

ALLIANCE DATA SYSTEMS CORP

Form 10-Q

August 07, 2006

Table of Contents

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

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2006**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to**

Commission file number: 001-15749

ALLIANCE DATA SYSTEMS CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*

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

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

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

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

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

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

None

(Title of Class)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of August 1, 2006, 80,106,147 shares of common stock were outstanding.

ALLIANCE DATA SYSTEMS CORPORATION

INDEX

	Page Number
<u>Part I: FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of December 31, 2005 and June 30, 2006</u>	3
<u>Condensed Consolidated Statements of Income for the three and six months ended June 30, 2005 and 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2005 and 2006</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
<u>Item 4.</u>	
<u>Controls and Procedures</u>	30
<u>Part II: OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	31
<u>Item 1A.</u>	
<u>Risk Factors</u>	31
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	32
<u>Item 4.</u>	
<u>Submission of Matters to a Vote of Security Holders</u>	32
<u>Item 5.</u>	
<u>Other Information</u>	32
<u>Item 6.</u>	
<u>Exhibits</u>	33
<u>SIGNATURES</u>	34
<u>Certification of CEO Pursuant to Rule 13a-14(a)</u>	
<u>Certification of CFO Pursuant to Rule 13a-14(a)</u>	
<u>Certification of CEO Pursuant to Rule 13a-14(b)</u>	
<u>Certification of CFO Pursuant to Rule 13a-14(b)</u>	

Table of Contents**PART I****Item 1. Financial Statements****ALLIANCE DATA SYSTEMS CORPORATION****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	December 31, 2005	June 30, 2006
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 143,213	\$ 151,017
Due from card associations	58,416	15,686
Trade receivables, less allowance for doubtful accounts (\$2,079 and \$2,177 at December 31, 2005 and June 30, 2006, respectively)	203,883	227,047
Seller's interest and credit card receivables, less allowance for doubtful accounts (\$38,415 and \$35,549 at December 31, 2005 and June 30, 2006, respectively)	479,108	357,016
Deferred tax asset, net	70,221	69,679
Other current assets	87,612	95,321
Total current assets	1,042,453	915,766
Redemption settlement assets, restricted	260,963	280,765
Property and equipment, net	162,972	192,970
Due from securitizations	271,256	259,985
Intangible assets, net	265,000	274,569
Goodwill	858,470	922,880
Other non-current assets	64,968	62,923
Total assets	\$ 2,926,082	\$ 2,909,858
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 67,384	\$ 70,198
Accrued expenses	198,707	157,730
Merchant settlement obligations	127,038	118,366
Certificates of deposit	342,600	165,000
Credit facilities and other debt, current	235,843	6,715
Other current liabilities	76,999	76,516
Total current liabilities	1,048,571	594,525
Deferred tax liability, net	62,847	39,080
Deferred revenue	610,533	662,327

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Certificates of deposit	36,500	25,100
Long-term and other debt	222,001	552,441
Other liabilities	24,523	13,575
Total liabilities	2,004,975	1,887,048
Stockholders' equity:		
Common stock, \$0.01 par value; authorized 200,000 shares; issued 84,765 shares and 86,285 shares at December 31, 2005 and June 30, 2006, respectively	848	863
Unearned compensation	(14,504)	
Additional paid-in capital	743,545	791,724
Treasury stock, at cost (4,360 shares and 5,695 shares at December 31, 2005 and June 30, 2006, respectively)	(154,952)	(219,384)
Retained earnings	338,081	439,297
Accumulated other comprehensive income	8,089	10,310
Total stockholders' equity	921,107	1,022,810
Total liabilities and stockholders' equity	\$ 2,926,082	\$ 2,909,858

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2006	2005	2006
	(In thousands, except per share amounts)			
Revenues				
Transaction	\$ 150,788	\$ 167,934	\$ 293,753	\$ 331,953
Redemption	67,857	84,870	130,524	163,818
Securitization income and finance charges, net	93,486	141,170	207,949	302,049
Database marketing fees	46,304	73,994	91,174	128,283
Other revenue	12,133	22,479	23,043	41,575
Total revenue	370,568	490,447	746,443	967,678
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	270,628	354,353	534,783	684,672
General and administrative	18,611	21,001	42,910	40,967
Depreciation and other amortization	13,881	15,849	29,211	31,066
Amortization of purchased intangibles	10,101	16,062	19,943	28,383
Total operating expenses	313,221	407,265	626,847	785,088
Operating income	57,347	83,182	119,596	182,590
Interest expense, net	2,353	10,059	5,114	18,596
Income before income taxes	54,994	73,123	114,482	163,994
Provision for income taxes	20,611	28,328	42,917	62,778
Net income	\$ 34,383	\$ 44,795	\$ 71,565	\$ 101,216
Net income per share basic	\$ 0.42	\$ 0.56	\$ 0.87	\$ 1.26
Net income per share diluted	\$ 0.40	\$ 0.55	\$ 0.84	\$ 1.24
Weighted average shares basic	82,750	80,074	82,540	79,987
Weighted average shares diluted	85,638	81,924	85,677	81,707

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2005	2006
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 71,565	\$ 101,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,154	59,449
Deferred income taxes	(2,225)	(7,706)
Provision for doubtful accounts	4,692	7,231
Fair value gain on interest only strip	(10,800)	(8,250)
Non-cash stock compensation	3,319	19,902
Change in operating assets and liabilities, net of acquisitions:		
Change in trade accounts receivable	(19,822)	3,278
Change in merchant settlement activity	4,969	34,058
Change in other assets	10,836	(1,431)
Change in accounts payable and accrued expenses	4,782	(24,851)
Change in deferred revenue	17,348	27,683
Change in other liabilities	(5,219)	(25,013)
Tax benefit of stock option exercises	10,405	
Excess tax benefits from stock-based compensation		(12,110)
Proceeds from the sale of credit card receivable portfolios to the securitization trusts		70,870
Other	1,305	5,899
Net cash provided by operating activities	140,309	250,225
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	529	(11,143)
Payments for acquired businesses, net of cash acquired	(15,344)	(128,118)
Net decrease in seller's interest and credit card receivables	23,505	42,596
Change in due from securitizations	49,523	19,833
Capital expenditures	(28,584)	(48,627)
Other	133	(2,476)
Net cash provided by (used in) investing activities	29,762	(127,935)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	250,595	1,586,742
Repayment of borrowings	(310,261)	(1,488,202)
Certificate of deposit issuances		73,500
Repayments of certificates of deposits	(92,400)	(262,500)
Payment of capital lease obligations	(3,882)	(3,998)
Payment of deferred financing costs		(1,975)
Excess tax benefits from stock-based compensation		12,110
Proceeds from issuance of common stock	19,224	32,708

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Purchase of treasury shares	(17,102)	(64,432)
Net cash used in financing activities	(153,826)	(116,047)
Effect of exchange rate changes on cash and cash equivalents	(259)	1,561
Change in cash and cash equivalents	15,986	7,804
Cash and cash equivalents at beginning of period	84,409	143,213
Cash and cash equivalents at end of period	\$ 100,395	\$ 151,017
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 6,700	\$ 15,598
Income taxes paid, net of refunds	\$ 33,739	\$ 76,212

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation (ADSC or, including its wholly owned subsidiaries, the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report filed on Form 10-K/A for the year ended December 31, 2005.

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

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

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

2. SHARES USED IN COMPUTING NET INCOME PER SHARE

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

Three Months Ended Six Months Ended