, cc#97-0084664, Land Records of Collin County, Texas, and as shown on survey of BSM Engineers, Inc., certified to by Arthur F. Beck, R.P.L.S. #2130, dated 12/19/97.

EXHIBIT E

MEMORANDUM OF LEASE

This Memorandum of Lease is dated as of January ___, 1998 and is by and between Opus South Corporation, a Florida corporation ("LANDLORD") and ADS Alliance Data Systems, Inc., a Delaware corporation ("TENANT").

R E C I T A L S

(7) Landlord is the owner of that certain property described on EXHIBIT A attached to and made a part of this Memorandum of Lease for all purposes (the "PROPERTY").

(8) Effective as of the same date as the date of this Memorandum of Lease, Landlord and Tenant entered into that certain Build-to-Suit Net Lease (the "LEASE") covering the entire Property.

(9) Tenant and Landlord wish to record this Memorandum of Lease in order to evidence the existence of the Lease.

I N F O R M A T I O N

(1) PRIMARY TERM: Tenant has leased the entire Property from Landlord for a period of approximately 11 years commencing on the date set forth in the Lease and ending on the Expiration Date, as defined in the Lease.

(2) RENEWAL OPTIONS: Tenant has two (2) five (5)-year renewal options, as more fully set forth in the Lease.

(3) INITIAL CONSTRUCTION: Landlord has covenanted and agreed to construct a building on the Property for Tenant within the time periods and in accordance with the terms of the Lease.

(4) EXPANSION OPTION: During the initial 11-year term, Tenant has the right to require that Landlord construct an additional building for Tenant, as more fully set forth in the Lease.

(5) QUIET POSSESSION: Landlord has covenanted and agreed that Tenant will have quiet and peaceful possession of the Property during the entire term of the Lease, and such possession will not be disturbed by Landlord or anyone claiming by, through or under Landlord.

(6) INTERPRETATION. Landlord and Tenant have entered into this Memorandum of Lease in order that third parties may have notice of the existence of the Lease and some of its specific provisions. This Memorandum of Lease is not a complete summary of the Lease, all of the terms, covenants, and conditions of

which are made apart of this Memorandum of Lease as though fully set forth in this Memorandum of Lease. This Memorandum of Lease is not intended to amend, modify, or otherwise change the terms and conditions of the Lease. In the event of a conflict between this Memorandum of Lease and the Lease, the Lease controls.

LANDLORD:

OPUS SOUTH CORPORATION, a Florida corporation

By: _____
Neil J. Rauenhorst, President

TENANT:

ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation

By: _____
Its: _____

And: _____
Its: _____

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1998 by Neil J. Rauenhorst as President of Opus South Corporation, a Texas corporation.

Witness my hand and official seal.

_____
Notary Public

My commission expires: _____

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1998 by _____ as _____ and _____ as _____ of ADS Alliance Data Systems, Inc., a Delaware corporation.

Witness my hand and official seal.

____

Notary Public

My commission expires: ____

EXHIBIT F

NDA

EXHIBIT G

LEASE GUARANTY

THIS LEASE GUARANTY (this "GUARANTY") is given by ALLIANCE DATA SYSTEMS CORPORATION, a Delaware corporation ("GUARANTOR"), to OPUS SOUTH CORPORATION, a Florida corporation ("LANDLORD"), with respect to that certain Build-to-Suit Net Lease dated January __, 1998 (the "LEASE") by and between Landlord and ADS Alliance Data Systems, Inc., a Delaware corporation ("TENANT"), under which Tenant has leased from Landlord the land in Richardson, Texas that is legally described on EXHIBIT A attached hereto and all improvements thereon.

In order to induce Landlord to execute the Lease and for other good and valuable consideration, the receipt and sufficiency of which Guarantor acknowledges, Guarantor promises and agrees as follows:

1. Guarantor absolutely, unconditionally and irrevocably guarantees the payment and performance of, and agrees to pay and perform as a primary obligor, all of Tenant's covenants, obligations, liabilities and duties (including, without limitation, payment of rent and all other amounts required to be paid by Tenant) under the Lease (the "GUARANTEED OBLIGATIONS"), as if Guarantor had executed the Lease as Tenant.

2. Guarantor's obligations under this Guaranty are primary and independent of Tenant's obligations. Guarantor agrees that Landlord will not be required first to enforce against Tenant or any other person any Guaranteed Obligations before seeking enforcement against Guarantor. Landlord may bring and maintain an action against Guarantor to enforce any Guaranteed Obligations without joining Tenant or any other person (including, without limitation, any other guarantor) in such action. Landlord may, however, join Guarantor in any action commenced by Landlord against Tenant to enforce any Guaranteed Obligations and Guarantor waives any demand by Landlord or any prior action by Landlord against Tenant.

3. Guarantor's obligations under this Guaranty will remain in full force and effect and will not be affected in any way by: (a) any forbearance, indulgence, compromise, settlement or variation of terms which may be extended to Tenant by Landlord; (b) any alteration of the Lease by the parties, whether prior or subsequent to Lease execution; (c) any renewal, extension, modification or amendment of the Lease; (d) any subletting of the premises demised under the Lease or any assignment of Tenant's interest in the Lease; (e) any termination of the Lease to the extent that Tenant remains liable under the Lease after such termination; or (f) the release by Landlord of any party (other than Guarantor) obligated for the Guaranteed Obligations or Landlord's acquisition, release, return or misapplication of any other collateral (including, without limitation, any other guaranties) given now or later as additional security for the Guaranteed Obligations. Guarantor waives notice of any of the above and agrees that Guarantor will remain liable for the Guaranteed Obligations as they may be so altered, renewed,

extended, modified, amended or assigned. Guarantor also waives notice of acceptance of this Guaranty and all other notices in connection with this Guaranty or the Guaranteed Obligations, including notices of default by Tenant under the Lease, and waives diligence, presentment and suit by Landlord in the enforcement of any Guaranteed Obligations.

4. Guarantor's obligations under this Guaranty will remain in full force and effect and will not be affected in any way by: (a) the release or discharge of Tenant in any insolvency, receivership, bankruptcy or other proceedings; (b) the impairment, limitation or modification of the liability of Tenant or the estate of Tenant in bankruptcy, or of any remedy for the enforcement of Tenant's liability under the Lease, resulting from the operation of any present or future provision of the Federal Bankruptcy Code or other statute or from the decision in any court; (c) the rejection or disaffirmance of the Lease in any such proceeding; or (d) Tenant's dissolution or other termination or any disability or other defense of Tenant.

5. Guarantor agrees to pay the reasonable attorneys' fees and expenses incurred by Landlord in successfully enforcing Guarantor's obligations under this Guaranty in any action or proceeding to which Landlord is a party. In any action brought under this Guaranty, Guarantor submits to the jurisdiction to the courts of the State of Texas, and to venue in the District Court of Dallas County, Texas.

6. This Guaranty will be binding on Guarantor and its successors and assigns and will inure to the benefit of Landlord and its successors and assigns.

7. Notwithstanding anything to the contrary set forth elsewhere in this Guaranty, in the event the Release Conditions, as defined in the Lease, are met, then Guarantor will automatically be released from its obligations under this Guaranty effective as of the date of such assignment or subletting, and (b) Guarantor will at all times be entitled to assert as a defense to any obligation under this Guaranty that Tenant has a defense to the guaranteed obligation under the terms of the Lease.

Executed this _____ day of January, 1998.

GUARANTOR:

ATTEST:

ALLIANCE DATA SYSTEMS CORPORATION,
a Delaware corporation

By: _____

By:_____

EXHIBIT H

2-STORY PLAN

EXHIBIT I

3-STORY PLAN

EXHIBIT J

EXPANSION COST SUMMARY

SCHEDULE OF COST FOR THE EXPANSION BUILDING
OPTION B NO LAND

LAND:		
SOIL TEST	___	
ENVIRONMENTAL	___	
TITLE FEE	___	
SUB-TOTAL FOR LAND	___	
BUILDING:		
BASE BUILDING	___	
SITE DEVELOPMENT	___	
TENANT IMPROVEMENTS	___	
DESIGN FEE	___	
SUB-TOTAL FOR BUILDING		___
DEVELOPMENT:		
BROKER FEE (Market)	___	
LEGAL	___	
DEVELOPMENT (5% of total project cost)		___
CONTINGENCY	___	
CONSTRUCTION INTEREST	___	
BANK FEES	___	
SUB-TOTAL FOR DEVELOPMENT		___
TOTAL PROJECT COST:	___	
RENT CALCULATION:		
EXPANSION COSTS X 11.4%-RENT		___
TOTAL RENT	___	

EXHIBIT K

CORE BUILDING SYSTEMS

- -- Foundation System

- -- Structural Framing System

- -- Core Plumbing Systems

- -- Exterior Envelope Back-up System (Framing, Sheathing, and Insulation)

- -- Roofing System

- -- Core Building Fire Sprinkler System

- -- Core Plumbing HVAC System (Central plant, main supply loop ductwork; perimeter zone boxes, and interior VAV boxes and controls)

- -- Electrical System (Wiring of all base building HVAC equipment, elevators, exterior lighting, main switchgear, distribution to electrical panel boards on each floor, and lighting of interior common areas with exit and emergency lighting as required by code)

- -- Minimum Code Requirements (Stairs, Restroom Count, and Elevators)

TABLE OF CONTENTS

FINAL AGREEMENT CONCERNING RENT COMMENCEMENT AND CONSTRUCTION COSTS AND LIQUIDATED DAMAGES

This Final Agreement Concerning Rent Commencement and Construction Costs and Liquidated Damages (this "AGREEMENT") is executed by and between Oaklawn Alliance, L.L.C., a Delaware limited liability company ("LANDLORD") and ADS Alliance Data Systems, Inc., a Delaware corporation ("TENANT") and is effective as of the last day accompanying the signature of Original Landlord, Landlord, and Tenant below. Original Landlord, Guarantor, and Mortgagee (all as defined below) are executing this Agreement for the purposes indicated in this Agreement.

R E C I T A L S

A. Effective as of January 29, 1998, Opus South Corporation, a Florida corporation ("ORIGINAL LANDLORD") and Tenant entered into that certain Build-To-Suit Net Lease (the "LEASE") covering certain property located in the City of Dallas, Collin County, Texas (the "LAND").

B. The Lease was guaranteed by Alliance Data Systems Corporation, a Delaware corporation ("GUARANTOR") pursuant to the terms of that certain Lease Guaranty dated the same date as the Lease (the "GUARANTY").

C. A Memorandum of Lease was executed the same day as the Lease and recorded on January 30, 1998 in Volume 4091, Page 1447 of the real property records of Collin County, Texas.

D. Original Landlord, Tenant, and NationsBank, N.A., a national banking association ("MORTGAGEE") entered into that certain Subordination, Non-disturbance and Attornment Agreement dated April 3, 1998 and recorded on April 7, 1998 under Volume 4138, Page 1032 of the real property records of Collin County, Texas.

E. Under the terms of the Lease, Original Landlord, as the Landlord under the Lease, was required to construct for Tenant the Original Base Building (as defined in the Lease) on the Land. Under the terms of the Lease, Tenant had to pay for certain cost overruns and Original Landlord, as the Landlord under the Lease, had to pay certain liquidated damages in the event that construction of the Original Base Building was not completed on or before certain dates. The Land together with the Original Base Building is referred to in this Agreement as the "DEMISED PREMISES."

F. On December 3, 1998, Original Landlord transferred the Demised Premises to Landlord.

G. Original Landlord, Landlord, and Tenant have been working together to establish the Original Commencement Date under the Lease, the amount of any cost overruns for which Tenant is

obligated to pay Landlord, and the amount of any liquidated damages due to Tenant for late delivery. The purpose of this Agreement is to memorialize their understanding.

AGREEMENTS

NOW, THEREFORE, for and in consideration of the matters set forth in the Recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Original Landlord, Landlord, and Tenant hereby agree as follows:

1. ORIGINAL COMMENCEMENT DATE: The Original Commencement Date of the Lease is November 4, 1998. As provided in Section 1.1 of the Lease, the Term expires at midnight on November 30, 2009, unless sooner terminated or unless renewed or extended as set forth in the Lease.

2. OVERRUN AMOUNT AND LIQUIDATED AMOUNT: The amount of cost overruns for which Tenant is responsible is $263,575.00 (the "OVERRUN AMOUNT") and the amount of liquidated damages to which Tenant is entitled is $125,500.00 (the "LIQUIDATED AMOUNT").

3. PARTIES TO WHOM PAYMENT OF THE OVERRUN AMOUNT AND THE LIQUIDATED AMOUNT ARE DUE: Original Landlord performed the construction work and so Original Landlord believes that Original Landlord is entitled to receive the Overrun Amount. Landlord hereby agrees that Original Landlord is entitled to receive the Overrun Amount. Since Original Landlord is receiving the Overrun Amount, Landlord believes that Original Landlord should pay Tenant the Liquidated Amount. Tenant is willing to accept the Liquidated Amount from Original Landlord, but such agreement to allow Original Landlord to do so does not in any way release Landlord from the obligation to do so unless and until Tenant actually receives the full amount of the Liquidated Amount. If for any reason Original Landlord does not pay the full amount of the Liquidated Amount within the time period specified in PARAGRAPH 4 below, then the obligation to pay the Liquidated Amount will constitute a joint and several obligation of Original Landlord and Landlord and Tenant will be entitled to demand payment from both of them and to offset the amount due to Tenant from all Rent and other amounts accruing under the Lease.

4. TIMING OF PAYMENT OF THE OVERRUN AMOUNT AND THE LIQUIDATED AMOUNT: Original Landlord and Tenant hereby covenant and agree that on or before Friday, May 28, 1999, they will each present the other with a check drawn on immediately-available funds in the amount due to the other, so that Tenant will present Original Landlord with a check for $263,575.00 and Original Landlord will present Tenant with a check in the amount of $125,500.00.

5. LANDLORD'S REPRESENTATIONS, WARRANTIES, AND RELEASES: Landlord hereby (a) confirms, represents, and warrants to Tenant that Tenant is to pay the Overrun Amount to Original Landlord and not Landlord, and (b) releases Tenant from any and all claims that Landlord

might have against Tenant under the Lease for payment of the Cost Overrun, payment for any other cost overruns, and payment of Basic Rent, other payments which are due on a regular monthly basis charges, Taxes, and insurance premiums (with the exception of insurance premiums which were billed in March, 1999, about which Landlord and Tenant are currently in disagreement), IF, AND ONLY IF, SUCH CLAIMS AROSE ON OR BEFORE THE DATE OF THIS AGREEMENT but whether or not such claims are now known or anticipated (collectively, "CLAIMS" and individually, a "CLAIM"). Landlord acknowledges that there is no additional promise or agreement in consideration of this release. Landlord expressly acknowledges and agrees that such release is a contractual undertaking and that the agreements concerning payment settles any and all Claims by Landlord against Tenant in connection with the Lease. This release is binding upon Landlord and the heirs, executors, administrators, personal representatives, successors, and assigns of Landlord and inures to the benefit of Tenant.

6. ORIGINAL LANDLORD'S REPRESENTATIONS, WARRANTIES, AND RELEASES: Original Landlord is executing this Agreement in order to (a) confirm, represent, and warrant to Tenant that Tenant is to pay the Overrun Amount to Original Landlord and not Landlord, (b) confirm, represent, and warrant that Original Landlord will pay the Liquidated Amount to Tenant as and when due under the terms of PARAGRAPH 4 above, and (c) release Tenant from any and all claims, OTHER THAN THE CLAIM FOR THE COST OVERRUN, that Original Landlord might have against Tenant under the Lease for payment of Basic Rent and other charges, including without limitation, Taxes and insurance premiums, whether such claims now exist or hereafter arise and whether or not such claims are now known or anticipated (collectively, "CLAIMS" and individually, a "CLAIM"). Original Landlord acknowledges that there is no additional promise or agreement in consideration of this release. Original Landlord expressly acknowledges and agrees that such release is a contractual undertaking and that the agreements concerning payment settles any and all Claims by Original Landlord against Tenant in connection with the Lease. This release is binding upon Original Landlord and the heirs, executors, administrators, personal representatives, successors, and assigns of Original Landlord and inures to the benefit of Tenant.

7. TENANT'S RELEASES: Tenant hereby releases Original Landlord and Landlord from any and all claims that Tenant might have against Original Landlord and Landlord for payment of any liquidated damages under Section 3.6 of the Lease OTHER THAN the Liquidated Amount.

8. ESTABLISHMENT OF THE NUMBER OF RENTABLE SQUARE FEET IN THE ORIGINAL BUILDING: Landlord and Tenant hereby confirm that the Original Building contains 114,419 Rentable Square Feet.

9. RATIFICATION AND CONFIRMATION OF THE LEASE: Landlord and Tenant hereby ratify and confirm that they are bound by all of the terms of the Lease, including, without limitation, the terms of Section 18 of the Lease. Landlord further acknowledges that any claims which Tenant might have under the Lease concerning the Original Base Building and Original Leasehold Improvements constitute claims against Landlord even though Landlord was not the

Landlord at the time the Original Base Building and the Original Leasehold Improvements were constructed and even though Tenant is obligated to pay the Cost Overrun to Original Landlord.

10. GUARANTOR'S EXECUTION: Guarantor is executing this Agreement for the purpose of confirming that the execution and delivery of this Agreement does not in any way terminate or limit Guarantor's obligations under the Guaranty.

11. MORTGAGEE'S EXECUTION: Mortgagee is executing this Agreement for the purpose of evidencing its consent to and agreement that if Mortgagee becomes the Landlord under the Lease, Mortgagee will be bound by the terms and provisions of this Agreement; provided, however, that under no circumstances is Mortgagee obligated to pay the Liquidated Amount to Tenant.

12. COUNTERPARTS: This Agreement may be executed in multiple counterparts, all of which, when taken together, will constitute one (1) original.

LANDLORD: OAKLAWN ALLIANCE, L.L.C.,
a Delaware limited liability company

By: /s/ Neil Rauenhorst

Name: Neil Rauenhorst

Title: President & CEO

Date of Signature: 5/28/99

TENANT: ADS ALLIANCE DATA SYSTEMS INC.,
a Delaware corporation

By: /s/ James E. Anderson

Name: James E. Anderson

Title: Exec. V.P. & CEO

Date of Signature: 6-14-99

ORIGINAL LANDLORD: OPUS SOUTH CORPORATION,
a Florida corporation

By: /s/ Neil Rauenhorst
Name: Neil Rauenhorst
Title: President & CEO
Date of Signature: 5/28/99

GUARANTOR: ALLIANCE DATA SYSTEMS CORPORATION,
a Delaware corporation

By: /s/ James E. Anderson
Name: James E. Anderson
Title: Exec. V.P. & CEO
Date of Signature: 6-14-99

MORTGAGEE: NATIONSBANK, N.A.,
a national banking association

By: /s/ Charles S. Flint
Name: Charles S. Flint
Title: Senior Vice President
Date of Signature: 5/28/99

FIRST AMENDMENT TO BUILD-TO-SUIT NET LEASE

This First Amendment to Build-to-Suit Net Lease (this "FIRST AMENDMENT") is executed by and between Oaklawn Alliance, L.L.C., a Delaware limited liability company ("LANDLORD") and ADS Alliance Data Systems, Inc., a Delaware corporation ("TENANT") and is effective as of the last day accompanying the signature of Landlord and Tenant below. Guarantor and Mortgagee (both as defined below) are executing this First Amendment for the purposes indicated in this First Amendment.

R E C I T A L S

A. Effective as of January 29, 1998, Opus South Corporation, a Florida corporation ("ORIGINAL LANDLORD") and Tenant entered into that certain Build-To-Suit Net Lease (the "LEASE") covering certain property located in the City of Dallas, Collin County, Texas (the "LAND"). The Land together with the Original Base Building (as defined in the Lease) is referred to in this First Amendment as the "PREMISES".

B. The Lease was guaranteed by Alliance Data Systems Corporation, a Delaware corporation ("GUARANTOR") pursuant to the terms of that certain Lease Guaranty dated the same date as the Lease (the "GUARANTY").

C. A Memorandum of Lease was executed the same day as the Lease and recorded on January 30, 1998 in Volume 4091, Page 1447 of the real property records of Collin County, Texas.

D. Original Landlord, Tenant, and NationsBank, N.A., a national banking association ("MORTGAGEE") entered into that certain Subordination, Non-disturbance and Attornment Agreement dated April 3, 1998 and recorded on April 7, 1998 at Volume 4138, Page 1032 of the real property records of Collin County, Texas (the "SNDA").

E. On December 3, 1998, Original Landlord transferred the Premises to Landlord.

F. Landlord and Tenant wish to amend the Lease in matters concerning assignment and subletting and construction of a second building. The purpose of this First Amendment is to set forth the agreement of Landlord and Tenant in such regard.

A G R E E M E N T S

NOW, THEREFORE, for and in consideration of the matters set forth in the Recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as fellows:

1. DEFINED TERMS:

   a. Landlord and Tenant hereby amend Section 1.1 of the Lease to add the following definition:

      "AMORTIZED AMOUNT" means the lesser of (a) the excess of the actual cost of the Expansion Leasehold Improvements over the Expansion Leasehold Improvements Allowance (as that term is defined below), or (b) an amount determined by multiplying $5.00 by the number of Rentable Square Feet in the Expansion Building (subject to the terms of SECTION 18(f) below).

b. Landlord and Tenant hereby amend Section 1.1 of the Lease to add the following definition:

> "AMORTIZATION INCREASE AMOUNT" is an amount determined by amortizing, at a rate of nine percent (9%) per annum, the Amortized Amount over the number of months in the Lease Term beginning with the month next succeeding the month in which Tenant must deliver to Landlord Tenant's Election Notice (as that term is defined below) and ending on the last day of the Lease Term.

c. Landlord and Tenant hereby amend the definition of "Approved Expansion Base Building Plans" in Section 1.1 of the Lease by deleting it in its entirety and replacing it with the following:

> "APPROVED EXPANSION BASE BUILDING AND GARAGE PLANS" has the meaning set forth in SECTION 18(b).

d. Landlord and Tenant hereby amend Section 1.1 of the Lease to add the following definition:

> "EXPANSION ALLOWANCE" is the sum of the Expansion Leasehold Improvements Allowance and the Parking Garage Allowance.

e. Landlord and Tenant hereby amend the definition of "Expansion Base Building Plans" in Section 1.1 of the Lease by deleting it in its entirety and replacing it with the following:

> "EXPANSION BASE BUILDING AND GARAGE PLANS" has the meaning set forth in SECTION 18(b).

f. Landlord and Tenant hereby amend the definition of "Expansion Costs" in Section 1.1 of the Lease by deleting it in its entirety and replacing it with the following:

> "EXPANSION COSTS" means the total cost of preparing the Expansion Leasehold Improvement Plans and the Garage Plans, obtaining all permits for, and constructing and installing, the Expansion Leasehold Improvements (in the Expansion Base Building) and the Parking Garage, and providing any services during construction of the Expansion Leasehold Improvements and the Parking Garage (such as electricity and other utilities and refuse removal), but specifically excluding any acquisition or carrying costs for any portion of the Land, it being understood that those costs are included in the Original Basic Rent for the Original Premises.. Landlord and Tenant further agree that Expansion Costs will cover (a) the cost of general conditions and insurance, not to exceed three percent (3%) of the cost of the construction work, excluding soft costs, (b) overhead, not to exceed three percent (3%) of the cost of the construction work, excluding soft costs and the general conditions and insurance and (c) a general contractor's fee payable to Landlord in an

amount equal to five percent (5%) of the construction work, excluding soft costs and overhead.

g. Landlord and Tenant hereby amend Section 1.1 of the Lease to add the following definition:

"EXPANSION DEADLINE EXTENSION" has the meaning set forth in SECTION 18(b).

h. Landlord and Tenant hereby amend Section 1.1 of the Lease to add the following definition:

"EXPANSION LEASEHOLD IMPROVEMENTS ALLOWANCE" is an amount determined by multiplying the Rentable Square Feet in the Expansion Building (subject to the terms of SECTION 18(f) below) by $20.00.

i. Landlord and Tenant hereby amend Section 1.1 of the Lease to add the following definition:

"EXPANSION PLAN APPROVAL DELAY" has the meaning set forth in SECTION 18(b).

j. Landlord and Tenant hereby amend the definition of "Landlord's Notice Address" in Section 1.1 of the Lease by deleting it in its entirety and replacing it with the following:

"LANDLORD'S NOTICE ADDRESS" means:

Oaklawn Alliance, L.L.C.
Attn: Lamb E. Lawson
12225 Greenville Avenue, Suite 900
Dallas, Texas 75240

With Copy To:
Opus South Corporation
Attn: Neil J. Rauenhorst
4200 West Cypress Street, Suite 444
Tampa, Florida 33607

With Copy To:
Opus Corporation
Attn: Legal Department
10350 Bren Road West
Minnetonka, Minnesota 55343

With Copy To:
Andrews & Barth, P.C.
8235 Douglas Avenue, Suite 1120
Dallas, Texas 75225
Attn: Stanley K. Barth

l. Landlord and Tenant hereby amend the definition of "Landlord's Rent Address" in Section 1.1 of the Lease by deleting it in its entirety and replacing it with the following:

"LANDLORD'S RENT ADDRESS" means:

Oaklawn Alliance, L.L.C.
c/o Opus South Management Corporation
4200 West Cypress Street
Suite 445
Tampa, Florida 33607

m. Landlord and Tenant hereby amend Section 1.1 of the Lease to add the following definition:

"PARKING GARAGE" has the meaning set forth in SECTION 18(a).

n. Landlord and Tenant hereby amend Section 1.1 of the Lease to add the following definition:

"PARKING GARAGE ALLOWANCE" means $1,477,963.00.

o. Landlord and Tenant hereby amend the definition of "Release Conditions" in Section 1.1 of the Lease by deleting it in its entirety and replacing it with the following:

"RELEASE CONDITIONS" means all of the following conditions have been met:

(a) the assignee of this Lease or sublessee of either all of the Original Building or all of the Expansion Building, as the case may be, meets ONE of the following standards:

(i) has a net worth (excluding goodwill) of at least $75 million.

(ii) all of the following are true: (A) such assignee or sublessee has experienced during each of the three (3) periods of twelve (12) months each which immediately precede the effective date of such assignment or subletting (with each such twelve (12)-month period being referred to as a "COMPARISON YEAR") EBTDA (as defined below) equal or greater than an amount equal to five (5) times the annual obligation in Basic Rent of the portion of the Premises covered by such assignment or subletting (the "ANNUAL EBTDA REQUIREMENT"), (B) such assignee or sublessee meets the Annualization Standard (also as defined below) for the three (3) month period immediately preceding the effective date of such assignment or subletting (which period of time is referred to as the "BASE PERIOD" and the equivalent periods

of time during each of the three (3) immediately-preceding Comparison Years is referred to as the "COMPARISON PERIODS"), and (C) such assignee or sublessee certifies to Landlord in writing that it has not taken or allowed and does not, as of the effective date of such assignment or subletting, intend to take or allow any action which would constitute an Event of Default under SUBSECTION 15.2(c) or SUBSECTION 15.2(d) of this Lease. The term "EBTDA" means Earnings before Taxes, Depreciation, and Amortization. The term "ANNUALIZATION STANDARD" means that (i) each of the three (3) Comparison Periods is analyzed to see what proportion of the EBTDA for the Comparison Year is applicable to such Comparison Period, (ii) the proportional amounts for each of the Comparison Periods are averaged (the "BASE COMPARISON AVERAGE"), and (iii) the EBTDA for the Base Period is greater than or equal to the Annual EBTDA Requirement for the twelve (12)-month period ending on the last day of the Base Period multiplied by the Base Comparison Average. So, for example, if the annual obligation in Basic Rent of the portion of the Premises covered by such assignment or subletting were $1.5 million, then the proposed assignee or sublessee would need to have had an EBTDA in each of the immediately preceding three (3) twelve (12) month periods equal to $7.5 million. In addition, if the Base Period were January, February, and March of a particular year, then the Comparison Periods would be the same months during each of the three (3) immediately-preceding twelve (12) month periods. If the EBTDA for the first, second, and third Comparison Periods were thirty percent (30%), twenty-eight percent (28%), add thirty two percent (32%), respectively, of their respective annual EBTDA, then the average of the three would be thirty percent (30%) and the EBTDA for the Base Period would, under such example, need to be at least $2.25 million.

(iii) satisfies some other commercially reasonable alternative measurement proposed by Tenant and approved by Landlord, which approval cannot be unreasonably withheld, conditioned, or delayed.

(b) if such assignee or sublessee is a subsidiary of any entity, Tenant has obtained and delivered to Landlord a guaranty by such parent entity of the assignee's or sublessee's obligations under this Lease, which guaranty agreement must be substantially similar to the form attached to this Lease as EXHIBIT G or another form reasonably acceptable to Landlord, and

(c) in the event Tenant subleases either all of the Original Building or all of the Expansion Building, or both (it being

understood and agreed that this condition does not apply in the case of an assignment), Tenant has obtained and delivered to Landlord a written agreement for the express benefit of Landlord from such sublessee assuming the obligations of Tenant under this Lease relating to or arising out of the use and occupancy of the Original Building or the Expansion Building, or both, as the case may be, from and after the effective date of such sublease; however, in the event such sublessee expressly assumes less than all such obligations, the release will apply to the obligations which are assumed by such sublessee in writing for the express benefit of Landlord, but not to the ones that are not so assumed.

p. Landlord and Tenant hereby amend the definition of "Substantially Completed", "Substantial Completion" and "Substantially Complete" in Section 1.1 of the Lease by deleting it in its entirety and replacing it with the following:

"SUBSTANTIALLY COMPLETED" or "SUBSTANTIAL COMPLETION" or "SUBSTANTIALLY COMPLETE" means that (i) the applicable portion of the Premises is broom clean, free of construction tools and materials, and Landlord's Original Work has been completed according to the Approved Original Base Building Plans and the Approved Original Leasehold Improvements Plans or Landlord's Expansion Work has been completed according to the Approved Expansion Base Building and Garage Plans and the Approved Expansion Leasehold Improvements Plans, as the case may be, with only minor punch list items that will not interfere to more than a minor extent with Tenant's use and enjoyment of the Original Building, the Expansion Building, or the Parking Garage (herein referred to as "PUNCH LIST ITEMS") remaining to be completed or corrected pursuant to the terms of this Lease; (ii) a certificate of occupancy for the entire Original Building, Expansion Building, and Parking Garage (which certificate of occupancy may only be conditioned upon final installation of landscaping or completion of any Punch List Item so long as such condition to the issuance of the certificate of occupancy does not adversely affect Tenant's occupancy and operation of its business activities within the Original Building, Expansion Building, and Parking Garage) has been issued or, alternatively, if certificates of occupancy are obtained for less than the entirety of the applicable portion of the Original Building, Expansion Building, and Parking Garage, then certificates of occupancy have been issued for all portions of the Original Building, Expansion Building, and Parking Garage; provided, however, that if the only condition to the issuance of any certificate of occupancy is the performance of work that TENANT is required to perform under this Lease, then such certificate of occupancy will be deemed issued for all purposes under this Lease; and (iii) that all utilities called for in the Approved Original Base Building Plans or Approved Expansion Base Building and Garage Plans, as the case may be, or the Approved Original Leasehold Improvements Plans or the Approved Expansion Leasehold Improvements Plans, as the case may be, are installed and operable with all hook-up, tap or similar fees paid. For the purpose of resolving any disagreement between Landlord and Tenant as to whether or not any item relating to the Expansion Building and the Parking

Garage constitutes a Punch List Item as set forth in item (i) above, on or before May 15, 2000, Landlord and Tenant will each appoint a licensed architect who has had at least five (5) years' full-time commercial architectural experience in the Dallas, Texas market and provide written notice to the other party identifying the name, address and telephone number of the architect so appointed. If no objection is made as to the qualifications of the architect so identified within five (5) BUSINESS days following such notice (it being agreed that any objection shall be limited to whether or not the architect has had at least five (5) years' full-time commercial architectural experience), then any objection to such architect based on qualifications shall be waived, and it shall be conclusively deemed that such architect meets the qualifications set forth herein. Each architect so appointed will be instructed to (i) contact the other architect and, together with the other architect, select, by no later than June 1, 2000, a third architect meeting the qualifications set forth above which architect must not have acted for either Landlord or Tenant (or any parent, affiliate, or subsidiary of Landlord or Tenant) in any capacity, and (ii) once selected, provide written notice to Landlord and Tenant of the name, address and telephone number of the third architect. Either Landlord or Tenant may raise an objection as to the qualification of the third architect (it being agreed that any objection shall be limited to whether or not the architect has had at least five (5) years' full-time commercial architectural experience and whether or not the architect has actedLor either Landlord or Tenant or any parent, affiliate, or subsidiary of Landlord or Tenant), but such objection shall be waived unless expressed in writing to the other party within five (5) BUSINESS days after the third architect is identified in writing to the Landlord or Tenant, as the case may be. In the event either Landlord or Tenant fails to appoint a qualified architect by May 15, 2000, and such failure continues for a period of three (3) BUSINESS days following written notice from the other party stating such failure, the determination of Punch List Items (should there be a disagreement between Landlord and Tenant) shall be made by the architect timely appointed by the other party. If both architects are timely appointed, then their mutually agreed determination as to Punch List Items shall be binding. If the two (2) architects do not agree within three (3) BUSINESS days following the date both are notified in writing that Landlord and Tenant were unable to agree as to the Punch List Items, the determination as to any Punch List Items for which there has not been agreement shall be made by the third architect within two (2) BUSINESS days following the date Landlord, Tenant, or either of the first two (2) architects notifies the third architect in writing of the items to which the first two (2) architects could not reach agreement as whether or not same constitute a Punch List Item, and such determination by the third architect shall be binding on both parties. Each architect shall be instructed to determine which items constitute Punch List Items according to generally accepted standards and criteria in the Dallas, Texas market. Each party will pay the fees and expenses of the architect appointed by such party, and they will pay equal shares of the fees and expenses of the third architect. For the purpose of item (i) above, the date of completion will not be delayed or affected by the process of determining what constitutes a Punch List Item (although the date of completion will be delayed by Landlord's failure to perform an item that

is determined during the process of determining Punch List Items to NOT be a Punch List Item because it is more than a minor item that will not interfere to more than a minor extent with Tenant's use and enjoyment of the Original Building, the Expansion Building, or the Parking Garage).

2. LIST OF EXHIBITS: Landlord and Tenant hereby amend Section 1.2 of the Lease to delete Exhibit "I" and Exhibit "J" from the list of exhibits.

3. ASSIGNMENT AND SUBLETTING: Landlord and Tenant hereby amend Section 11.3 of the Lease by deleting it in its entirety and replacing it with the following:

GENERAL PROVISIONS. Subject to the other terms and conditions of this SECTION 11.3, no subletting or assignment by Tenant hereunder, regardless of whether the same requires Landlord's consent, will release or discharge Tenant of or from any liability, whether past, present or future, under this Lease, and Tenant will continue fully liable hereunder. Notwithstanding the foregoing, (i) in the event Tenant assigns this Lease in its entirety or subleases the entire Premises and the Release Conditions, as defined above, are met, then Tenant and Guarantor will be automatically released from all obligations arising under this Lease from and after the date of such assignment or sublease (in the case of a sublease, such release shall be limited to the obligations of Tenant under this Lease which such sublessee assumes in writing for the benefit of Landlord), and (ii) in the event Tenant subleases either all of the Original Building or all of the Expansion Building and the Release Conditions, as defined above, are met as to such Building, then (a) this Lease will automatically be amended so as to be two (2) leases, one for each Building, with all of the terms and provisions of this Lease being divided accordingly as provided in SECTION 19 of this Lease and the sublease will be deemed to be as to the entire lease for the Building which is subleased, and (b) Tenant and Guarantor will be automatically released from all obligations arising under the lease for the Building which is sub leased from and after the date of such sublease (in the case of a sublease, such release shall be limited to the obligations of Tenant under this Lease which such sublessee assumes in writing for the benefit of Landlord). In any circumstances in which Tenant and Guarantor are released from liability or in which this Lease is divided into two (2) leases, Landlord, Tenant and Guarantor agree to execute an agreement confirming such release or division (or both) within ten (10) days after requested in writing to do so, although execution of such document will not be necessary for such release or division, or both, to be effective. The sublessee or assignee will agree to comply with and be bound by all of the terms, covenants, conditions, provisions and agreements of this Lease to the extent of the space sublet or assigned from and after the date of such assignment or subletting, and Tenant will deliver to Landlord promptly after execution an executed copy of each such sublease or assignment and such an agreement of compliance by each such sublessee or assignee. Consent by Landlord to any assignment of this Lease or to any subletting of the Premises will not be a waiver of Landlord's rights under this SECTION 11 as to any subsequent assignment or subletting. Any sale, assignment, mortgage, transfer or subletting of this Lease which is not in compliance with the provisions of this SECTION 11 will be of no effect and void. Landlord's right to assign its interest in this Lease is unqualified. Landlord may charge Tenant up to $1,000.00 for attorneys' fees and

administrative expenses incident to a review of any documentation related to any proposed assignment or subletting by Tenant.

4. CONSTRUCTION OF EXPANSION BUILDING AND PARKING GARAGE: Landlord and Tenant hereby amend Section 18 of the Lease by deleting it in its entirety and replacing it with the Section 18 attached to this First Amendment as EXHIBIT "A."

5. FURTHER LEASE AMENDMENT. Landlord and Tenant hereby amend the Lease to add the following as a new Section 19 thereto:

19. FURTHER AMENDMENT. In the event (i) pursuant to SECTION 11.3 of this Lease, this Lease is divided into two (2) leases, (ii) this Lease is terminated by Tenant, as to the Expansion Building only, pursuant to SECTION 18(f) of this Lease, or (iii) this Lease is terminated, as to the Expansion Building only, pursuant to SECTION 18(i) I of this Lease, then this Lease will be automatically amended as follows:

(a) So as to be two (2) leases, one (l) being for the Original Building and that portion of the Land identified as "Tract 1" on EXHIBIT "H" attached hereto; and the other being for the Expansion Building and that portion of the Land identified as "Tract 2" on EXHIBIT "H" attached hereto.

(b) The tenants and occupants respecting the Original Building and the Expansion Building, together with their employees, agents, customers, guests and invitees will have the non-exclusive right, in common with each other, to use the Parking Garage and to use all common areas (hereinafter referred to as the "COMMON AREAS") such as landscaped areas, driveways, walkways, entrance ramps and similar areas intended for common use but existing outside the Original Building and the Expansion Building (Landlord will, upon written request of the tenant(s) occupying a majority of the space within either of the two (2) buildings, designate a half of the surface parking spaces and half of the spaces in the Parking Garage in closest proximity to each building for exclusive use by the occupants of such building, using the division of the Land set forth on EXHIBIT "H" as a guide). Upon written request of the tenant(s) occupying a majority of the space within either of the two (2) buildings, Landlord will be responsible for enforcing the exclusive nature of such parking as fellows: (i) Landlord will arrange (through the use of stickers or other similar device) for the cars entitled to park in each parking area to be separately and easily identified by area in which they are entitled to park, (ii) Landlord will ticket each car which is improperly parked and each tenant of the buildings agrees that it will be obligated to pay the parking charges imposed against its employees or occupants of its space, and (iii) if any tenant(s) occupying a majority of the space within either of the two (2) buildings advises Landlord that the ticketing arrangement has not substantially solved the problem of improper parking, then Landlord will tow cars which are improperly parked. Landlord will have no enforcement obligations respecting the parking of cars except as set forth in the immediately-preceding run-on sentence.

(c) The Landlord will be responsible for the maintenance, replacement and repair of the Parking Garage (including the structural elements thereof and all Common Areas, including, without limitation, all parking areas and landscaping.

(d) All costs and expenses borne by Landlord which would have been borne by Tenant had this Lease not been divided in two will be allocated one-half (1/2) to the Original Building and one-half (1/2) to the Expansion Building. Such costs and expenses include, but are not limited to, (i) Taxes (with Landlord paying the Taxes directly to the taxing authority and the tenants paying Landlord their pro rata share within thirty (30) days following receipt of Landlord's invoice with supporting documents), (ii) the costs and expenses related to maintenance, replacement, and repair of the Parking Garage (excluding the structural, elements of the Parking Garage, which shall be Landlord's obligation and not subject to reimbursement), (iii) the costs and expenses related to the Common Areas, including, without limitation, all parking areas and landscaping, and (iv) the costs and expenses of monitoring the enforcing the exclusive parking arrangement as described in SECTION 19(b) above. The tenants of the Original Building and the Expansion Building must pay their share of such amounts within thirty (30) days following receipt of Landlord's invoice with supporting documentation, or, alternatively, Landlord may estimate the tenants' proportionate share of such costs and expenses, in which event the tenants will pay such estimated sums monthly, with Landlord providing supporting documentation and reconciliations annually.

Landlord, Tenant and Guarantor agree to cooperate and negotiate in good faith with diligent efforts to cause a proper amendment to be executed addressing the matters set forth above and any additional matters that might be proper in order to effect the intents and purposes of dividing this Lease into two (2) leases.

6. AMENDMENT OF MEMORANDUM OF LEASE: Landlord and Tenant hereby agree to execute the First Amendment to the Memorandum of Lease attached to this First Amendment as EXHIBIT "B."

7. EXHIBITS: Landlord and Tenant hereby amend the Exhibits to the Lease as follows:

a. Exhibit "H" of the Lease by deleting it in its entirety and replacing it with EXHIBIT "H" attached to and made apart of this First Amendment for all purposes (it being understood and agreed that there are no Exhibits "C," "D," "E," "F," or "G" to this First Amendment).

b. Landlord and Tenant hereby amend Exhibit "I" of the Lease by deleting it in its entirety (so that there will be no Exhibit "I" to the Lease at all).

c. Landlord and Tenant hereby amend Exhibit "J" of the Lease by deleting it in its entirety (so that there will be no Exhibit "J" to the Lease at all).

Guarantor will be automatically released from all obligations arising under the Lease from and after the date of such assignment or sublease (which, in the case of a sublease, such release shall be limited to the obligations of Tenant under this Lease from and after the date of such sublease which are assumed by such sublessee in writing for the express benefit of Landlord), and (ii) in the event Tenant subleases either all of the Original Building or all of the Expansion Building and the Release Conditions, as defined in the Lease, are met as to such Building, then (a) the Lease will automatically be amended so as to be two (2) leases, one for each Building, with all of the terms and provisions of the Lease being divided accordingly and the sublease will be deemed to be as to the entire lease for the Building which is subleased, and (b) Guarantor will be automatically released from all obligations arising under the lease for the Building which is subleased from and after the date of such sublease to the extent such sublessee assumes, in writing for the expressed benefit of Landlord, the obligations of Tenant under this Lease from and after the date of such sublease. In any circumstances in which Guarantor is released from liability or in which the Lease is divided into two (2) leases, Landlord agrees to execute an agreement confirming such release or division (or both) within ten (10) days after requested in writing to do so, although execution of such document will not be necessary for such release or division to be effective. Guarantor will at all times be entitled to assert as a defense to any obligation under this Guaranty that Tenant has a defense to the guaranteed obligation under the terms of the Lease.

9. GUARANTOR'S EXECUTION: Guarantor is executing this First Amendment for the purpose of confirming (i) that the execution and delivery of this First Amendment does not in any way terminate or limit Guarantor's obligations under the Guaranty and (ii) that the Lease Guaranty is amended as provided in Section 7 of this First Amendment.

10. MORTGAGEE'S EXECUTION: Mortgagee is executing this First Amendment for the purpose of evidencing its consent to and agreement that if Mortgagee becomes the Landlord under the Lease, Mortgagee will be bound by the terms and provisions of this First Amendment.

11. COUNTERPARTS: This Agreement may be executed in multiple counterparts, all of which, when taken together, will constitute one (1) original.

LANDLORD: OAKLAWN ALLIANCE, L.L.C.,
a Delaware limited liability company

By: /s/ Neil Rauenhorst

Name: Neil Rauenhorst

Title: President & CEO

Date of Signature: January 14, 2000

TENANT: ADS ALLIANCE DATA SYSTEMS, NC.,
a Delaware corporation

By: /s/ Dwayne H. Tucker

Name: Dwayne H. Tucker

Title: Senior Vice President

Date of Signature: 1/7/00

GUARANTOR: ALLIANCE DATA SYSTEMS CORPORATION, a Delaware corporation

By: /s/ Dwayne H. Tucker

Name: Dwayne H. Tucker

Title: Senior Vice President

Date of Signature: 1/7/00

MORTGAGEE: BANK OF AMERICA, N.A.,
a national banking association (successor to NationsBank, N.A.)

By: /s/ Charles S. Flint

Name: Charles S. Flint

Title: Senior Vice President

Date of Signature: 2/16/00
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18. EXPANSION OPTION.

(a) Landlord hereby covenants and agrees to construct the following buildings on the Land: (i) an office building and surrounding Common Areas (as that term is defined below) which is substantially similar to the Original Building, in the location specified on EXHIBIT "H" to this Lease (the "EXPANSION BASE BUILDING"), (ii) Tenant Improvements to the Expansion Base Building, subject to the terms of this SECTION 18 (the "EXPANSION LEASEHOLD IMPROVEMENTS"), and (iii) a 198-space parking garage, subject to the terms of this SECTION 18 (the "PARKING GARAGE"), which Parking Garage, as well as all of the other portions of the Common Areas, shall be used solely by the occupants of the Original Building and the Expansion Base Building, and their respective employees and guests. The Expansion Base Building and the Expansion Leasehold Improvements are collectively referred to as the "EXPANSION BUILDING" and the work of constructing the Expansion Building (including, without limitation, the Common Areas, as defined below) and the Parking Garage are referred to as "LANDLORD'S EXPANSION WORK."

(b) On or before January 10, 2000, Landlord will cause its architect to prepare and deliver to Tenant preliminary plans and specifications for the Expansion Base Building and the -Parking Garage (the "EXPANSION BASE BUILDING AND GARAGE PLANS"), which plans must be based on an exterior appearance substantially similar to the Original Base Building. While these preliminary plans and specifications are not required to be permit-ready, they must contain a site plan, floor plan, one-quarter inch (0.25") scale core building plans, elevations of the Expansion Base Building and the Parking Garage, and a riser diagram of the mechanical, electrical and plumbing systems. Within four (4) BUSINESS days after Tenant receives such preliminary Expansion Base Building and Garage Plans, Tenant will either approve the same in writing or notify Landlord in writing of Tenant's objections to the preliminary Expansion Base Building and Garage Plans and how the preliminary Expansion Base Building and Garage Plans must be changed in order to make them acceptable to Tenant. Each BUSINESS day following the fourth (4th) BUSINESS day after the preliminary Expansion Base Building and Garage Plans are submitted to Tenant until Tenant either approves them or delivers a notice of objections to Landlord will be a day of Tenant Expansion Delay. Within four (4) BUSINESS days after Landlord's receipt of Tenant's notice of objections, Landlord will cause its architect to prepare revised Expansion Base Building and Garage Plans in accordance with such notice and submit the revised Expansion Base Building and Garage Plans to Tenant. In any review, Tenant cannot object to any aspect of the proposed Expansion Base Building and Garage Plans (i) if such objection would require material deviations from the final plans for the Original Building, other than the following deviations: there will be one (1) loading dock instead of two (2) loading docks; the location of the trash area must be changed to a location designated by Tenant in order to accommodate the parking structure, and, at Tenant's election and, subject to Landlord being able to obtain all required permits and approvals from applicable governmental authorities,

Tenant may require that there be a permanent covered walkway between the Original Building or the Expansion Building and the Parking Garage, at a location designated by Tenant (Tenant hereby acknowledging that the design and construction of such covered walkways will need to be adjusted if located within any fire lane in order to accommodate the passage of emergency vehicles under the cover), or (ii) such objection was not included within any of the previous objections made by Tenant to the Expansion Base Building and Garage Plans unless the item objected to was not included in any of the previous versions of the Expansion Base Building and Garage Plans or such item was so included, but has been affected by a subsequent change to the Expansion Base Building and Garage Plans. However, it is understood and agreed that Tenant has the right to select the following items, even if such items are not consistent with the same items in the Original Building, as long as they are available to comply with the schedule for construction of the Expansion Building and the Parking Garage: restroom finishes (including, without limitation, ceramic tile and toilet partitions); lobby finishes; elevator cab finishes; landscaping; and common area interior finishes, doors and hardware. Upon submission to Tenant of the revised Expansion Base Building and Garage Plans, and upon submission of any further revisions, the procedures described above will be repeated until Landlord and Tenant have reached agreement. Once they have reached agreement, Landlord must promptly prepare permit-ready Expansion Base Building and Garage Plans and submit them to Tenant for Tenant's approval. The only grounds upon which Tenant can object to such permit-ready Expansion Base Building and Garage Plans is that they materially differ from the final approved preliminary Expansion Base Building and Garage Plans. Tenant's failure to respond to Landlord's submission within four (4) BUSINESS days after Landlord delivers such permit-ready Expansion Base Building and Garage Plans to Tenant constitutes Tenant's approval of such permit-ready Expansion Base Building and Garage Plans. The final permit-ready Expansion Base Building and Garage Plans, as approved by Landlord and Tenant, constitute the "APPROVED EXPANSION BASE BUILDING AND GARAGE PLANS" under this Lease. Each day following February 15, 2000 (as extended by one day for each day of Expansion Deadline Extension), that the Approved Expansion Base Building and Garage Plans have not been approved by Landlord and Tenant for any reason other than Landlord's failure to perform or respond as required by this SECTION 18(b) shall constitute an "EXPANSION PLAN APPROVAL DELAY". Each day that Landlord does not perform or respond as required by this SECTION 18(b) will extend the February 15, 2000 deadline by one (1) day and will constitute a day of "EXPANSION DEADLINE EXTENSION".

(c) On or before March 1, 2000, Tenant will cause its architect to prepare and deliver to Landlord preliminary plans and specifications for the Expansion Leasehold Improvements (the "EXPANSION LEASEHOLD IMPROVEMENTS PLANS"). While these preliminary plans and specifications are not required to be permit-ready, they must show sufficient detail concerning all aspects of the Expansion Leasehold Improvements so that making them permit-ready is only a matter of incorporating technical details. Each day following March 1, 2000 until Tenant delivers the preliminary Expansion Leasehold Improvements Plans will be a day of Tenant Expansion Delay. Within four (4) BUSINESS days after receipt of the

preliminary Expansion Leasehold Improvements Plans, Landlord will either approve the same in writing or notify Tenant in writing of Landlord's objections to the preliminary Expansion Leasehold Improvements Plans and how the preliminary Expansion Leasehold Improvements Plans must be changed in order to make them acceptable to Landlord. Landlord can only object to the preliminary Expansion Leasehold Improvements Plans on the grounds that they would adversely affect the structural integrity of the Expansion Base Building or materially modify any portion of the Core Building Systems of the Expansion Base Building and cannot object in any subsequent review to any matter not raised in a preceding review, unless the item objected to was not included in any of the previous versions of the Expansion Leasehold Improvements Plans or such item was so included, but has been affected by a subsequent change to the Expansion Leasehold Improvements Plans. However, under all circumstances, Tenant has the right to select the following items as they apply to the Expansion Leasehold Improvements, but only as long as such items are available to comply with the schedule of construction of the Expansion Building: restroom finishes (including, without limitation, ceramic tile and toilet partitions); lobby finishes; elevator cab finishes; landscaping; and common area interior finishes, doors and hardware. If Landlord fails to respond in the manner set forth above within four (4) BUSINESS days after the date Tenant delivers the preliminary Expansion Leasehold Improvements Plans to Landlord or objects to the preliminary Expansion Leasehold Improvements Plans on any grounds other than those set forth in the immediately-preceding sentence, then Landlord will be conclusively deemed to have approved the preliminary Expansion Leasehold Improvements Plans. Within four (4) BUSINESS days after Tenant's receipt of Landlord's notice of objections (if such objections meet the requirements set forth above), Tenant will cause its architect to prepare revised Expansion Leasehold Improvements Plans according to such notice and submit the revised Expansion Leasehold Improvements Plans to Landlord. Upon submission to Landlord of the revised Expansion Leasehold Improvements Plans, and upon submission of any further revisions, the procedure& described above will be repeated until Landlord and Tenant have reached agreement. Once they have reached agreement, Tenant must promptly prepare permit-ready Expansion Leasehold Improvements Plans and submit them to Landlord for Landlord's approval. The only grounds upon which Landlord can object to such permit-ready Expansion Leasehold Improvements Plans is that they materially differ from the final approved Expansion Leasehold Improvements Plans. Landlord's failure to respond to Tenant's submissions within four (4) BUSINESS days after Tenant delivers such permit-ready Expansion Leasehold Improvements Plans to Landlord constitutes Landlord's approval of such permit-ready Expansion Leasehold Improvements Plans. The permit-ready Expansion Leasehold Improvements Plans, as finally approved, are referred to in this Lease as the "APPROVED EXPANSION LEASEHOLD IMPROVEMENTS PLANS." Each day following March 15, 2000 (extended one (1) day for each day of Expansion Deadline Extension), that the Approved Extension Leasehold Improvement Plans have not been approved by Landlord and Tenant for any reason other than Landlord's failure to perform or respond as required by this SECTION 18(c) shall constitute an Extension Plan Approval Delay. Each day Landlord does not perform or respond as required by this SECTION 18(c) will constitute a day of Expansion Deadline Extension.

(d) At such time as Landlord and Tenant have approved the Approved Expansion Base Building and Garage Plans and the Approved Expansion Leasehold Improvements Plans (and in any event within ten (10) days thereafter), Landlord will (i) obtain at least three bids for each of the major trades that will be involved in the construction of the Parking Garage and the Leasehold Improvements, unless less than three qualified subcontractors exist for a given trade, in which case Landlord will obtain a bid from all qualified subcontractors of such trade (with Landlord agreeing to solicit and consider bids from qualified subcontractors selected by Tenant); (ii) using the lowest qualified bid (which, in order to be qualified, must fully comply with all bid requirements, including but not limited to any time requirements specified) from each of the bids so received, prepare a proposed budget for all items to be included in Expansion Costs ("TENANT'S EXPANSION COST PROPOSAL"); and (iii) submit copies of all bids and the Tenant's Expansion Cost Proposal to Tenant for Tenant's review and approval. Tenant, at Tenant's option, may either approve Tenant's Expansion Cost Proposal in writing, or elect to eliminate or revise one or more items of the Parking Garage and the Expansion Leasehold Improvements shown on the Approved Expansion Base Building and Garage Plans or the Approved Expansion Leasehold Improvements Plans, or request additional bids so as to reduce the costs shown in the Tenant's Expansion Cost Proposal. Tenant may then approve in writing the reduced Tenant's Expansion Cost Proposal (based on revised Approved Expansion Base Building and Garage Plans or Approved Expansion Leasehold Improvements Plans prepared by Tenant's architect or revised bids, as the case may be, which will then be deemed the Approved Expansion Base Building and Garage Plans and the Approved Expansion Leasehold Improvements Plans for all purposes under this Lease). However, each day following the fourth (4th) BUSINESS day after Tenant's receipt of Tenant's Expansion Cost Proposal until the day on which Landlord has received Tenant's written approval of Tenant's Expansion Cost Proposal will be a day of Tenant Expansion Delay. The Tenant's Expansion Cost Proposal, as finally approved, is referred to in this Lease as the "APPROVED EXPANSION COSTS."

(e) Tenant's Representative may request and authorize changes in the Parking Garage and the Expansion Leasehold Improvements as long as such changes (i) are consistent with the scope of Landlord's Expansion Work, and (ii) do not affect any portion of the Core Building Systems relating to the Expansion Base Building. All other changes will be subject to Landlord's prior written approval, which approval Landlord cannot unreasonably withhold, delay, or condition. If Tenant wishes to request such a change to the Parking Garage or the Expansion Leasehold Improvements, then Tenant must deliver to Landlord written notice of the requested change and within four (4) BUSINESS days after Tenant delivers such request to Landlord and prior to commencing any change, Landlord will prepare and deliver to Tenant, for Tenant's approval, a change order ("EXPANSION CHANGE ORDER") identifying the total cost or savings of such change, which will include associated architectural, engineering and construction contractor's fees, and the total time that will be added to or subtracted from the construction schedule by such change. Once Landlord delivers an Expansion Change Order to Tenant for Tenant's approval, Tenant must either affirmatively approve or disapprove of the Expansion Change Order within three (3) BUSINESS days following Tenant's receipt of the

Expansion Change Order. In the event Tenant fails to respond within the three (3) BUSINESS day period, then each day thereafter that Tenant fails to respond shall be a Tenant Expansion Delay. Alternatively, Landlord may deliver to Tenant, within the same four (4) BUSINESS day period, an estimate of the time and costs to be expended in calculating the Expansion Change Order. In the event Tenant does not respond or fails to affirmatively authorize Landlord to proceed on the third (3rd) BUSINESS day following Tenant's receipt of such estimate, then it shall be conclusively deemed that Tenant withdrew its request for such change in the Parking Garage or the Expansion Leasehold Improvements. If Tenant authorizes Landlord to proceed with calculating the cost of the Expansion Change Order, then Tenant shall be responsible for all reasonable costs associated therewith (and pay same to Landlord within 30 days following Landlord's written request) and any reasonable delay in connection with such calculation shall be an Tenant Expansion Delay, whether or not Tenant ultimately approves the Expansion Change Order.

(f) Landlord must deliver the Expansion Building to Tenant, with Landlord's Expansion Work Substantially Completed, on or before October 11, 2000 (the "PROJECTED EXPANSION COMPLETION DATE"), as such date has been delayed due to any Tenant Expansion Delays, Expansion Plan Approval Delays and Permitted Expansion Force Majeure Delays only, it being understood and agreed that such date cannot be extended for any reason other than Tenant Expansion Delays, Expansion Plan Approval Delays and Permitted Expansion Force Majeure Delays. If Landlord fails to deliver possession of the Expansion Building and Parking Garage, with Landlord's Expansion Work Substantially Completed by the Projected Expansion Completion Date, as it may be extended, (i) the Expansion Commencement Date (as that term is defined in SECTION 18(j)(I) below) will be extended automatically by one day for each day of the period after the Projected Expansion Completion Date to the day on which Landlord tenders possession of the Expansion Building and Parking Garage to Tenant with Landlord's Expansion Work Substantially Completed, less any portion of that period attributable to Tenant Expansion Delays; and (ii) Landlord will pay Tenant, as liquidated damages, an amount equal to $250,000.00 per month (pro-rated and payable on a weekly basis beginning on the day after the Projected Expansion Completion Date, as it may be extended, so that a delay for a partial week will constitute a delay for an entire week) for each day after such Projected Expansion Completion Date (as it may be extended) until Landlord tenders possession of the Expansion Building and Parking Garage to Tenant with Landlord's Expansion Work Substantially Completed; provided, however, that in no event can such liquidated damages exceed a total of $250,000.00, and (iii) if Landlord has tendered the Expansion Building and Parking Garage to Tenant with Landlord's Expansion Work Substantially Completed, Landlord will pay to Tenant, as liquidated damages, $500.00 per day after the forty-fifth (45th) day (which date shall be extended due to force majeure provided that Landlord diligently prosecutes the completion of the Expansion Punch List) after Tenant delivers the Expansion Punch List to Landlord until Final Completion of Landlord's Expansion Work; and (iv) if Landlord does not tender possession of the Expansion Building and Parking Garage to Tenant with the Landlord's Expansion Work Substantially Completed on or before sixty (60) days after the Projected Expansion Completion Date (as it may be extended), Tenant

will have the right to terminate this Lease, as to the Expansion Building only (and any rights and obligations respecting the Parking Garage which are incidental to the Expansion Building), by delivering written notice of termination to Landlord not more than thirty (30) days after such deadline date. Upon a termination under clause "(iv)" above, each party will, upon the other's request, execute and deliver an agreement in recordable form containing a release and surrender of all right, title and interest in and to this Lease as to the Expansion Building only; neither Landlord nor Tenant will have any further obligations to each other, including, without limitation, any obligations on Tenant's part to pay for work previously performed in the Expansion Building and Parking Garage, except as set forth in this sentence; all Improvements to the Expansion Building will become and remain the property of Landlord; and Landlord will refund to Tenant any sums paid to Landlord by Tenant in connection with this Lease relating to the EXPANSION BUILDING AND PARKING GARAGE ONLY, including, without limitation, any payments to Landlord of portions of Tenant's Expansion Cost and pay to Tenant the amounts that have accrued under clause "(ii)" above. Such postponement of the Expansion Commencement Date, payment of liquidated damages and termination and refund right will be in full settlement of all claims that Tenant might otherwise have against Landlord by reason of Landlord's failure to have Substantially Completed its obligations by the Projected Expansion Completion Date (as it may be extended). If Landlord delivers possession of the Expansion Building and Parking Garage with the Landlord's Expansion Work Substantially Completed prior to the Projected Expansion Completion Date, then Tenant may either accept such delivery (in which case such date will be the Expansion Commencement Date hereunder) or may refuse to accept delivery until any date selected by Tenant that is no later than the Projected Expansion Completion Date (as it may be extended). Within sixty (60) days after the Expansion Commencement Date, Landlord will provide to Tenant a complete set of as-built drawings of Landlord's Expansion Work and manuals for all equipment incorporated into the Improvements as a part of Landlord's Expansion Work. Landlord and Tenant have sixty (60) days after Landlord notifies Tenant that The Expansion Building has been Substantially Completed in which to remeasure the Expansion Building, but after the expiration of such sixty (60) day period, neither Landlord nor Tenant may remeasure the Expansion Building. The final Rentable Square Feet as shown in the Approved Expansion Base Building Plans are sometimes referred to as the "APPROVED EXPANSION RENTABLE SQUARE FEET." In the absence of such remeasurement or the right to do so, it shall be conclusively deemed that the Expansion Building contains the Approved Expansion Rentable Square Feet. If Tenant timely elects to remeasure the Expansion Building, and the variance is greater than one percent (1%) but less than two percent (2%), the variance shall be permitted and have no effect on the Expansion Building being Substantially Completed, but the Expansion Basic Rent for the Expansion Building and all other amounts calculated based on the area of the Expansion Building will be modified accordingly. If the Expansion Building contains more than 102% of the Approved Expansion Rentable Square Feet, all amounts will be calculated as if the Expansion Building contains 102% of the Approved Expansion Rentable Square Feet. If the Expansion Building contains less than 98% of the Approved Expansion Rentable Square Feet, then Landlord must make all alterations necessary to increase the size of the Expansion Building to at least 98% of the Approved Expansion Rentable Square Feet, and the Expansion Building will not be

deemed to be Substantially Completed until Landlord does so. If Landlord fails to do so and Tenant fails to terminate this Lease pursuant to the termination right set forth in SECTION 18(f)(iv) above, then Tenant will be deemed to have accepted the size of the Expansion Building and the Expansion Building will be deemed to have been Substantially Completed on the day Landlord delivered the Expansion Building to Tenant with the Landlord's Expansion Work (other than the area of the Expansion Building) Substantially Complete. In such event, all amounts Will be calculated on the actual size of the Expansion Building.

(g) As provided in SECTION 18(j)(I), the Expansion Commencement Date (and therefore Tenant's obligation for the payment of Expansion Basic Rent) will not commence until Landlord has Substantially Completed Landlord's Expansion Work; provided, however, that if Landlord is delayed in causing Landlord's Expansion Work to be Substantially Completed as a result of: (a) any Expansion Approval Delays, (b) any Change Orders or changes in any drawings, plans or specifications requested by Tenant (with each individual occurrence constituting a "TENANT EXPANSION DELAY" and the cumulative occurrences constituting "TENANT EXPANSION DELAYS"), or (c) force majeure delays (with such force majeure delays being referred to in this Lease as "PERMITTED EXPANSION FORCE MAJEURE DELAYS"), then, if such delays exceed ten (10) days, the Expansion Commencement Date will only be extended under SECTION 18(f) until the date on which Landlord would have Substantially Completed the performance of such work but for such delays. As a condition to claiming a Permitted Expansion Force Majeure Delay or a Tenant Expansion Delay, the day of delay must have otherwise been a day upon which Landlord intended to work on the item affected by the delay and was prevented from doing so by such force majeure and Landlord must advise Tenant of the circumstances giving rise to the claim within ten (10) BUSINESS days after they arise, the estimated cost that Tenant can pay as that time to effect any available remedy to eliminate or reduce such delay (for example, overtime work), the cumulative total number of Permitted Expansion Force Majeure Delays and Tenant Expansion Delays through the date of each event.

(h) Landlord must perform the Landlord's Expansion Work in substantial accordance with the Approved Expansion Base Building and Garage Plans and the Approved Expansion Leasehold Improvements Plans and in a good and workmanlike manner, using new materials, and in accordance with all applicable laws, ordinances, rules, and regulations, including without limitation, ADA and the Texas Accessibility Act (as they exist and are interpreted and enforced at the time) and all applicable environmental laws as interpreted and enforced by the governmental bodies having jurisdiction thereof at the time of construction. Tenant's taking possession of any portion of the Expansion Building will be conclusive evidence that such portion of the Expansion Building was in good order and satisfactory condition, and that all of Landlord's Expansion Work in or to such portion of the Expansion Building was Substantially Completed, when Tenant took possession, except as to any patent defects or uncompleted items in the Expansion Building (including, without limitation, the Common Areas, including all landscaped) and the Parking Garage identified on a punch list (the "EXPANSION PUNCH LIST") prepared by Tenant's Representative after an inspection of the Expansion Building (including, without limitation, the Common Areas, including all

landscaped areas) and the Parking Garage by both Tenant's Representative and Landlord's Representative (unless Landlord's Representative fails to attend an inspection scheduled by Tenant's Representative, with Tenant acknowledging that Tenant's Representative must cooperate with Landlord's Representative in attempting to establish a mutually-acceptable date and time of inspection) made within thirty (30) days after Tenant takes possession, and except as to any latent defects in Landlord's Expansion Work. Landlord will not be responsible for any items of damage caused by Tenant, its agents, independent contractors or suppliers. No promises to construct, alter, remodel or improve the Expansion Building, and no representations concerning the condition of the Expansion Building, have been made by Landlord to Tenant other than as may be expressly stated in this Lease.

(i) Landlord appoints Landlord's Representative to act for Landlord in all matters covered by this SECTION 18. Tenant appoints Tenant's Representative to act for Tenant in all matters covered by this SECTION 18. All inquiries, requests, instructions, authorizations and other communications with respect to the matters covered by this SECTION 18 will be made to Landlord's Representative or Tenant's Representative, as the case may be. Tenant will not make any inquiries of or requests to, and will not give any instructions or authorizations to, any other employee or agent of Landlord, including Landlord's architect, engineers and contractors or any of their agents or employees, with regard to matters covered by this SECTION 18. Either party may change its representative at any time by three days' prior written notice to the other party. Landlord and Tenant acknowledge that they must work together cooperatively in order to design the Expansion Building and the Parking Garage and therefore agree to act reasonably and in good faith in such design process

(j) Upon Tenant's approval of the Tenant's Expansion Cost Proposal, this Lease will automatically be amended as follows (with Landlord and Tenant each agreeing to execute a written agreement confirming these amendments upon delivery of such an amendment to such party by the other party):

(I) The Term of this Lease will be extended so that it ends on the day before the tenth (10th) anniversary of the date of Substantial Completion of the Expansion Building and the Parking Garage (the "EXPANSION COMMENCEMENT DATE"). The options to extend the Term of this Lease granted in SECTION 2.5 above will remain in full force and effect and may be exercised at the end of the Term of this Lease, as so extended, subject to the notice and other requirements of SECTION 2.5. Any exercise of the option to extend will apply to and include both the Original Building and the Expansion Building as well as the continuing rights relating to the Parking Garage, unless the Original Building and the Expansion Building have been divided into two (2) leases, as contemplated by the terms of ARTICLE 19 below, in which case each tenant of each such building may exercise or not exercise the options to extend as to its own building. Notwithstanding the foregoing, Tenant may, at any time after the end of the seventh (7th) anniversary of the Expansion Commencement Date, terminate this Lease AS TO THE EXPANSION BUILDING ONLY (and any rights and obligations respecting the surface parking areas and the Parking Garage incidental to the Expansion Building) by giving Landlord written notice of such decision to terminate, which notice must specify a termination date

(the "TERMINATION DATE") no earlier than nine (9) months after the date of such notice and must be accompanied by a payment equal to nine (9) months of Expansion Base Rent (the "TERMINATION PENALTY"), which amount is not a prepayment of rent, it being understood and agreed that Tenant must continue to pay Expansion Base Rent through the Termination Date. On the Termination Date, (i) Tenant must pay to Landlord an amount equal to the unamortized portion of any brokerage commission paid by Landlord in connection with the Expansion Building and one-half (1/2) of the unamortized portion of the cost of the Expansion Leasehold Improvements for which Landlord paid and was not reimbursed by Tenant, it being understood and agreed that the amortization period is ten (10) years, and (ii) Landlord must refund to Tenant any amounts Tenant has paid for periods after the Termination Date and must pay to Tenant any other amounts that might be due from Landlord to Tenant. The parties may offset these amounts instead of exchanging checks. From and after the Termination Date, Landlord and Tenant will have no obligation to each other concerning the Expansion Building (and any rights or obligations respecting the surface parking areas and the Parking Garage which are incidental to the Expansion Building) or the Parking Garage, except for obligations which arose before or on the Termination Date and except for the obligations which accrue to Tenant as the tenant of the Original Building.

(II) The Basic Rent will be as follows:

(A) for the Original Building, the Original Basic Rent will be the same as provided in SECTION 4.1 above for the number of years which represents the balance of the Original Term as defined in SECTION 1.1 above. Thereafter, the Original Basic Rent will increase on the first day after the original expiration date of the Original Term to an amount equal to one hundred twelve and one-half percent (112.5%) of the Original Basic Rent in effect for the immediately preceding period. For example, if the Original Basic Rent were $128,244.62 per month, then for the period beginning on the day after the original expiration date of the Original Term and extending through the then-existing initial term, the Basic Rent would be $144,275.19.

(B) for the Expansion Building, the monthly rent (the "EXPANSION BASIC RENT") will be equal to the amount determined by multiplying the amount specified below by the number of Rentable Square Feet in the Expansion Building (subject to the terms of SECTION 18(f) above) and then dividing the result thus obtained by twelve (12):

Months 1 through and including 60:	$11.88
Months 61 through and including the end of the primary term:	$13.30

(III) To require that within ninety (90) days after the Final Completion of the Expansion Building and the Parking Garage, Landlord must prepare and deliver to Tenant a package (the "COST INFORMATION PACKAGE") containing all of the following (a)

a statement setting forth the actual cost of the Parking Garage and the actual cost of the Expansion Leasehold Improvements, (b) reasonable supporting documentation evidencing the amounts set forth in the statement of actual costs, and (c) a calculation of the Amortization Increase Amount. If Landlord does not send the Cost Information Package to Tenant within such ninety (90) day period, then Landlord will conclusively be deemed to have waived its right to claim that it should be reimbursed for any excess of the actual cost of the Parking Garage and the Expansion Leasehold Improvements over the Expansion Allowance.

(A) If the Cost Information Package shows that the actual cost of the Parking Garage and the Expansion Leasehold Improvements was less than the Expansion Allowance, then Landlord must deliver payment of the excess of the Expansion Allowance over the actual cost of the Parking Garage and the Expansion Leasehold Improvements at the same time as Landlord delivers the Cost Information Package to Tenant.

(B) If the Cost Information Package shows that the actual cost of the Parking Garage and the Expansion Leasehold Improvements was greater than the Expansion Allowance, then (i) as to the Parking Garage, Tenant must deliver to Landlord an amount equal to the lesser of (a) the amount by which the cost of the Parking Garage exceeded the Parking Garage Allowance, or (b) the amount by which the total cost of the Parking Garage and the Leasehold Improvements exceeded the Expansion Allowance, and (ii) as to the excess, if any, of the payment made under "(i)" above, over the total amount by which the cost of the Parking Garage and the Leasehold Improvements exceeded the Expansion Allowance, Tenant must deliver to Landlord a written notice (such notice is referred to as "TENANT'S ELECTION NOTICE") that (i) Tenant has elected to pay such excess amount to Landlord, which notice must be accompanied by a payment of such amount, or (ii) that Tenant has elected to increase the Basic Rent for the Expansion Building by the Amortization Increase Amount and to pay the unamortized portion of any such excess to Landlord, which notice must be accompanied by a payment of such unamortized amount.

Tenant is entitled at any time, upon five (5) days written notice to Landlord, to investigate Landlord's books and records concerning the Expansion Building (including, without limitation, the Expansion Leasehold Improvements) and the Parking Garage and Landlord's calculation of the Amortization Increase Amount. If Tenant's investigation shows that any such amounts or calculations in the Cost Information Package were incorrect, then Tenant may notify Landlord of such fact and if Landlord would have owed Tenant any amount under this Lease had the corrected amount or calculation been included in the original Cost Information Package or if the amount of the Amortized Amount or the Amortization Increase Amount would have been less haft the correct amount been included in the Cost Information Package, then

Landlord must deliver to Tenant the amount which Landlord underpaid to Tenant or the amount Tenant overpaid to Landlord, or both, as the case may be, plus, but only if the amount which Landlord underpaid to Tenant is more than five percent (5%) of The total amount owed by Landlord to Tenant, the reasonable costs and expenses of such investigation (not to exceed $1,000) within thirty (30) days after Tenant delivers notice to Landlord of the results of Tenant's investigation.

EXHIBIT "B"

FIRST AMENDMENT TO MEMORANDUM OF LEASE

This First Amendment to Memorandum of Lease (this "FIRST AMENDMENT") is dated as of January___, 2000 and is by and between Oaklawn Alliance L.L.C., a Delaware limited liability company ("LANDLORD") and ADS Alliance Data Systems, Inc., a Delaware corporation ("TENANT").

RECITALS

A. On January 29, 1998, Opus South Corporation, a Florida corporation ("OPUS") and Tenant entered into that certain Build-to-Suit Net Lease (the "LEASE")covering the property described on EXHIBIT A attached to and made a part of this First Amendment for all purposes (the "PROPERTY").

B. On January 30, 1998, a Memorandum of Lease was recorded in Volume 4091, Page 1447 of the real property records of Collin County, Texas.

C. On December 3, 1998, Opus transferred the Property and the Lease to Landlord.

D. Tenant has exercised the Expansion Option referenced in the Lease and the Memorandum of Lease and Landlord and Tenant have entered into that certain First Amendment to Build-to-Suit Net Lease (the "FIRST LEASE AMENDMENT") evidencing their agreement concerning such exercise. The purpose of this First Amendment is to give notice of such amendment of the Lease.

INFORMATION

5. PRIMARY TERM: The Primary Term of the Lease has been changed so that it ends on the day before the tenth (10th anniversary of the date of Substantial Completion of the Expansion Building and the Parking Garage (as those terms are defined in the First Lease Amendment).

6. NOTICE AND INTERPRETATION: Tenant and Landlord wish to record this First Amendment in order to evidence the existence of the First Lease Amendment. This First Amendment is not a complete summary of the First Lease Amendment, all of the terms, covenants, and conditions of which are made apart of this First Amendment as though fully set forth in this First Amendment. This First Amendment is not intended to amend, modify, or otherwise change the terms and conditions of the Lease, as amended by the First Lease Amendment. In the event of a conflict between this First Amendment and the Lease, as amended by the First Lease Amendment, the Lease, as so amended, controls.

LANDLORD:	TENANT:
OAKLAWN ALLIANCE, L.L.C., a Delaware limited liability company	ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____
	And
	By: _____
	Name: _____
	Title: _____

STATE OF)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 2000 by_____, _____ of Oaklawn Alliance, L.L.C., a Delaware limited liability company.

Witness my hand and official seal.

Notary Public
_____
My commission expires:
_____

STATE OF)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of_____, 2000 by _____ as _____ and _____ as _____ of ADS Alliance Data Systems, Inc., a Delaware corporation.

Witness my hand and official seal.

Notary Public
_____

My commission expires:
_____

EXHIBIT A

LEGAL DESCRIPTION OF THE LAND

BEING a parcel or tract of land situated in the City of Dallas, Collin County, Texas, and being pad of the John Clay Survey, Abstract 223, and being pad of Phase I, U.T.D. Synergy Park, an Industrial Addition to the City of Dallas, filed for record in Cabinet F, Page 483 and 484 of the Deed Records of Collin County, Texas; and being pad of the tract of land conveyed to the Board of Regents, the University of Texas System as recorded in Volume 835, Page 713 of the Deed Records of Collin County, Texas, and being more particularly described as follows:

BEGINNING at an Iron rod on the west right of way line of Waterview Parkway (120 feet wide) and the northeast corner of the Smith/Allen Matuschka - One Tract and the southEAST corner of the herein described tract;

THENCE South 90 degrees 00 minutes 00 seconds West a distance of 700.39 feet following the north line of the Smith/Allen Matuschka - One tract to an iron rod found for corner, said iron rod being in the easterly line of Texas A & M University System tract;

THENCE North 00 degrees 12 minutes 12 seconds West a distance of 642.68 feet following the east line of the Texas A & M System tract to the intersection with the southwest corner of the Intervoice tract and an iron rod found for corner;

THENCE North 90 degrees 00 minutes 00 seconds East a distance of 700.39 feet following the south line of the Intervoice tract to an iron rod found for corner in the westerly right of way line of Waterview Parkway, said point being the southeast corner of the Intervoice tract;

THENCE South 00 degrees 12 minutes 12 seconds East, a distance of 642.68 feet following the westerly right of way line of Waterview Parkway to the Point of Beginning and containing 450,125 square feet or 10.3334 acres, more or less.

EXHIBIT "H"

[Description to come]

EXHIBIT 10.47

ALLIANCE DATA SYSTEMS, INC.
RETAINER AGREEMENT
[CUSTOMER]-FALL [YEAR] SEASON

The following represents the proposed Retainer Agreement (the "Agreement") between Alliance Data Systems, Inc. ("Alliance Data") and [CUSTOMER] ("Customer") for the Fall [YEAR] season, consisting of [AUGUST _____ THROUGH JANUARY _____]. Customer and Alliance Data have agreed that Alliance Data will execute certain database marketing programs defined below during the Fall [YEAR] Season for the benefit of Customer.

ANALYTICAL RESOURCES PROVIDED BY ALLIANCE DATA

As part of the Agreement, Alliance Data commits to providing the following resources as an Account Team to Customer during the Fall [YEAR] season:

Account Manager	100%
Senior Analyst	100%
Analyst	100%
Analyst	100%
Analyst	50%

SERVICES INCLUDED IN THE RETAINER FEE

- - Strategic and tactical consulting
- - Database program development, implementation, analysis, and management
- - Segmentation model building using CHAID techniques
- - Coordination of database programs with Alliance Data MIS, Credit Marketing Projects Group, and Portfolio, plus Epsilon and outside vendors (as defined in programs)
- - Account administration, including billing, budgeting, maintenance of account documentation, and ad-hoc pricing
- - Data processing (tape production, CPU time)

SERVICES INCLUDED IN THE RETAINER FEE (CONTINUED)

- - Flexibility Clause:
  In an effort to be responsive to Customer's changing business needs, the Alliance Data Account Team can work on new, higher priority projects outside of those described in this Agreement below as a trade to existing, lower priority projects. Or, Customer can request additional Analysts be added to the team to support the extra projects with 30 days notice. Alliance Data will propose the experience level of the Analyst to be added and the increase in retainer fee.

SERVICES EXCLUDED FROM THE RETAINER FEE

OTHER ALLIANCE DATA AGREEMENTS

- - Fixed cost of the database updates and maintenance
- - Credit program services provided by Alliance Data's Credit Marketing Projects Group, except for the execution of standard Gold upgrades.

ADDITIONAL PRODUCTS AND SERVICES

These products and services can be purchased at Customer's request.

- - Alliance Data's Portrait TM consumer profile product
- - Demographic and Lifestyle overlays of the Customer subset
- - Building statistical models (utilizing regression or neural network modeling techniques), outside those proposed below.
- - Execution of surveys and tabulation of results
- - Prospecting list acquisition and processing expenses
- - Insert coordination

DATABASE MARKETING FALL [YEAR] PROGRAMS

Exhibit 1 illustrates the Database marketing programs scheduled to be performed by Alliance Data for Customer during the Fall [YEAR] season as part of this Agreement.

RETAINER FEE FOR THE FALL [YEAR] SEASON

Alliance Data's charge for the retainer team of one account manager, one senior analyst, plus two and a half analysts is $_____. Alliance Data will bill Customer the base fee of $_____ on the 15th of each month beginning August 15, _____ through December 15, _____, with the sixth and final bill to be submitted on January 15, _____ totaling $_____. Payment is due within thirty (30) days of the invoice date.

EFFECTIVE DATES

Upon receipt of written sign off below, Alliance Data will assign an a account team to be retained by Customer for the Fall season from August ___, _____ through January ___, _____. A renewal retainer proposal for the Spring _____ Season will be submitted to Customer by _____.

CUSTOMER

Date:

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

(Vice President Marketing)

Date:

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

(Chief Financial Officer)

ALLIANCE DATA SYSTEMS

Date:

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

(Director, Database Marketing Analysis & Modeling)

[CUSTOMER] FALL [YEAR]
SAMPLE DATABASE MARKETING PROGRAMS

PROGRAM	TIMING	TYPE	CIRCULATION
DIRECT MAIL			
Fall Preview Private Sale	8/22-23	Strategy, Selection, Analysis	TBD
Venezia Event	8/29-31	Strategy, Selection, Analysis	TBD
One Day Sale	9/20-21	Strategy, Selection, Analysis	TBD
Fall Sale	10/11	Strategy, Selection, Analysis	TBD
Fashion Mailer (#1) Test	10/24-25	Strategy, Selection, Analysis	TBD
Private Sale	11/15	Strategy, Selection, Analysis	TBD
Fashion Mailer (#2) Test	11/28-29	Strategy, Selection, Analysis	TBD
Two Day Sale	12/12-13		TBD
Repetitive Fashion Test	9/20-21, 10/11, 11/15, & 12/12-13	Strategy, Selection, Analysis	TBD
New Store Announcements	August - January	Tape Selections (11)	TBD
CREDIT *			
$0 Balance Newsletter (#1)	August	Strategy, Database Tape Selection, Analysis	TBD
Merchandise Insert	October	Analysis	TBD
Gold Upgrade (Welcome Kit)	October	Database Tape Selection	TBD
Miss You / Thank You	October	Strategy, Selection, Analysis	TBD
$0 Balance Newsletter (#2)	November	Strategy, Database Tape Selection, Analysis	TBD
Holiday Card Insert	December	Analysis	TBD
OTHER			
Season Strategic Planning			
Trend Reports Qualitative Analysis	October		
Quarterly Business Analysis	August, November		
Season Results Recap	September		
Competitive Data	On-going		
Develop Incremental Sales Model	October-November		

* Database marketing retainer does NOT cover Alliance Data Credit Marketing Projects Group's support of Credit related programs. Credit Marketing Projects' services for credit systems coordination, quality checking program implementation will be covered under a separate agreement.

Exhibit 10.48

BUSINESS SOLUTIONS MASTER AGREEMENT

BETWEEN

AND

ADS ALLIANCE DATA SYSTEMS, INC.

BUSINESS SOLUTIONS MASTER AGREEMENT

TABLE OF CONTENTS

SCHEDULES:

BUSINESS SOLUTIONS MASTER AGREEMENT

This Business Solutions Master Agreement (the "Agreement") dated the _____ day of _____, 1999 between ADS Alliance Data Systems, Inc. ("ADS"), a Delaware Corporation, with an office at 800 TechCenter Drive, Gahanna, Ohio 43230 and _____ ("Customer"), a _____ Corporation, with its principal executive office at _____.

W I T N E S S E T H:

WHEREAS, Customer wishes to utilize ADS' database marketing and consulting ("Business Solutions") services for the benefit of Customer's retail business; and

WHEREAS, ADS desires to provide such Business Solutions services to Customer, as Customer may request from time to time:

NOW, THEREFORE, in consideration of the mutual covenants herein contained, ADS and Customer agree as follows:

1. DEFINITIONS. Capitalized terms in this Agreement shall have that meaning set forth on Schedule 1, unless the context dictates otherwise.

2. SERVICES.

2.1 PROJECT SCHEDULES. Customer may from time to time request that ADS provide certain Business Solutions services to Customer. Each time Customer requests services from ADS, Customer and ADS shall execute a project schedule describing the services (the "Services") to be provided by ADS, in a form similar to the Sample Project Schedule set forth in Schedule 2 (each referred to herein as a "Project Schedule" and referred to collectively herein as the "Project Schedules"). ADS will provide to Customer the Services described in each Project Schedule executed, from time to time, by the Parties pursuant to this Agreement. Each Project Schedule shall set forth therein all of the specific services to be provided by ADS and the terms, conditions and fees relating to such Services and shall incorporate the terms and provisions of this Agreement by reference. Unless a Project Schedule expressly provides otherwise, it shall be governed by the terms and conditions described herein. In the event of a conflict between the provisions of this Agreement and a Project Schedule, the terms of the Project Schedule shall prevail.

2.2 CHANGES TO SERVICES. In the event Customer desires any changes or additions to the Services, Customer will provide ADS with written notice of such request and ADS will advise Customer within five (5) Business Days for existing services and ten (10) Business Days for new developmental services whether or not ADS will develop and implement such changes and/or additions, and if so, the estimated costs and time frame for such development and implementation, as well as any

fees or charges for such changes or additions. Customer shall then advise ADS in writing whether or not to proceed with such changes or additions.

2.3 USE OF SUBCONTRACTORS. ADS may, with Customer's prior written consent which shall not be unreasonably withheld, subcontract portions of the Services from time to time throughout the Term of this Agreement.

2.4 EXCLUSIVITY/RIGHT OF FIRST REFUSAL AND SERVICING OF NEW BUSINESS. During the Term of this Agreement, ADS will have the right of first refusal for any new database marketing and customer relationship management services desired by Customer, before Customer engages any third party to perform such services.

3. COMMENCEMENT DATE AND IMPLEMENTATION. ADS shall use its best efforts to provide the Services to Customer according to the implementation schedule set forth in the Project Schedule, or such other dates as the Parties mutually agree upon in writing.However, in no event shall ADS be liable in any manner or be required to compensate Customer for any delay in performance under this Agreement or a Project Schedule, caused by Customer, any third party or as a result of a Force Majeure event in Section 13.2, and such delay shall not be deemed a default under this Agreement or a Project Schedule. Each party shall be liable to the other party for any reasonable costs actually incurred by the other party as a result of a delay in the implementation (as specified and mutually agreed to in the program design for each service) which delay is caused solely by the other party.

4. SOFTWARE AND DATA.

4.1 SOFTWARE AND TECHNOLOGY OWNERSHIP. All software or other technology owned, developed by or licensed to ADS (including, but not limited to, software or other technology developed by or licensed to ADS in response to Customer's request or to accommodate Customer's special requirements) will remain the exclusive property of ADS, regardless of whether or not Customer is required to pay ADS for such software or technology development. Nothing in this Agreement shall be deemed to convey a proprietary interest to Customer or to any party other than ADS in any of the software, hardware or technology used or provided by ADS to permit or facilitate Customer's use of the Services, or in any of the derivative works thereof.

4.2 DATA ENTRY AND TRANSMISSION. Customer shall be responsible for inputting and/or transmitting certain data for processing by ADS. ADS shall not be responsible for errors in the Services to the extent such errors result from Customer's error in inputting and/or transmitting data or Customer's failure to follow ADS' standards and procedures. ADS shall be entitled to rely upon information submitted by Customer. In the event ADS re-runs any reports for Customer due to errors by Customer in inputting and/or transmitting data, Customer shall bear the costs of any such re-runs.

4.3 ADS INTELLECTUAL PROPRIETARY PROPERTY. The following shall be deemed intellectual proprietary ADS property: ADS' Marketing Database System and design, and ADS' unique segmentation designs (i.e., incremental sales models) and products (i.e., Portrait).

5. OWNERSHIP RIGHTS OF PARTIES. Neither Party will, as a result of this Agreement and all Project Schedules, or of performance hereunder or thereunder, acquire any property or other right, claim or interest, including any patent right or copyright interest, in any of the information systems, processors, equipment, computer software, data, intellectual property, service marks or trademarks of the other.

6. TERM. This Agreement will be effective as of the date of this Agreement set forth on page 1 (the "Effective Date") and will continue until terminated pursuant to Section 7).

7. DEFAULT AND TERMINATION.

7.1 DEFAULT UNDER A PROJECT SCHEDULE. In the event that a Party materially fails to perform any of its obligations under a Project Schedule, the other Party may give the defaulting Party Notice of such failure. The defaulting Party shall within ten (10) Business Days of receipt of such Notice remedy the failure specified therein. In the event the defaulting Party fails to remedy a failure under a Project Schedule within such ten (10) Business Days or, for those failures which cannot reasonably be cured within ten (10) Business Days, fails to promptly commence curing such failure and proceed with all due diligence to substantially cure the same, then the other Party may give a termination Notice to the defaulting Party and may terminate the Project Schedule.

7.2 DEFAULT UNDER THIS AGREEMENT. In the event that a Party materially fails to perform any of its obligations under this Agreement, the other Party may give the defaulting Party Notice of such failure. The defaulting Party shall within thirty (30) days of receipt of such Notice remedy the failure specified therein. In the event the defaulting Party fails to remedy a failure under this Agreement within such thirty (30) days or, for those failures which cannot reasonably be cured within thirty (30) days, fails to promptly commence curing such failure and proceed with all due diligence to substantially cure the same, the other Party may give a termination Notice to the defaulting party and may terminate this Agreement.

7.3 EVENT OF BANKRUPTCY. If an Event of Bankruptcy shall have occurred with respect to either Party, the other Party may give a termination Notice to the bankrupt Party and may terminate this Agreement.

7.4 TERMINATION FOR CONVENIENCE BY EITHER PARTY. Either Party may terminate this Agreement at any time by giving_____ days prior written Notice to the other Party. Such Notice shall set forth the date of termination.

7.5 EFFECT OF TERMINATION.

7.5.1 TERMINATION BY CUSTOMER. Upon termination of this Agreement by Customer pursuant to this Section 7, ADS shall, at Customer's option, either, (a) immediately cease work in respect of all Project Schedules, or (b) conclude any work in progress in an efficient and professional manner and assemble and deliver to Customer any Work Product after completion thereof.

7.5.2 TERMINATION BY ADS. Upon termination of this Agreement by ADS pursuant to this Section 7, ADS will make every effort to conclude any work in progress in an efficient and professional manner within the thirty (30) days after notice, ADS will assemble and deliver to Customer any Work Product after completion thereof.

7.5.3 PAYMENT FOR SERVICES RENDERED. Upon termination of a Project Schedule or this Agreement for any reason Customer shall pay ADS for all Services performed through (i) the date of such termination, or (ii) if ADS concludes any work in progress after termination of this Agreement the date such work in progress is concluded.

8. FEES.

8.1 PAYMENT OF FEES. Customer shall pay to ADS the fees set forth in each applicable Project Schedule according to the payment provisions set forth in such Project Schedule.

8.2 TAXES. Customer will be responsible for payment of all sales, use, excise, and value-added taxes, or taxes of a similar nature, imposed by the United States, any state or local government, or other taxing authority, on the Services being paid for by Customer hereunder.

9. THIRD PARTY SERVICE PROVIDERS. Customer may obtain from third party providers certain services related to and to augment or supplement the Services. Customer may select and retain such third party providers and will notify ADS of any change in third party providers or in the level or nature of services provided thereby, to the extent such services affect the Services. ADS shall have no responsibility to remedy a third party provider's failure to provide services to Customer and if such failure adversely affects ADS' ability to provide the Services, ADS shall be excused from the performance of the Services or their performance in accordance with the Service Levels, to the extent that the Services are affected by such failure until the third party provider or a successor chosen by Customer corrects the failure. If and to the extent a change in Customer's third party service provider results in actual and unavoidable costs or expenses to ADS, Customer shall reimburse ADS for such costs and expenses incurred.

10. LIABILITY AND INDEMNIFICATION.

10.1 NO WARRANTIES. EXCEPT AS PROVIDED HEREIN, THERE ARE NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, RESPECTING THE SERVICES AND/OR OTHER PRODUCTS SOLD OR PROVIDED BY ADS PURSUANT TO THIS AGREEMENT AND ALL PROJECT SCHEDULES. THE REMEDIES SET FORTH IN THIS SECTION WITH RESPECT TO SUCH SERVICES ARE THE SOLE REMEDIES RELATING TO ADS' LIABILITY TO CUSTOMER FOR MONEY DAMAGES.

10.2 CUSTOMER'S INDEMNIFICATION. Customer shall indemnify and hold harmless ADS and its Indemnitees from and against cost, loss, liability, damage, judgment, cause of action, claim, expense, penalty or fine, including, but not limited to, reasonable attorneys' fees, sustained by ADS and its Indemnitees by way of suit, claim, settlement (which shall require ADS' consent, which shall not be unreasonably withheld) or otherwise, in a private, third party or governmental suit, arising out of, alleged to arise out of, or in connection with the Services provided for in this Agreement and all Project Schedules, provided that any and all such cost, loss, liability, damage, judgment, cause of action, claim, expense, penalty or fine is the result of the gross negligence or willful misconduct of Customer, its officers, directors, or employees.

10.3 ADS' INDEMNIFICATION. ADS shall indemnify and hold harmless Customer and its Indemnitees from and against cost, loss, liability, damage, judgment, cause of action, claim, expense, penalty or fine, including, but not limited to, reasonable attorneys' fees, sustained by Customer and its Indemnitees by way of suit, claim, settlement (which shall require Customer`s consent, which shall not be unreasonably withheld) or otherwise, in a private, third party or governmental suit, arising out of, alleged to arise out of, or in connection with the Services provided for in this Agreement and all Project Schedules, that any and all such cost, loss, liability, damage, judgment, cause of action, claim, expense, penalty or fine is the result of the gross negligence or willful misconduct of ADS, its officers, directors or employees.

11. CONFIDENTIALITY.

11.1 OBLIGATIONS OF THE PARTIES. Neither party shall disclose any information not of a public nature concerning the business or properties of the other Party which it learns as a result of negotiating or implementing this Agreement and all Project Schedules, including, without limitation, the terms and conditions of this Agreement and the Project Schedules, trade secrets, business and financial information, source codes, business methods, procedures, know-how and other information of every kind that relates to the business of either Party, except to the extent disclosure is required by applicable law, is necessary for the performance

of the disclosing Party's obligation under this Agreement, or is agreed to in writing by the other Party; provided that (i) prior to disclosing any confidential information to any third party, the Party making the disclosure shall give Notice to the other Party of the nature of such disclosure and of the fact that such disclosure will be made, and (ii) prior to filing a copy of this Agreement and/or the Project Schedules with any governmental authority or agency, the filing Party will consult with the other Party with respect to such filing and shall redact such portions of this Agreement and/or the Project Schedules which the other Party requests be redacted, unless, in the filing Party's reasonable judgment based on the advice of its counsel (which advice shall have been discussed with counsel to the other Party), the filing Party concludes that such request is inconsistent with the filing Party's obligations under applicable laws. Neither Party shall acquire any property or other right, claim or interest, including any patent right or copyright interest, in any of the systems, procedures, processes, equipment, computer programs and/or information of the other Party by virtue of this Agreement or the Project Schedules. Neither Party shall use the other Party's name for advertising or promotional purposes without such other Party's written consent.

11.2 EXCEPTIONS. The obligations of this Section, shall not apply to any information:

a) which is generally known to the trade or to the public at the time of such disclosure; or

b) which becomes generally known to the trade or the public subsequent to the time of such disclosure; provided, however, that such general knowledge is not the result of a disclosure in violation of this Section; or

c) which is obtained by a Party from a source other than the other Party, without breach of this Agreement or any other obligation of confidentiality or secrecy owed to such other Party or any other person or organization; or

d) which is independently conceived and developed by the disclosing Party and proven by the disclosing Party through tangible evidence not to have been developed as a result of a disclosure of information to the disclosing Party, or any other person or organization which has entered into a confidential arrangement with the non-disclosing Party.

11.3 DISCLOSURE. If any disclosure is made pursuant to the provisions of this Section, to any parent company, subsidiary, affiliate or non-governmental third party, the disclosing Party shall be responsible for ensuring that such parent, subsidiary, affiliate or non-governmental third party keeps all such information in confidence and that any non-governmental third party executes a confidentiality agreement provided by the non-disclosing Party. Each Party covenants that at all times it shall have in place procedures designed to assure that each of its employees who is given access to the other Party's confidential information shall protect the

privacy of such information. Each Party acknowledges that any breach of the confidentiality provisions of this Agreement by it will result in irreparable damage to the other Party and therefore in addition to any other remedy that may be afforded by law any breach or threatened breach of the confidentiality provisions of this Agreement may be prohibited by restraining order, injunction or other equitable remedies of any court. The provisions of this Section will survive termination or expiration of this Agreement.

12. REPRESENTATIONS, WARRANTIES AND COVENANTS.

12.1 CUSTOMER'S REPRESENTATIONS, WARRANTIES AND COVENANTS. Customer represents, warrants and covenants the following:

12.1.1 COMPLIANCE WITH LAWS. Customer shall comply with all applicable laws and regulations, whether federal, state or local, in the performance of its business and its obligations hereunder. Customer acknowledges and agrees that Customer is solely responsible for monitoring legal developments applicable to its business and the Services requested by Customer, and for interpreting and determining the requirements for compliance with all applicable state and federal laws. ADS shall be entitled to rely upon, without verification, any and all information, data and instructions at any time submitted to ADS by Customer having to do with Customer or the Services, and ADS shall have no responsibility or liability whatsoever with respect to such information, data and instructions.

12.1.2 DULY ORGANIZED. Customer is a corporation duly organized, validly existing and in good standing under the laws of the state of_____ . Customer has performed all necessary corporate action to have the appropriate authority to enter into this Agreement and to comply with its provisions. Customer will not, by entering into this Agreement, be in default of any obligations pursuant to any other agreements to which Customer is a party.

12.2 ADS' REPRESENTATIONS, WARRANTIES AND COVENANTS. ADS represents, warrants and covenants the following:

12.2.1 COMPLIANCE WITH LAWS. ADS shall comply with all applicable laws and regulations, whether federal, state or local, in the performance of its business and of its obligations hereunder.

12.2.2 DULY ORGANIZED. ADS is a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware. ADS has performed all necessary corporate action to have the appropriate authority to enter into this Agreement and to comply with its provisions. ADS will

not, by entering into this Agreement, be in default of any obligations pursuant to any other agreements to which ADS is a party.

12.3 YEAR 2000 COMPLIANCE.

12.3.1 ADS' COMPLIANCE. ADS shall use commercially reasonable efforts to ensure that software or systems proprietary to ADS and used in the performance of the Services hereunder shall be Year 2000 Compliant. However, ADS shall not be responsible for (1) software or system failures based on improvements, enhancements, modifications or updates to, and any inaccuracies, delays, interruptions, or errors caused by any software or systems that are not proprietary to ADS; (2) any inaccuracies, delays, interruptions or errors occurring as a result of incorrect data or data from other systems, software, hardware, processes or third parties provided in a format that is inconsistent with the format and protocols established for the ADS software and systems including date data in two-digit format, even if such data is required for the operation of the software or systems; and (3) any inaccuracies, delays, interruptions or errors occurring, at no fault of ADS, as a result of incorrect data or data from telecommunication systems.

12.3.2 CUSTOMER'S COMPLIANCE. Customer shall use commercially reasonable efforts to ensure that software or systems proprietary to Customer and used by Customer in connection with its business shall be Year 2000 Compliant. However, Customer shall not be responsible for (1) software or system failures based on improvements, enhancements, modifications or updates to, and any inaccuracies, delays, interruptions, or errors caused by any software or systems that are not proprietary to Customer; (2) any inaccuracies, delays, interruptions or errors occurring as a result of incorrect data or data from other systems, software, hardware, processes or third parties provided in a format that is inconsistent with the format and protocols established for the Customer software and systems including date data in two-digit format, even if such data is required for the operation of the software or systems; and (3) any inaccuracies, delays, interruptions or errors occurring, at no fault of Customer, as a result of incorrect data or data from telecommunication systems.

13. MISCELLANEOUS.

13.1 ASSIGNMENT. This Agreement shall be binding on the Parties and their respective successors and assigns.

13.2 FORCE MAJEURE. Neither Party will be responsible for any failure or delay in performance of its obligations under this Agreement or any Project Schedules because of circumstances beyond its control, including, but not limited to, acts of God, flood, criminal acts, fire, riot, computer viruses, computer hackers, accident,

strikes or work stoppage, embargo, sabotage, inability to obtain material, equipment or phone lines, government action (including any laws, ordinances, regulations or the like which restrict or prohibit the providing of the Services contemplated by this Agreement), and other causes whether or not of the same class or kind as specifically named above. In the event a Party is unable to substantially perform its obligations for any of the reasons described in this Subsection, it will notify the other Party promptly of its inability so to perform, and if the inability continues for more than ninety (90) consecutive days, the Party so notified may then terminate this Agreement forthwith. This provision shall not, however, release the Party unable to perform from using its best efforts to avoid or remove such circumstance and such Party unable to perform shall continue performance hereunder with the utmost dispatch whenever such causes are removed.

13.3 NOTICES. All Notices pursuant to this Agreement must be in writing and shall be deemed given when mailed by certified or registered mail, return receipt requested, or sent by receipted courier service, or delivered personally, to the party concerned at the following address:

If to ADS:

ADS Alliance Data Systems, Inc.
800 TechCenter Drive
Gahanna, Ohio 43230
Attention: Director, Business Solutions
With a copy to: Attention: General Counsel

If to Customer:

Attention:

Either Party may change the address to which Notices and communications will be sent by written Notice to the other Party, provided that any Notice of change of address shall be effective only upon receipt.

13.4 INTEGRATION OF PRIOR AGREEMENTS AND AMENDMENTS. This Agreement, including its Project Schedules, constitutes the entire agreement and understanding between the Parties and merges all prior discussions between them, and supersedes all prior agreements and understandings, relating to its subject matter. This Agreement may not be amended or modified except in writing signed by both Parties.

13.5 HEADINGS. The table of contents and headings given to the sections and paragraphs of this Agreement are for convenience of reference and are not to be used to interpret this Agreement.

13.6 SEVERABILITY. In the event that one or more provisions of this Agreement or of any Project Schedule is held invalid, illegal or unenforceable in any respect or on the basis of any particular circumstances or in other jurisdictions, the validity, legality and enforceability of such provision or provisions under other circumstances or in other jurisdictions and the remaining provisions will not in any way be affected or impaired, unless the declaration of the invalidity, illegality or unenforceability of such provision or provisions substantially frustrates the continued performance by, or entitlement to benefits of, either Party, in which case this Agreement may be terminated by the affected party, without penalty.

13.7 WAIVER. No failure or delay on the part of either Party in exercising any power or right under this Agreement shall be deemed to be a waiver, nor does any single or partial exercise of any power or right preclude any other or further exercise, or the exercise of any other power or right. No waiver by a Party of any provision of this Agreement, or of any breach or default, is effective unless in writing and signed by the Party against whom the waiver is to be enforced.

13.8 APPLICABLE LAW. THIS AGREEMENT AND THE PROJECT SCHEDULES SHALL BE GOVERNED BY AND CONSTRUED ACCORDING TO THE INTERNAL LAWS OF THE STATE OF OHIO, REGARDLESS OF THE DICTATES OF OHIO CONFLICTS LAW, AND THE PARTIES HEREBY SUBMIT TO EXCLUSIVE JURISDICTION AND VENUE IN THE UNITED STATES FEDERAL DISTRICT COURT FOR THE EASTERN DISTRICT OF OHIO, OR IN A STATE COURT WITH COMPETENT JURISDICTION IN OHIO.

13.9 SURVIVAL. No termination of this Agreement or a Project Schedule shall in any way affect or impair the powers, obligations, duties, rights, indemnities, liabilities, covenants or warranties and/or representations of the Parties with respect to times and/or events occurring prior to such termination, including the obligation to make payments arising prior to the termination date. No powers, obligations, duties, rights, indemnities, liabilities, covenants, warranties and/or representations of the Parties with respect to times and/or events occurring after termination shall survive termination except for the following Sections: Section 4, Section 5, Subsection 7.5, Section 8, Section 10 and Section 11.

13.10 MUTUAL DRAFTING. This Agreement is the joint product of ADS and Customer and each provision hereof has been subject to mutual consultation, negotiation and agreement of ADS and Customer, and shall not be construed for or against any Party hereto.

13.11 INDEPENDENT CONTRACTOR. The Parties hereby declare and agree that ADS is engaged in an independent business, and shall perform its obligations under this Agreement as an independent contractor; that any of ADS' personnel performing the Services hereunder are agents, employees, affiliates, or subcontractors of ADS and are not agents, employees, affiliates, or subcontractors of Customer; that ADS

has and hereby retains the right to exercise full control of and supervision over the performance of ADS' obligations hereunder and full control over the employment, direction, compensation and discharge of any and all of the ADS' agents, employees, affiliates, or subcontractors, including compliance with workers' compensation, unemployment, disability insurance, social security, withholding and all other federal, state and local laws, rules and regulations governing such matters; that ADS shall be responsible for ADS' own acts and those of ADS' agents, employees, affiliates, and subcontractors; and that except as expressly set forth in this Agreement, ADS does not undertake by this Agreement or otherwise to perform any obligation of Customer, whether regulatory or contractual, or to assume any responsibility for Customer's business or operations.

13.12 NO THIRD PARTY BENEFICIARIES. The provisions of this Agreement are for the benefit of the Parties hereto and not for any other person or entity.

13.13 ORDER OF PRECEDENCE. In the event of any conflict or inconsistency between or among the provisions of this Agreement and a Project Schedule, the provisions of the Project Schedule shall control; provided that the Agreement and Project Schedules shall be interpreted so as to give effect to all provisions in both to the extent reasonably practicable. In the event of a conflict between any Project Schedules, the terms of the latest dated Project Schedule shall prevail.

13.14 COUNTERPARTS. This Agreement may be executed in several counterparts all of which taken together shall constitute one single agreement between the Parties.

13.15 CONSENTS, APPROVALS AND REQUESTS. All consents and approvals to be given by either Party under this Agreement and the Project Schedules shall not be unreasonably withheld and each Party shall make only reasonable requests under this Agreement and the Project Schedules.

IN WITNESS WHEREOF, the parties have executed this agreement by their duly authorized officers as of the day and year first above written.

ADS Alliance Data Systems, Inc.	---------- (Customer)
By: - ----------	By: ----------
Title: ----------	Title: ----------
Print Name: ----------	Print Name: ----------

SCHEDULE 1 - DEFINITIONS

"ADS" means ADS Alliance Data Systems, Inc.

"Affiliate" means any wholly-owned subsidiary or parent company of Customer or ADS or any other entity of which a majority is owned by Customer or ADS or by the same entity owning Customer or ADS.

"Business Day" means any calendar day other than Saturday or Sunday and excluding holidays then currently recognized by ADS. All times referenced in this Agreement will be Eastern Time unless otherwise noted.

"Customer" means_____.

"Event of Bankruptcy" means, with respect to any Party, the occurrence of any of the following events: (a) a decree or order, by a governmental authority having jurisdiction, is entered with respect to such Party and is not vacated, discharged, stayed or bonded within 60 days after the date of entry thereof, (i) for relief in respect of such Party pursuant to the Bankruptcy Code, (ii) appointing a custodian, receiver, liquidator, assignee, trustee, or sequestrator (or similar official) of such Party or of any substantial part of its properties, or (iii) ordering the winding-up or liquidation of the affairs of such Party, or (b) a Person other than such Party files a petition seeking the institution of any proceedings specified in clauses (a)(i), (ii) or (iii) in respect of such Party, and such petition shall not be discharged or dismissed within 60 days after the date of filing thereof, or (c) such Person (i) files a petition seeking relief pursuant to the Bankruptcy Code, (ii) consents to the institution of proceedings pursuant thereto or to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) of such Party or of any substantial part of its properties, or the winding up or liquidation of its affairs, or (iii) takes corporate action in furtherance of any such action.

"Indemnitee" shall mean a Party's parent, affiliates, subsidiaries and their respective directors, officers, employees, agents, successors, shareholders and assigns.

"Notice" means a formal communication related to, or required under any of the provisions of this Agreement and given in accordance with the provisions of Subsection 13.3 of the Agreement.

"Party" means either ADS or Customer.

"Parties" means ADS and Customer.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or Governmental Authority.

"Project Schedule (s)" shall have that meaning set forth in the recitals.

"Services" shall have that meaning set forth in Subsection 2.1.

"Work Product" means all written reports and other documentation prepared by ADS for Customer in connection with the Services.

SCHEDULE 2 - SAMPLE PROJECT SCHEDULE
TO BUSINESS SOLUTIONS MASTER AGREEMENT

This Project Schedule (the "Project Schedule") is entered into between ADS Alliance Data Systems, Inc. ("ADS") and_____("Customer").

WHEREAS, ADS and Customer have entered into a Business Solutions Master Agreement dated_____ , 1999 (the "Agreement"), pursuant to which the Parties contemplated execution of certain Project Schedules setting forth the Services to be provided by ADS:

NOW, THEREFORE, ADS and Customer agree as follows:

1. DEFINITIONS. Any capitalized term not defined herein shall have the meaning provided in the Agreement.

2. INCORPORATION OF AGREEMENT. The Parties agree that all of the terms of the Agreement, except as specifically provided in this Project Schedule, shall apply to this Project Schedule and are incorporated herein.

3. EFFECTIVE DATE. The effective date of this Project Schedule shall be the season, consisting of_____ through_____ , 1999.

4. SERVICES. ADS shall provide Customer with the following Services:

5. IMPLEMENTATION SCHEDULE. The Services shall be provided as set forth below:

CUSTOMER SPRING 1999

PROGRAM	TIMING	SCOPE	CIRCULATION	PROJECT PRICE	RETURN PRICE

6. FEES. Customer shall pay the following fees for the Services:

A base Retainer fee of $_____ to retain an ADS Business Solutions account team to provide the Services described above. In addition, the actual and reasonable costs for shipping and travel expenses incurred by ADS during implementation of the Services will be directly passed through to Customer.

ADS will bill Customer the base fee in_____ ( ) installments of $_____ each together with any incurred shipping and travel pass-through expenses on the 15th of each

month beginning_____ , 1999 and continuing through_____ , 1999. Payment is due within thirty (30) days of the invoice date.

If this retainer schedule is not signed by Customer and returned to the Alliance Data Business Solutions Director prior to_____ , 1999, Customer shall not receive the Retainer Price, and the Project Price listed in the Implementation Schedule above shall apply for all projects provided by ADS.

7. AVAILABLE PRODUCTS NOT COVERED IN THIS SCHEDULE:

8. PROJECT REPORTING. For retainer projects involving results reporting, ADS will provide immediate results for the overall campaign, exclusive of test panels, within ten (10) to fourteen (14) Business Days (depending upon the last day of the promotion) after the conclusion of the promotion period.

Spring 1999 delivery timelines will be used as a benchmark for Fall 1999 delivery timelines. The program design for each project will specify the expected delivery date for immediate results. At the end of the season, ADS will deliver to Customer a report which highlights the actual delivery of each program.

9. CONFLICTS. In the event of any conflict or inconsistency between or among the provisions of this Agreement and a Project Schedule, the provisions of the Project Schedule shall control; provided that the Agreement and Project Schedules shall be interpreted so as to give effect to all provisions in both to the extent reasonably practicable. In the event of a conflict between any Project Schedules, the terms of the latest dated Project Schedule shall prevail.

IN WITNESS WHEREOF, the parties have executed this Project Schedule by their duly authorized officers as of the date(s) set forth below.

ADS Alliance Data Systems, Inc.	

	(Customer)
By: ----------	By: ----------
Name: ----------	Name: ----------
Title: ----------	Title: ----------
Date: ----------	Date: ----------

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 1 to Registration Statement No. 333-94623 of Alliance Data Systems Corporation and Subsidiaries of our report dated March 1, 2000 and of our report dated March 1, 2000 (relating to the financial statements of SPS Network Services), appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to us under the headings "Selected Historical Consolidated Financial and Operating Information" and "Experts" in such Prospectus.

DELOITTE & TOUCHE LLP
Columbus, Ohio

March 1, 2000

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated June 12, 1998 (except note 14 which is as at January 12, 2000) to the shareholders of the company, with respect to the consolidated financial statements of Loyalty Management Group Canada Inc. as at April 30, 1998 and 1997 and for each of the years then ended, included in this Amendment No. 1 to the Registration Statement No. 333-94623 on Form S-1 dated March 1, 2000 and related Prospectus of Alliance Data Systems Corporation for the registration of its common shares.

Toronto, Canada
March 2, 2000

Ernst & Young LLP
Chartered Accountants

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            JAN-01-1999
              DEC-31-1999
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                   64,079
                 219,889
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                          0
              466,751
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           (20,074)
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                          0
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