

Selected Financial Highlights and Reconciliation of Non-GAAP Information*

(in millions, except per share amounts)

Year Ended December 31,	2006	% Increase	2005	2004
Revenue	\$1,998.7	29%	\$1,552.4	\$1,257.4
Net Income	\$189.6	37%	\$138.7	\$102.4
Provision for income taxes	116.7		83.4	61.9
Financing costs ¹	41.0		14.5	7.8
Stock compensation expense ²	43.1		14.1	15.8
Depreciation and other amortization	65.4		58.6	62.6
Amortization of purchased intangibles	59.6		41.1	28.8
Adjusted EBITDA	\$515.4	47%	\$350.4	\$279.3
Plus change in deferred revenue	41.0		63.4	70.7
Less change in redemption settlement assets	–		(17.4)	(28.2)
Foreign currency impact and other	1.9		(14.4)	(16.5)
Operating EBITDA	\$558.3	46%	\$382.0	\$305.3
Net Income	\$189.6		\$138.7	\$102.4
Add back non-cash non-operating items:				
Amortization of purchased intangibles	59.6		41.1	28.8
Stock compensation expense ²	43.1		14.1	15.8
Mark to market swap adjustment ³	–		–	(4.7)
Income tax effect ⁴	(36.0)		(19.2)	(12.7)
Cash Earnings	\$256.3	52%	\$174.7	\$129.6
Weighted average shares – diluted	81.7		84.6	84.0
Net income per share – diluted	\$2.32		\$1.64	\$1.22
Cash earnings per share – diluted	\$3.14	52%	\$2.06	\$1.54

*The Non-GAAP financial information presented herein may not be comparable to similarly titled measures presented by other companies and may not be identical to corresponding measures used in our various agreements or SEC filings. For an explanation of use of non-GAAP financial measures, visit our web site at www.AllianceData.com.

¹ Financing costs includes non-cash, fair value gain on swap of \$4.7 million for the year ended December 31, 2004.

² For the years ended December 31, 2005 and 2004, we would have recorded \$22.4 million and \$15.3 million, respectively, of stock compensation related to stock options under Statement of Financial Accounting Standards No. 123.

³ Represents the fair value gain on an interest rate swap that does not meet the hedging requirements of Statement of Financial Accounting Standards No. 133, as revised.

⁴ Represents income tax adjustment for the related tax benefit or expense for the non-GAAP measure adjustments.

3.7 Billion
AIR MILES® Reward
Miles Issued

2.5 Billion
AIR MILES Reward
Miles Redeemed

212 Million
Statements Generated

\$7.4 Billion
Credit Sales

\$3.6 Billion
Average Managed
Receivables

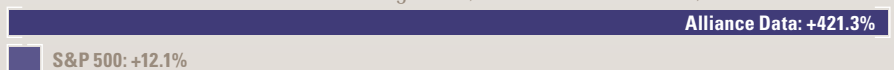
Over 9,000
Associates

Over 60
Worldwide Locations

2006 Highlights



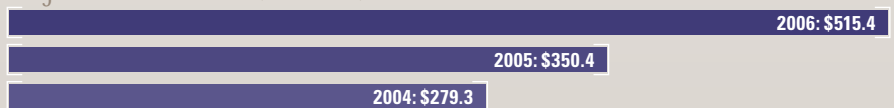
Stock Performance Since IPO June 8, 2001 – December 31, 2006



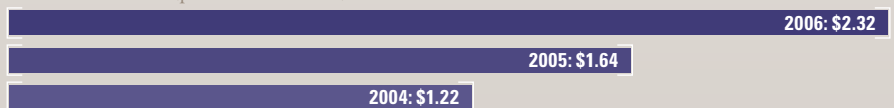
Revenue (in millions)



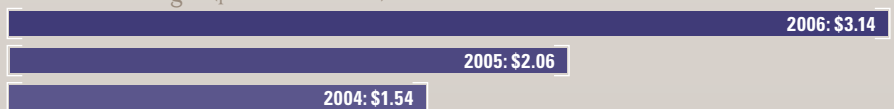
Adjusted EBITDA (in millions)



Net Income (per share – diluted)



Cash Earnings (per share – diluted)



About Us

Alliance Data is a leading provider of loyalty and marketing solutions derived from transaction-rich data. We focus on facilitating and managing interactions between our clients and their customers by leveraging our unique insight into consumer behavior. The solutions we offer help our clients acquire and retain new customers, as well as increase the loyalty and profitability of their existing customers.

Alliance Data has a client base in excess of 600 companies, consisting mostly of specialty retailers, petroleum retailers, utilities, supermarkets and financial services companies. The company has over 9,000 associates working in more than 60 locations worldwide.



AllianceData™





Driving Loyalty

Our Vision states that “Great companies will call Alliance Data first to create more loyal and profitable customer relationships.”

Our Mission articulates that we “enable our clients to build stronger, mutually beneficial relationships with their customers.”

Whether specifically stated, as in our Vision, or inherently obvious via our Mission, loyalty is a common theme in Alliance Data’s interaction with its various stakeholders.

Our long-term relationships with clients are one example. This client loyalty stems from the fact that we help our clients create loyalty-based relationships with their customers. We’re able to do this because we’ve formed a culture of loyal, high-performing associates who, each day, continue building our reputation and our track record. Their execution of our business model has also rewarded loyal, long-standing Alliance Data investors. And as a responsible corporate citizen, Alliance Data is loyal to the many communities where we operate, providing financial, volunteer and expertise-based support to organizations that improve the lives of our neighbors.

In this annual report, we illustrate that Alliance Data has both the expertise and the ability to deliver results and drive loyalty in a variety of settings that benefit you, the Alliance Data stakeholder.



To Our Stakeholders:

2006 was a year of continued growth for Alliance Data. We celebrated several milestones during the year, including the 10-year anniversary of our founding and the five-year anniversary of our IPO. Both of these provided opportunities to reflect on our past, while simultaneously laying the groundwork for our continued success and growth. This growth reflects our commitment to driving loyalty and can be seen across a number of different dimensions.

— J. Michael Parks
Chairman of the Board
and Chief Executive Officer

Client Relationships

A key ingredient in our growth has been the strength of our client relationships. In 2006 we were pleased to form relationships with a number of new clients, including:

Friedman's Jewelers, the third-largest U.S. jewelry retailer

Sacramento Municipal Utility District, the sixth-largest publicly owned utility in the United States

Southern Union Company, a leading U.S. diversified natural gas company and owner of the country's second-largest natural gas pipeline system

Integrus (formerly WPS Resources Corporation), a major energy holding company headquartered in Chicago

Cruise Management International LLC, North America's largest retailer of cruise vacations

Budget Rent A Car System, Inc., one of the world's best-known car rental brands

Green Mountain Energy, one of the leading retail providers of clean energy products

Circuit City Stores, Inc., which offers more than 300,000 products through the Circuit City website and its Circuit City Superstores across the United States

Beall's and Burke's Outlet Stores, leading retailers of value-priced apparel, accessories and home furnishings

Pamida, one of the top general merchandise retailers in the rural United States

The Dunlap Company, a department store retailer operating in the south and southwest United States

MyFamily.com, a leading online network for connecting families

As we add value for these and all our new clients, we expect that we will have long-standing relationships with them, like we do with a number of clients that renewed and, in some cases, expanded their relationships with us during 2006.

These included **Abercrombie & Fitch, United Retail Group, American Signature, Hudson Bay Co., Jean Coutu Group, The Room Place at Harlem Furniture, Citigroup, A&P Canada, Canada Safeway, New York & Company** and **Duke Energy**.

Expanded Capabilities and Offerings

Our proven business model provides a strong foundation on which we continue to expand our offerings for clients. One example of this can be seen in the strategic activities we undertook in 2006 to enhance our transaction-rich data offerings.

Early in 2006 we acquired ICOM, a leading provider of targeted list, marketing data and communication solutions for the direct response, consumer packaged goods and over-the-counter pharmaceutical industries in North America. Very soon after that we brought DoubleClick Email Solutions into the Alliance Data fold. This organization is one of the largest permission-based email marketing service providers in the industry, with operations across North America, Europe and Asia/Pacific. In October we announced the acquisition of CPC Associates, a premier provider of data products used to increase the effectiveness of direct-response marketing programs.

And in late 2006 we took another significant step to build out our data offerings with Abacus, a leading provider of cooperative data, data management and analytical services for direct marketing. The acquisition of Abacus, completed in early 2007, is representative of our ongoing commitment to offer a comprehensive suite of services that greatly enhance our clients' marketing efforts and their ability to improve their bottom line. It also provides prime cross-selling opportunities across Alliance Data's businesses.

The addition of Abacus will strengthen our data, database and analytics offerings. The combined expertise, products and capabilities obtained from these strategic moves will further solidify our standing as the global leader in multi-channel, data-driven marketing technologies and services.

There were other important 2006 expansions to our offerings as well. For example, our Canadian AIR MILES Reward Program added 20 new retail partners to its online shopping mall, www.airmilesshops.ca. This virtual mall features advanced product search capabilities and allows consumers to purchase merchandise from a total of 75 lifestyle, home décor, electronics, entertainment and fashion retailers, such as Disney Shopping, Toys "R" Us Canada, Office Depot and Lands' End.

In 2006 we also gained significant traction in our relatively new co-brand credit card offering with the launch of six new programs. Existing clients such as Goody's and New York & Company are now using our co-brand and existing private label credit card programs to help engage a broader customer base, increase sales, strengthen customer loyalty and reinforce their brands.

Financial Performance

Our financial results in 2006 were especially strong. Revenue increased 29 percent to \$2 billion for the year ended December 31, 2006 from \$1.55 billion for the year ended December 31, 2005. Adjusted EBITDA increased 47 percent to \$515.4 million in 2006, compared with \$350.4 million in 2005. Diluted cash earnings per share grew by 52 percent to \$3.14 per share in 2006 from \$2.06 per share in 2005.

In 2006 our board of directors approved a new stock repurchase program that authorized the company to buy back up to an additional \$600 million of its outstanding common stock through 2008. This new repurchase program extends the two previously approved repurchase programs announced in June and October of 2005, bringing Alliance Data's total repurchase authorization to \$900 million.

We also took steps to achieve even greater financial flexibility and to lock in favorable fixed interest rates. We completed the issuance of asset-backed notes worth an aggregate principal amount of \$500 million, and we completed the placement of \$500 million of corporate debt in a private placement offering. We plan to continue utilizing both the public and private markets as needed to position us for continued growth while optimizing capital efficiency and, hence, free cash flow, a key component of our business model.

New Facilities

Our current and planned future growth provided several opportunities for us to create new work environments for our teams. These environments are designed to increase collaboration, reinforce our values and stimulate our top-caliber people in their daily efforts. In 2006 we made plans to move our operations in the Columbus, Ohio and Toronto areas to new facilities in those cities. These facilities, which we'll begin occupying in 2007, will better enable our associates to function as teams and give us the flexibility and capacity we'll need in the future. Additionally, our Epsilon unit completed its move to a new headquarters building in the Dallas area in 2006, and our Utility Services business broke ground on a new call center facility in Ennis, Texas, which will be completed and available to serve Alliance Data utility clients in the first half of 2007.

New buildings do not in and of themselves mean anything. But in our case, these migrations to new facilities are a visible sign of our growth, as well as our commitment to provide a work environment that is rewarding for our associates and that results in even better service for our clients.

Recognition

As we grow, and grow in the right way, Alliance Data is increasingly recognized for the things we do well. Some 2006 examples include:

- Our Leadership Academy, designed to bolster the leadership skills of managers at all levels, was named “Best Leadership Program” by Thomson NETg, a provider of corporate learning solutions, which recognized Alliance Data’s ability to “internally identify, cultivate and develop management and executive-level employees.”
- Alliance Data was included in *BusinessWeek*’s “Information Technology 100” annual listing, which ranks the fastest-growing, most profitable technology-related companies.
- Alliance Data was included in the annual *Forbes* Platinum 400 list, which recognizes the top 400 “Best Big Companies in America.” Companies are selected based on their five-year performance, management strength and other factors.
- The Dallas Mayor’s Committee honored Alliance Data with the Corporate Best Practices award for our employment of people with disabilities.
- In Denver, Columbus and several other cities where we have significant operations, Alliance Data was once again recognized as a “best place to work.”
- The American Society for Training and Development recognized Alliance Data as one of its “best places to learn.”
- Forrester Research granted Epsilon top honors for database marketing services and email marketing services, saying “Epsilon sets the standard for database marketing services providers.”

2007 and Beyond

In looking back at 2006 and the summary of growth examples outlined above, I hope you reach the same conclusion as I – namely, that Alliance Data has developed an impressive track record of performance over the past decade, with 2006 being the latest evidence of the long-term attractiveness of our business model. Over the past decade, this once-small, private, \$280 million company, employing 2,500 associates in the United States, has evolved into a \$2 billion firm with employment approaching 10,000, operations across North America, a presence in both Europe and Asia, and a market value of approximately \$5 billion.

As we move into our second decade, I am confident that Alliance Data's people, business model and track record of performance will continue to be a source of pride for all our stakeholders. As our Mission states, we "create and manage customized solutions that enable our clients to build stronger, mutually beneficial relationships with their customers." That's driving loyalty, and it will continue to be our focus in 2007 and beyond.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Michael Parks". The signature is fluid and cursive, with a large initial "J" and "P".

J. Michael Parks
Chairman of the Board and Chief Executive Officer





Driving Loyalty with
Unique Solutions for Our Clients

Because it is the best predictor of future consumer behavior, we leverage transactional data to develop a set of loyalty and marketing solutions that are unique in the marketplace. Alliance Data clients can choose end-to-end loyalty and marketing solutions including external coalitions, internal coalitions, one-to-one proprietary programs, programs with a credit component, or customer management programs specific to a particular industry.

– Ed Heffernan, Chief Financial Officer

**Loyalty and
Marketing Services**

Alliance Data's loyalty and marketing services profitably change consumer behavior in ways that are mutually beneficial to our clients and their customers. We have powerful marketing tools – utilized in external coalition programs, internal coalition programs and individual programs – all designed to transform consumers into loyal customers.

One example is our AIR MILES Reward Program, Canada's most successful coalition loyalty program. Over two-thirds of Canadian households actively participate in the AIR MILES program, which is sponsored by a coalition of more than 100 retailers and service providers at thousands of locations across Canada. Canadian consumers earn AIR MILES Reward Miles when making everyday, non-discretionary purchases such as gasoline, groceries and pharmacy items, among others. These can then be exchanged for over 800 different redemption rewards in a variety of categories including travel, electronics and entertainment. Canadian consumers reap rewards, while the program sponsors – our clients – build traffic, sales and customer loyalty.

We also design, build and manage advanced stand-alone loyalty platforms and programs. These systems are capable of delivering real-time information that we then use to develop targeted messages that create a personalized experience for the consumer across all touch-points. Our U.S.-based Epsilon business is a leader in providing integrated direct marketing solutions that combine data services, database services, strategic consulting and creative services, analytical services and interactive delivery services.

Private Label Services

Alliance Data's private label services, included in our transaction and credit services reporting segments, provide some of North America's most recognizable retailers with innovative marketing and card solutions that reflect our deep roots in the retail industry. Alliance Data finances and operates private label credit card programs that not only free retailers from the time and technology demands of stand-alone programs, but also allow them to focus entirely on their core business, boosting their competitive advantage. Our co-brand card programs complement the private label offerings and allow clients to provide select customer segments with an alternate card choice for making their purchases.

Our retail clients achieve significant benefits from these services, including increased sales, lower costs, greater brand awareness and a broader, more loyal customer base. Alliance Data's private label credit card programs create additional marketing opportunities that can dramatically drive sales and loyalty. Studies show that, on average, private label cardholders visit the store twice as often and spend two-and-one-half times more per year than non-cardholders.

Utility Services

Alliance Data is a leading provider of billing and customer-care services to regulated, deregulated, and municipal utilities, which collectively serve millions of end-use utility customers. As a part of our transaction services reporting segment, Alliance Data's offerings for the utility industry reflect our belief that by adding value at each customer touch-point, we can help our utility clients create strong relationships, even in an increasingly competitive consumer marketplace.

Experienced Alliance Data associates tailor solutions to the needs and goals of our utility clients to achieve measurable business improvements and financial benefits in this rapidly evolving industry.

National Geographic Society

While the words “National Geographic” might conjure up images of the famous *National Geographic* magazine, the organization responsible for that publication does much more than just produce the respected periodical.

The 119-year-old National Geographic Society, which works to inspire people to care about the planet, is one of the largest nonprofit scientific and educational organizations in the world. It reaches more than 350 million people each month through its five magazines, the National Geographic Channel, television documentaries, radio programs, films, books, DVDs, maps and interactive media. It has funded more than 8,000 scientific research projects and supports an education program combating geographic illiteracy.

In short, it is a multi-media giant that has the same challenges as any large organization with millions of customers – namely, how to engage them in a way that is beneficial for both the Society and its members and that creates member loyalty to the National Geographic brand.

As part of the strategy to meet this challenge, the Society began what is now a decade-long relationship with Epsilon, Alliance Data’s marketing and data services company.

In 1997 the Society realized that it needed to outsource the building of a database that would span the organization and provide it with a better

understanding of its stakeholders. Epsilon was selected to create this capability and has continuously refined the database to accommodate the Society’s growth while best leveraging new technologies and marketing techniques.

Today, Epsilon’s consolidated database provides the Society with a holistic view of all its stakeholders: members, customers and prospects. Through sophisticated analytics, campaign management, database development and hosting, Epsilon helps the Society gain a more insightful understanding of the millions of people who interact with the many different entities in the National Geographic family. These unique insights allow the Society and Epsilon to design and execute targeted marketing initiatives that increase brand equity and cultivate more profitable, loyal customer relationships.

“Epsilon’s marketing database and its marketing expertise help us form closer relationships with our members. That allows us to generate incremental income, which we can then direct back into our overall mission and programs,” said Mary Donohoe, vice president of Marketing Services for the National Geographic Society. “It literally allows us to provide important grants to scientists and explorers and fund our overall education initiatives.”

Could one of mankind’s next key discoveries on land or sea be the result of loyalty-driven programs created right here at Epsilon?



Epsilon is helping us preserve and build brand loyalty while generating more revenue through relevant, more targeted campaigns.

– **Mary Donohoe**
Vice President
Marketing Services
National Geographic Society

Shell Canada

Today, there are dozens of different gasoline brands available across Canada. In such a crowded marketplace, each brand strives to gain every possible competitive advantage. Driving loyalty among a customer base with such an abundant array of choices is no easy task. But Shell Canada, a leading manufacturer, distributor and marketer of refined petroleum products, may have found the key: Alliance Data's AIR MILES Reward Program.

Shell has been a part of this coalition loyalty program since 1993, and was the first major gasoline retailer to work with AIR MILES. Thanks to its role as a sponsor in the AIR MILES program, Shell Canada's customers who are collectors in the program earn AIR MILES Reward Miles through their purchases at Shell's thousands of retail outlets across Canada. Shell also is a redemption partner, offering AIR MILES collectors the opportunity, among thousands of other redemption options, to redeem their AIR MILES Reward Miles for various Shell products or services.

How does the AIR MILES program provide Shell with a competitive advantage?

"The data generated by the AIR MILES program allows us to identify, segment and better understand our customers, and when we better understand our customers, we can create value propositions that are attractive to them and which then drive an increase in loyalty to the Shell brand," says Kevin Collins, Shell Canada's manager of Retail Marketing.

Shell also uses the AIR MILES program to change customer behavior. One example can be seen in the success of Shell's new premium gasoline, V-Power, which was launched in 2005. When Shell Canada launched V-Power, customers were enticed with larger bonus reward miles for choosing V-Power to fill up their tanks. V-Power's success is due in part to the AIR MILES program and its ability to help drive behavior toward a desired end result: in this case, the overwhelming acceptance of the new product.

"When we compare the performance of our two customer groups – AIR MILES collectors and non-AIR MILES collectors – we see a material increase in the sales volume of the AIR MILES group," says Collins.

For Shell Canada, the program's currency is also valuable for internal purposes. With highly skilled employment a scarce resource in remote exploration and petroleum extraction areas, Alliance Data and Shell developed a program whereby AIR MILES Reward Miles could be earned by certain Shell employees who successfully attained individual retention, attendance and other targets. This approach resulted in a decrease in employment turnover and an increase in attendance.

Whether creating loyalty with customers or employees, Shell Canada and Alliance Data are building on 14 years of partnership to keep Shell the preferred choice across Canada.

V-POWER



As a result of our partnership with the AIR MILES Reward Program, we gain knowledge and insights that allow us to make better strategic decisions and build a more loyal base of customers.

– **Kevin Collins**
Manager of Retail Marketing
Shell Canada

A man with short brown hair, wearing a white dress shirt and a dark tie, is sitting in a dark leather chair. He is looking directly at the camera with a slight smile. The background is an office interior with a glass wall, a lamp, and some office equipment. The lighting is soft and professional.

Through our long-term partnership with Alliance Data, we have been able to increase sales and establish more loyal relationships with our customers.

– **Ron Ristau**
Chief Financial Officer
and Chief Operating Officer
New York & Company



New York & Company

New York & Company, Inc., founded in 1918, is a leading specialty retailer of fashion-oriented, moderately-priced women's apparel. The company's proprietary branded New York & Company™ merchandise is sold exclusively through its national network of over 500 retail stores in 45 states.

One of the key weapons in New York & Company's competitive arsenal is its long-term relationship with Alliance Data, which provides integrated credit and marketing solutions that target increased sales and customer loyalty.

Alliance Data handles all account acquisition and activation, receivables funding, credit authorization, card issuance, statement generation, direct mail, email marketing services, remittance processing and customer service functions for the New York & Company private label credit card.

Additionally, through database analytics services, Alliance Data designs, executes and analyzes results of direct marketing and email campaigns for New York & Company's entire customer universe. These services are utilized to promote special merchandise offers and drive store traffic.

"The Alliance Data team understands what we are trying to accomplish – they provide us with great ideas that allow us to monitor, track, communicate with and engage our top customers," says Ron Ristau, New York & Company's chief financial officer and chief operating officer.

In 2006 Alliance Data and New York & Company began to offer a co-brand credit card program designed to complement the retailer's existing private label credit card program, which Alliance Data has managed since 1996. The co-brand card provides select customer segments with an alternate card choice for making purchases. The two companies also announced the signing of a contract extension under which Alliance Data will continue providing database marketing services for the retailer.

The long-term partnership between Alliance Data and New York & Company has stood the test of time. New capabilities and expanded offerings are built on the foundation of private label card programs to achieve a clear goal: a comprehensive and fully integrated credit and marketing solution that will help New York & Company reach more customers, increase sales and drive customer loyalty.

Integrys Energy Group

Integrys Energy Group, Inc. (formerly WPS Resources Corporation) is a fast-growing energy holding company based in Chicago. In 2006 Integrys Energy Group acquired 360,000 new natural gas customers in Michigan and Minnesota. To begin serving these customers seamlessly, the company needed an innovative, comprehensive customer care solution – one that could be implemented in a previously-unheard-of timeframe and provide the service and value customers expected.

Integrys Energy Group evaluated several potential providers through an accelerated RFP process. It chose Alliance Data as its preferred partner, largely due to its conclusion that Alliance Data had a stable platform on which to build its key customer functions. In mid-January 2006, hundreds of Alliance Data associates, along with a dedicated team from Integrys Energy Group, began work on CIS hosting and maintenance, call center, billing, credit and collections, and service order dispatch solutions.

By July 5, 2006, Alliance Data had converted all of the customers' accounts to a new system and began handling all call center, meter-to-cash and dispatch functions for the customers.

"This new business model for our company was brought together in record time," says Mary Kay Duket, outsourcing contract manager for Integrys Energy Group.

"As a partner, Alliance Data shared fully in our sense of urgency and our focus on the customer."

Integrys Energy Group often operates in a regulated environment in which customers don't have a choice in their utility company. In this type of environment, why was customer care, customer experience and customer loyalty so important?

"We're our customers' only choice, but we don't think of it that way," says Duket. "Our customers pay for our services, and they deserve a satisfying experience with us. We have an outstanding reputation for customer service, and we want our 360,000 new customers to experience the same nationally recognized care we provide in other markets. Serving our customers well is how we keep our credibility strong, and in the end, it's just the right thing to do."

With the hectic but successful implementation complete, Integrys Energy Group and Alliance Data are now bringing their partnership to a new level – further enhancing the Integrys customer's experience and increasing operating efficiency.

"We're taking the Integrys model of what we expect for customers and finding ways to replicate that service quickly and efficiently," says Duket, "and that will enable future growth."



We're taking the Integrys model of what we expect for customers and finding ways to replicate that service quickly and efficiently, and that will enable future growth.

– **Mary Kay Duket**
Outsourcing
Contract Manager
Integrys Energy Group



Driving Loyalty within Our Communities

“Give Back to our Communities” is one of Alliance Data’s core company values. Alliance Data associates put this into practice daily by volunteering their time and talents to improve the cities and towns where they live and work. Alliance Data’s enterprise-wide, award-winning “Neighbor of Choice” program provides a framework for meaningful civic involvement. And its work with the Boston College Center for Corporate Citizenship helps the company stay abreast of the latest trends in philanthropy and corporate responsibility.

Mid-Ohio FoodBank

For more than 26 years, Mid-Ohio FoodBank has been serving the needs of central Ohio's hungry families by providing food to over 520 food pantries, soup kitchens, shelters and other charities. In five years, the number of people served annually by the Mid-Ohio FoodBank has grown 44 percent to nearly 200,000 children, seniors, low-income families and others who have no other place to turn. Nearly one in five Columbus residents lived in poverty in 2005, up from one in seven in 1999.

After observing this rapidly increasing community need, Alliance Data began working with the Mid-Ohio FoodBank in 2001. Initial efforts focused on the agency's annual Operation Feed community food drive. Departmental competitions raised large amounts of food and money to contribute to the campaign. Other local companies have joined the campaign as well, and in 2006, 137 businesses, organizations and government agencies participated in Operation Feed, collectively raising over 3.7 million meals for those in need.

As Operation Feed has grown, so has Alliance Data's overall support, culminating in a large financial donation in 2006 and expanded volunteer activities to support the agency's many needs throughout the year. On a regular basis, Alliance Data associates now volunteer in a variety of capacities:

Reclamation – Alliance Data volunteers are trained to carefully inspect non-perishable food and other products that were damaged at the grocery store, taken off the shelves and donated. Each item is inspected to determine its safety and usability.

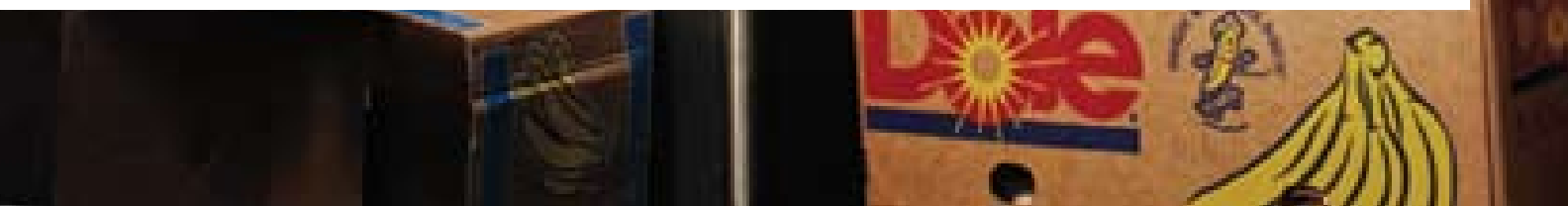
Food Repackaging – Donated food often arrives in bulk sizes or in packaging that does not maximize its usefulness. Therefore, items are often repacked to ensure they can be used by the most people possible. This includes labeling, sorting or boxing food into usable sizes, and preparing 4,250 food packages for senior citizens each month.

Special Projects – Alliance Data volunteers assist with a number of miscellaneous but important projects throughout the year. These include special events, mailings, data entry and special activities for youth service groups and school children.

Through Alliance Data's Neighbor of Choice Program, major Columbus-area community partnerships have also been developed with the Columbus Housing Partnership (CHP) and Columbus State Community College. Alliance Data funding and volunteers assist CHP in its mission to ensure that decent housing, the cornerstone of family life and a healthy community, is within the reach of lower-income families.

Alliance Data has partnered with Columbus State Community College (CSCC) to fund a program called "Alliance Data Fantastic Fridays." This program provides students in grades 6-12 an opportunity to participate in age-appropriate, hands-on activities in real college laboratories.

In working with the Mid-Ohio FoodBank, Columbus Housing Partnership, Columbus State Community College and dozens of other local agencies, Alliance Data and its associates are making a positive impact in Columbus.





Alliance Data has been one of our loyal corporate partners over the years. The combination of the company's financial support and its commitment to employee volunteering has assisted us greatly in our mission to ensure every individual in our community has one of life's most basic needs – food.

– **Matthew Habash**
Executive Director,
Mid-Ohio FoodBank



Driving Loyalty with Engagement

Some organizations strive for strong employee satisfaction. Others want to create a unique culture. These are worthwhile objectives. But at Alliance Data, our quest is to create and nurture a workforce that is engaged. An engaged workforce is one that has energy and puts forth discretionary effort. Engagement can be measured by the extent that our people are committed, motivated and actively involved in making Alliance Data successful.

Sure, it involves job satisfaction, but satisfaction alone doesn't inspire.

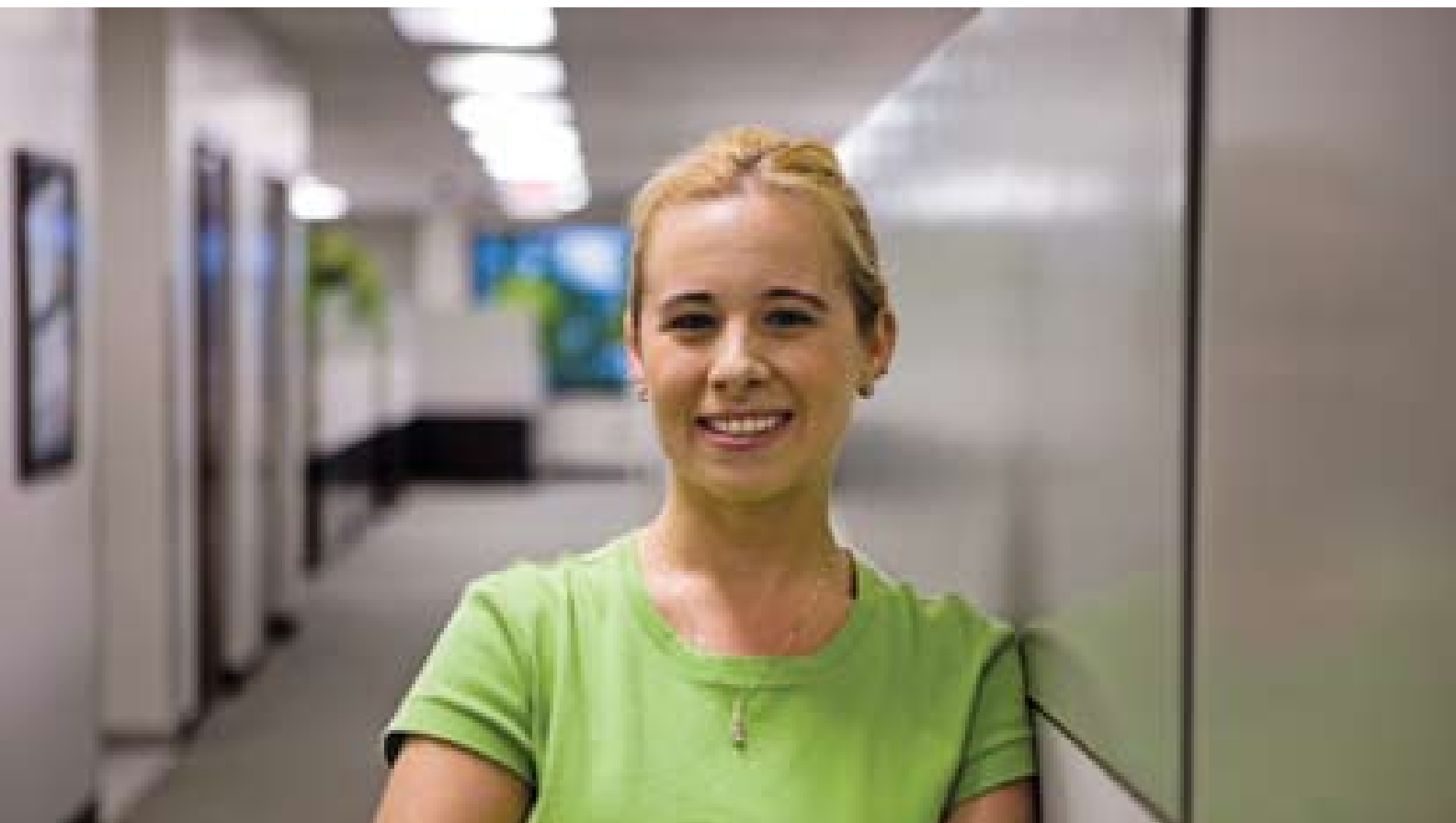
Our engaged associates have a passion for what they do. They enjoy helping our clients and their customers, and they enjoy working with other, like-minded people who believe they can make a personal difference in the success of the organization. This mindset is rooted in our culture, and it creates a sense of mutual loyalty.

A Partnership of People

In addition to our financial performance and the results we obtain for our clients, Alliance Data strives to create an environment where our associates are challenged, given an opportunity to develop and allowed to excel. We value a commitment to individual excellence that co-exists with a team personality and mindset.

We are creating a performance-based culture where individuals are rewarded for demonstrating a track record of performance and making value-added contributions to our business. This type of culture requires individuals, at all levels of the organization, to continue growing their expertise and capabilities.

For example, we place an emphasis on leadership development to ensure that, while we grow, we retain those characteristics that have contributed to our success. Last year almost 350 Alliance Data leaders participated in one of our Leadership Academies. These robust, multi-day sessions help reinforce our common vision among our leadership team and instill a consistent understanding of what is expected of them as leaders in our organization. These settings also help forge relationships that enable cross-unit collaboration, providing us with distinct advantages in the marketplace.





Our associates address each situation by looking at it from every angle. They listen. They share ideas. Then they take action.

– **Tran Taylor, Executive Vice President, Human Resources**

The individual development of each Alliance Data associate is important as well. Each year, a variety of development opportunities are available for associates. These range from classes and programs focused on functional expertise, to sessions designed to improve general workplace skills, to tailored development assignments that provide participants with hands-on experience in new areas of responsibility. At Alliance Data, the best and brightest at all levels find exciting development options that lead to compelling career opportunities. This is one reason why the American Society for Training and Development recognized Alliance Data as one of its “best places to learn.”

At the core of Alliance Data’s success has been its people. Our ability to attract, motivate, develop and retain top talent has given us a competitive advantage. Accordingly, we will continue our emphasis on hiring the best people, holding them accountable and allowing them to grow and succeed along with the company.



Pictured Left to Right:
Transient C. Taylor, Edward J. Heffernan,
Alan M. Utay, Daniel P. Finkelman,
J. Michael Parks, Dwayne H. Tucker,
Ivan M. Szeftel, John W. Scullion

Board of Directors

J. Michael Parks

Chairman of the Board and CEO
Alliance Data Systems Corporation

Bruce K. Anderson

Partner, Co-Founder
Welsh, Carson, Anderson & Stowe

Roger H. Ballou

Chief Executive Officer
CDI Corporation

Lawrence M. Benveniste

Dean of the Goizueta Business School
Emory University

D. Keith Cobb

Business Consultant, Strategic Advisor,
Former Vice Chairman and CEO
Alamo Rent A Car

E. Linn Draper, Jr.

Former Chairman of the Board,
President and CEO
American Electric Power, Inc.

Kenneth R. Jensen

Business Consultant, Strategic Advisor,
Former Senior Executive Vice President
Fiserv, Inc.

Robert A. Minicucci

General Partner
Welsh, Carson, Anderson & Stowe

Executive Officers

J. Michael Parks

Chief Executive Officer

John W. Scullion

President and Chief
Operating Officer

Daniel P. Finkelman

Executive Vice President
Corporate Development
and Innovation

Edward J. Heffernan

Executive Vice President and
Chief Financial Officer

Ivan M. Szeftel

Executive Vice President and
President, Retail Credit Services

Transient C. Taylor

Executive Vice President
Human Resources

Dwayne H. Tucker

Executive Vice President and
President, Transaction Services

Alan M. Utay

Executive Vice President
Chief Administrative Officer
and General Counsel

Corporate Headquarters

Alliance Data Systems Corporation

17655 Waterview Parkway
Dallas, Texas 75252
972 348-5100

Common Stock

The company's common stock is listed on the New York Stock Exchange under the Ticker Symbol "ADS."

Form 10-K

For more information about Alliance Data, visit us online at www.AllianceData.com. The company's Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission, is available at Alliance Data's web site.

Electronic Access

Stockholders of record may register at the following web site for electronic access to future Annual Reports and Proxy materials, rather than receiving mailed copies: <http://www.computershare.com/us/ecomms>

Registration is revocable until each year's record date for the Annual Meeting. Beneficial stockholders may be able to request electronic access by contacting their broker or bank.

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214 969-2800

Independent Auditors

Deloitte & Touche LLP

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New York, New York 10005
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Transfer Agent and Registrar

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P.O. Box 43078
Providence, RI 02940-3078

Shareholder Inquiries

781 575-2879
www.computershare.com

Certifications

Alliance Data has filed with the SEC, in our most recent Annual Report on Form 10-K, the required Sarbanes-Oxley Act Section 302 and Section 404 certifications and has submitted to the NYSE the CEO certification required by Section 303A.12(a) of the NYSE listing standards.

Safe Harbor Statement and Forward-Looking Statements

This document may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in our filings with the Securities and Exchange Commission. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements contained in these documents reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We have no intention, and disclaim any obligation, to update or revise any forward-looking statements, whether as a result of new information, future results or otherwise.



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