

ALLIANCE DATA SYSTEMS CORP
Form 10-Q
August 10, 2009
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, 2009

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

31-1429215
(I.R.S. Employer

Edgar Filing: ALLIANCE DATA SYSTEMS CORP - Form 10-Q

Incorporation or Organization)

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)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of August 6, 2009, 53,141,888 shares of common stock were outstanding.

Table of Contents

ALLIANCE DATA SYSTEMS CORPORATION

INDEX

	Page Number
Part I: FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
<u>Condensed Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008</u>	3
<u>Condensed Consolidated Statements of Income for the three and six months ended June 30, 2009 and 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4. <u>Controls and Procedures</u>	41
Part II: OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	43
Item 1A. <u>Risk Factors</u>	44
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
Item 3. <u>Defaults Upon Senior Securities</u>	47
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	47
Item 5. <u>Other Information</u>	47
Item 6. <u>Exhibits</u>	48
<u>SIGNATURES</u>	50

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

	June 30, 2009	December 31, 2008
	(In thousands)	
ASSETS		
Cash and cash equivalents	\$ 118,423	\$ 156,911
Trade receivables, less allowance for doubtful accounts (\$7,321 and \$7,172 at June 30, 2009 and December 31, 2008, respectively)	197,103	219,362
Seller's interest and credit card receivables, less allowance for doubtful accounts (\$47,478 and \$40,718 at June 30, 2009 and December 31, 2008, respectively)	691,280	639,573
Deferred tax asset, net	198,286	201,895
Other current assets	139,256	142,660
Redemption settlement assets, restricted	524,729	531,594
Assets held for sale		32,015
Total current assets	1,869,077	1,924,010
Property and equipment, net	161,183	168,847
Due from securitizations	727,760	701,347
Intangible assets, net	273,309	297,776
Goodwill	1,145,233	1,133,790
Other non-current assets	192,873	116,219
Total assets	\$ 4,369,435	\$ 4,341,989
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 103,857	\$ 108,369
Accrued expenses	75,512	143,656
Certificates of deposit	508,100	433,900
Credit facility and other debt, current	34,288	275,549
Other current liabilities	100,025	106,641
Deferred revenue	885,635	860,455
Liabilities held for sale		20,782
Total current liabilities	1,707,417	1,949,352
Deferred revenue	142,831	135,179
Deferred tax liability, net	154,799	123,476
Certificates of deposit	289,700	255,000
Long-term and other debt	1,698,279	1,215,726
Other liabilities	117,529	115,958
Total liabilities	4,110,555	3,794,691
Stockholders' equity:		
Common stock, \$0.01 par value; authorized 200,000 shares; issued 90,153 shares and 89,029 shares at June 30, 2009 and December 31, 2008, respectively	902	890
Additional paid-in capital	1,179,543	1,115,291
	(1,799,989)	(1,410,339)

Edgar Filing: ALLIANCE DATA SYSTEMS CORP - Form 10-Q

Treasury stock, at cost (36,506 and 26,222 shares at June 30, 2009 and December 31, 2008, respectively)

Retained earnings	946,596	889,305
Accumulated other comprehensive loss	(68,172)	(47,849)
Total stockholders' equity	258,880	547,298
Total liabilities and stockholders' equity	\$ 4,369,435	\$ 4,341,989

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands, except per share amounts)			
Revenues				
Transaction	\$ 96,803	\$ 83,096	\$ 192,784	\$ 166,692
Redemption	114,009	131,621	226,156	248,400
Securitization income and finance charges, net	105,160	138,556	245,657	306,547
Database marketing fees and direct marketing fees	119,679	128,614	235,288	246,117
Other revenue	24,759	25,323	40,781	38,704
Total revenue	460,410	507,210	940,666	1,006,460
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	327,305	340,962	649,195	665,773
General and administrative	19,220	14,897	47,039	33,165
Depreciation and other amortization	15,333	17,578	30,419	35,340
Amortization of purchased intangibles	15,815	16,792	30,063	33,979
Loss on the sale of assets				1,052
Merger costs (income)	64	2,804	(516)	4,411
Total operating expenses	377,737	393,033	756,200	773,720
Operating income	82,673	114,177	184,466	232,740
Interest expense, net	34,575	13,942	66,182	31,045
Income from continuing operations before income taxes	48,098	100,235	118,284	201,695
Provision for income taxes	18,662	38,289	45,895	77,047
Income from continuing operations	29,436	61,946	72,389	124,648
Loss from discontinued operations, net of taxes		(14,977)	(15,098)	(28,360)
Net income	\$ 29,436	\$ 46,969	\$ 57,291	\$ 96,288
Basic income per share:				
Income from continuing operations	\$ 0.52	\$ 0.81	\$ 1.23	\$ 1.61
Loss from discontinued operations		(0.20)	(0.26)	(0.37)
Net income per share	\$ 0.52	\$ 0.61	\$ 0.97	\$ 1.24
Diluted income per share:				
Income from continuing operations	\$ 0.51	\$ 0.79	\$ 1.21	\$ 1.57
Loss from discontinued operations		(0.19)	(0.25)	(0.36)
Net income per share	\$ 0.51	\$ 0.60	\$ 0.96	\$ 1.21
Weighted-average shares basic	56,918	76,619	59,027	77,484
Weighted-average shares diluted	57,808	78,636	59,749	79,496

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,	
	2009	2008
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 57,291	\$ 96,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	60,482	77,310
Deferred income taxes	28,756	(7,835)
Provision for doubtful accounts	26,636	20,724
Non-cash stock compensation	28,747	14,725
Fair value loss (gain) on interest-only strip	4,040	(16,400)
Amortization of discount on convertible senior notes	22,224	
Impairment of long-lived assets		45,400
Loss (gain) on the sale of assets	18,018	(41,686)
Change in operating assets and liabilities, net of acquisitions:		
Change in trade accounts receivable	17,892	7,373
Change in merchant settlement activity	(7,901)	(84,232)
Change in other assets	(8,009)	(6,155)
Change in accounts payable and accrued expenses	(80,973)	(53,958)
Change in deferred revenue	(12,980)	388,925
Change in other liabilities	3,552	6,076
Proceeds from the sale of credit card receivable portfolios to the securitization trusts	53,240	
Excess tax benefits from stock-based compensation	(603)	(497)
Other	2,673	(5,726)
Net cash provided by operating activities	213,085	440,332