ALLIANCE DATA SYSTEMS CORP
Form PREM14A
June 18, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

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

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
þ Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

ALLIANCE DATA SYSTEMS CORPORATION

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
o No fee required.
þ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common stock, par value $0.01 per share, of Alliance Data Systems Corporation (Company common stock)

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

78,691,788 shares of Company common stock (including shares of restricted stock)

4,678,038 options to purchase shares of Company common stock

993,591 restricted stock units

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

Calculated solely for the purpose of determining the filing fee. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder, the filing fee was determined by multiplying 0.00003070 by the sum of: (1) an aggregate cash payment of $6.4 billion for the proposed per share cash payment of $81.75 for 78,691,788 outstanding shares of Alliance Data common stock (including 193,489 shares of restricted stock); (2) an aggregate cash payment of $223.7 million expected to be paid upon cancellation of outstanding options having an exercise price of less than $81.75 per share, which cash payment was calculated by multiplying options to purchase 4,678,038 shares of common stock by $47.81

(which is the difference between $81.75 and the weighted average exercise price of $33.94 per share); and (3) an aggregate cash payment of $81.2 million expected to be paid upon cancellation of restricted stock units.

(4) Proposed maximum aggregate value of transaction:

$6.7 billion

(5) Total fee paid:

$206,855

o Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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PRELIMINARY COPY, SUBJECT TO COMPLETION DATED JUNE 15, 2007

ALLIANCE DATA SYSTEMS CORPORATION
17655 Waterview Parkway
Dallas, Texas 75252
972-348-5100

, 2007

To Our Stockholders:

We cordially invite you to attend the special meeting of stockholders of Alliance Data Systems Corporation, a Delaware corporation (the Company), at our corporate headquarters, 17655 Waterview Parkway, Dallas, Texas 75252 on , 2007 at a.m. (local time).

At the special meeting, we will ask you to consider and vote upon a proposal to adopt the Agreement and Plan of Merger (the Merger Agreement), dated as of May 17, 2007, among the Company, Aladdin Holdco, Inc., a Delaware corporation (Parent), and Aladdin Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Parent (Merger Sub). Under the terms of the Merger Agreement, Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation (the Merger). Parent and Merger Sub were formed by private equity funds sponsored by The Blackstone Group solely for the purpose of entering into the Merger Agreement and consummating the Merger and other transactions contemplated thereby. If the Company s stockholders adopt the Merger Agreement and the Merger is completed, you will be entitled to receive $81.75 in cash, without interest and less any applicable withholding taxes, for each share of Company common stock you own at the time of the Merger (unless you are entitled to and have properly exercised your appraisal rights under Delaware law with respect to the Merger).

After careful consideration, the Company s board of directors by unanimous vote has determined that the Merger Agreement is advisable and in the best interests of the Company and its stockholders. **Accordingly, the Company s board of directors unanimously recommends that you vote FOR the adoption of the Merger Agreement.** The board s recommendation is based, in part, upon the unanimous recommendation of a special committee of the board of directors consisting of seven independent and disinterested directors. The board of directors established the special committee for the purpose of determining which, if any, strategic alternatives the Company should pursue and, in the event that a strategic alternative was to be pursued, to, among other things, determine whether such strategic alternative is fair to and in the best interests of the Company and its stockholders and make an appropriate recommendation to the board.

The accompanying proxy statement provides you with detailed information about the special meeting, the background of and reasons for the proposed Merger, the terms of the Merger Agreement and other important information. Please give this material your careful attention.

Your vote is very important regardless of the number of shares you own. The Merger cannot be completed unless holders of a majority of the outstanding shares entitled to vote at the special meeting of stockholders vote for the adoption of the Merger Agreement. We would like you to attend the special meeting. However, whether or not you plan to attend the special meeting, it is important that your shares be represented. Accordingly, please submit your proxy at your earliest convenience by following the instructions on your proxy card as soon as possible.

If you hold shares through a broker or other nominee, you should follow the procedures provided by your broker or nominee. If you do not vote or instruct your broker or nominee how to vote, it will have the same effect as a vote AGAINST the adoption of the Merger Agreement. If you complete, sign and submit your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of adoption of the Merger Agreement and approval of any adjournment of the special meeting. Remember, failing to vote has the same effect as a vote AGAINST the adoption of the Merger Agreement.

If you have questions or need assistance voting your shares, please call , our proxy solicitation agent, toll free at .

Thank you for your continued support and we look forward to seeing you on , 2007.

Sincerely,

J. Michael Parks
Chairman and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved of the Merger, passed upon the merits or fairness of the Merger or passed upon the adequacy or accuracy of the disclosure in the enclosed documents. Any representation to the contrary is a criminal offense.

The proxy statement is dated , 2007, and is first being mailed to stockholders on or about , 2007.

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ALLIANCE DATA SYSTEMS CORPORATION
17655 Waterview Parkway
Dallas, Texas 75252
972-348-5100

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON , 2007

, 2007

To the Stockholders of Alliance Data Systems Corporation:

A special meeting of the stockholders of Alliance Data Systems Corporation, a Delaware corporation (the Company), will be held at our corporate headquarters, 17655 Waterview Parkway, Dallas, Texas 75252 on , 2007 at a.m. (local time), for the following purposes:

(1) to consider and vote upon a proposal to adopt the Agreement and Plan of Merger (the Merger Agreement), dated as of May 17, 2007, among the Company, Aladdin Holdco, Inc., a Delaware corporation (Parent), and Aladdin Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Parent (Merger Sub), as it may be amended from time to time; and

(2) if necessary or appropriate, to consider and vote upon a proposal to adjourn the special meeting to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the Merger Agreement.

In accordance with the Company s bylaws, the board of directors has fixed 5:00 p.m. Central [Standard/Daylight] Time on , 2007 as the record date for the purposes of determining stockholders entitled to notice of and to vote at the special meeting and at any adjournment thereof. A list of the Company s stockholders will be available at our principal executive offices at 17655 Waterview Parkway, Dallas, Texas 75252, during ordinary business hours for at least ten days prior to the special meeting and at the special meeting. All stockholders of record are cordially invited to attend the special meeting in person.

The adoption of the Merger Agreement requires the affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of the Company s common stock. **Whether or not you plan to attend the special meeting, we urge you to vote your shares as promptly as possible prior to the special meeting to ensure that your shares will be represented at the special meeting if you are unable to attend. Accordingly, please submit your proxy at your earliest convenience in one of the following ways:**

using the toll-free number shown on your proxy card;

using the Internet website shown on your proxy card; or

completing, signing, dating and returning the enclosed proxy card in the postage-paid envelope.

If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the adoption of the Merger Agreement. If you fail to return a valid proxy card and do not vote in person at the special meeting, your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and, if a quorum is present, it will have the same effect as a vote AGAINST the adoption of the Merger Agreement. Any stockholder attending the special meeting may vote in person, even if he or

she has returned a proxy card; such vote by ballot will revoke any proxy previously submitted. However, if you hold your shares through a bank or broker or other custodian, you must provide a legal proxy issued from such custodian in order to vote your shares in person at the special meeting.

If you plan to attend the special meeting, please note that space limitations make it necessary to limit attendance to stockholders. Each stockholder may be asked to present valid picture identification, such as a driver s license or passport. Stockholders holding stock in brokerage accounts (street name holders) will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras (including cellular telephones with photographic capabilities), recording devices and other electronic devices will not be permitted at the special meeting. The special meeting will begin promptly at a.m. (local time).

Stockholders who do not vote in favor of the adoption of the Merger Agreement will have the right to seek appraisal of the fair value of their shares if the Merger is completed, but only if they submit a written objection to the Merger to the Company before the vote is taken on the Merger Agreement and they comply with all applicable requirements of Delaware law, which are summarized in the accompanying proxy statement. We urge you to read the entire proxy statement carefully.

PLEASE DO NOT SEND YOUR STOCK CERTIFICATES AT THIS TIME. IF THE MERGER IS COMPLETED, YOU WILL BE SENT INSTRUCTIONS REGARDING THE SURRENDER OF YOUR STOCK CERTIFICATES.

By Order of the Board of Directors

Alan M. Utay
Corporate Secretary
Dallas, Texas

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In this proxy statement, the terms Company, Alliance Data, we, our, ours, and us refer to Alliance Data Syste Corporation, unless the context otherwise requires.

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SUMMARY

This summary highlights selected information from the proxy statement and may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement and its annexes. The Agreement and Plan of Merger, dated as of May 17, 2007 (the Merger Agreement), among Alliance Data Systems Corporation (Alliance Data or the Company), Aladdin Holdco, Inc., a Delaware corporation (Parent), and Aladdin Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Parent (Merger Sub), is attached as Annex A to this proxy statement. We encourage you to read the Merger Agreement because it is the legal document that governs the parties agreement pursuant to which Merger Sub will be merged with and into the Company (the Merger). Each item in this summary includes a page reference directing you to a more complete description of that item.

The Parties to the Merger

(See The Parties to the Merger beginning on page)

The Company is a leading provider of marketing, loyalty and transaction services, managing over 120 million consumer relationships for some of North America s most recognizable companies. Using transaction-rich data, the Company creates and manages customized solutions that change consumer behavior and enable its clients to create and enhance customer loyalty to build stronger, mutually beneficial relationships with their customers. Parent and Merger Sub were formed solely for the purpose of effecting the Merger and the transactions contemplated by the Merger Agreement, and neither Parent nor Merger Sub has engaged in any business except in furtherance of these purposes. Parent is owned by an affiliate of The Blackstone Group, and Merger Sub is an indirect, wholly owned subsidiary of Parent. The Blackstone Group, a global investment and advisory fund, has been a leader in the field of private equity investing since 1987, managing over $32.4 billion through its Blackstone Capital Partners I, II, III, IV, and V and Blackstone Communications Partners funds.

The Merger

(See The Merger Effects of the Merger beginning on page and The Merger Agreement The Merger beginning on page)

If the Merger Agreement is adopted by our stockholders and the other conditions to closing are satisfied, Merger Sub will merge with and into the Company. When the Merger becomes effective (the Effective Time), the separate corporate existence of Merger Sub will cease, and the Company will continue as the surviving corporation with the name Alliance Data Systems Corporation. The surviving corporation will be an indirect subsidiary of Parent, owned indirectly by affiliates of The Blackstone Group and its co-investors (if any). Following completion of the Merger, the Company s common stock will be delisted from the New York Stock Exchange (the NYSE) and will no longer be publicly traded. The surviving corporation will be a privately held corporation, and you will cease to have any ownership interest in the surviving corporation or any rights as a stockholder therein.

Merger Consideration

(See The Merger Effects of the Merger Effect on Common Stock

At the Effective Time, each outstanding share of Company common stock (other than shares held by (a) stockholders who do not vote in favor of the adoption of the Merger Agreement and who are entitled to and properly demand appraisal rights in accordance with Delaware law, if

and Other Equity-Based Awards beginning on page and The Merger Agreement Consideration to be Received in the Merger beginning on page)

any), (b) Parent or Merger Sub or held in the Company s treasury, which will be cancelled and extinguished immediately prior to the Effective Time and (c) any Company subsidiary or subsidiary of Parent (other than Merger Sub), which will be converted into shares of the surviving corporation) will be

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converted into the right to receive $81.75 in cash, without interest and less any applicable withholding taxes (the Merger Consideration).

Treatment of Options and Restricted Shares

(See The Merger Effects of the Merger Effect on Common Stock and Other Equity-Based Awards beginning on page , The Merger Interests of the Company s Directors and Executive Officers in the Merger Treatment of Options, Restricted Stock, Restricted Stock Units and Other Equity Based Awards beginning on page and The Merger Agreement Company Options and Stock-Based Awards beginning on page)

At the Effective Time, unless otherwise agreed between Parent and the holder thereof, each option to acquire Company common stock issued under the Company s equity incentive plans (each a Company Option) outstanding immediately prior to the Effective Time will be converted into the right to receive an amount in cash equal to the product of (a) the total number of shares of Company common stock subject to such Company Option and (b) the excess, if any, of $81.75 over the exercise price per share of Company common stock subject to such Company Option, rounded down to the nearest cent.

At the Effective Time, unless otherwise agreed between Parent and the holder thereof, each share of restricted stock granted under the Company s incentive plans (the Company Restricted Stock) outstanding immediately prior to the Effective Time will become fully vested without restrictions thereon and will be converted into the right to receive an amount in cash equal to the product of (a) the number of shares of Company Restricted Stock and (b) $81.75.

Treatment of Restricted Stock Units

(See The Merger Effects of the Merger Effect on Common Stock and Other Equity-Based Awards beginning on page , The Merger Interests of the Company s Directors and Executive Officers in the Merger Treatment of Options, Restricted Stock, Restricted Stock Units and Other Equity Based Awards beginning on page and The Merger Agreement Company Options and Stock-Based Awards beginning on page)

At the Effective Time, each award of annual performance based restricted stock units outstanding immediately prior to the Effective Time will become contingently vested with respect to the number of restricted stock units that would have vested in the ordinary course (without regard to time-based vesting) based upon the Company s performance for the applicable performance period through the Effective Time. If the holder of such contingently vested restricted stock unit is employed by the Company or any Company subsidiary on February 1, 2008, then such holder will receive a lump sum cash payment equal to the product of (a) the total number of restricted stock units subject to such award and (b) $81.75.

At the Effective Time, the performance criteria applicable to each award of retention restricted stock units will be deemed to have been satisfied in full, and the restricted stock units subject to the award of retention restricted stock units will become fully vested, if the holder satisfies the time-based vesting criteria thereof (with the applicable vesting dates deemed to be February 21 of each of 2008, 2009 and 2010), and upon vesting of such restricted stock units the Company will distribute to each holder a lump sum cash payment, together with 8% interest thereon from the Effective Time, equal to the product of (a) the total number of retention restricted stock units subject to such award and (b) $81.75.

At the Effective Time, all restricted stock units *other than* retention restricted stock units and annual performance based restricted stock units will fully vest (to the extent not already vested) and will be automatically converted into the right to receive, promptly following the Effective Time, an amount in cash equal to the product of (a) the total number of such

restricted stock units and (b) $81.75.

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Treatment of Other Equity Based Awards

(See The Merger Effects of the Merger Effect on Common Stock and Other Equity-Based Awards beginning on page and The Merger Agreement Company Options and Stock-Based Awards beginning on page)

At the Effective Time, any other Company common stock-based awards will become fully vested and will automatically be converted into the right to receive a cash payment equal to the product of (a) the total number of shares of Company common stock subject to such award and (b) $81.75.

The Special Meeting of Stockholders

(See Questions and Answers About the Special Meeting and the Merger beginning on page and The Special Meeting of Stockholders beginning on page)

Place, Date and Time. The special meeting of stockholders will be held at the Company s corporate headquarters, 17655 Waterview Parkway, Dallas, Texas 75252 on , 2007 at a.m. (local time).

Purpose. You will be asked to consider and vote upon (a) a proposal to adopt the Merger Agreement, pursuant to which Merger Sub will merge with and into the Company, and (b) if necessary or appropriate, a proposal to adjourn the special meeting to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the Merger Agreement.

Record Date and Quorum. You are entitled to vote at the special meeting if you owned shares of Company common stock as of 5:00 p.m. Central [Standard/Daylight] Time on , 2007, the record date for the special meeting. As of the record date there were shares of Company common stock outstanding and entitled to vote, held by approximately holders of record. The presence in person or by proxy of a majority of the issued and outstanding shares of Company common stock at the special meeting constitutes a quorum for the purpose of considering the proposals.

Vote Required For Adoption of the Merger Agreement. The adoption of the Merger Agreement requires the affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of Company common stock. **The failure to vote has the same effect as a vote AGAINST the adoption of the Merger Agreement.**

Vote Required For Adjournment. If a quorum exists, holders of a majority of the shares of Company common stock present in person or represented by proxy at the special meeting may adjourn the special meeting.

Who Can Vote at the Special Meeting. At the special meeting, you may vote all of the shares of Company common stock you owned of record as of the record date. You may vote any shares you hold of record in person at the special meeting, even if you have returned a proxy card, and your vote by ballot will revoke any proxy previously submitted. If you hold your shares through a bank or broker or other custodian, you must provide

a legal proxy issued from such custodian in order to vote your shares in person at the special meeting.

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Procedure for Voting. You may vote your shares by attending the special meeting and voting in person or you may submit a proxy in one of the following ways:

using the toll-free number shown on your proxy card;

using the Internet website shown on your proxy card; or

completing, signing, dating and returning the enclosed proxy card in the postage-paid envelope.

You may revoke your proxy at any time before the vote is taken at the special meeting. To revoke your proxy, you must advise , the Company s proxy solicitor, in writing, that you are revoking your proxy and deliver a new proxy dated after the date of the earlier proxy being revoked, or submit a later-dated proxy by telephone or the Internet at or before the special meeting, before your shares of Company common stock have been voted at the special meeting, or attend the special meeting and vote your shares in person. Merely attending the special meeting without voting will not constitute a revocation of your earlier proxy.

If your shares are held in street name by your broker, please follow the directions provided by your broker in order to instruct your broker as to how to vote your shares. **If you do not instruct your broker to vote your shares, it will have the same effect as a vote AGAINST the adoption of the Merger Agreement**.

Timing and Likelihood of Closing

(See The Merger Agreement Closing Conditions beginning on page)

We are working toward completing the Merger as quickly as possible, and we anticipate that it will be completed by year-end, assuming the satisfaction or waiver of all of the conditions to the Merger. However, because the Merger is subject to certain conditions, including adoption of the Merger Agreement by our stockholders, receipt of certain banking and other regulatory approvals and the conclusion of the Marketing Period, the exact timing of the completion of the Merger and the likelihood of the consummation thereof cannot be predicted. If any of the conditions in the Merger Agreement are not satisfied or waived, including the conditions described below under The Merger Agreement Closing Conditions, the Merger Agreement may be terminated and the Merger will not be completed.

Please see The Merger Agreement Marketing Period; Efforts to Obtain Financing beginning on page for an explanation of the term Marketing Period.

Determinations and Recommendations of the Special Committee

(See The Merger Reasons for the Merger

On April 13, 2007, our board of directors established a special committee composed of seven independent and disinterested directors for the purpose of determining which, if any, strategic alternatives the Company should pursue and, in the event that a strategic alternative was to be pursued, to:

The Special Committee beginning on page)

determine whether such strategic alternative is fair to and in the best interests of the Company and its stockholders;

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recommend to the board of directors (a) whether the board should approve such strategic alternative (including documents setting forth the terms thereof), (b) whether the board should recommend such strategic alternative to the Company s stockholders and (c) whether the Company should consummate such strategic alternative;

discuss and negotiate with any party and its representatives and advisors the terms of such strategic alternative;

negotiate any and all definitive agreements with respect to such strategic alternative;

review and comment upon any and all documents and other instruments used in connection with such strategic alternative, including any and all materials to be filed with the Securities and Exchange Commission (the SEC) and other governmental and non-governmental persons and entities; and

authorize the issuance of press releases and other public statements as the special committee considers appropriate regarding such strategic alternative or consideration thereof.

Members of the special committee received no compensation for their service as members of the special committee other than (a) the compensation normally provided to directors for attendance of board meetings in accordance with the Company s remuneration policies and (b) reimbursement for reasonable out-of-pocket costs and expenses incurred in connection with service on the special committee.

The special committee unanimously (a) determined that it is fair to and in the best interests of the holders of Company common stock to consummate the transactions contemplated by the Merger Agreement, (b) determined that the Merger and the Merger Agreement should be approved and declared advisable by the board of directors and (c) determined that the board of directors should recommend that the holders of Company common stock approve the Merger and the Merger Agreement.

Determinations and Recommendations of the Board of Directors

(See The Merger Reasons for the Merger; The Board of Directors beginning on page)

Our board of directors, by unanimous vote, after considering factors including the unanimous recommendation of the special committee, has (a) declared the Merger Agreement and the transactions contemplated thereby advisable and in the best interests of the Company and its stockholders, (b) approved the Merger Agreement, the Merger and all other transactions contemplated thereby and (c) directed that the adoption of the Merger Agreement be submitted to a vote at a meeting of the stockholders of the Company with the recommendation of the board of directors that the stockholders of the Company adopt the Merger Agreement and approve the Merger.

Our board of directors recommends that the Company s stockholders vote FOR the adoption of the Merger Agreement and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

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Interests of the Company s Directors and Executive Officers in the Merger

(See The Merger Interests of the Company s Directors and Executive Officers in the Merger beginning on page)

In considering the recommendation of the board of directors with respect to the Merger Agreement, you should be aware that some of the Company s directors and executive officers have interests in the Merger that are different from, or in addition to, the interests of our stockholders generally. These interests include the treatment of shares (including restricted shares), options and restricted stock units held by, as well as indemnification and insurance arrangements with, directors and executive officers and change in control severance benefits that may become payable to certain executive officers if the Merger is consummated. In addition, some of our executive officers could enter into employment or other agreements with the surviving corporation. The special committee and the board of directors were aware of these interests and considered them, among other matters, in making their determinations regarding the Merger Agreement and the Merger.

Share Ownership of the Company s Directors and Executive Officers

See Security Ownership by Certain Beneficial Owners and Management beginning on page)

As of , 2007, the record date, the Company s directors and executive officers held and are entitled to vote, in the aggregate, shares of Company common stock representing approximately % of the outstanding shares of Company common stock. The directors and executive officers have informed the Company that they currently intend to vote all of their respective shares of Company common stock FOR the adoption of the Merger Agreement and FOR the adjournment proposal, if necessary or appropriate.

Opinions of Financial Advisors

(See The Merger Opinions of Financial Advisors beginning on page , Annex B, Annex C and Annex D)

Banc of America Securities LLC (Banc of America Securities), Lehman Brothers Inc. (Lehman Brothers) and Evercore Group L.L.C. (Evercore) were engaged to act as financial advisors to the special committee in connection with the evaluation of the proposed Merger and potential alternatives.

Banc of America Securities and Lehman Brothers delivered to the special committee of the board of directors and the board of directors of the Company separate written opinions, each dated May 17, 2007, to the effect that, as of the date of the opinions and based on and subject to various assumptions and limitations described in each of the opinions, the consideration to be received in the Merger by holders of Company common stock was fair, from a financial point of view, to such holders. The full text of the written opinions, which describe, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, are attached as Annex B and C, respectively, to this proxy statement. Holders of the Company common stock are encouraged to read the opinions carefully in their entirety. **Banc of America Securities and Lehman Brothers respective opinions were provided to the special committee of the board of directors and the board of directors of the Company in connection with their respective evaluation of the consideration provided for in the Merger from a financial point of view. The opinions of Banc of America Securities and Lehman Brothers do not address any other aspect of the Merger**

and do not constitute a recommendation as to how any stockholder should vote or act in connection with the Merger.

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On May 17, 2007, at a meeting of the board of directors of the Company held to evaluate the Merger, Evercore rendered to the special committee and the board of directors of the Company an oral opinion, which was confirmed by delivery of a written opinion dated the same date, to the effect that, as of such date and based upon and subject to various assumptions and limitations described in its opinion, the consideration to be received in the proposed Merger by holders of Company common stock was fair, from a financial point of view, to such holders of Company common stock.

Financing

(See The Merger Financing of the Merger beginning on page and The Merger Agreement Marketing Period; Efforts to Obtain Financing beginning on page)

The Merger is not conditioned upon the receipt of financing by Parent. The Company and Parent estimate that the total amount of funds necessary to consummate the Merger and related transactions will be approximately $ billion. Parent and Merger Sub have obtained equity and debt financing commitments (together, the Commitments), the proceeds of which, together with the available cash of the Company, will be sufficient to consummate the Merger on the terms contemplated by the Merger Agreement, effect any other repayment or refinancing of debt contemplated by the Merger Agreement and pay all related fees and expenses of the transactions contemplated by the Merger Agreement or the Commitments.

Parent has received an equity commitment letter from Blackstone Capital Partners V L.P. (BCP V) pursuant to which BCP V agreed, subject to the terms and conditions set forth therein, to purchase or cause the purchase of the equity of Parent for an aggregate cash purchase price of approximately $1.8 billion solely for the purpose of allowing Parent to fund, and to the extent necessary to fund, a portion of the aggregate Merger Consideration and related expenses.

In connection with the execution and delivery of the Merger Agreement, Merger Sub has obtained commitments to provide up to $6.6 billion in aggregate debt financing, consisting of (a) senior secured credit facilities in an aggregate principal amount of $4.4 billion, (b) a senior unsecured bridge loan facility in an aggregate principal amount of up to $1.8 billion, and (c) a senior subordinated unsecured bridge loan facility in an aggregate principal amount of up to $410.0 million to finance, in part, the payment of the Merger Consideration, the repayment or refinancing of certain of our debt outstanding on the closing date of the Merger and the payment of fees and expenses in connection with the Merger, refinancing, financing and related transactions and, after the closing date of the Merger, to provide for ongoing working capital and general corporate purposes.

Merger Sub has agreed to use its commercially reasonable efforts to arrange the debt financing on the terms and conditions described in the debt financing commitments. If any portion of the debt financing becomes unavailable on the terms and conditions contemplated in the Debt

Commitment Letter (as defined below under The Merger Financing of the Merger Debt Financing),

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Merger Sub has agreed to use its reasonable best efforts to obtain alternative financing from alternative sources.

Under the Merger Agreement, the Debt Commitment Letter may be amended or superseded to replace or add lenders and arrangers, except that the Debt Commitment Letter may not be amended or superseded in a manner that would (a) expand or adversely amend the conditions to the debt financing set forth in the Debt Commitment Letter, (b) reasonably be expected to delay or prevent the closing of the Merger, (c) reduce the aggregate amount of debt financing set forth in the Debt Commitment Letter (unless replaced with new equity financing) or(d) adversely impact the ability of Parent or Merger Sub to enforce their rights against the other parties to the Debt Commitment Letter.

The Company has agreed, upon request by Parent, to use its reasonable best efforts to commence offers to purchase and consent solicitations with respect to all of the outstanding aggregate amount and all other amounts due of its 6.00% Senior Notes, Series A, due May 16, 2009 and 6.14% Senior Notes, Series B, due May 16, 2011.

Regulatory Approvals

(See The Merger Regulatory Approvals beginning on page)

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), and the rules promulgated thereunder by the Federal Trade Commission (the FTC), the Merger may not be completed until notification and report forms have been filed with the FTC and the Antitrust Division of the Department of Justice (the DOJ) and the applicable waiting period has expired or been terminated. The Company and Parent filed their respective notification and report forms under the HSR Act with the FTC and the Antitrust Division of the DOJ on June 1, 2007 and early termination of the applicable waiting period was granted on June 11, 2007. See The Merger Regulatory Approvals beginning on page .

Under the Competition Act (Canada) (the Canadian Competition Act), the Merger is subject to review by the Canadian Commissioner of Competition (the Commissioner), who may (a) challenge the Merger, if she concludes that the Merger is likely to lessen or prevent competition substantially, (b) issue a no action letter relating to the Merger or (c) issue an advance ruling certificate (ARC) regarding the Merger. The Company filed a request for an ARC with the Commissioner on June 1, 2007 and received an ARC on June 7, 2007.

Under the German Act against Restraints of Competition, as amended (the German Competition Act), the Merger may not be completed until a notification has been filed with the German Federal Cartel Office (the FCO) and the FCO has approved the transaction or the applicable waiting period has expired. A notification was filed under the German Competition Act with the FCO on June 14, 2007. The waiting period under the German Competition Act will expire on July 14, 2007.

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	Under the Change in Bank Control Act and its implementing regulations, no person, whether acting directly or indirectly or through or in concert with one or more other persons, may acquire control of a depository institution insured by the Federal Deposit Insurance Corporation (the FDIC) unless the appropriate Federal banking agency has been given 60 days prior written notice and has not disapproved the acquisition. The 60-day notice period begins to run when the agency deems the notice filing to be complete. The agency may extend the notice period for an additional 30 days. Similarly, Utah law requires the filing of an application with the Utah Department of Financial Institutions (the UDFI) prior to a change in control with respect to a Utah chartered financial institution. Parent is currently preparing the required notices to be filed with the Office of the Comptroller of the Currency (the OCC), the FDIC, and the UDFI.
Material United States Federal Income Tax Consequences (See The Merger Material United States Federal Income Tax Consequences beginning on page)	The Merger will be a taxable transaction for U.S. federal income tax purposes. If you are a U.S. Holder (as defined under The Merger Material United States Federal Income Tax Consequences) for U.S. federal income tax purposes, your receipt of cash (whether as Merger Consideration or pursuant to the proper exercise of appraisal rights) in exchange for your shares of Company common stock generally will cause you to recognize a capital gain or loss measured by the difference, if any, between the cash you receive in the Merger and your adjusted tax basis in your shares of Company common stock. For U.S. federal income tax purposes, if you are a Non-U.S. Holder (as defined below under The Merger Material United States Federal Income Tax Consequences) generally you will not be subject to U.S. federal income tax on your receipt of cash (whether as Merger Consideration or pursuant to the proper exercise of appraisal rights in exchange for your shares of Company common stock) unless you have certain connections to the United States. Under U.S. federal income tax law, you may be subject to information reporting on cash received in the Merger unless an exemption applies. Backup withholding may also apply with respect to the amount of cash received in the Merger unless you provide proof of an applicable exemption or a correct taxpayer identification number, and otherwise comply with the applicable requirements of the backup withholding rules. **Tax matters are very complicated. The tax consequences of the Merger to you will depend upon your particular circumstances. You should consult your own tax advisor for a full understanding of how the Merger will affect your federal, state, local, foreign and other taxes.**
Dissenters Rights of Appraisal (See Dissenters Rights of Appraisal beginning on page and Annex E)	Under the General Corporation Law of the State of Delaware, holders of Company common stock who do not vote in favor of adopting the Merger Agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the Merger is completed, but only if they comply with all applicable requirements of Delaware law. A summary of the relevant provisions of Delaware law is included as Annex E to this proxy statement. The appraisal amount could

be more than, the same as or less than the amount a stockholder would be entitled to

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receive under the terms of the Merger Agreement. Holders of Company common stock intending to exercise their appraisal rights must, among other things, submit a written demand for an appraisal to the Company prior to the vote on the adoption of the Merger Agreement and must not vote or otherwise submit a proxy in favor of adoption of the Merger Agreement. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights.

Conditions to the Merger

(See The Merger Agreement Closing Conditions beginning on page)

The obligation of each party to consummate the Merger is subject to the satisfaction or waiver of a number of conditions, including the following:

the Merger Agreement must have been adopted by the affirmative vote of the holders of a majority of the outstanding shares of Company common stock;

the waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired and an ARC shall have been issued, or the waiting period shall have expired under, the Canadian Competition Act;

applicable bank regulatory approvals shall have been obtained and be in full force and effect, or if the applicable bank regulatory approvals have not been obtained, all consents, registrations, approvals, permits and authorizations required to be obtained prior to the Effective Time from any governmental entity in order to effect the bank restructuring shall have been obtained and any applicable waiting periods shall have expired;

no law or order issued by any court of competent jurisdiction or other governmental entity or other legal restraint or prohibition preventing the consummation of the Merger shall be in effect;

the respective representations and warranties of the Company, Parent and Merger Sub in the Merger Agreement must be true and correct as of the closing date in the manner described in the Merger Agreement;

the Company, Parent and Merger Sub must have performed in all material respects all obligations that each is required to perform at or prior to closing under the Merger Agreement;

Parent shall have received a certificate of an executive officer of the Company confirming the satisfaction of the condition relating to the representations and warranties and agreements and covenants made by the Company; and

the Company shall have received a certificate of an executive officer of Parent confirming the satisfaction of the condition relating to the representations and warranties and agreements and covenants made by

Parent and Merger Sub.

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Solicitation of Alternative Proposals

(See The Merger Agreement Restrictions on Solicitations of Other Offers beginning on page)

The Merger Agreement required the Company to (and cause its subsidiaries to), and to use reasonable best efforts to cause its and their representatives to, immediately cease any discussions or negotiations with any parties that were ongoing as of the date of the Merger Agreement with respect to a Takeover Proposal. The Merger Agreement also requires the Company to (and to cause its subsidiaries to) not, and to use reasonable best efforts to cause its and their representatives to not:

directly or indirectly solicit, initiate or knowingly encourage any Takeover Proposal (including by way of furnishing non-public information); or

participate in any way in any negotiations with respect to any Takeover Proposal.

However, prior to receipt of the Stockholder Approval, the Company may respond to an unsolicited Takeover Proposal (by furnishing non-public information and participating in discussions or negotiations) if the board of directors or special committee determines in good faith, after consultation with its outside advisors, that:

the Takeover Proposal constitutes or would reasonably be expected to lead to a Superior Proposal, and

the failure to take such action would reasonably be expected to be inconsistent with its fiduciary obligations.

Please see The Merger Agreement Restrictions on Solicitations of Other Offers beginning on page for an explanation of the terms Takeover Proposal and Superior Proposal.

Termination of the Merger Agreement

(See The Merger Agreement Termination beginning on page)

The Merger Agreement may be terminated at any time prior to the Effective Time:

by mutual written consent of Parent and the Company (upon approval of the special committee);

by either Parent or the Company (if, in the case of the Company, it has not materially violated the No Solicitation covenant in the Merger Agreement and upon approval of the special committee):

if the adoption of the Merger Agreement by the affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of the Company s common stock (the Stockholder Approval) is not obtained at the special meeting or any adjournment thereof at which the Merger Agreement has been voted upon;

if the Merger shall not have been consummated by April 17, 2008 (the Termination Date); provided that if the Marketing Period has commenced on or before, but not ended before, the Termination Date will be automatically extended until May 17, 2008; or

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if there is any law or final, non-appealable order prohibiting consummation of the Merger;

by the Company, if:

Parent or Merger Sub breaches any of their respective representations or warranties or fails to perform any of their respective covenants or agreements, which breach or failure (a) would cause the closing conditions not to be satisfied and (b) is incapable of being cured prior to the Termination Date or, if capable of being cured, is not cured within 30 business days of notice thereof; or

all the conditions to closing are satisfied and Parent or Merger Sub fails to effect the Merger and/or satisfy their respective obligations under the Merger Agreement relating to the payment of the Merger Consideration, including depositing (or causing to be deposited) with the Paying Agent sufficient funds to pay the Merger Consideration by 11:59 p.m. New York City time on the final day of the Marketing Period; or

prior to the receipt of the Stockholder Approval, (a) the Company receives a Superior Proposal, (b) the special committee of the board of directors determines in good faith that the failure to terminate would reasonably be expected to be inconsistent with its fiduciary duties, (c) the Company has complied in all material respects with the No Solicitation covenant in the Merger Agreement and (d) the Company has previously paid, or contemporaneously with such termination pays, the Termination Fee (as described below);

by Parent, if:

the Company breaches any of its representations or warranties or fails to perform any of its covenants or agreements, which breach or failure (a) would cause the closing conditions not to be satisfied and (b) is incapable of being cured prior to the Termination Date or, if capable of being cured, is not cured within 30 business days of notice thereof; or

prior to obtaining the Stockholder Approval, the Company s board of directors (a) withdraws, modifies or qualifies in a manner adverse to Parent its recommendation, or publicly proposes to do so, (b) fails to recommend to the Company s stockholders that they approve the Merger or (c) adopts, approves, endorses or recommends any Takeover Proposal.

Please see The Merger Agreement Marketing Period; Efforts to Obtain Financing beginning on page for an explanation of the term Marketing Period.

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Termination Fee

(See The Merger Agreement Termination Fees and Expenses; Business Interruption Fee beginning on page)

The Company will pay a termination fee of $170.0 million (the Termination Fee) to Parent (or Parent s designee) upon termination of the Merger Agreement by:

The Company if the Company terminates to accept a Superior Proposal; or

Parent if Parent terminates because the Company board of directors (a) withdraws, modifies or qualifies in a manner adverse to Parent its recommendation, or publicly proposes to do so, (b) fails to recommend to the Company s stockholders that they approve the Merger, or (c) adopts, approves, endorses or recommends any Takeover Proposal.

The Company will pay a termination fee of $170.0 million to Parent (or Parent s designee) if the Agreement is terminated by:

either Parent or the Company as a result of the failure to obtain the Stockholder Approval at the special meeting or any adjournment thereof at which the Merger Agreement is voted upon;

either Parent or the Company as a result of the failure of the Merger to have been consummated by the Termination Date; or

Parent as a result of the Company s breach of any of its representations or warranties or failure to perform any of its covenants or agreements, which breach or failure to perform (a) would cause specified closing conditions not to be satisfied and (b) is incapable of being cured prior to the Termination Date or, if capable of being cured, is not cured within 30 business days of notice thereof; provided that there is no state of facts or circumstances at the time of termination (other than those caused by the Company s breach of its representations and warranties or covenants and other agreements) that would cause specified closing conditions not to be satisfied;

and (x) prior to the special meeting, in the case of the first termination event described immediately above or (y) prior to the date of the termination of the Merger Agreement, in the case of the second and third termination events described immediately above, any third party has publicly made, proposed, communicated or disclosed an intention to make a Takeover Proposal, which Takeover Proposal had not been rescinded by the time of the special meeting and, within 12 months after such termination, the Company enters into a definitive agreement regarding any Takeover Proposal, regardless of when or whether such Takeover Proposal is consummated.

If the Company terminates because the Stockholder Approval is not obtained and the Termination Fee is not otherwise payable to Parent pursuant to the terms of the Merger Agreement, the Company will reimburse Parent for its reasonable, documented and actually incurred out-of-pocket expenses up to $20.0 million. Such

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	amount will be offset against the Termination Fee payable by the Company if it subsequently becomes due.
Business Interruption Fee (See The Merger Agreement Termination Fees and Expenses; Business Interruption Fee beginning on page)	Parent will pay (or cause to be paid) to the Company a fee of $170.0 million (the Business Interruption Fee) if (a) the Company terminates the Merger Agreement as a result of Parent s or Merger Sub s breach of any of their representations or warranties or failure to perform any of their covenants or agreements, which breach or failure to perform (i) would cause specified closing conditions not to be satisfied and (ii) is incapable of being cured prior to the Termination Date or, if capable of being cured, is not cured within 30 business days of notice thereof or (b) if all the conditions to closing are satisfied and Parent or Merger Sub fails to effect the Merger and/or satisfy its respective obligations under the Merger Agreement to pay the Merger Consideration; provided that there is no state of facts or circumstances at the time of termination (other than those caused by Parent or Merger Sub s breach of its representations and warranties or covenants and other agreements) that would cause specified closing conditions not to be satisfied. The maximum liability of Parent under the Merger Agreement is the amount of the Business Interruption Fee plus up to an additional $3.0 million for reimbursement and indemnification obligations.
Limited Guarantee (See The Merger Limited Guarantee beginning on page)	BCP V has provided a limited guarantee pursuant to which, among other things, BCP V guarantees payment of the Business Interruption Fee and certain other amounts for which Parent or Merger Sub are or may become liable under the Merger Agreement up to a maximum of $3.0 million.
Market Prices of Common Stock (See Market Prices of Company Common Stock and Dividend Data beginning on page)	On May 16, 2007, the last trading day prior to announcing the execution of the Merger Agreement, the closing price of Company common stock on the NYSE was $62.96 per share. The $81.75 per share to be paid for each share of Company common stock in the Merger represents a premium of approximately 30% to the closing price on March 16, 2007. On , 2007, the last full trading day prior to the date of this proxy statement, the closing price of Company common stock as reported on the NYSE was $ per share.

If you have additional questions about the Merger or other matters discussed in this proxy statement after reading this proxy statement, please contact our proxy solicitor, , at .

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers address briefly some questions you may have regarding the proposed Merger and the special meeting. These questions and answers may not address all of the questions that may be important to you as a stockholder of the Company. To fully understand the Merger, please refer to the more detailed information contained elsewhere in this proxy statement and the annexes to this proxy statement.

Q: What is the proposed transaction?

A: The proposed transaction is the acquisition of the Company by Parent, an entity controlled by an affiliate of The Blackstone Group, pursuant to the Merger Agreement. Once the Merger Agreement has been adopted by the stockholders and the other closing conditions under the Merger Agreement have been satisfied or waived, Merger Sub, a wholly owned subsidiary of Parent, will merge with and into the Company. The Company will be the surviving corporation and a wholly owned subsidiary of Parent. The name of the surviving corporation will be Alliance Data Systems Corporation.

Q: What will I receive for my shares of Company common stock in the Merger?

A: At the Effective Time of the Merger, you will be entitled to receive $81.75 in cash, without interest and less any applicable withholding taxes, in exchange for each share of common stock of the Company, par value $0.01 per share (the Company common stock), that you own at the time of the Merger, unless you have properly exercised and perfected your appraisal rights under Delaware law with respect to the Merger. For example, if you own 100 shares of Company common stock, you will receive $8,175.00 in cash in exchange for your shares of Company common stock, less any applicable withholding taxes. You will not own any shares in the surviving corporation.

Q: How will options to purchase Company common stock be treated in the Merger?

A: Each option to acquire Company common stock issued pursuant to the Company s equity incentive plans outstanding immediately prior to the Effective Time will become fully vested (to the extent not already vested) and will be converted automatically into the right to receive an amount in cash equal to (a) the total number of shares of Company common stock subject to such option multiplied by (b) the excess, if any, of the amount of $81.75 over the exercise price per share of Company common stock subject to the option, rounded down to the nearest cent.

Q: How will Company Restricted Stock, restricted stock units and other common stock-based awards be treated in the Merger?

A: Each share of Company Restricted Stock outstanding immediately prior to the Effective Time will become fully vested without restrictions thereon and will be converted into the right to receive an amount in cash equal to (a) the number of shares of Company Restricted Stock, multiplied by (b) $81.75.

Each award of annual performance based restricted stock units outstanding immediately prior to the Effective Time will become contingently vested with respect to the number of restricted stock units that would have vested in the ordinary course (without regard to time-based vesting) based upon the Company s performance for the applicable performance period through the Effective Time. If the holder of such contingently vested restricted stock unit is employed by the Company or any Company subsidiary on February 1, 2008, then such holder will

receive a lump sum cash payment equal to (a) the total number of restricted stock units subject to such award, multiplied by (b) $81.75.

The performance criteria applicable to each award of retention restricted stock units will be deemed to have been satisfied in full, and the restricted stock units subject to the award for retention restricted stock units will become fully vested, if the holder satisfies the time-based vesting criteria thereof (with the applicable vesting dates deemed to be February 21 of each of 2008, 2009 and 2010), and upon vesting of such retention restricted stock units the Company will distribute to each holder a lump sum cash payment, together with 8% interest thereon from the Effective Time, equal to (a) the total number of retention restricted stock units subject to such award multiplied by (b) $81.75.

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All restricted stock units other than retention restricted stock units and annual performance based restricted stock units will fully vest (to the extent not already vested) and will be automatically converted into the right to receive, promptly following the Effective Time, an amount in cash equal to (a) the total number of such restricted stock units multiplied by (b) $81.75.

Any other Company common stock-based awards will become fully vested and will automatically be converted into the right to receive a cash payment equal to (a) the total number of shares of Company common stock subject to such award, multiplied by (b) $81.75.

Q: When and where is the special meeting?

A: The special meeting of stockholders of the Company will be held on , 2007, at a.m. (local time), at the Company s executive offices located at 17655 Waterview Parkway, Dallas, Texas 75252.

Q: What matters will be voted on at the special meeting?

A: You will be asked to consider and vote on the following proposals:

to adopt the Merger Agreement; and

if necessary or appropriate, to adjourn the special meeting to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the Merger Agreement.

Q: How does the Company s board of directors recommend that I vote on the proposals?

A: The board of directors recommends that you vote:

FOR the proposal to adopt the Merger Agreement; and

FOR the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement.

You should read The Merger Reasons for the Merger beginning on page for a discussion of the factors that the special committee and the board of directors considered in deciding to recommend the adoption of the Merger Agreement. In considering the proposed Merger, you should be aware that some of our directors and executive officers have interests in the Merger that are different from, or in addition to, the interests of our stockholders generally. See The Merger Interests of the Company s Directors and Executive Officers in the Merger beginning on page .

Q: What effects will the Merger have on the Company?

A: As a result of the Merger, the Company will cease to be an independent publicly-traded company and will become a wholly owned subsidiary of Parent. You will no longer have any interest as a stockholder in our future earnings or growth. Following consummation of the Merger, the registration of Company common stock and our reporting obligations with respect to Company common stock under the Securities Exchange Act of 1934, as amended (the Exchange Act), will be terminated upon application to the SEC. In addition, upon completion of the Merger, shares of Company common stock will no longer be listed on any stock exchange or quotation system, including the NYSE.

Q: What happens if the Merger is not consummated?

A: If the Merger Agreement is not adopted by stockholders or if the Merger is not completed for any other reason, our stockholders will not receive any payment for their shares in connection with the Merger. Instead, the Company will remain an independent public company and the Company common stock will continue to be listed and traded on the NYSE. Under certain specified circumstances upon termination of the Merger Agreement, the Company may be required to pay Parent a termination fee in the amount of $170.0 million and/or reimburse Parent for its out-of-pocket expenses up to $20.0 million, and Parent may be required to pay to the Company a Business Interruption Fee in the amount of $170.0 million. See The Merger Agreement Termination Fees and Expenses; Business Interruption Fee beginning on page .

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Q: Who is entitled to vote at the special meeting?

A: All stockholders of record holding Company common stock at 5:00 pm Central [Standard/Daylight] Time on , 2007, the record date for the special meeting, are entitled to vote at the special meeting. As of the record date, there were approximately shares of Company common stock outstanding, and approximately holders of record held such shares. Every holder of Company common stock is entitled to one vote for each share held as of the close of business on the record date.

Please note that space limitations make it necessary to limit attendance at the special meeting to stockholders. Registration will begin at a.m., local time. If you attend, please note that you may be asked to present valid picture identification. Street name holders will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date. Street name holders wishing to vote in person at the meeting will also be required to present a legal proxy from their bank, broker or other custodian. Cameras, recording devices and other electronic devices are not permitted at the meeting.

Q: What vote is required for the Company s stockholders to adopt the Merger Agreement? How do the Company s directors and officers intend to vote?

A: The affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of Company common stock is required to adopt the Merger Agreement. Our directors and executive officers have informed us that they currently intend to vote all of their shares of Company common stock for the adoption of the Merger Agreement.

Q: What vote is required for the Company s stockholders to approve the proposal to adjourn the special meeting, if necessary, to solicit additional proxies?

A: If a quorum exists, holders of a majority of the shares of Company common stock entitled to vote and either present in person or represented by proxy at the special meeting may approve the proposal to adjourn the special meeting.

Q: What is a quorum?

A: A quorum of the holders of the outstanding shares of Company common stock must be present for the special meeting to be held. A quorum is present if the holders of a majority of the outstanding shares of Company common stock entitled to vote are present at the meeting, either in person or represented by proxy. Withheld votes, abstentions and broker non-votes are counted as present for the purpose of determining whether a quorum is present.

Q: What function did the special committee serve with respect to the Merger and who are its members?

A: The board of directors established the special committee for the principal purpose of determining which, if any, strategic alternatives the Company should pursue and, in the event that a strategic alternative was to be pursued, to, among other things, determine whether such strategic alternative is fair to and in the best interests of the Company and its stockholders and make an appropriate recommendation to the board. The special committee is composed of seven independent and disinterested directors, including Bruce K. Anderson, Roger H. Ballou, Lawrence M. Benveniste, D. Keith Cobb, E. Linn Draper, Jr., Kenneth R. Jensen and Robert A. Minicucci.

Q: Who is soliciting my vote?

A: This proxy solicitation is being made by the board of directors of the Company. In addition, we have retained ( ) to assist in the solicitation. We will pay approximately $, plus out-of-pocket expenses for its assistance. Our directors, officers and employees may also solicit proxies by personal interview, mail, e-mail, telephone, facsimile or by other means of communication. These persons will not be paid additional remuneration for their efforts. We will also request that brokers and other fiduciaries forward proxy solicitation material to the beneficial owners of shares of Company common stock that the brokers and fiduciaries hold of record. We will reimburse them for their reasonable out-of-pocket expenses.

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Q: What do I need to do now?

A: Please carefully review the information contained in this proxy statement. Then, even if you plan to attend the special meeting, please vote promptly by telephone or the Internet, following the instructions on the enclosed proxy card, or by signing and returning the enclosed proxy card in the envelope provided. **Please do NOT enclose or return your stock certificate(s) with your proxy.**

Q: How do I cast my vote?

A: You may vote by using the toll-free number shown on your proxy card, by using the Internet website shown on your proxy card or by signing and dating each proxy card you receive and returning it in the enclosed prepaid envelope. If you hold your shares in street name, you may vote by following the procedures described below. If you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted FOR the proposal to adopt the Merger Agreement and FOR the adjournment proposal. You have the right to revoke your proxy at any time before the vote taken at the special meeting.

Q: Can I change my vote after I have delivered my proxy?

A: Yes. You have the right to revoke your proxy at any time before the vote is taken at the special meeting. If you hold your shares in your name as a stockholder of record, you may change your vote in one of the following three ways:

by notifying our General Counsel, Alan M. Utay, at 17655 Waterview Parkway, Dallas, Texas 75252;

by attending the special meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting); or

by submitting a new proxy dated after the date of the proxy being revoked.

If you have instructed a broker, bank or other nominee to vote your shares, you have to follow the directions received from your broker, bank or other nominee to change those instructions.

Q: Can I vote by telephone or electronically?

A: If you hold your shares in your name as a stockholder of record, you may vote by telephone or electronically through the Internet by following the instructions included with your proxy card. If your shares are held by your broker, bank or other nominee, often referred to as held in street name, please check your proxy card or contact your broker, bank or nominee to determine whether you will be able to vote by telephone or electronically.

Q: If my shares are held in street name by my broker, bank or other nominee, will my broker, bank or other nominee vote my shares for me?

A: Your broker, bank or other nominee will only be permitted to vote your shares if you instruct your broker, bank or other nominee how to vote. You should follow the procedures provided by your broker, bank or other nominee regarding the voting of your shares. If you do not instruct your broker, bank or other nominee to vote your shares, your shares will not be voted, which will have the same effect as a vote against the adoption of the Merger Agreement but will not have any effect on the proposal to adjourn the special meeting, if necessary to solicit additional proxies.

Q: What do I do if I receive more than one proxy or set of voting instructions?

A: If you hold shares in street name, directly as a record holder or otherwise through the Company s stock purchase plans, you may receive more than one proxy and/or set of voting instructions relating to the special meeting. Please be sure to vote using each proxy card and/or voting instruction form you receive by telephone or the Internet or by signing and returning each proxy card and/or voting instruction card separately in the envelopes provided, in order to ensure that *all* of your shares are voted.

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Q: How are votes counted?

A: For the proposal to adopt the Merger Agreement, you may vote FOR , AGAINST or ABSTAIN. Abstentions will not be counted as votes cast or shares voting on the proposal to adopt the Merger Agreement, but will count for the purpose of determining whether a quorum is present. If you abstain, it will have the same effect as if you vote AGAINST the adoption of the Merger Agreement. In addition, if your shares are held in the name of a broker, bank or other nominee, your broker, bank or other nominee will not be entitled to vote your shares in the absence of specific instructions. These non-voted shares, or broker non-votes, will be counted for purposes of determining a quorum, but will have the same effect as a vote AGAINST the adoption of the Merger Agreement.

For the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies, you may vote FOR , AGAINST or ABSTAIN. Abstentions and broker non-votes will count for the purpose of determining whether a quorum is present but will have no effect on the vote to adjourn the meeting, which requires the vote of the holders of a majority of the shares of Company common stock present or represented by proxy at the meeting and entitled to vote on the matter.

If you sign your proxy card without indicating your vote, your shares will be voted FOR the adoption of the Merger Agreement and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

Q: Who will count the votes?

A: A representative of our transfer agent, Computershare, will count the votes and act as the inspector of elections.

Q: What happens if I sell my shares before the special meeting?

A: The record date of the special meeting is earlier than the special meeting and the date that the Merger is expected to be completed. If you sell or otherwise transfer your shares of Company common stock after the record date but before the special meeting, you will retain your right to vote at the special meeting, but will have transferred the right to receive the $81.75 per share in cash to be received by our stockholders in the Merger. In order to receive the $81.75 per share, you must hold your shares through completion of the Merger.

Q: Am I entitled to exercise appraisal rights instead of receiving the Merger Consideration for my \shares?

A: Yes. As a holder of Company common stock, you are entitled to appraisal rights under Delaware law in connection with the Merger if you meet certain conditions. See Dissenters Rights of Appraisal beginning on page .

Q: Will the Merger be taxable to me?

A: The Merger will be a taxable transaction for U.S. federal income tax purposes. If you are a U.S. Holder (as defined under The Merger Material United States Federal Income Tax Consequences) for U.S. federal income tax purposes, your receipt of cash (whether as Merger Consideration or pursuant to the proper exercise of appraisal rights) in exchange for your shares of Company common stock generally will cause you to recognize a capital gain or loss measured by the difference, if any, between the cash you receive in the Merger and your adjusted tax basis in your shares of Company common stock. For U.S. federal income tax purposes, if you are a Non-U.S. Holder (as defined below under The Merger Material United States Federal Income Tax Consequences) generally you will not be subject to U.S. federal income tax on your receipt of cash (whether as

Merger Consideration or pursuant to the proper exercise of appraisal rights in exchange for your shares of Company common stock) unless you have certain connections to the United States. Under U.S. federal income tax law, you may be subject to information reporting on cash received in the Merger unless an exemption applies. Backup withholding may also apply with respect to the amount of cash received in the Merger unless you provide proof of an applicable exemption or a correct taxpayer

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identification number, and otherwise comply with the applicable requirements of the backup withholding rules.

You should read The Merger Material United States Federal Income Tax Consequences beginning on page for a more complete discussion of the U.S. federal income tax consequences of the Merger. Tax matters are very complicated. The tax consequences of the Merger to you will depend on your particular circumstances. You should consult your own tax advisor for a full understanding of how the Merger will affect your federal, state, local, foreign or other taxes.

Q: When is the Merger expected to be completed? What is the Marketing Period ?

A: We are working toward completing the Merger as quickly as possible, and we anticipate that it will be completed by year end. In order to complete the Merger, we must obtain the Stockholder Approval and the other closing conditions under the Merger Agreement must be satisfied or waived (as permitted by law). In addition, Parent is not obligated to complete the Merger until the expiration of a 20-business-day marketing period that it may use to complete its financing for the Merger. The marketing period begins to run after we have obtained stockholder approval and satisfied other conditions under the Merger Agreement; provided that if the marketing period would not end on or before August 17, 2007, the marketing period will commence no earlier than September 4, 2007, provided, further, that if the marketing period would not end on or prior to December 20, 2007, the marketing period will commence no earlier than January 2, 2008. See The Merger Agreement Marketing Period; Efforts to Obtain Financing and The Merger Agreement Closing Conditions beginning on pages and , respectively.

Q: Should I send in my stock certificates now?

A: No, please do not submit your stock certificates at this time. After the Merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging your Company common stock certificates for the Merger Consideration. If your shares are held in street name by your broker, bank or other nominee you will receive instructions from your broker, bank or other nominee as to how to effect the surrender of your street name shares in exchange for the Merger Consideration.

Q: How can I obtain additional information about the Company?

A: Our SEC filings may be accessed on-line at *www.alliancedata.com.* The Company s public filings are also available to the public from document retrieval services and the Internet website maintained by the SEC at *www.sec.gov*. Our website address is provided as an inactive textual reference only. The information provided on our website is not part of this proxy statement, and therefore is not incorporated by reference. For a more detailed description of the information available, please refer to Where You Can Find More Information beginning on page .

Q: Whom should I contact if I have questions?

A: If you would like additional copies, without charge, of this proxy statement or if you have questions about the Merger, including the procedures for voting your shares, you should contact , which is assisting us in the solicitation of proxies, as follows:

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Stockholders call toll-free: (___) _____
Banks and Brokers call collect: (___) _____

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement, and the documents to which we refer you in this proxy statement, contain forward-looking statements based on estimates and assumptions. Forward-looking statements include information concerning possible or assumed future results of operations of the Company, the expected completion and timing of the Merger and other information relating to the Merger. There are forward-looking statements throughout this proxy statement, including, among others, under the headings Summary, Questions and Answers About the Special Meeting and the Merger, The Merger, The Merger Opinions of Financial Advisors, The Merger Regulatory Approvals and The Merger Merger Related Litigation, and in statements containing the words believes, estimates, expects, anticipates, intends, contemplates, may, could, should, or would or other similar expressions.

You should be aware that forward-looking statements involve known and unknown risks and uncertainties. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the actual results or developments we anticipate will be realized, or even if realized, that they will have the expected effects on the business or operations of the Company. These forward-looking statements speak only as of the date on which the statements were made and we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements included in this proxy statement, except as required by law.

In addition to other factors and matters contained in this document, we believe the following factors could cause actual results to differ materially from those discussed in the forward-looking statements:

- future financial performance of the Company;
- the occurrence of any event, change or other circumstance that could give rise to the termination of the Merger Agreement, including a termination under circumstances that could require us to pay a $170.0 million termination fee;
- the outcome of any legal proceedings instituted against the Company and others in connection with the proposed Merger;
- the failure to obtain the necessary debt financing arrangements set forth in the commitment letters received in connection with the Merger;
- the effect of the announcement of the Merger on our customer relationships, operating results and business generally;
- business uncertainty and contractual restrictions that may exist during the pendency of the Merger;
- any significant delay in the expected completion of the Merger;
- banking and antitrust regulatory review, approvals and restrictions;
- the amount of the costs, fees, expenses and charges related to the Merger and the final terms of the financings that will be obtained for the Merger;
- diversion of management s attention from ongoing business concerns; and

changes in general economic conditions or within the industries in which the Company operates.

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THE PARTIES TO THE MERGER

Alliance Data Systems Corporation

The Company is a leading provider of marketing, loyalty and transaction services, managing over 120 million consumer relationships for some of North America s most recognizable companies. Using transaction-rich data, the Company creates and manages customized solutions that change consumer behavior and that enable our clients to create and enhance customer loyalty to build stronger, mutually beneficial relationships with their customers. The Company employs over 9,000 associates at more than 60 locations worldwide. The Company s brands include AIR MILES®, North America s premier coalition loyalty program, and Epsilon®, a leading provider of multi-channel, data-driven technologies and marketing services.

The Company s principal executive offices are located at 17655 Waterview Parkway, Dallas, Texas 75252 and its telephone number is 972-348-5100. The Company is publicly traded on the NYSE under the symbol ADS.

Aladdin Holdco, Inc. and Aladdin Merger Sub, Inc.

Parent is a Delaware corporation organized solely for the purpose of entering into and consummating the transactions contemplated by the Merger Agreement. Parent s principal executive offices are located at c/o The Blackstone Group, 345 Park Avenue, New York, New York 10154 and its telephone number is 212-583-5000. Parent has not conducted any activities to date other than activities incidental to its formation and in connection with the Merger Agreement and the transactions contemplated by the Merger Agreement. Blackstone Capital Partners V L.P. is the current owner of Parent.

Merger Sub is a Delaware corporation wholly owned by Parent and organized solely for the purpose of entering into and consummating the transactions contemplated by the Merger Agreement. Merger Sub s principal executive offices are located at c/o The Blackstone Group, 345 Park Avenue, New York, New York 10154 and its telephone number is 212-583-5000. Merger Sub has not conducted any activities to date other than activities incidental to its formation and in connection with the Merger Agreement and the transactions contemplated by the Merger Agreement. Under the terms of the Merger Agreement, Merger Sub will merge with and into the Company, the Company will survive the Merger and Merger Sub will cease to exist.

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THE SPECIAL MEETING OF STOCKHOLDERS

Time, Place and Purpose of the Special Meeting

This proxy statement is being furnished to our stockholders as part of the solicitation of proxies by our board of directors for use at a special meeting to be held at our corporate headquarters, 17655 Waterview Parkway, Dallas, Texas 75252 on , 2007 at a.m. (local time), or at any adjournment thereof. The purpose of the special meeting is to consider and vote on the proposal to adopt the Merger Agreement and, if necessary or appropriate, to approve the adjournment of the special meeting to solicit additional proxies. If the stockholders fail to adopt the Merger Agreement, the Merger will not occur. A copy of the Merger Agreement is attached to this proxy statement as Annex A.

Who Can Vote at the Special Meeting

In accordance with the Company s bylaws, the board of directors has set 5:00 p.m. Central [Standard/Daylight] Time on , 2007 as the record date. The holders of record of Company common stock as of the record date are entitled to receive notice of and to vote at the special meeting. If you own shares that are registered in someone else s name (for example, a broker), you need to direct that person to vote those shares or obtain an authorization from them to vote the shares yourself at the special meeting. On the record date, there were shares of Company common stock outstanding held by approximately holders of record.

Vote Required for Adoption of the Merger Agreement; Quorum

The adoption of the Merger Agreement requires the approval of the holders of a majority of the outstanding shares of Company common stock entitled to vote thereon, with each share having a single vote for these purposes. The failure to vote has the same effect as a vote AGAINST adoption of the Merger Agreement.

The holders of a majority of the outstanding shares of Company common stock entitled to be voted as of the record date, represented in person or by proxy, will constitute a quorum for purposes of the special meeting. A quorum is necessary to hold the special meeting. Once a share of Company common stock is represented at the special meeting, it will be counted for the purposes of determining a quorum and for transacting all business, unless the holder is present solely to object to the special meeting. If a quorum is not present at the special meeting, it is expected that the meeting will be adjourned to solicit additional proxies. If a new record date is set for an adjourned meeting, then a new quorum will have to be established.

Voting By Proxy

This proxy statement is being sent to you on behalf of the Company s board of directors for the purpose of requesting that you allow your shares of Company common stock to be represented at the special meeting by the persons named in the enclosed proxy card. All shares of Company common stock represented at the special meeting by proxies voted by properly executed proxy cards will be voted in accordance with the instructions indicated on that proxy. If you sign and return a proxy card without giving voting instructions, your shares will be voted as recommended by the board of directors. **After careful consideration, the board of directors unanimously recommends a vote FOR adoption of the Merger Agreement**. In considering the recommendation of the board of directors with respect to the Merger Agreement, you should be aware that some of the Company s directors and executive officers have interests in the Merger that are different from, or in addition to, the interests of our stockholders generally. See The Merger Interests of the Company s Directors and Executive Officers in the Merger beginning on page .

You may revoke your proxy at any time before the vote is taken at the special meeting. To revoke your proxy, you must either send a signed written notice to the Company revoking your proxy, submit a proxy by mail dated after the date of the earlier proxy you wish to change or attend the special meeting and vote your shares in person. Merely attending the special meeting without voting will not constitute revocation of your earlier proxy.

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If your shares of Company common stock are held in street name, you will receive instructions from your broker, bank or other nominee that you must follow in order to have your shares voted. If you do not instruct your broker to vote your shares, it has the same effect as a vote AGAINST adoption of the Merger Agreement.

The Company will pay the cost of this proxy solicitation. In addition to soliciting proxies by mail, directors, officers and employees of the Company may solicit proxies personally and by telephone, facsimile or otherwise. None of these persons will receive additional or special compensation for soliciting proxies. The Company has retained to assist in its solicitation of proxies in connection with the special meeting, and has agreed to pay $ for its services. may solicit proxies from individuals, banks, brokers, custodians, nominees, other institutional holders and other fiduciaries. The Company has also agreed to reimburse for its reasonable administrative and out-of-pocket expenses, to indemnify it against certain losses, costs and expenses, and to pay its customary fees in connection with the proxy solicitation. Upon request, the Company will also reimburse brokers, banks and other nominees for their expenses in sending proxy materials to their customers who are beneficial owners and obtaining their voting instructions.

Submitting Proxies Via the Internet or by Telephone

Most of our stockholders who hold their shares of Company common stock through a broker or bank will have the option to submit their proxies or voting instructions via the Internet or by telephone. If your shares are held in street name, you should check the voting instruction card provided by your broker to see which options are available and the procedures to be followed.

Adjournments

Although it is not currently expected, the special meeting may be adjourned for the purpose of soliciting additional proxies. If no quorum exists, holders of a majority of the shares of Company common stock present in person or represented by proxy and entitled to vote at the special meeting may adjourn the special meeting. Any adjournment may be made without notice, other than by an announcement made at the special meeting, until a quorum shall be present or represented. If your proxy card is signed and no instructions to the contrary are indicated on your proxy card, your shares of Company common stock will be voted FOR any adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies. Any adjournment of the special meeting for the purpose of soliciting additional proxies will allow the Company s stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned.

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THE MERGER

The discussion of the Merger in this proxy statement is qualified in its entirety by reference to the Merger Agreement, which is attached to this proxy statement as Annex A. You should read the Merger Agreement carefully.

Background of the Merger

As part of its ongoing evaluation of the Company s business, our board of directors and our senior management regularly review and assess opportunities to achieve our long-term strategic goals and to maximize stockholder value. As part of this review process, our senior management has periodically made presentations to our board of directors that have included a review of potential opportunities for business combinations, acquisitions and dispositions. From time to time, our board and our senior management have evaluated a variety of options in light of the business trends and regulatory conditions impacting us or expected to impact us and the industries in which we operate. In addition, at times during the last several years various parties, including investment bankers, other companies operating in the same or similar industries as we do and financial buyers, have informally raised with members of our board of directors and senior management the possibility of a business combination with us.

In October 2006, Lehman Brothers Inc., or Lehman Brothers, informed management that it had received two unsolicited informal inquiries regarding the Company s interest in a potential strategic transaction. As a result of these inquiries, and as part of its ongoing review and assessment of the Company s business strategy, on November 3, 2006, our senior management decided to further investigate, and better understand the process and alternatives involved in, on a preliminary basis, the possibility of engaging in a business combination or other strategic transaction. Our senior management asked Banc of America Securities LLC, or Banc of America Securities, and Lehman Brothers to informally assist it in this process. Our senior management informally told members of our board of directors about this decision, and informally kept members of our board apprised of their activities during November and early December of 2006.

At the request of senior management, during November and early December of 2006, each of Banc of America Securities and Lehman Brothers independently developed preliminary and illustrative lists of parties that they believed might be interested in a strategic transaction with the Company. The combined lists included approximately 75 strategic and financial parties with experience in the broadly defined marketing services, payment processing, financial services, technology services or private label credit card services sectors. In reviewing the combined list and deciding how to proceed, our senior management, with the assistance of Banc of America Securities and Lehman Brothers, considered the number of parties that should be approached regarding their interest in a strategic transaction with the Company, and specifically considered:

- which parties would likely be able to consummate a transaction in a timely manner with the Company in light of its size and businesses and the anticipated purchase price;
- the advantages of approaching a broad number of parties and the disadvantages of doing so in terms of the attendant burdens on, and distraction of, the board of directors and management, as well as confidentiality issues; and
- the importance of approaching a mix of strategic and financial parties regarding their interest in a strategic transaction with the Company.

Based on these considerations, our senior management, with the assistance of Banc of America Securities and Lehman Brothers, narrowed this list to a targeted group of 14 parties based on size, strategic fit, financial wherewithal, regulatory issues and prior interest in the Company. Seven of the parties in this targeted group were strategic parties and the other seven parties were financial parties and included the private equity funds sponsored by The Blackstone Group, or Blackstone.

At a regularly scheduled board meeting held on December 7, 2006, J. Michael Parks, the Company s Chairman and Chief Executive Officer, formally updated the board with respect to the activities of the Company s senior management, Banc of America Securities and Lehman Brothers to date regarding a potential

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business combination transaction involving the Company. The board then authorized management to continue to work informally with Banc of America Securities and Lehman Brothers to investigate possible opportunities and, through them, to approach the seven strategic parties included in the targeted group regarding their interest in a potential business combination transaction with the Company.

As authorized by the board, following the December 7 board meeting, Mr. Parks and Edward J. Heffernan, the Company s Executive Vice President and Chief Financial Officer, directed Banc of America Securities and Lehman Brothers to approach each of the seven strategic parties to determine if they were interested in pursuing a potential business combination transaction with the Company. Of the seven strategic parties contacted, three declined almost immediately to pursue a potential business combination transaction with the Company and, over the course of the following few weeks, two others decided not to do so as well, citing a variety of reasons, including the potential size of the transaction, conflicts with strategic direction and resistance to certain terms contained in the confidentiality agreement distributed to them. The other two strategic parties, referred to in this proxy statement as Company 1 and Company 2, respectively, entered into confidentiality agreements with the Company containing customary confidentiality and standstill provisions, including restrictions on the parties ability to discuss the proposed transaction with any co-investor, financing source or financial advisor without the Company s prior consent. Company 1 and Company 2 were each provided with an executive summary of the Company s operations, key strengths, financial performance and growth strategy, and meetings with Messrs. Parks and Heffernan were arranged for early February.

At a regularly scheduled board meeting held on January 31, 2007, Mr. Parks updated the board on the state of discussions with the seven strategic parties, including the fact that meetings had been scheduled for the following week with representatives of each of Company 1 and Company 2.

On February 6 and February 9, 2007, Messrs. Parks and Heffernan and representatives from Banc of America Securities and Lehman Brothers met with representatives of Company 2 and Company 1, respectively, to discuss the Company s strategic business model and other publicly available information set forth in the executive summary that had been provided to each company.

On February 21, 2007, Company 2 notified Banc of America Securities and Lehman Brothers that it did not intend to pursue a transaction with the Company at that time given the anticipated purchase price for the Company.

On February 26, 2007, Messrs. Parks and Heffernan discussed with representatives of Banc of America Securities and Lehman Brothers the status of discussions with Company 1 and Company 2, although there were no significant developments to report on other than the decision of Company 2 not to pursue a transaction.

On February 28, 2007, our board held a special meeting at which Mr. Parks provided an update regarding the status of discussions with the potential strategic purchasers. Following a review and discussion of the Company s performance, the Company s prospective upside potential, including various risks to the realization of that upside, the current state of the leveraged buyout market, including the amount of capital available in the private equity markets for leveraged buyouts and the terms of debt financing in recent comparable transactions, expectations regarding consumer activity and the potential benefits to the Company s stockholders that could result from a transaction done at a premium, the board authorized our senior management to approach, through Banc of America Securities and Lehman Brothers, each of the seven financial parties included in the targeted group to determine if they were interested in pursuing a potential transaction with the Company.

During the week of March 5, 2007, at the direction of our senior management, Banc of America Securities and Lehman Brothers contacted representatives of each financial party included in the targeted group, including representatives of Blackstone. Each of the seven financial parties contacted entered into a confidentiality agreement with the Company containing customary confidentiality and standstill provisions, including restrictions on the parties

ability to discuss the proposed transaction with any co-investor, financing source or financial advisor without the Company s prior consent, and was provided with the same executive summary of the Company s operations, key strengths, financial performance and growth strategy that had

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previously been provided to Company 1 and Company 2. Meetings between Messrs. Parks and Heffernan and representatives of these seven financial parties were arranged for mid and late March.

During the weeks of March 19 and March 26, 2007, Messrs. Parks and Heffernan and representatives from Banc of America Securities and Lehman Brothers met with representatives of six of the seven financial parties to discuss the Company s strategic business model and other publicly available information set forth in the executive summary that had been provided to each party. The seventh financial party indicated on March 22, 2007, that it would not be able to participate in the process due to other commitments.

On March 30, 2007, at the direction of our senior management, Banc of America Securities and Lehman Brothers asked Company 1 and the six remaining financial parties that had expressed an interest in pursuing a potential transaction with the Company, including Blackstone, to submit preliminary, non-binding indications of interest on April 4, 2007.

On April 3, 2007, our board held a special meeting. Members of our senior management and representatives of Akin Gump Strauss Hauer & Feld LLP, or Akin Gump, the Company s regular outside counsel, participated in the meeting. Mr. Parks first gave the board an update regarding the status of discussions with the various parties potentially interested in a transaction with the Company. Representatives of Akin Gump then reviewed with our board a repres
Secretary
June 28, 2011

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