ALLIANCE DATA SYSTEMS CORP
Form 10-Q
November 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from to

Commission File Number: 001-15749

ALLIANCE DATA SYSTEMS CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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

7500 Dallas Parkway, Suite 700

Plano, Texas 75024

(Address of Principal Executive Office, Including Zip Code)

(214) 494-3000

(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of November 3, 2010, 51,995,538 shares of common stock were outstanding.

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PART I

Item 1. Financial Statements.

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2010	December 31, 2009
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 391,226	$ 213,378
Trade receivables, less allowance for doubtful accounts ($5,256 and $6,736 at September 30, 2010 and December 31, 2009, respectively)	234,570	225,212
Seller s interest		297,108
Credit card receivables:		
Credit card receivables restricted for securitization investors	4,406,664	
Other credit card receivables	539,227	671,182
Total credit card receivables	4,945,891	671,182
Allowance for loan loss	(514,296)	(54,884)
Credit card receivables, net	4,431,595	616,298
Deferred tax asset, net	340,208	197,455
Other current assets	112,437	201,427
Redemption settlement assets, restricted	495,499	574,004
Assets of discontinued operations	18,028	34,623
Total current assets	6,023,563	2,359,505
Property and equipment, net	162,758	165,012
Due from securitizations		775,570
Cash collateral, restricted	205,359	216,953
Intangible assets, net	332,033	316,597
Goodwill	1,214,569	1,166,275
Other non-current assets	192,214	225,755
Total assets	$ 8,130,496	$ 5,225,667
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 124,040	$ 103,891
Accrued expenses	132,105	128,012
Certificates of deposit	452,400	772,500
Asset-backed securities debt owed to securitization investors	885,509	
Current debt	262,751	51,963
Other current liabilities	92,345	88,716
Deferred revenue	1,013,116	984,930
Total current liabilities	2,962,266	2,130,012
Deferred revenue	167,733	161,216

Deferred tax liability, net	106,804	140,712
Certificates of deposit	514,400	692,500
Asset-backed securities debt owed to securitization investors	2,476,315	
Long-term and other debt	1,666,881	1,730,389
Other liabilities	190,330	98,062
Total liabilities	8,084,729	4,952,891
Stockholders equity:		
Common stock, $0.01 par value; authorized 200,000 shares; issued 92,746 shares and 91,121 shares at September 30, 2010 and December 31, 2009, respectively	927	911
Additional paid-in capital	1,302,604	1,235,669
Treasury stock, at cost (40,277 and 38,922 shares at September 30, 2010 and December 31, 2009, respectively)	(2,007,844)	(1,931,102)
Retained earnings	769,014	1,033,039
Accumulated other comprehensive loss	(18,934)	(65,741)
Total stockholders equity	45,767	272,776
Total liabilities and stockholders equity	$ 8,130,496	$ 5,225,667

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands, except per share amounts)			
Revenues				
Transaction	$ 68,150	$ 90,505	$ 214,092	$ 279,638
Redemption	120,424	120,779	386,810	346,935
Securitization income		98,723		315,345
Finance charges, net	327,677	16,268	953,303	45,278
Database marketing fees and direct marketing services	167,083	129,317	427,246	364,605
Other revenue	19,109	25,839	54,247	66,620
Total revenue	702,443	481,431	2,035,698	1,418,421
Operating expenses				
Cost of operations	384,301	326,578	1,102,128	974,438
General and administrative	19,767	30,143	63,440	77,176
Provision for loan loss	90,459		275,044	
Depreciation and other amortization	17,196	15,364	50,101	45,715
Amortization of purchased intangibles	20,711	15,770	56,398	45,833
Merger costs (reimbursements)		30		(486)
Total operating expenses	532,434	387,885	1,547,111	1,142,676
Operating income	170,009	93,546	488,587	275,745
Interest expense:				
Securitization funding costs	43,026		128,251	
Interest expense on certificates of deposit	7,317	6,616	23,519	19,800
Interest expense on long-term and other debt, net	33,776	31,947	98,903	84,157
Total interest expense, net	84,119	38,563	250,673	103,957
Income from continuing operations before income taxes	85,890	54,983	237,914	171,788
Provision for income taxes	32,831	9,666	90,881	55,035
Income from continuing operations	53,059	45,317	147,033	116,753
Income (loss) from discontinued operations, net of taxes		479		(13,666)
Net income	$ 53,059	$ 45,796	$ 147,033	$ 103,087
Basic income (loss) per share:				
Income from continuing operations	$ 1.01	$ 0.86	$ 2.79	$ 2.05
Income (loss) from discontinued operations		0.01		(0.24)
Net income per share	$ 1.01	$ 0.87	$ 2.79	$ 1.81
Diluted income (loss) per share:				
Income from continuing operations	$ 0.96	$ 0.82	$ 2.63	$ 2.01

Income (loss) from discontinued operations		0.01		(0.23)
Net income per share	$ 0.96	$ 0.83	$ 2.63	$ 1.78
Weighted average shares:				
Basic	52,584	52,841	52,743	56,946
Diluted	55,218	55,136	55,820	57,959

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2010	2009
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 147,033	$ 103,087
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	106,499	91,649
Deferred income taxes	24,044	48,168
Provision for loan loss	275,044	44,252
Non-cash stock compensation	33,996	43,353
Fair value loss on interest-only strip		2,207
Fair value loss on interest rate derivatives	5,443	
Amortization of discount on convertible senior notes	48,914	37,243
Loss on the sale of assets		18,018
Change in operating assets and liabilities, net of acquisitions:		
Change in trade accounts receivable	(20,927)	13,231
Change in merchant settlement activity		(18,907)
Change in other assets	36,975	(22,683)
Change in accounts payable and accrued expenses	33,220	(68,583)
Change in deferred revenue	9,079	(2,731)
Change in other liabilities	13,551	(20,526)
Proceeds from the sale of credit card receivable portfolios to the securitization trusts		53,240
Excess tax benefits from stock-based compensation	(12,713)	(7,425)
Other	(6,654)	(7,471)
Net cash provided by operating activities	693,504	306,122
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	21,964	29,744
Change in seller s interest		(21,337)
Change in credit card receivables	273,925	(221,473)
Change in cash collateral, restricted	12,530	85,068
Change in restricted cash	24,064	(64,810)
Change in due from securitizations		(158,823)
Capital expenditures	(48,296)	(39,706)
Payments for acquired businesses, net of cash	(117,000)	
Proceeds from the sale of assets		8,013
Other	(3,032)	4,399
Net cash provided by (used in) investing activities	164,155	(378,925)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	1,205,000	2,396,000
Repayment of borrowings	(1,089,549)	(2,327,926)
Proceeds from issuance of convertible senior notes due 2014		345,000
Issuances of certificates of deposit	94,000	1,100,400
Repayments of certificates of deposit	(592,200)	(609,400)
Proceeds from asset-backed securities	833,126	
Maturities of asset-backed securities	(1,157,235)	
Payment of capital lease obligations	(17,272)	(15,718)
Payment of deferred financing costs	(3,025)	(21,407)
Excess tax benefits from stock-based compensation	12,713	7,425
Proceeds from issuance of common stock	31,848	23,780
Proceeds from issuance of warrants		30,050
Payments for convertible note hedges		(80,765)

Payments for prepaid forward contracts		(74,872)
Purchase of treasury shares	(76,742)	(417,774)
Net cash (used in) provided by financing activities	(759,336)	354,793
Effect of exchange rate changes on cash and cash equivalents	(2,028)	10,720
Change in cash and cash equivalents	96,295	292,710
Cash effect on adoption of ASC 860 and ASC 810	81,553	
Cash and cash equivalents at beginning of period	213,378	156,911
Cash and cash equivalents at end of period	$ 391,226	$ 449,621
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 176,335	$ 58,579
Income taxes paid, net	$ 26,497	$ 53,890

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation (ADSC or, including its wholly owned subsidiaries and its consolidated variable interest entities, the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 1, 2010.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (1) the reported amounts of assets; (2) liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (3) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For purposes of comparability, certain prior period amounts have been reclassified to conform to the current year presentation. See Note 2, Change in Accounting Principle, for information on the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 860, Transfers and Servicing, and ASC 810, Consolidation.

In the first quarter of 2010, the Company reorganized its segments with Private Label Services and Private Label Credit reflected as one segment. All prior year segment information has been restated to conform to the current presentation. In addition, the Company renamed its other two segments from Epsilon Marketing Services and Loyalty Services to Epsilon and LoyaltyOne, respectively.

In February 2009, the Company sold the remainder of its utility services division, which was reflected as a discontinued operation. In November 2009, the Company terminated operations of its credit program for web and catalog retailer VENUE. Prior period information has been restated to reflect the termination of VENUE as a discontinued operation.

2. CHANGE IN ACCOUNTING PRINCIPLE

In June 2009, the FASB issued guidance codified in ASC 860 related to accounting for transfers of financial assets and ASC 810 related to the consolidation of variable interest entities (VIEs). ASC 860 removed the concept of qualifying special purpose entity (QSPE) and eliminated the consolidation exemption that was then available for QSPEs. ASC 810 requires an initial evaluation as well as an ongoing assessment of the Company s involvement in the activities of World Financial Network Credit Card Master Trust (Master Trust), World Financial Network Credit Card Master Note Trust (Master Trust I), World Financial Network Credit Card Master Note Trust II (Master Trust II) and World Financial Network Credit Card Master Trust III (Master Trust III) (collectively, the WFN Trusts), and World Financial Capital Credit Card Master Note Trust (the WFC Trust) and the Company s rights or obligations to receive benefits or absorb losses of the trusts that could be potentially significant in order to determine whether those VIEs are required to be consolidated on the balance

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sheets of World Financial Network National Bank (WFNNB), World Financial Capital Bank (WFCB) or their affiliates, including ADSC.

On January 1, 2010, the Company adopted ASC 860 and ASC 810 on a prospective basis, resulting in the consolidation of the WFN Trusts and the WFC Trust. Based on the carrying amounts of the WFN Trusts and the WFC Trust s assets and liabilities as prescribed by ASC 810, the Company recorded an increase in assets of approximately $3.4 billion, including $0.5 billion to loan loss reserves, an increase in liabilities of approximately $3.7 billion and a $0.4 billion decrease in stockholders equity.

After adoption, the Company s consolidated statements of income no longer reflect securitization income, but instead reflect finance charges and certain other income associated with the securitized credit card receivables. Net charge-offs associated with credit card receivables impact the Company s provision for loan loss reflected in the Company s total operating expenses. Interest expense associated with debt issued from the WFN Trusts and the WFC Trust to third-party investors is reported in securitization funding costs. Additionally, the Company no longer records initial gains on new securitization activity since securitized credit card loans no longer receive sale accounting treatment, nor are there any gains or losses on the revaluation of the interest-only strip receivable, as that asset is not recognized in a transaction accounted for as a secured borrowing. Since the Company s securitization transactions are accounted for under the new accounting rules as secured borrowings rather than asset sales, the cash flows from these transactions are presented as cash flows from financing activities rather than cash flows from operating or investing activities.

The assets of the consolidated VIEs include certain credit card receivables, which are restricted to settle the obligations of those entities and are not expected to be available to the Company or its creditors. The liabilities of the consolidated VIEs include asset-backed secured borrowings and other liabilities for which creditors or beneficial interest holders do not have recourse to the general credit of the Company.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements, which supersedes certain guidance in ASC 605-25, Revenue Recognition Multiple-Element Arrangements, and requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices (the relative-selling-price method). ASU 2009-13 eliminates the use of the residual method of allocation in which the undelivered element is measured at its estimated selling price and the delivered element is measured as the residual of the arrangement consideration, and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables subject to ASU 2009-13. ASU 2009-13 will be effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. If the Company elects early adoption and the adoption is during an interim period, the Company will be required to apply this ASU retrospectively from the beginning of the Company s fiscal year. The Company can also elect to apply this ASU retrospectively for all periods presented. The Company is currently evaluating the impact that the adoption of ASU 2009-13 will have on its consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures, which amends ASC 820, Fair Value Measurements and Disclosures, to add separate disclosures about purchases, sales, issuances and settlements related to Level 3 measurements. The requirement to provide the Level 3 disclosures about purchases, sales, issuances and settlements will be effective for interim and annual periods beginning after December 15, 2010. The adoption of ASU 2010-06 for the separate Level 3 disclosures will only impact disclosures and will not have a material impact on the Company s consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which amends ASC 310, Receivables, to require further disaggregated disclosures that improve financial statement users understanding of (1) the nature of an entity s credit risk associated with its financing receivables and (2) the entity s assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of ASU 2010-20 will only impact disclosures and will not have a material impact on the Company s consolidated financial statements.

4. SHARES USED IN COMPUTING NET INCOME PER SHARE

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands, except per share amounts)			
Numerator				
Income from continuing operations	$ 53,059	$ 45,317	$ 147,033	$ 116,753
Income (loss) from discontinued operations, net of taxes		479		(13,666)
Net income	$ 53,059	$ 45,796	$ 147,033	$ 103,087
Denominator				
Weighted average shares, basic	52,584	52,841	52,743	56,946
Weighted average effect of dilutive securities:				
Shares from assumed conversion of convertible senior notes	1,454	788	1,785	
Net effect of dilutive stock options and unvested restricted stock	1,180	1,507	1,292	1,013
Denominator for diluted calculation	55,218	55,136	55,820	57,959
Basic				
Income from continuing operations per share	$ 1.01	$ 0.86	$ 2.79	$ 2.05
Income (loss) from discontinued operations per share		0.01		(0.24)
Net income per share	$ 1.01	$ 0.87	$ 2.79	$ 1.81
Diluted				
Income from continuing operations per share	$ 0.96	$ 0.82	$ 2.63	$ 2.01
Income (loss) from discontinued operations per share		0.01		(0.23)
Net income per share	$ 0.96	$ 0.83	$ 2.63	$ 1.78

The Company calculates the effect of its convertible senior notes, which can be settled in cash or shares of common stock, on diluted net income per share as if they will be settled in cash as the Company has the intent to settle the convertible senior notes in cash. For the three and nine months ended September 30, 2010 and 2009, the Company excluded, in each case, 17.5 million warrants from the calculation of net income per share as the effect was anti-dilutive.

During the second quarter of 2009, the Company entered into prepaid forward contracts to purchase 1,857,400 shares of its common stock for $74.9 million that are to be delivered over a settlement period in 2014. The number of shares to be delivered under the prepaid forward contracts is used to reduce weighted average basic and diluted shares outstanding.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. ACQUISITION

On July 1, 2010, the acquisition date, the Company completed the acquisition of the Direct Marketing Services and Database Marketing divisions of Equifax, Inc., (collectively, DMS). The total purchase price was $117.0 million. DMS provides proprietary data-driven, integrated marketing solutions through two complementary offers: database marketing and hosting, and data services, including U.S. consumer demographic information.

The results of operations for DMS have been included since the date of acquisition and are reflected in the Company s Epsilon segment. The goodwill resulting from the acquisition will be deductible for tax purposes.

The following table summarizes the fair values of the assets acquired and liabilities assumed in the DMS acquisition as of the date of purchase:

	As of July 1, 2010 (In thousands)
Other current assets	$ 893
Property and equipment	2,290
Capitalized software	4,800
Identifiable intangible assets	67,600
Goodwill	43,874
Non-current assets	165
Total assets acquired	119,622
Current liabilities	2,622
Total liabilities assumed	2,622
Net assets acquired	$ 117,000

6. CREDIT CARD RECEIVABLES

Beginning January 1, 2010, the Company s credit card securitization trusts, the WFN Trusts and the WFC Trust, were consolidated on the balance sheets of WFNNB, WFCB or their affiliates, including ADSC, under ASC 860 and ASC 810. The WFN Trusts and the WFC Trust s credit card receivables are reported in credit card receivables restricted for securitization investors.

The tables below present quantitative information about the components of total credit card receivables and delinquencies:

	September 30, 2010	December 31, 2009
	(In millions)	
Principal receivables	$ 4,705.4	$ 5,332.8

Billed and accrued finance charges	203.0	155.7
Other receivables	37.5	21.0
Total credit card receivables	4,945.9	5,509.5
Less credit card receivables restricted for securitization investors	4,406.7	4,838.3
Other credit card receivables	$ 539.2	$ 671.2
Principal amount of credit card receivables 90 days or more past due	$ 130.5	$ 157.4

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Allowance for Loan Loss

The Company maintains an allowance for loan losses at a level that is adequate to absorb probable losses inherent in credit card receivables. In estimating the inherent loan losses for the credit card portfolio, management utilizes a migration analysis of delinquent and current credit card receivables. Migration analysis is a technique used to estimate the likelihood that a credit card receivable will progress through the various stages of delinquency and to charge-off. The migration analysis considers uncollectible principal, interest and fees reflected in credit card receivables. In determining the proper level of the allowance for loan loss, management also considers factors that may impact loan loss experience, including seasoning, loan volume and amounts, payment rates and forecasting uncertainties.

The allowance for loan loss is evaluated monthly for adequacy and is maintained through an adjustment to the provision for loan loss. Additions to the allowance are made through charges to the provision for loan loss or when reserves are acquired as part of a business or portfolio acquisition. When credit card receivables are charged off, principal amounts of credit card receivables outstanding are deducted from the allowance and subsequent recoveries of such amounts increase the allowance. The Company considers uncollectible interest and fees in assessing the adequacy of the allowance for loan loss; however, unpaid interest and fees are reversed against finance charges, net.

Changes in the allowance for loan loss on credit card receivables for the nine months ended September 30, 2010 and the year ended December 31, 2009 were as follows:

	September 30, 2010	December 31, 2009
	(In thousands)	
Balance at beginning of period	$ 54,884	$ 38,124
Adoption of ASC 860 and ASC 810	523,950	
Provision for loan loss	272,259	52,259
Principal charge-offs, net of recoveries	(336,797)	(35,499)
Balance at end of period	$ 514,296	$ 54,884

The provision for loan loss expense was $90.5 million and $275.0 million for the three and nine months ended September 30, 2010, respectively, which includes $0.9 million and $2.8 million of credit card fraud losses, respectively. The provision for loan loss expense was $16.4 million and $35.9 million for the three and nine months ended September 30, 2009, respectively, for the Company s on-balance sheet credit card receivables. These amounts were netted against securitization income in 2009.

Net charge-offs of principal receivables were $102.1 million and $99.6 million for the three months ended September 30, 2010 and 2009, respectively, and $336.8 million and $297.2 million for the nine months ended September 30, 2010 and 2009, respectively.

Securitized Credit Card Receivables

The Company regularly securitizes its credit card receivables to the WFN Trusts and the WFC Trust. The Company continues to own and service the accounts that generate credit card receivables held by the WFN Trusts and the WFC Trust. In its capacity as a servicer, each of the respective banks earns a fee from the WFN Trusts and the WFC Trust to service and administer the credit receivables, collect payments, and charge-off uncollectible receivables.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	September 30, 2010	December 31, 2009
	(In millions)	
Total credit card receivables restricted for securitization investors	$ 4,406.7	$ 4,838.3
Principal amount of credit card receivables restricted for securitization investors, 90 days or more past due	$ 117.6	$ 148.2

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)			
Net charge-offs of securitized principal	$ 91.5	$ 89.9	$ 297.5	$ 270.8

During the initial phase of a securitization reinvestment period, the Company generally retains principal collections in exchange for the transfer of additional credit card receivables into the securitized pool of assets. During the amortization or accumulation period of a securitization, the investors share of principal collections (in certain cases, up to a maximum specified amount each month) is either distributed to the investors or held in an account until it accumulates to the total amount due, at which time it is paid to the investors in a lump sum.

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

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
	(In millions)	
Proceeds from collections reinvested in previous credit card securitizations	$ 849.2	$ 3,133.4
Proceeds from new securitizations	1,081.4	2,150.0
Proceeds from collections reinvested in revolving period transfers	1,491.6	4,672.2
Servicing fees received[1]	17.3	53.6

(1) Upon adoption of ASC 860, these fees were eliminated with the consolidation of the WFN Trusts and the WFC Trust, and therefore not reflected in the unaudited condensed consolidated statements of income as of September 30, 2010.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. REDEMPTION SETTLEMENT ASSETS

Redemption settlement assets consist of cash and cash equivalents and securities available-for-sale and are designated for settling redemptions by collectors of the AIR MILES® Reward Program in Canada under certain contractual relationships with sponsors of the AIR MILES Reward Program. These assets are primarily denominated in Canadian dollars. Realized gains and losses from the sale of investment securities were not material. The principal components of redemption settlement assets, which are carried at fair value, are as follows:

	September 30, 2010				December 31, 2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)							
Cash and cash equivalents	$ 34,502	$	$	$ 34,502	$ 71,641	$	$	$ 71,641
Government bonds	35,084	1,016	(7)	36,093	41,026	1,205		42,231
Corporate bonds[(1)]	417,740	7,545	(381)	424,904	453,447	8,473	(1,788)	460,132
Total	$ 487,326	$ 8,561	$ (388)	$ 495,499	$ 566,114	$ 9,678	$ (1,788)	$ 574,004

(1) Included in corporate bonds at December 31, 2009 is an investment in retained interests in the WFN Trusts with a fair value of $73.9 million. Upon adoption of ASC 860, these amounts were eliminated with the consolidation of the WFN Trusts, and therefore not reflected in the unaudited condensed consolidated balance sheet as of September 30, 2010.

The following tables show the gross unrealized losses and fair value for those investments that were in an unrealized loss position as of September 30, 2010 and December 31, 2009, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	September 30, 2010					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Government bonds	$ 9,780	$ (7)	$	$	$ 9,780	$ (7)
Corporate bonds	53,792	(381)			53,792	(381)
Total	$ 63,572	$ (388)	$	$	$ 63,572	$ (388)

	December 31, 2009					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

			(In thousands)			
Corporate bonds	$ 98,448	$ (1,646)	$ 7,705	$ (142)	$ 106,153	$ (1,788)
Total	$ 98,448	$ (1,646)	$ 7,705	$ (142)	$ 106,153	$ (1,788)

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and extent to which fair value has been below cost basis, the financial condition of the security s issuer, and the Company s intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company typically invests in highly-rated securities with low probabilities of default and has the ability to hold the investments until maturity. As of September 30, 2010, the Company does not consider the investments to be other-than-temporarily impaired.

The net carrying value and estimated fair value of the securities at September 30, 2010 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 160,888	$ 161,738
Due after one year through five years	326,438	333,761
Total	$ 487,326	$ 495,499

8. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	September 30, 2010			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
		(In thousands)		
Finite Lived Assets				
Customer contracts and lists	$ 236,228	$ (142,022)	$ 94,206	5-10 years straight line
Premium on purchased credit card portfolios	151,431	(58,162)	93,269	3-10 years straight line, accelerated
Collector database	68,024	(58,809)	9,215	30 years 15% declining balance
Customer database	175,430	(70,930)	104,500	4-10 years straight line
Noncompete agreements	2,839	(2,351)	488	2-5 years straight line
Tradenames	14,156	(4,711)	9,445	4-10 years straight line
Purchased data lists	19,824	(11,264)	8,560	1-5 years straight line, accelerated
	$ 667,932	$ (348,249)	$ 319,683	
Indefinite Lived Assets				
Tradenames	12,350		12,350	Indefinite life
Total intangible assets	$ 680,282	$ (348,249)	$ 332,033	

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2009			
	Gross Assets	Accumulated Amortization (In thousands)	Net	Amortization Life and Method
Finite Lived Assets				
Customer contracts and lists	$ 186,428	$ (121,540)	$ 64,888	5-10 years straight line
Premium on purchased credit card portfolios	155,227	(46,936)	108,291	3-10 years straight line, accelerated
Collector database	66,541	(56,316)	10,225	30 years 15% declining balance
Customer database	160,564	(57,043)	103,521	4-10 years straight line
Noncompete agreements	2,522	(1,986)	536	3-5 years straight line
Tradenames	11,658	(3,674)	7,984	4-10 years straight line
Purchased data lists	17,178	(8,376)	8,802	1-5 years straight line, accelerated
	$ 600,118	$ (295,871)	$ 304,247	
Indefinite Lived Assets				
Tradenames	12,350		12,350	Indefinite life
Total intangible assets	$ 612,468	$ (295,871)	$ 316,597	

With the acquisition of DMS, the Company acquired $67.6 million of intangible assets. These assets included $49.8 million of customer relationships, $15.0 million of customer databases, $2.5 million of trade names and $0.3 million for noncompete agreements. These assets are being amortized over a weighted average life of 7.7 years, 4.0 years, 10.0 years and 2.0 years, respectively. See Note 5, Acquisition, for more information on DMS.

Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2010 are as follows:

	LoyaltyOne	Epsilon	Private Label Services and Credit (In thousands)	Corporate/ Other	Total
December 31, 2009	$ 234,613	$ 669,930	$ 261,732	$	$ 1,166,275
Effects of foreign currency translation	4,979	(559)			4,420
Goodwill acquired during the year		43,874			43,874
September 30, 2010	$ 239,592	$ 713,245	$ 261,732	$	$ 1,214,569

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. DEBT

Debt consists of the following:

Description	September 30, 2010	December 31, 2009	Maturity	Interest Rate
		(In thousands)		
Long-term and other debt:				
Credit facility	$ 370,000	$ 487,000	March 2012	[1]
Senior notes	250,000	250,000	May 2011	6.14%
2009 Term loan	161,000	161,000	March 2012	[2]
2010 Term loan	236,000		March 2012	[3]
Convertible senior notes due 2013	647,111	612,058	August 2013	1.75%
Convertible senior notes due 2014	252,730	238,869	May 2014	4.75%
Capital lease obligations and other debt	12,791	33,425	Various Oct 2010 Jul 2013[4]	5.20% to 8.10%[4]
	1,929,632	1,782,352		
Less: current portion	(262,751)	(51,963)		
Long-term portion	$ 1,666,881	$ 1,730,389		
Certificates of deposit:				
Certificates of deposit	$ 966,800	$ 1,465,000	One year to five years	0.50% to 5.25%
Less: current portion	(452,400)	(772,500)		
Long-term portion	$ 514,400	$ 692,500		
Asset-backed securities debt owed to securitization investors:[5]				
Fixed rate asset-backed term note securities	$ 1,772,815	$	Various Nov 2011 Jun 2015	3.79% to 7.00%
Floating rate asset-backed term note securities	1,153,500		Various Sept 2011 Apr 2013	0.39% to 2.76%[6]
Conduit asset-backed securities	435,509		Various Jun 2011 Sept 2011	1.85% to 2.66%
Total asset-backed securities owed to securitization investors	3,361,824			
Less: current portion	(885,509)			
Long-term portion	$ 2,476,315	$		

(1) The Company maintains a $750.0 million unsecured revolving credit facility (the Credit Facility,) where advances are in the form of either base rate loans or Eurodollar loans and may be denominated in Canadian dollars, subject to a sublimit, or U.S. dollars. The interest rate for

base loans is the higher of (a) the Bank of Montreal s prime rate, (b) the Federal funds rate plus 0.5%, and (c) the quoted London Interbank Offered Rate (LIBOR) as defined in the credit agreement plus 1.0%. The interest rate for Eurodollar loans denominated in U.S. or Canadian dollars fluctuates based on the rate at which deposits of U.S. dollars or Canadian dollars, respectively, in the London interbank market are quoted plus a margin of 0.4% to 0.8% based upon the Company s senior leverage ratio as defined in the Credit Facility. Total availability under the Credit Facility at September 30, 2010 was $380.0 million. At September 30, 2010, the weighted average interest rate was 0.76%.

(2) Advances under the term loan agreement, dated May 15, 2009 (the 2009 Term Loan), are in the form of either base rate loans or Eurodollar loans. The interest rate for base rate loans fluctuates and is equal to the highest of (a) Bank of Montreal s prime rate; (b) the Federal funds rate plus 0.5%; and (c) the quoted

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

LIBOR as defined in the 2009 Term Loan agreement plus 1.0%, in each case plus a margin of 2.0% to 3.0% based upon the Company s senior leverage ratio as defined in the 2009 Term Loan agreement. The interest rate of Eurodollar loans fluctuates based on the rate at which deposits of U.S. dollars in the London interbank market are quoted plus a margin of 3.0% to 4.0% based on the Company s senior leverage ratio as defined in the 2009 Term Loan. At September 30, 2010, the weighted average interest rate was 3.26%.

(3) Advances under the term loan agreement, dated August 6, 2010 (the 2010 Term Loan), are in the form of either base rate loans or Eurodollar loans. The interest rate for base rate loans fluctuates and is equal to the highest of (a) Bank of Montreal s prime rate; (b) the Federal funds rate plus 0.5%; and (c) the quoted LIBOR as defined in the 2010 Term Loan agreement plus 1.0%, in each case plus a margin of 1.5% to 2.5% based upon the Company s senior leverage ratio as defined in the 2010 Term Loan agreement. The interest rate of Eurodollar loans fluctuates based on the rate at which deposits of U.S. dollars in the London interbank market are quoted plus a margin of 2.5% to 3.5% based on the Company s senior leverage ratio as defined in the 2010 Term Loan. At September 30, 2010, the weighted average interest rate was 2.76%.

(4) The Company has other minor borrowings, primarily capital leases, with varying interest rates and maturities.

(5) Upon adoption of ASC 860 and ASC 810, the Company consolidated the WFN Trusts and the WFC Trust and the related asset-backed securities debt. See Note 2, Change in Accounting Principle, for more information on the adoption of ASC 860 and ASC 810.

(6) Interest rates include those for certain of the Company s asset-backed securities owed to securitization investors where floating rate debt is fixed through interest rate swap agreements. The weighted average interest rate of the fixed rate achieved through interest rate swap agreements is 4.45% at September 30, 2010.

As of September 30, 2010, the Company was in compliance with its financial covenants.

Credit Facility

In June 2010, the Company amended its Credit Facility to clarify the application of ASC 860 and ASC 810 with respect to the calculation of covenant compliance.

2009 Term Loan

In June 2010, the Company amended its 2009 Term Loan to clarify the application of ASC 860 and ASC 810 with respect to the calculation of covenant compliance. In addition, the amendment removed the prepayments that were required beginning June 30, 2010 and now provides that principal payments be paid at maturity, March 30, 2012.

2010 Term Loan

On August 6, 2010, the Company, as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC and Epsilon Data Management, LLC, as guarantors, entered into a term loan agreement with Bank of Montreal, as administrative agent, and various other agents and banks. The 2010 Term Loan is unsecured. Amounts borrowed under the 2010 Term Loan are scheduled to mature on March 30, 2012.

The 2010 Term Loan contains usual and customary negative covenants, which are subject to certain specified exceptions. The 2010 Term Loan also requires the Company to satisfy certain financial covenants, including maximum ratios of total leverage and senior leverage and a minimum ratio of consolidated operating EBITDA to consolidated interest expense, each as determined in accordance with the 2010 Term Loan.

As of September 30, 2010, total borrowings under the 2010 Term Loan were $236.0 million.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Convertible Senior Notes

The table below summarizes the carrying value of the components of the convertible senior notes:

	September 30, 2010	December 31, 2009
	(In thousands)	
Carrying amount of equity component	$ 368,678	$ 368,678
Principal amount of liability component	$ 1,150,000	$ 1,150,000
Unamortized discount	(250,159)	(299,073)
Net carrying value of liability component	$ 899,841	$ 850,927
If-converted value of common stock	$ 1,142,583	$ 1,130,852

The discount on the liability component will be amortized as interest expense over the remaining life of the convertible senior notes which is a weighted average period of 3.1 years.

Interest expense on the convertible senior notes recognized in the Company s unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2010 and 2009 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Interest expense calculated on contractual interest rate	$ 7,619	$ 7,619	$ 22,856	$ 15,937
Amortization of discount on liability component	16,752	15,019	48,914	37,243
Total interest expense on convertible senior notes	$ 24,371	$ 22,638	$ 71,770	$ 53,180
Effective interest rate (annualized)	11.0%	11.0%	11.0%	11.0%

Asset-backed Securities Owed to Securitization Investors

An asset-backed security is a security whose value and income payments are derived from and collateralized (or backed) by a specified pool of underlying assets. The sale of the pool of underlying assets to general investors is accomplished through a securitization process.

The Company regularly sells its credit card receivables to its securitization trusts, the WFN Trusts and the WFC Trust. Beginning January 1, 2010, the WFN Trusts and the WFC Trust were consolidated on the balance sheets of the Company, under ASC 860 and ASC 810. See Note 2, Change in Accounting Principle, for more information on the adoption of ASC 860 and ASC 810. The liabilities of the consolidated VIEs include asset-backed securities for which creditors or beneficial interest holders do not have recourse to the general credit of the Company.

Asset-backed Term Notes

In March 2010, Master Trust II issued $100.8 million of term asset-backed securities to investors. The offering consisted of $65.0 million of Class A Series 2010-1 asset-backed notes that have a fixed interest rate of 4.2% per year, $9.8 million of Class M Series 2010-1 asset-backed notes that have a fixed interest rate of

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.3% per year, $6.6 million of Class B Series 2010-1 asset-backed notes that have a fixed interest rate of 6.3% per year, $11.6 million of Class C Series 2010-1 asset-backed notes that have a fixed interest rate of 7.0% per year and $7.8 million of Class D Series 2010-1 zero-coupon notes which were retained by the Company. The Class A notes will mature in November 2012, the Class M notes will mature in December 2012, the Class B notes will mature in January 2013, the Class C notes will mature in February 2013 and the Class D notes will mature in March 2013. With the consolidation of the WFN Trusts, the Class D Series 2010-1 notes are eliminated from the unaudited condensed consolidated financial statements.

On July 8, 2010, Master Trust I issued $450.0 million of term asset-backed securities to investors in a public offering. The offering consisted of $355.5 million of Class A Series 2010-A asset-backed notes that have a fixed interest rate of 3.96% per year, $16.9 million of Class M Series 2010-A asset-backed notes that have a fixed interest rate of 5.2% per year, $21.4 million of Class B Series 2010-A asset-backed notes that have a fixed interest rate of 6.75% per year and $56.2 million of Class C Series 2010-A asset-backed notes that have a fixed interest rate of 5.0% per year. The Class A, Class M, Class B and Class C notes will all mature in June 2015. The Class C Series 2010-A notes were retained by the Company. With the consolidation of the WFN Trusts, the Class C Series 2010-A notes are eliminated from the unaudited condensed consolidated financial statements.

Conduit Facilities

During the first quarter of 2010, the Company renewed its $550.0 million 2009-VFC1 conduit facility under Master Trust III, extending the maturity to September 30, 2011.

During the second quarter of 2010, the Company renewed its $1.2 billion 2009-VFN conduit facility under Master Trust I, extending the maturity to June 23, 2011, and its $275.0 million 2009-VFN conduit facility under the WFC Trust, extending the maturity to June 3, 2011.

Derivative Financial Instruments

As part of its interest rate risk management program, the Company may enter into derivative financial instruments with institutions that are established dealers and manage its exposure to changes in fair value of certain obligations attributable to changes in LIBOR.

The credit card securitization trusts have entered into derivative financial instruments, which include both interest rate swaps and an interest rate cap, to mitigate their interest rate risk on a related financial instrument or to lock the interest rate on a portion of their variable asset-backed securities debt.

Effective January 1, 2010, the derivative financial instruments of the credit card securitization trusts were consolidated on the Company s balance sheets under ASC 860 and ASC 810. These interest rate contracts involve the receipt of fixed rate amounts from counterparties in exchange for the Company making variable rate payments over the life of the agreement without the exchange of the underlying notional amount. These interest rate contracts are not designated as hedges. Such contracts are not speculative and are used to manage interest rate risk, but do not meet the specific hedge accounting requirements of ASC 815, Derivatives and Hedging.

The following tables identify the notional amount, fair value and classification of the Company s outstanding interest rate contracts at September 30, 2010 in the unaudited condensed consolidated balance sheets:

	Notional Amount (in thousands)	Weighted Average Years to Maturity
Interest rate contracts not designated as hedging instruments	$ 1,153,500	1.98

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Balance Sheet Location	Fair Value (in thousands)
Interest rate contracts not designated as hedging instruments	Other current liabilities	$ 6,624
Interest rate contracts not designated as hedging instruments	Other liabilities	$ 77,375

The following tables identify the classification of the Company s outstanding interest rate contracts for the three and nine months ended September 30, 2010 in the unaudited condensed consolidated statements of income:

For the three months ended September 30, 2010	Income Statement Location	Loss on Derivative Contracts (in thousands)
Interest rate contracts not designated as hedging instruments	Securitization funding costs	$ 59

For the nine months ended September 30, 2010	Income Statement Location	Loss on Derivative Contracts (in thousands)
Interest rate contracts not designated as hedging instruments	Securitization funding costs	$ 5,443

The Company limits its exposure on derivatives by entering into contracts with institutions that are established dealers and maintain certain minimum credit criteria established by the Company. At September 30, 2010, the Company does not maintain any derivative contracts subject to master agreements that would require the Company to post collateral or that contain any credit-risk related contingent features. The Company has provisions in certain of the master agreements that require counterparties to post collateral to the Company when their credit ratings fall below certain thresholds. At September 30, 2010, these thresholds were not breached and no amounts were held as collateral by the Company.

10. DEFERRED REVENUE

Because management has determined that the earnings process is not complete at the time an AIR MILES reward mile is issued, the recognition of revenue on all fees received at issuance is deferred. The Company allocates the proceeds from the issuance of AIR MILES reward miles into two components as follows:

Redemption element. The redemption element is the larger of the two components. Revenue related to the redemption element is based on the estimated fair value. For this component, revenue is recognized at the time an AIR MILES reward mile is redeemed, or for those AIR MILES reward miles that are estimated to go unredeemed by the collector base, known as breakage, over the estimated life of an AIR MILES reward mile.

Service element. The service element consists of marketing and administrative services provided to sponsors. Revenue related to the service element is determined using the residual method in accordance with ASC 605-25. It is initially deferred and then amortized pro rata over the estimated life of an AIR MILES reward mile.

Under certain of the Company s contracts, a portion of the proceeds is paid to the Company upon the issuance of an AIR MILES reward mile and a portion is paid at the time of redemption and therefore, the Company does not have a redemption obligation related to these contracts. Revenue is recognized at the time of redemption and is not reflected in the reconciliation of the redemption obligation detailed below. Under such contracts, the proceeds received at issuance are initially deferred as service revenue and revenue is recognized pro rata over the estimated life of an AIR MILES reward mile. Amounts for revenue related to the redemption element and service element are recorded in redemption revenue and transaction revenue, respectively, in the unaudited condensed consolidated statements of income.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Service	Deferred Revenue Redemption (In thousands)	Total
December 31, 2009	$ 306,336	$ 839,810	$ 1,146,146
Cash proceeds	136,088	359,749	495,837
Revenue recognized	(126,637)	(364,684)	(491,321)
Other		4,564	4,564
Effects of foreign currency translation	6,898	18,725	25,623
September 30, 2010	$ 322,685	$ 858,164	$ 1,180,849
Amounts recognized in the unaudited condensed consolidated balance sheets:			
Current liabilities	$ 154,952	$ 858,164	$ 1,013,116
Non-current liabilities	$ 167,733	$	$ 167,733

11. STOCKHOLDERS EQUITY

Stock Repurchase Programs

On January 27, 2010, the Company s Board of Directors authorized a stock repurchase program (Prior Repurchase Program) to acquire up to $275.1 million of the Company s common stock through December 31, 2010. On September 13, 2010, the Company s Board of Directors authorized a new stock repurchase program, replacing the Prior Repurchase Program, to acquire up to $400.0 million of the Company s common stock through December 31, 2011, subject to any restrictions pursuant to the terms of the Company s credit agreements or otherwise.

For the three and nine months ended September 30, 2010, the Company acquired a total of 897,986 shares and 1,354,486 shares, respectively, of its common stock for $50.9 million and $76.7 million, respectively. All shares were acquired prior to September 13, 2010 and under the Prior Repurchase Program.

Stock Compensation Plans

On March 31, 2005, the Company s Board of Directors adopted the 2005 long-term incentive plan, which was subsequently approved by the Company s stockholders on June 7, 2005 and became effective July 1, 2005. This plan reserved 4,750,000 shares of common stock for grants of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units and other performance-based awards to selected officers, employees, non-employee directors and consultants performing services for the Company or its affiliates. On September 24, 2009, the Company s Board of Directors amended the 2005 long term incentive plan to provide that, in addition to settlement in shares of the Company s common stock or other securities, equity awards may be settled in cash. No more grants may be made from the 2005 long-term incentive plan, which expired on June 30, 2010.

On March 25, 2010, the Company s Board of Directors adopted the 2010 Omnibus Incentive Plan, which was subsequently approved by the Company s stockholders on June 8, 2010, became effective July 1, 2010 and expires on June 30, 2015. This plan reserves 3,000,000 shares of common stock for grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance share awards, cash incentive awards, deferred stock units, and other stock-based and cash-based awards to

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

selected officers, employees, non-employee directors and consultants performing services for the Company or its affiliates, with only employees being eligible to receive incentive stock options.

Stock Compensation Expense

Total stock-based compensation expense recognized in the Company s unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2010 and 2009 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Cost of operations	$ 6,598	$ 7,315	$ 18,801	$ 23,466
General and administrative	4,377	7,293	15,195	19,799
Total	$ 10,975	$ 14,608	$ 33,996	$ 43,265