

ALLIANCE DATA SYSTEMS CORP

Form 10-Q/A

November 06, 2006

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

Form 10-Q/A
Amendment No. 1

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2006
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
*(State or Other Jurisdiction of
Incorporation or Organization)*

31-1429215
*(I.R.S. Employer
Identification No.)*

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of November 1, 2006, 79,731,538 shares of common stock were outstanding.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to correct two typographical errors in our Form 10-Q filed on November 6, 2006 (the Original Filing). Under Item 1. Financial Statements, page 5, the Net increase in seller s interest and credit card receivables was incorrectly stated as 8,906 instead of (8,906) and Net cash used in investing activities was incorrectly stated as 202,049 instead of (202,049).

Except for the matters described above, this amendment does not modify or update disclosures in the Original Filing. Furthermore, except for the matters described above, this amendment does not change any previously reported financial results, nor does it reflect events occurring after the date of the Original Filing.

ALLIANCE DATA SYSTEMS CORPORATION

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	December 31, 2005	September 30, 2006
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 143,213	\$ 144,732
Due from card associations	58,416	71,946
Trade receivables, less allowance for doubtful accounts (\$2,079 and \$2,553 at December 31, 2005 and September 30, 2006, respectively)	203,883	235,700
Seller's interest and credit card receivables, less allowance for doubtful accounts (\$38,415 and \$38,570 at December 31, 2005 and September 30, 2006, respectively)	479,108	387,187
Deferred tax asset, net	70,221	74,460
Other current assets	87,612	113,281
Total current assets	1,042,453	1,027,306
Redemption settlement assets, restricted	260,963	289,953
Property and equipment, net	162,972	199,719
Due from securitizations	271,256	250,669
Intangible assets, net	265,000	262,199
Goodwill	858,470	927,503
Other non-current assets	64,968	62,083
Total assets	\$ 2,926,082	\$ 3,019,432
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 67,384	\$ 79,817
Accrued expenses	198,707	188,417
Merchant settlement obligations	127,038	152,387
Certificates of deposit	342,600	165,800
Credit facilities and other debt, current	235,843	7,999
Other current liabilities	76,999	74,278
Total current liabilities	1,048,571	668,698
Deferred tax liability, net	62,847	29,007
Deferred revenue	610,533	678,414

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Certificates of deposit	36,500	
Long-term and other debt	222,001	593,542
Other liabilities	24,523	10,805
Total liabilities	2,004,975	1,980,466
Stockholders' equity:		
Common stock, \$0.01 par value; authorized 200,000 shares; issued 84,765 shares and 86,555 shares at December 31, 2005 and September 30, 2006, respectively	848	866
Unearned compensation	(14,504)	
Additional paid-in capital	743,545	811,531
Treasury stock, at cost (4,360 shares and 6,784 shares at December 31, 2005 and September 30, 2006, respectively)	(154,952)	(274,658)
Retained earnings	338,081	488,077
Accumulated other comprehensive income	8,089	13,150
Total stockholders' equity	921,107	1,038,966
Total liabilities and stockholders' equity	\$ 2,926,082	\$ 3,019,432

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		Nine Months Ended	
	September 30,		September 30,	
	2005	2006	2005	2006
	(In thousands, except per share amounts)			
Revenues				
Transaction	\$ 159,092	\$ 170,443	\$ 452,845	\$ 502,396
Redemption	66,221	85,274	196,745	249,092
Securitization income and finance charges, net	98,441	142,611	306,390	444,660
Database marketing fees	43,833	81,209	135,007	209,492
Other revenue	17,226	27,047	40,269	68,622
Total revenue	384,813	506,584	1,131,256	1,474,262
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	277,627	357,247	812,411	1,041,919
General and administrative	23,050	28,150	65,960	69,117
Depreciation and other amortization	13,972	16,892	43,182	47,958
Amortization of purchased intangibles	10,359	15,086	30,301	43,469
Total operating expenses	325,008	417,375	951,854	1,202,463
Operating income	59,805	89,209	179,402	271,799
Interest expense, net	2,422	10,639	7,537	29,235
Income before income taxes	57,383	78,570	171,865	242,564
Provision for income taxes	21,532	29,790	64,449	92,568
Net income	\$ 35,851	\$ 48,780	\$ 107,416	\$ 149,996
Net income per share basic	\$ 0.43	\$ 0.61	\$ 1.30	\$ 1.88
Net income per share diluted	\$ 0.42	\$ 0.60	\$ 1.26	\$ 1.84
Weighted average shares basic	82,755	79,612	82,612	79,885
Weighted average shares diluted	85,249	81,491	85,320	81,657

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,	
	2005	2006
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 107,416	\$ 149,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73,483	91,427
Deferred income taxes	(5,741)	(22,642)
Provision for doubtful accounts	13,705	17,306
Fair value gain on interest only strip	(14,300)	(7,970)
Non-cash stock compensation	5,263	31,476
Change in operating assets and liabilities, net of acquisitions:		
Change in trade accounts receivable	(30,023)	(9,753)
Change in merchant settlement activity	15,772	11,819
Change in other assets	8,762	(20,081)
Change in accounts payable and accrued expenses	(2,132)	4,778
Change in deferred revenue	31,016	40,152
Change in other liabilities	(8,836)	(13,770)
Tax benefit of stock option exercises	13,200	
Excess tax benefits from stock-based compensation		(13,784)
Purchase of credit card receivables	(20,527)	(68,398)
Proceeds from the sale of credit card receivable portfolios		154,445
Other	1,527	7,899
Net cash provided by operating activities	188,585	352,900
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	(6,064)	(16,803)
Payments for acquired businesses, net of cash acquired	(139,675)	(133,118)
Net increase in seller's interest and credit card receivables	(3,622)	(8,906)
Change in due from securitizations	61,516	29,022
Capital expenditures	(45,595)	(72,202)
Other	(2,783)	(42)
Net cash used in investing activities	(136,223)	(202,049)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	577,172	2,441,907
Repayment of borrowings	(591,418)	(2,303,907)
Certificate of deposit issuances	166,500	139,500
Repayments of certificates of deposits	(94,200)	(352,800)
Payment of capital lease obligations	(5,471)	(5,815)
Payment of deferred financing costs		(3,668)
Excess tax benefits from stock-based compensation		13,784

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Proceeds from issuance of common stock	27,397	39,332
Purchase of treasury shares	(60,267)	(119,706)
Net cash provided by (used in) financing activities	19,713	(151,373)
Effect of exchange rate changes on cash and cash equivalents	1,313	2,041
Change in cash and cash equivalents	73,388	1,519
Cash and cash equivalents at beginning of period	84,409	143,213
Cash and cash equivalents at end of period	\$ 157,797	\$ 144,732
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 9,798	\$ 17,322
Income taxes paid, net of refunds	\$ 40,164	\$ 101,498

See accompanying notes to unaudited condensed consolidated financial statements.

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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, 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/A for the year ended December 31, 2005.

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

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

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