

ALLIANCE DATA SYSTEMS CORP

Form 10-Q/A

November 06, 2006

Table of Contents

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

Form 10-Q/A
Amendment No. 1

(Mark One)

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

Commission file number: 001-15749

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

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

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

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

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

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

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

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

None
(Title of Class)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

EXPLANATORY NOTE

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

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

ALLIANCE DATA SYSTEMS CORPORATION

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 September 30, 2006</u>	3
<u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2005 and 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 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>	17
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	32
<u>Item 4.</u>	
<u>Controls and Procedures</u>	33
<u>Part II: OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	34
<u>Item 1A.</u>	
<u>Risk Factors</u>	34
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	35
<u>Item 4.</u>	
<u>Submission of Matters to a Vote of Security Holders</u>	35
<u>Item 5.</u>	
<u>Other Information</u>	36
<u>Item 6.</u>	
<u>Exhibits</u>	36
<u>SIGNATURES</u>	37
<u>Certification of Chief Executive Officer</u>	
<u>Certification of Chief Financial Officer</u>	
<u>Certification of Chief Executive Officer</u>	
<u>Certification of Chief Financial Officer</u>	

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

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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 September 30, 2005 2006		Nine Months Ended September 30, 2005 2006	
	(In thousands, except per share amounts)			
Numerator				
Net income available to common stockholders	\$ 35,851	\$ 48,780	\$ 107,416	\$ 149,996
Denominator				
Weighted average shares, basic	82,755	79,612	82,612	79,885
Weighted average effect of dilutive securities:				
Net effect of unvested restricted stock	130	509	113	386
Net effect of dilutive stock options	2,364	1,370	2,595	1,386
Denominator for diluted calculation	85,249	81,491	85,320	81,657

Basic

Net income per share	\$	0.43	\$	0.61	\$	1.30	\$	1.88
----------------------	----	------	----	------	----	------	----	------

Diluted

Net income per share	\$	0.42	\$	0.60	\$	1.26	\$	1.84
----------------------	----	------	----	------	----	------	----	------

Table of Contents**ALLIANCE DATA SYSTEMS CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. ACQUISITIONS**

In February 2006, the Company acquired Toronto-based iCom Information & Communications, Inc. (ICOM), a leading provider of targeted list, marketing data and communications solutions for the pharmaceutical industry in North America. Total consideration paid was approximately \$35.6 million as of the closing date, including approximately \$3.5 million which was placed in escrow for a period of up to 18 months to satisfy potential working capital adjustments and indemnification claims. As a result of this acquisition, the Company acquired approximately \$10.8 million of customer contracts and \$2.3 million of capitalized software. The results of operations for ICOM have been included since the date of acquisition and are reflected in our Marketing Services Segment.

In April 2006, the Company acquired DoubleClick Email Solutions (DoubleClick), one of the largest permission-based email marketing service providers, with operations across North America, Europe and Asia/Pacific. Total consideration paid was approximately \$91.1 million. As a result of this acquisition, the Company acquired approximately \$26.8 million of customer contracts, \$2.3 million of capitalized software, and \$0.4 million associated with a non-compete agreement. The results of operations for DoubleClick have been included since the date of acquisition and are reflected in our Marketing Services Segment. The purchase price allocation as of the acquisition date was as follows:

	As of April 3, 2006 (In thousands)
Identifiable intangible assets	\$ 27,200
Capitalized software	2,300
Goodwill	55,614
Net assets	5,996
Purchase price	\$ 91,110

In October 2006, the Company acquired CPC Associates, Inc., a premier provider of data products and services used to increase effectiveness of direct-response marketing programs for a variety of business sectors. Total consideration paid was approximately \$70 million.

4. INTANGIBLE ASSETS AND GOODWILL**Intangible Assets**

Intangible assets consist of the following:

September, 30 2006

	Gross Assets	Accumulated Amortization (In thousands)	Net	Amortization Life and Method
Customer contracts and lists	\$ 282,844	\$ (104,253)	\$ 178,591	1-20 years straight line
Premium on purchased credit card portfolios	72,109	(19,573)	52,536	5-10 years straight line or accelerated
Collector database	62,853	(46,357)	16,496	15% declining balance
Tradename	12,350		12,350	Indefinite life
Noncompete agreements	1,800	(301)	1,499	2-5 years straight line
Favorable lease	1,000	(273)	727	4 years straight line
Total intangible assets	\$ 432,956	\$ (170,757)	\$ 262,199	

Table of Contents**ALLIANCE DATA SYSTEMS CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. INTANGIBLE ASSETS AND GOODWILL (Continued)**

	December 31, 2005		Net	Amortization Life and Method	
	Gross Assets	Accumulated Amortization (In thousands)			
Customer contracts and lists	\$ 243,906	\$ (73,766)	\$ 170,140	2-20 years	straight line
Premium on purchased credit card portfolios	77,529	(14,700)	62,829	5-10 years	straight line
Collector database	60,186	(42,292)	17,894	15%	declining balance
Tradename	12,350		12,350	Indefinite life	
Noncompete agreements	2,400	(1,545)	855	3-5 years	straight line
Favorable lease	1,000	(68)	932	4 years	straight line
Total intangible assets	\$ 397,371	\$ (132,371)	\$ 265,000		

Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2006 are as follows:

	Transaction Services	Credit Services	Marketing Services	Total
	(In thousands)			
December 31, 2005	\$ 335,419	\$	\$ 523,051	\$ 858,470
Goodwill acquired during the period			69,120	69,120
Effects of foreign currency translation	463		9,837	10,300
Other, primarily final purchase price adjustments	(452)		(9,935)	(10,387)
September 30, 2006	\$ 335,430	\$	\$ 592,073	\$ 927,503

5. DEBT

Debt consists of the following:

December 31, 2005	September 30, 2006
--------------------------	---------------------------

(In thousands)

Certificates of deposit	\$ 379,100	\$ 165,800
Senior notes		500,000
Credit facilities	441,000	79,000
Other	16,844	22,541
	836,944	767,341
Less: current portion	(578,443)	(173,799)
Long-term portion	\$ 258,501	\$ 593,542

As of September 30, 2006, the certificates of deposit had effective annual fixed rates ranging from 4.3% to 6.0%, and the credit facility had a weighted average interest rate of 8.3%.

Table of Contents

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. DEBT (Continued)

Credit Facilities

At the beginning of fiscal year 2006, the Company maintained three credit agreements with aggregate revolving lending commitments of \$515.0 million with the capability to increase such commitments up to \$550.0 million as follows:

- (1) 3-year credit agreement with revolving lending commitments of \$250.0 million and a maturity date of April 3, 2008;
- (2) 364-day credit agreement with revolving lending commitments of \$230.0 million and a maturity date of April 6, 2006; and
- (3) Canadian credit agreement with revolving lending commitments of \$35.0 million and a maturity date of April 3, 2008.

During January 2006, the Company entered into an additional credit agreement to increase its borrowing capacity by an incremental \$300.0 million. This credit agreement included usual and customary negative covenants for credit agreements of this type. Payment of amounts due under this credit agreement were secured by guaranties, pledges of the ownership interests of certain of the Company's subsidiaries and pledges of certain intercompany promissory notes. On January 5, 2006, the Company borrowed \$300.0 million under this credit agreement, which the Company used for general corporate purposes, including other debt repayment, repurchases of its common stock in connection with its stock repurchase program, mergers and acquisitions, and capital expenditures. The Company paid in full the \$300.0 million credit agreement on May 16, 2006 with a portion of the proceeds from the senior notes (described below) and permitted such \$300.0 million credit agreement to terminate pursuant to its terms on its scheduled maturity date, June 30, 2006.

On April 6, 2006, the Company amended its 364-day credit agreement to extend the maturity date from April 6, 2006 to April 5, 2007.

Advances under these four credit facilities are in the form of either base rate loans or eurodollar loans. The interest rate on base rate loans fluctuates based upon the higher of (1) the interest rate announced by the administrative agent as its prime rate and (2) the Federal funds rate plus 0.5%, in each case with no additional margin. The interest rate on eurodollar loans fluctuates based upon the rate at which eurodollar deposits in the London interbank market are quoted plus a margin of 0.5% to 1.0% based upon the ratio of total debt under these credit facilities to consolidated Operating EBITDA, as each term is defined in the credit facilities. The credit facilities are secured by pledges of stock of certain of the Company's subsidiaries and pledges of certain intercompany promissory notes.

On September 29, 2006, the Company entered into a new consolidated credit agreement to provide for a \$540.0 million revolving credit facility with a U.S. \$50.0 million sublimit for Canadian dollar borrowings and a \$50.0 million sublimit for swing line loans (the 2006 credit facility). Additionally, the 2006 credit facility includes an uncommitted accordion feature of up to \$210.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions. The lending commitments under the 2006 credit facility are scheduled to terminate

September 29, 2011. The 2006 credit facility is unsecured.

As of September 30, 2006, the Company has borrowed approximately \$79.0 million under the 2006 credit facility for general corporate purposes and to pay off and terminate the 3-year credit agreement, the 364-day credit agreement and the Canadian credit agreement.

Advances under the 2006 credit facility are in the form of either base rate loans or eurodollar loans and may be denominated in U.S. dollars or Canadian dollars. The interest rate for base rate loans denominated in U.S. dollars fluctuates and is equal to the higher of (1) the Bank of Montreal's prime rate and (2) the Federal

Table of Contents

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. DEBT (Continued)

funds rate plus 0.5%, in either case with no additional margin. The interest rate for base rate loans denominated in Canadian dollars fluctuates and is equal to the higher of (1) the Bank of Montreal's prime rate for Canadian dollar loans and (2) the CDOR rate plus 1%, in either case with no additional margin. The interest rate for eurodollar loans denominated in U.S. or Canadian dollars fluctuates based on the rate at which deposits of U.S. dollars or Canadian dollars, respectively, in the London interbank market are quoted plus a margin of 0.5% to 1.0% based upon the Company's Senior Leverage Ratio as defined in the 2006 credit facility.

Among other fees, the Company pays a facility fee of 0.1% to 0.2% per annum (due quarterly) on the aggregate commitments under the 2006 credit facility, whether used or unused, based upon the Company's Senior Leverage Ratio as defined in the 2006 credit facility. The Company will also pay fees with respect to any letters of credit issued under the 2006 credit facility.

The 2006 credit facility includes usual and customary negative covenants for credit agreements of this type, including, but not limited to, restrictions on the Company's ability, and in certain instances, its subsidiaries' ability, to consolidate or merge; substantially change the nature of its business; sell, transfer or dispose of assets; create or incur indebtedness; create liens; pay dividends and repurchase stock; and make investments. The negative covenants are subject to certain exceptions, as specified in the 2006 credit facility. The 2006 credit facility also requires the Company to satisfy certain financial covenants, including maximum ratios of Total Capitalization and Senior Leverage as determined in accordance with the 2006 credit facility and a minimum ratio of Consolidated Operating EBITDA to Consolidated Interest Expense as determined in accordance with the 2006 credit facility.

The 2006 credit facility also includes customary events of default, including, among other things, payment default, covenant default, breach of representation or warranty, bankruptcy, cross-default, material ERISA events, a change of control of the Company, material money judgments and failure to maintain subsidiary guarantees.

Senior Notes

On May 16, 2006, the Company entered into a senior note purchase agreement and issued and sold \$250.0 million aggregate principal amount of 6.00% Series A Notes due May 16, 2009 and \$250.0 million aggregate principal amount of 6.14% Series B Notes due May 16, 2011. The proceeds were used to retire the \$300.0 million credit agreement, to repay other debt and for general corporate purposes.

The Series A and Series B Notes will accrue interest on the unpaid balance thereof at the rate of 6.00% and 6.14% per annum, respectively, from May 16, 2006, payable semiannually, on May 16 and November 16 in each year, commencing with November 16, 2006, until the principal has become due and payable. The note purchase agreement includes usual and customary negative covenants and events of default for transactions of this type.

The senior notes are unsecured. The payment obligations under the senior notes are guaranteed by certain of the Company's existing and future subsidiaries, originally ADS Alliance Data Systems, Inc. Due to their status as guarantors under the 2006 credit facility and pursuant to a Joinder to Subsidiary Guaranty dated as of September 29, 2006, three additional subsidiaries of the Company became guarantors of the senior notes, including Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC and Epsilon Data Management, LLC.

On April 27, 2006, the Company entered into a treasury rate lock agreement with a notional amount of \$250.0 million to mitigate its exposure to increases in interest rates associated with the placement of the senior

Table of Contents**ALLIANCE DATA SYSTEMS CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. DEBT (Continued)**

notes. Effective April 28, 2006, the treasury lock was terminated and the Company realized a loss of \$0.2 million.

6. DEFERRED REVENUE

A reconciliation of deferred revenue for the AIR MILES[®] Reward Program is as follows:

	Service	Deferred Revenue Redemption (In thousands)	Total
December 31, 2005	\$ 184,899	\$ 425,634	\$ 610,533
Cash proceeds	92,065	176,712	268,777
Revenue recognized	(76,594)	(152,844)	(229,438)
Effects of foreign currency translation	8,450	20,092	28,542
September 30, 2006	\$ 208,820	\$ 469,594	\$ 678,414

7. INCOME TAXES

For the three months and nine months ended September 30, 2006, the Company has utilized an effective tax rate of 37.9% and 38.2%, respectively, to calculate its provision for income taxes. Legislation was enacted in Texas during May 2006 and in Canada during June 2006 that impacted the effective tax rates for the nine months ended September 30, 2006. In accordance with Accounting Principles Board Opinion No. 28, Interim Financial Reporting (APB No. 28), the Company's expected annual effective tax rate for calendar year 2006 based on all known variables is estimated to be approximately 37.9% excluding the effect of the change in tax laws.

8. COMPREHENSIVE INCOME

The components of comprehensive income, net of tax effect, are as follows:

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	2006	2006	2006	2006
	(In thousands)			
Net income	\$ 35,851	\$ 48,780	\$ 107,416	\$ 149,996
Unrealized (loss) gain on securities available-for-sale	(583)	1,675	529	788
Foreign currency translation adjustments	3,724	1,165	3,173	4,273

Total comprehensive income	\$ 38,992	\$ 51,620	\$ 111,118	\$ 155,057
----------------------------	-----------	-----------	------------	------------

Table of Contents

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. COMPREHENSIVE INCOME (Continued)

9. SEGMENT INFORMATION

Consistent with prior periods, the Company classifies its businesses into three segments: Transaction Services, Credit Services and Marketing Services.

	Transaction Services	Credit Services	Marketing Services	Other / Eliminations	Total
	(In thousands)				
Three months ended September 30, 2005					
Revenues	\$ 178,973	\$ 137,049	\$ 145,404	\$ (76,613)	\$ 384,813
Adjusted EBITDA ⁽¹⁾	23,242	39,470	23,368		86,080
Depreciation and amortization	13,810	1,894	8,627		24,331
Stock compensation expense	648	648	648		1,944
Operating income	8,784	36,928	14,093		59,805
Interest expense, net				2,422	2,422
Income before income taxes	8,784	36,928	14,093	(2,422)	57,383
Three months ended September 30, 2006					
Revenues	\$ 195,590	\$ 181,377	\$ 218,556	\$ (88,939)	\$ 506,584
Adjusted EBITDA ⁽¹⁾	26,650	61,067	45,044		132,761
Depreciation and amortization	14,583	2,817	14,578		31,978
Stock compensation expense	4,293	2,374	4,907		11,574
Operating income	7,774	55,876	25,559		89,209
Interest expense, net				10,639	10,639
Income before income taxes	7,774	55,876	25,559	(10,639)	78,570

	Transaction Services	Credit Services	Marketing Services	Other / Eliminations	Total
	(In thousands)				
Nine months ended September 30, 2005					
Revenues	\$ 515,278	\$ 419,229	\$ 428,501	\$ (231,752)	\$ 1,131,256
Adjusted EBITDA ⁽¹⁾	65,531	121,510	71,107		258,148
Depreciation and amortization	42,100	5,717	25,666		73,483
Stock compensation expense	1,754	1,755	1,754		5,263
Operating income	21,677	114,038	43,687		179,402

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

Interest expense, net				7,537	7,537
Income before income taxes	21,677	114,038	43,687	(7,537)	171,865
Nine months ended					
September 30, 2006					
Revenues	\$ 580,540	\$ 557,397	\$ 603,750	\$ (267,425)	\$ 1,474,262
Adjusted EBITDA ⁽¹⁾	85,704	199,657	109,341		394,702
Depreciation and amortization	42,398	8,610	40,419		91,427
Stock compensation expense	12,165	6,072	13,239		31,476
Operating income	31,141	184,975	55,683		271,799
Interest expense, net				29,235	29,235
Income before income taxes	31,141	184,975	55,683	(29,235)	242,564

Table of Contents**ALLIANCE DATA SYSTEMS CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. SEGMENT INFORMATION (Continued)**

- ⁽¹⁾ Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and amortization. Adjusted EBITDA is presented in accordance with Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131) as it is the primary performance metric by which senior management is evaluated. Refer to Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations for a reconciliation of Adjusted EBITDA.

10. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of, and accounted for stock-based compensation in accordance with, Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)) which supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized ratably over the requisite service period. The Company elected the modified prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS No. 123(R) apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation expense estimated for the Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) pro forma disclosures, adjusted for forfeitures.

Total stock-based compensation expense recognized in the Company's consolidated statements of income for the three and nine months ended September 30, 2005 and 2006 respectively, is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2005	2006	2005	2006
	(In thousands)			
Cost of operations	\$	\$ 6,712	\$	\$ 20,218
General and administrative	1,944	4,862	5,263	11,258
Total	\$ 1,944	\$ 11,574	\$ 5,263	\$ 31,476

As the amount of stock-based compensation expense recognized is based on awards ultimately expected to vest, the amount recognized in the Company's results of operations has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on the Company's historical

experience. Prior to the adoption of SFAS No. 123(R), the Company accounted for forfeitures as they occurred in accordance with APB No. 25 and did not estimate forfeitures. As a result, upon adoption of SFAS No. 123(R) the Company recognized a cumulative effect of a change in accounting principle of \$0.8 million, net of tax, to reverse compensation expense recognized for those awards not expected to vest.

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25. Under the intrinsic value method, stock-based compensation expense for employee stock options was not recognized in the Company's results of operations as the exercise price equaled the fair market value of the underlying stock at the date of grant. In accordance with the modified prospective transition method, the Company's prior year financial statements have not been restated to reflect the impact of the adoption of SFAS No. 123(R).

Table of Contents**ALLIANCE DATA SYSTEMS CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. STOCK-BASED COMPENSATION (Continued)**

The following table sets forth the pro forma amounts of net income and net income per share, for the three and nine months ended September 30, 2005, that would have resulted if the Company had accounted for the stock-based awards under the fair value recognition provisions of SFAS No. 123:

	Three Months Ended September 30, 2005 (In thousands, except per share amounts)	Nine Months Ended September 30, 2005
Net income, as reported	\$ 35,851	\$ 107,416
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,215	3,289
Deduct: Total stock-based employee compensation expense determined under fair value based method for all stock option awards, net of related tax effects	(4,899)	(13,587)
Net income, pro forma	\$ 32,167	\$ 97,118
Net income per share:		
Basic-as reported	\$ 0.43	\$ 1.30
Diluted-as reported	\$ 0.42	\$ 1.26
Basic-pro forma	\$ 0.39	\$ 1.18
Diluted-pro forma	\$ 0.38	\$ 1.14

As of September 30, 2006, there was \$51.6 million of unrecognized expense, adjusted for estimated forfeitures, related to non-vested, stock-based equity awards granted to employees, which is expected to be recognized over a weighted average period of approximately 1.8 years.

Stock Options

Stock option awards are granted with an exercise price equal to the market price of the Company's stock. Options typically vest ratably over three years and expire ten years after the date of grant. Since January 1, 2005, the fair value of each option award is estimated on the date of grant using a binomial lattice model. The following table indicates the assumptions used in estimating fair value for the nine months ended September 30, 2005 and 2006, respectively:

Nine Months Ended September 30,	
2005	2006

Expected dividend yield		
Risk-free interest rate	2.94% - 4.76%	4.53% - 4.65%
Expected life of options (years)	6.4	7.1
Assumed volatility	28.8% - 43.6%	31.9% - 37.0%
Weighted average grant date fair value	\$16.66	\$18.46

Table of Contents**ALLIANCE DATA SYSTEMS CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. STOCK-BASED COMPENSATION (Continued)**

The following table sets forth the summary of option activity under the Company's stock option program for the nine months ended September 30, 2006:

	Outstanding		Weighted		Exercisable		Weighted	
	Options		Average		Options		Average	
			Exercise Price				Exercise Price	
			(Options in thousands)					
Balance at December 31, 2005	6,680	\$	27.19		3,319	\$	18.01	
Granted	620		43.44					
Exercised	(1,718)		20.88					
Cancelled	(303)		37.00					
Balance at September 30, 2006	5,279	\$	30.68		2,957	\$	23.50	

At the exercise date, the total intrinsic value of options exercised during the nine months ended September 30, 2006 was approximately \$51.9 million.

The following table summarizes information concerning both outstanding and exercisable stock options at September 30, 2006:

Range of Exercise Prices	Options	Outstanding		Weighted	Exercisable		
		Remaining	Contractual		Average	Weighted	Average
		Life	Exercise Price		Options	Exercise Price	
		(Years)	(Options in thousands)				
\$ 9.00 to \$12.00	553	4.2	\$	11.54	553	\$	11.54
\$12.01 to \$15.00	705	4.3	\$	14.96	705	\$	14.96
\$15.01 to \$22.00	37	6.1	\$	18.61	37	\$	18.61
\$22.01 to \$29.00	696	6.7	\$	24.16	683	\$	24.08
\$29.01 to \$39.00	1,037	7.5	\$	32.06	527	\$	31.74
\$39.01 to \$47.00	2,231	8.6	\$	41.79	451	\$	41.41
\$47.01 to \$54.00	20	9.7	\$	53.25	1	\$	48.10
	5,279				2,957		

The aggregate intrinsic value of options outstanding and options exercisable as of September 30, 2006 was approximately \$129.4 million and \$93.7 million, respectively.

Restricted Stock

During 2006, the Company has awarded both time-based and performance-based restricted stock units. Fair value of the restricted stock is estimated on the date of grant. In accordance with SFAS No. 123(R), the Company recognizes the estimated stock-based compensation expense, net of estimated forfeitures, over the applicable service period.

Time-based restricted stock awards typically vest ratably over a three year period. Performance-based restricted stock awards vest if specified performance measures tied to the Company's financial performance are met. The vesting provisions of 86,314 performance-based restricted stock unit awards issued in 2006 to eight employees were modified in March 2006. The vesting provisions, which were dependent on the Company's cash earnings per share (EPS) growth as compared to the S&P 500, were modified such that under the new terms, the vesting provisions are dependent on the Company's year-over-year cash EPS growth. The number of shares that vest may range from zero to 200%. A minimum cash EPS growth rate of 10% is

Table of Contents**ALLIANCE DATA SYSTEMS CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. STOCK-BASED COMPENSATION (Continued)**

necessary for the minimum 50% vesting, 18% cash EPS growth for a 100% vesting, and 36% cash EPS growth (or more) for a maximum 200% vesting. The modification had no impact on the fair value of the award; however, it did result in a change in estimate of the most likely outcome of the number of shares to vest. The incremental stock-based compensation expense recorded as a result of the change in estimate was not material.

	Performance- Based	Time- Based	Total
Balance at December 31, 2005		469,840	469,840
Shares granted	242,015	594,642	836,657
Shares vested	(8,100)	(38,441)	(46,541)
Shares cancelled	(12,892)	(46,866)	(59,758)
Balance at September 30, 2006	221,023	979,175	1,200,198

The weighted average grant-date fair value per share was \$44.56 for restricted stock awards granted during the nine months ended September 30, 2006.

Employee Stock Purchase Plan

The Company has an Amended and Restated Employee Stock Purchase Plan (the "ESPP"), which provides for three month offering periods, commencing on the first trading day of each calendar quarter and ending on the last trading day of each calendar quarter. The purchase price of the common stock is 85% of the fair market value of shares on the applicable purchase date as determined by averaging the high and low trading prices of the last trading day of each quarter. An employee may elect to pay the purchase price of such common stock through payroll deductions. The maximum number of shares that were reserved for issuance under the ESPP is 1,500,000 shares, subject to adjustment as provided in the ESPP. Effective July 1, 2005, employees are required to hold any stock purchased through the ESPP for 180 days prior to any sale or withdrawal of shares. In accordance with SFAS No. 123(R), the Company has recorded compensation expense for the difference between the fair value of the stock and the purchase price of the stock.

Table of Contents

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes thereto presented in this quarterly report and the consolidated financial statements and the notes thereto included in our Annual Report filed on Form 10-K/A for the year ended December 31, 2005.

Year in Review Highlights

Our results for the first nine months of 2006 included the following significant agreements and continued selective execution of our acquisition strategy:

In January 2006, we announced a long-term agreement to provide customer care and comprehensive billing and marketing management services to Green Mountain Energy Company, one of the nation's leading retail providers of cleaner electricity products.

In January 2006, we signed a multi-year renewal agreement with Canada Safeway to continue our partnership in our Canadian AIR MILES Reward Program. As one of our top-ten clients, Canada Safeway has been a partner in our loyalty and marketing program since its inception in 1992.

In February 2006, we signed a multi-year agreement to provide billing and customer care services to WPS Resources Corporation, an energy holding company whose subsidiaries provide electric and natural gas utility service primarily to Michigan and Minnesota consumers.

In February 2006, we acquired iCom Information & Communications, Inc. (ICOM), a leading provider of targeted list, marketing data and communication solutions for the pharmaceutical industry in North America.

In February 2006, we signed a long-term agreement to provide a co-brand credit card program and database marketing services to New York & Company, a leading specialty retailer of women's fashions and accessories.

In February 2006, we signed a long-term contract renewal to continue to provide a comprehensive private-label credit card solution to Goody's, a retailer of moderately priced apparel for women, men and children. Under the expanded terms of the agreement, we will also provide an integrated co-brand credit card program and corresponding program servicing.

In March 2006, we announced a multi-year agreement with Citibank, Inc. to provide a comprehensive loyalty solution to support Citi's points-based customer rewards program, the Thank You NetworkSM.

In March 2006, we signed a contract renewal to continue to provide a comprehensive private-label credit card solution to the United Retail Group, Inc., a leading high-growth specialty retailer of plus-size women's fashion apparel.

In April 2006, we signed a multi-year contract renewal to continue to provide a comprehensive private-label credit card solution for Abercrombie & Fitch, a leading men's and women's specialty clothing retailer.

In April 2006, we completed an issuance of \$500.0 million of asset-backed notes. The notes were issued through the World Financial Network Credit Card Master Note Trust as part of the securitization program for

our credit card banking subsidiary, World Financial Network National Bank.

In May 2006, we announced a multi-year agreement to provide bill print and mail services, electronic bill presentment and payment processing for Sacramento Municipal Utility District, the sixth-largest publicly owned utility in the United States with approximately 560,000 residential and commercial accounts in California's Sacramento and Placer counties.

Table of Contents

In May 2006, we signed a multi-year agreement to provide permission-based email marketing services and strategic consulting services to Citicorp Credit Services, Inc., which has more than 120 million credit and charge accounts in North America.

In May 2006, we completed a private placement of \$500.0 million of senior notes to guarantee interest rates and provide additional liquidity.

In May 2006, we signed a multi-year contract renewal to continue to provide database, consulting, and infrastructure services for AARP, one of the nation's largest non-profit organizations.

In May 2006, we signed a contract renewal to continue to provide a comprehensive private-label credit card solution to The Room Place at Harlem Furniture, a multi-channel retailer of high-quality home furniture in the Chicago area.

In June 2006, we announced a long-term contract renewal to continue to provide customer information system services, application management and online bill presentment to Union Gas, a Duke Energy Company.

In June 2006, we announced a multi-year renewal agreement with The Great Atlantic & Pacific Company of Canada (A&P Canada) to continue our partnership in our Canadian AIR MILES Reward Program. As one of the program's top-ten sponsors, A&P Canada is the second largest food retailer in Ontario.

In June 2006, we announced a multi-year agreement to provide comprehensive private-label credit card services for Bealls Outlet Stores, Inc. and Burke's Outlet Stores, Inc., leading retailers of value-priced apparel, accessories and home furnishings with more than 500 stores across 14 states.

In July 2006, we announced a multi-year agreement to provide comprehensive private-label credit card services for Friedman's Jewelers, the third-largest jewelry retailer in the United States, with approximately 422 locations.

In July 2006, we announced an agreement to provide permission-based email marketing services for Circuit City Stores, Inc. Circuit City is one of the nation's leading multi-channel consumer electronic retailers.

In August 2006, we announced a long-term renewal agreement with The Jean Coutu Group to continue our partnership in our Canadian AIR MILES Reward Program. As one of the program's top-ten sponsors, Jean Coutu is the fourth largest drugstore chain in North America.

In August 2006, we announced a renewal agreement with Hudson's Bay Company (Hbc) to continue our partnership in our Canadian AIR MILES Reward Program. Additionally, through this agreement, Hbc will become a rewards supplier in the AIR MILES Reward Program. As one of the program's top-fifteen sponsors, Hbc operates more than 570 stores across Canada.

In August 2006, we announced that our Canadian AIR MILES Reward Program added 20 new retail partners to its online shopping mall, www.airmilesshops.ca. The 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.

In August 2006, we acquired Big Designs, Inc., a premier print, web and email marketing design firm, for approximately \$5.0 million. The acquisition will complement Epsilon Interactive's existing creative services offerings.

In August 2006, we signed a multi-year contract renewal to continue to provide a comprehensive private-label credit card solution for American Signature, a leading designer, manufacturer and retailer of high-quality furniture.

In September 2006, we sold our credit card receivables portfolio of Shop NBC accounts for approximately \$77.2 million, which was comprised of receivables of \$75.3 million plus a small premium.

Table of Contents

In September 2006, we announced a multi-year agreement to provide customer information system and billing services to customers of the New England Gas distribution division of the Southern Union Company, one of the nation's leading diversified natural gas companies.

In September 2006, we announced an agreement to acquire CPC Associates, Inc., a premier provider of data products used to enhance the effectiveness of direct-response marketing programs for a variety of business sectors.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K/A for the year ended December 31, 2005.

Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization and amortization of purchased intangibles. Operating EBITDA is a non-GAAP financial measure equal to adjusted EBITDA plus the change in deferred revenue less the change in redemption settlement assets. We have presented operating EBITDA because we use the financial measure to monitor compliance with financial covenants in our credit agreement and our senior note agreements. For the nine months ended September 30, 2006, senior debt-to-operating EBITDA was 1.1x compared to a maximum ratio of 2.75x permitted in our credit facility and in our senior note agreements. Operating EBITDA to interest expense was 12.8x compared to a minimum ratio of 3.5x permitted in our credit facility and 3.0x permitted in our senior note agreements. As discussed in more detail in the liquidity section of Management's Discussion and Analysis of Financial Condition and Results of Operations, our credit facility and cash flow from operations are the two main sources of funding for our acquisition strategy and for our future working capital needs and capital expenditures. As of September 30, 2006 we had borrowings of \$79.0 million outstanding under the credit agreement, \$500.0 million under our senior notes and had \$459.0 million in unused borrowing capacity. We were in compliance with our covenants at September 30, 2006 and we expect to be in compliance with these covenants during the year ended December 31, 2006.

We use adjusted EBITDA as an integral part of our internal reporting to measure the performance of our reportable segments and to evaluate the performance of our senior management. Adjusted EBITDA is considered an important indicator of the operational strength

For
3. TO APPROVE BY SPECIAL RESOLUTION THE AMENDMENT AND RESTATEMENT OF GGAC'S AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION TO (AMONG OTHER MATTERS) TO REFLECT CHANGES MADE AS A RESULT OF PROPOSALS 2.A-C ABOVE PRESENTED AT THE EXTRAORDINARY GENERAL MEETING.

Issuer

For

For

4. TO APPROVE THE 2016 LONG-TERM INCENTIVE EQUITY PLAN.

Issuer

For

For

5A. ELECTION OF CLASS A DIRECTOR TO SERVE UNTIL 2017: JOHN TONELLI

Issuer

For

For

5B. ELECTION OF CLASS B DIRECTOR TO SERVE UNTIL 2018: NELSON NARCISO FILHO

Issuer

For

For

5C. ELECTION OF CLASS B DIRECTOR TO SERVE UNTIL 2018: AMIR ADNANI

Issuer

For

For

5D. ELECTION OF CLASS C DIRECTOR TO SERVE UNTIL 2019: MARIO GARNERO

Issuer

For

For

5E. ELECTION OF CLASS C DIRECTOR TO SERVE UNTIL 2019: ALVARO JABUR MALUF, JR.

Issuer

For

For

6. TO ADJOURN THE EXTRAORDINARY GENERAL MEETING TO A LATER DATE OR DATES, IF NECESSARY, TO PERMIT FURTHER SOLICITATION AND VOTE OF PROXIES IF, BASED ON THE TABULATED VOTE OR ELECTIONS TO CONVERT AT THE TIME OF THE EXTRAORDINARY GENERAL MEETING, GGAC IS NOT AUTHORIZED TO CONSUMMATE THE MERGER OR THE CLOSING CONDITIONS UNDER THE INVESTMENT AGREEMENT ARE NOT MET.

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

STEWART INFORMATION SERVICES

4/27/2016

860372101

STC

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

For

For

1. DIRECTOR - ARNAUD AJDLER, JAMES CHADWICK, GLENN C. CHRISTENSON, ROBERT L. CLARKE, LAURIE C. MOORE

Issuer

For

For

2. ADVISORY APPROVAL REGARDING THE COMPENSATION OF STEWART INFORMATION SERVICES CORPORATION'S NAMED EXECUTIVE OFFICERS (SAY-ON-PAY)

Issuer

For

For

3. RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS STEWART INFORMATION SERVICES CORPORATION'S INDEPENDENT AUDITORS FOR 2016

Issuer

For

For

4. APPROVAL OF THE EXCHANGE OF CLASS B STOCK FOR COMMON STOCK AND CASH

Issuer

For

For

5. SUBJECT TO STOCKHOLDER APPROVAL OF PROPOSAL 4, AMEND CERTIFICATE OF INCORPORATION ELIMINATING AUTHORIZED CLASS B STOCK AND PROVISIONS RELATED THERETO

Issuer

For

For

6. SUBJECT TO STOCKHOLDER APPROVAL OF PROPOSAL 4, APPROVAL OF AN AMENDMENT TO STEWART INFORMATION SERVICES CORPORATION'S AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO ELIMINATE THE REQUIREMENT THAT THE BOARD SIZE BE SET AT NINE DIRECTORS

Issuer

For

For

7. SUBJECT TO STOCKHOLDER APPROVAL OF PROPOSAL 4, AMEND CERTIFICATE OF INCORPORATION PERMITTING SPECIAL MEETING TO BE CALLED BY 25% OR MORE OF STOCKHOLDERS AND ELIMINATING WRITTEN CONSENT

Issuer

For

For

8. SUBJECT TO STOCKHOLDER APPROVAL OF PROPOSAL 4, APPROVAL OF AN AMENDMENT TO STEWART INFORMATION SERVICES CORPORATION'S AMENDED AND RESTATED BY-LAWS TO ELIMINATE THE REQUIREMENT THAT SIX OF THE NINE DIRECTORS APPROVE BOARD ACTION

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30, 2016

Company Name

Table of Contents

Meeting Date

CUSIP

Ticker

PUTNAM HIGH INCOME SECURITIES FUND

4/29/2016

746779107

PCF

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

Mirror Vote

For

1B. DIRECTOR - 1) LIAQUAT AHAMED 2) RAVI AKHOURY 3) BARBARA M. BAUMANN 4) JAMESON A. BAXTER 5) ROBERT J. DARRETTA 6) KATINKA DOMOTORFFY 7) JOHN A. HILL 8) PAUL L. JOSKOW 9) KENNETH R. LEIBLER 10) ROBERT E. PATTERSON 11) GEORGE PUTNAM, III 12) ROBERT L. REYNOLDS 13) W. THOMAS STEPHENS

Issuer

Mirror Vote

For

1A. FIXING THE NUMBER OF TRUSTEES AT 13.

Issuer

Mirror Vote

For

2. APPROVAL OF THE CONVERSION OF YOUR FUND FROM CLOSED-END TO OPEN- END STATUS AND CERTAIN RELATED AMENDMENTS TO YOUR FUND'S DECLARATION OF TRUST. THE TRUSTEES RECOMMEND A VOTE "AGAINST" PROPOSAL 2.

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

PUTMAN MANAGED MUNI INC PFD SER C

4/29/2016

746823400

PMM ARPS

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

Mirror Vote

For

1B. DIRECTOR - 1) LIAQUAT AHAMED 2) RAVI AKHOURY 3) BARBARA M. BAUMANN 4) JAMESON A. BAXTER 5) ROBERT J. DARRETTA 6) KATINKA DOMOTORFFY 7) JOHN A. HILL 8) PAUL L. JOSKOW 9) KENNETH R. LEIBLER 10) ROBERT E. PATTERSON 11) GEORGE PUTNAM, III 12) ROBERT L. REYNOLDS 13) W. THOMAS STEPHENS

Issuer

Mirror Vote

For

1A. FIXING THE NUMBER OF TRUSTEES AT 13.

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

PUTMAN OPPORTUNITIES TR PFD CL C

4/29/2016

746922400

PMO APRS

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

Mirror Vote

For

1B. DIRECTOR - 1) LIAQUAT AHAMED 2) RAVI AKHOURY 3) BARBARA M. BAUMANN 4) JAMESON A. BAXTER 5) ROBERT J. DARRETTA 6) KATINKA DOMOTORFFY 7) JOHN A. HILL 8) PAUL L. JOSKOW 9) KENNETH R. LEIBLER 10) ROBERT E. PATTERSON 11) GEORGE PUTNAM, III 12) ROBERT L. REYNOLDS 13) W. THOMAS STEPHENS

Issuer

Mirror Vote

For

1A. FIXING THE NUMBER OF TRUSTEES AT 13.

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

ISIN

Ticker

BLACKROCK LATIN AMERICAN INVESTMENT TRUST

4/29/2016

GB0005058408

BRLA LN

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

For

For

1 - TO RECEIVE THE REPORT OF THE DIRECTORS AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015, TOGETHER WITH THE REPORT OF THE AUDITORS THEREON

Issuer

Against

For

2 - TO APPROVE THE DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Issuer

For

For

3 - TO DECLARE A FINAL DIVIDEND OF 6.00 CENTS PER SHARE FOR THE YEAR ENDED 31 DECEMBER 2015

Issuer

Against

For

4 -TO RE-ELECT MR BURNELL AS A DIRECTOR

Issuer

Against

For

5 - TO RE-ELECT MRS DOBSON AS A DIRECTOR

Issuer

Against

For

6 - TO RE-ELECT MR MONTEIRO DE CASTRO AS A DIRECTOR

Issuer

Against

For

7 -TO RE-ELECT EARL ST ALDWYN AS A DIRECTOR

Issuer

Against

For

8 - TO RE-ELECT DR DOCTOR AS A DIRECTOR

Issuer

Against

For

9 - TO RE-ELECT MR WHITEHEAD AS A DIRECTOR

Issuer

For

For

10 - TO RE-APPOINT PRICEWATERHOUSECOOPERS LLP AS AUDITORS OF THE COMPANY UNTIL THE CONCLUSION OF THE NEXT AGM OF THE COMPANY

Issuer

For

For

11 -TO AUTHORISE THE AUDIT COMMITTEE TO DETERMINE THE AUDITORS' REMUNERATION

Issuer

Against

For

12 - TO RESOLVE THAT THE COMPANY SHOULD CONTINUE IN BEING AS AN INVESTMENT TRUST COMPANY

Issuer

For

For

13 -TO GRANT THE DIRECTORS AUTHORITY TO ALLOT SHARES

Issuer

For

For

14 - TO AUTHORISE THE DIRECTORS TO DISAPPLY PRE-EMPTION RIGHTS IN RESPECT OF ISSUES OF NEW ORDINARY SHARES OR THE SALE OF ORDINARY SHARES OUT OF TREASURY

Issuer

For

For

15 - TO AUTHORISE THE DIRECTORS TO PURCHASE THE COMPANY'S ORDINARY SHARES FOR CANCELLATION OR TO BE HELD IN TREASURY

Issuer

For

For

16 - TO ADOPT NEW ARTICLES OF ASSOCIATION

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

SOURCE CAPITAL, INC.

5/9/2016

836144105

SOR

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

Mirror Vote

For

DIRECTOR - 1) ATWOOD 2) LIPSON 3) OSBORNE 4) PISANO 5) PURCELL 6) RUDNICK

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

Bancroft Fund LTD

5/9/2016

059695106

BCV

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

Mirror vote

For

DIRECTOR - 1) Jane D. O'Keeffe 2) Elizabeth C. Bogan, PHD 3) Anthonie C. Van Ekris

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

Ellsworth Growth & Income FD LTD

5/9/2016

289074106

ECF

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

Mirror vote

For

DIRECTOR - 1) James A. Dinsmore 2) Elizabeth C. Bogan, PHD 3) Anthonie C. Van Ekris

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

The GDL Fund

5/9/2016

361570104

GDL

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

Mirror vote

For

DIRECTOR - 1) Edward T. Tokar 2) Salvatore J. Zizza

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

Table of Contents

July 1, 2015 - June 30,2016

Company Name

Meeting Date

ISIN

Ticker

JURUDICA INVESTMENTS LIMITED

5/10/2016

GG00B29LSW52

JIL LN

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

For

For

1 - THAT EACH OF THE ANNUAL REPORT AND ACCOUNTS FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 DECEMBER 2015, THE DIRECTOR'S REPORT AND THE AUDITOR'S REPORT BE RECEIVED AND ADOPTED

Issuer

For

For

2 - THAT THE TOTAL AGGREGATE REMUNERATION OF THE DIRECTORS OF THE COMPANY BEING USD523,738 IN RESPECT OF THE YEAR ENDED 31 DECEMBER 2015 BE APPROVED

Issuer

For

For

3 - THAT RICHARD KERMIT BIRCHFIELD BE RE-ELECTED AS A DIRECTOR OF THE COMPANY

Issuer

For

For

4 - THAT PRICEWATERHOUSECOOPERS CI LLP BE RE-APPOINTED AS AUDITORS OF THE COMPANY

Issuer

For

For

5 - THAT THE DIRECTORS BE AUTHORISED TO FIX THE REMUNERATION OF THE AUDITORS

Issuer

For

For

6 - THAT THE COMPANY GENERALLY BE AND IS HEREBY AUTHORISED FOR THE PURPOSES OF SECTION 315 OF THE COMPANIES LAW TO MAKE ONE OR MORE MARKET ACQUISITIONS (AS DEFINED IN THE COMPANIES LAW) OF ORDINARY SHARES IN THE CAPITAL OF THE COMPANY

Issuer

For

For

7 - THAT THE COMPANY'S ARTICLES OF INCORPORATION BE AMENDED BY THE REMOVAL OF ARTICLES 158 AND 159

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

ISIN

Ticker

CANDOVER INVESTMENTS PLC

5/12/2016

GB0001713154

CDI LN

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

For

For

1- TO RECEIVE THE ANNUAL ACCOUNT AND THE REPORTS OF THE DIRECTORS FOR THE YEAR
ENDED 31ST DECEMBER 2015

Issuer

For

For

2-TO APPROVE THE DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31ST DECEMBER
2015

Issuer

Against

For

3-TO RE-ELECT RICHARD STONE AS A DIRECTOR

Issuer

Against

For

4-TO RE-ELECT MALCOLM FALLEN AS A DIRECTOR

Issuer

For

For

5-TO RE-APPOINT GRANT THORNTON UK LLP AS AUDITORS OF THE COMPANY

Issuer

For

For

6-TO AUTHORISE THE DIRECTORS TO AGREE THE REMUNERATION OF THE AUDITORS

Issuer

For

For
7-TO AUTHORISE THE DIRECTORS TO ALLOT SHARES PURSUANT TO SECTION 551 OF THE COMPANIES ACT 2006

Issuer

For

For

8-TO AUTHORISE THE DIRECTORS TO DISAPPLY PRE-EMPTION RIGHTS PURSUANT TO SECTIONS 570 AND 573 OF THE COMPANIES ACT 2006

Issuer

For

For

9-TO AUTHORISE THE COMPANY TO MAKE MARKET PURCHASES OF ITS ORDINARY SHARES PURSUANT TO SECTION 701 OF THE COMPANIES ACT 2006

Issuer

For

For

10-TO APPROVE GENERAL MEETINGS (OTHER THAN ANNUAL GENERAL MEETINGS) TO BE HELD ON NOT LESS THAN 14 CLEAR DAYS' NOTICE

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

JPMORGAN CHINA REGION FUND

5/12/2016

48126T104

JFC

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

Mirror Vote

For

1.1 ELECTION OF DIRECTOR: JOHN R. HASS

Shareholder

Mirror Vote

For

1.2 ELECTION OF DIRECTOR: ALISTAIR E.M. LABAND

Shareholder

Mirror Vote

For

2. THAT THE INVESTMENT ADVISORY AGREEMENT BETWEEN JP MORGAN CHINA REGION FUND, INC. AND JF INTERNATIONAL MANAGEMENT INC. SHALL BE TERMINATED EFFECTIVE AS SOON AS LEGALLY PERMISSIBLE THEREUNDER.

Shareholder

Mirror Vote

For

3. THE STOCKHOLDERS OF JPMORGAN CHINA REGION FUND, INC. REQUEST THAT THE BOARD OF DIRECTORS AUTHORIZE A SELF-TENDER OFFER FOR ALL OF THE OUTSTANDING SHARES OF THE FUND'S COMMON STOCK, PAR VALUE \$0.01 PER SHARE, AT OR CLOSE TO NET ASSET VALUE. IF MORE THAN 50% OF THE FUND'S OUTSTANDING SHARES ARE SUBMITTED FOR TENDER, THEN THE STOCKHOLDERS REQUEST THAT THE TENDER OFFER BE CANCELLED AND THAT THE FUND SHOULD BE LIQUIDATED OR CONVERTED INTO AN EXCHANGE TRADED FUND OR AN OPEN-END MUTUAL FUND.

Shareholder

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

WINTHROP REALTY TRUST

5/17/2016

976391300

FUR

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

For

For

DIRECTOR - 1) MICHAEL L. ASHNER 2)ARTHUR BLASBERG, JR 3) HOWARD GOLDBERG 4) THOMAS F. MCWILLIAMS 5) LEE SEIDLER 6) CAROLYN TIFFANY 7) STEVEN ZALKIND

Issuer

For

For

2. PROPOSAL TO RATIFY PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING ON THE EARLIER OF THE COMPLETION OF OUR LIQUIDATION OR DECEMBER 31, 2016.

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

JETPAY CORP.

5/20/2016

477177109

JTPY

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

For

For

1. JETPAY'S ISSUANCE TO THE CURRENT SHAREHOLDERS OF COLLECTIONSOLUTIONS, INC. ("CSI") OF UP TO 3,250,000 SHARES OF JETPAY COMMON STOCK AND WARRANTS TO PURCHASE UP TO AN ADDITIONAL 500,000 SHARES OF JETPAY COMMON STOCK IN CONNECTION WITH THE PROPOSED ACQUISITION OF CSI (THE "ISSUANCE").

Issuer

For

For

2. IF NECESSARY, AN ADJOURNMENT OF THE SPECIAL MEETING, INCLUDING FOR THE PURPOSE OF SOLICITING ADDITIONAL PROXIES, IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF THE ISSUANCE.

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

FIRSTHAND TECHNOLOGY VALUE FD INC

5/24/2016

33766Y100

SVVC

Vote
Management
Recommended Vote
Proposal
Propose by issuer or
shareholder
Mirror Vote
For
DIRECTOR - 1) MARK FITZGERALD 2) NICHOLAS PETREDIS

Issuer
Mirror Vote
For
2-THE RATIFICATION OF THE SELECTION OF TAIT, WELLER & BAKER LLP AS THE COMPANY'S
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR ITS FISCAL YEAR ENDING DECEMBER
31, 2016.
Issuer

Name of Fund:
Special Opportunities Fund, Inc. (SPE)

Period:
July 1, 2015 - June 30,2016

Company Name
Meeting Date
CUSIP
Ticker
CUSHING RENAISSANCE FUND
5/25/2016
231647108
SZC

Vote
Management
Recommended Vote
Proposal
Propose by issuer or
shareholder
Mirror Vote
For
DIRECTORS - 1B. - 01-EDWARD N. MCMILLAN, 02-JERRY V. SWANK
Issuer

Name of Fund:
Special Opportunities Fund, Inc. (SPE)

Period:
July 1, 2015 - June 30,2016

Company Name
Meeting Date
CUSIP
Ticker
GSV CAPITAL CORP
6/1/2016
36191J101
GSVC

Vote
Management
Recommended Vote
Proposal
Propose by issuer or
shareholder

Mirror Vote

For
DIRECTORS - 1. - 01-LEONARD A. POTTER, 02-RONALD M. LOTT, 03- CATHERINE J. FRIEDMAN

Issuer

Mirror Vote

For
2.- THE RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLE AS THE INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM FOR GSV CAPITAL CORP. FOR THE FISCAL YEAR ENDING
DECEMBER 31, 2016.

Issuer

Name of Fund:
Special Opportunities Fund, Inc. (SPE)

Period:
July 1, 2015 - June 30,2016

Company Name
Meeting Date
CUSIP
Ticker
EMERGENT CAPITAL, INC.
6/2/2016
29102N105
EMG

Vote
Management
Recommended Vote
Proposal
Propose by issuer or
shareholder

For

For

DIRECTOR - 1) JAMES CHADWICK 2) MICHAEL CROW 3) ANDREW DAKOS 4) PHILLIP GOLDSTEIN 5) GERALD HELLERMAN 6) ANTONY MITCHELL 7) GILBERT NATHAN

Issuer

For

For

2. TO VOTE ON AN ADVISORY RESOLUTION ON THE COMPENSATION OF CERTAIN OF THE COMPANY'S EXECUTIVE OFFICERS IN 2015.

Issuer

For

For

3. TO RATIFY THE APPOINTMENT OF GRANT THORNTON LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2016.

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

VIRTUS TOTAL RETURN FUND

6/2/2016

92829A103

DCA

Vote

Management

Recommended Vote

Proposal

Propose by issuer or shareholder

For

Against

Election of one Trustee - 1) Andrew Dakos

Shareholder

For

Against

2. A RECOMMENDATION THAT THE BOARD OF TRUSTEES PROMPLY APPROVE AND, IF REQUIRED, SUBMIT TO SHAREHOLDERS FOR A VOTTE, A PROPOSAL TO LIQUIDATE THE FUND

Shareholder

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

WHEELER REAL ESTATE INVESTMENT TRUST, INC

6/15/2016

963025101

WHLR

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

For

For

1. Directors - JON S. WHEELER, KURT R. HARRINGTON, CARL B. MCGOWAN, JR., DAVID KELLY,
STEWART J. BROWN, WILLIAM W. KING, JEFFREY M. ZWERDLING, JOHN P. MCAULIFFE

Issuer

Abstain

For

2. APPROVING OUR 2016 LONG-TERM INCENTIVE PLAN

Issuer

For

For

3. TO RATIFY THE REAPPOINTMENT OF CHERRY BEKAERT LLP AS INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016.

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

THE SWISS HELVETIA FUND, INC.

6/23/2016

870875101

SWZ

Vote

Management

Recommended Vote

Table of Contents

Proposal

Propose by issuer or
shareholder

Mirror Vote

For

1. DIRECTOR - JEAN-MARC BOILLAT

Issuer

Mirror Vote

For

2. WITH RESPECT TO THE PROPOSAL TO RATIFY THE SELECTION BY THE FUND'S BOARD OF DIRECTORS OF PRICEWATERHOUSECOOPERS LLP AS THE FUND'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2016.

Issuer

Mirror Vote

For

3. THE STOCKHOLDER ASKS THE FUND TO TAKE THE STEPS NECESSARY TO REORGANIZE THE BOARD OF DIRECTORS INTO ONE CLASS WITH EACH DIRECTOR SUBJECT TO ELECTION EACH YEAR, AS DESCRIBED IN THE ACCOMPANYING PROXY STATEMENT.

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

GARNERO GROUP ACQUISITION CO

6/23/2016

G5866L108

GGAC

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

For

For

1. EXTENSION OF CORPORATE LIFE: AMEND GGAC'S AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION TO EXTEND THE DATE THAT GGAC HAS TO CONSUMMATE A BUSINESS COMBINATION TO JULY 22, 2016.

Issuer

For

None

2. APPROVE THE CONVERSION: AMEND GGAC'S AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION TO ALLOW THE HOLDERS OF ORDINARY SHARES ISSUED IN GGAC'S INITIAL PUBLIC OFFERING TO ELECT TO CONVERT THEIR PUBLIC SHARES INTO THEIR PRO RATA PORTION OF THE FUNDS HELD IN THE TRUST ACCOUNT ESTABLISHED AT THE TIME OF THE IPO IF THE EXTENSION IS IMPLEMENTED.

Issuer

For

None

2A. ONLY IF YOU VOTE "FOR" PROPOSAL NUMBER 2 AND YOU HOLD ORDINARY SHARES OF THE COMPANY ISSUED IN THE COMPANY'S INITIAL PUBLIC OFFERING, OR PUBLIC SHARES, MAY YOU EXERCISE YOUR CONVERSION RIGHTS WITH RESPECT TO ALL OR A PORTION OF YOUR PUBLIC SHARES BY MARKING THE "FOR" BOX TO THE RIGHT. IF YOU EXERCISE YOUR CONVERSION RIGHTS, THEN YOU WILL BE EXCHANGING THE INDICATED NUMBER OF YOUR PUBLIC SHARES FOR CASH AND YOU WILL NO LONGER OWN SUCH PUBLIC SHARES. YOU WILL ONLY BE ENTITLED TO RECEIVE ...(DUE TO SPACE LIMITS, SEE PROXY MATERIAL FOR FULL PROPOSAL).

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

Company Name

Meeting Date

CUSIP

Ticker

DEUTSCHE HIGH INCOME TRUST

6/30/2016

25155R100

KHI

Vote

Management

Recommended Vote

Proposal

Propose by issuer or

shareholder

Mirror Vote

Against

1. - To approve converting the fund from a close-end investment company yo an open-end investment company and authorizing certain related amendments to the funds's amended and restated agreement and declaration of trust.

Issuer

Name of Fund:

Special Opportunities Fund, Inc. (SPE)

Period:

July 1, 2015 - June 30,2016

(Voted 6/21/16)

Company Name

Meeting Date

CUSIP

Ticker

TERRAPIN 3 ACQUISITION CORP.

7/13/2016

88104P104

TRTL

Vote

Management

Recommended Vote

Proposal

Propose by issuer or
shareholder

For

For

1. AMEND THE CHARTER: AMEND TERRAPIN'S AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO EXTEND THE DATE THAT TERRAPIN HAS TO CONSUMMATE A BUSINESS COMBINATION TO A DATE THAT IS 150 DAYS AFTER JULY 22, 2016, PROVIDED THAT A DEFINITIVE AGREEMENT FOR A BUSINESS COMBINATION IS EXECUTED ON OR BEFORE JULY 22, 2016 AND PERMIT HOLDERS OF PUBLIC SHARES TO REDEEM THEIR SHARES FOR THEIR PRO RATA PORTION OF THE TRUST ACCOUNT

Issuer

For

None

2. AMEND THE TRUST AGREEMENT (TO BE VOTED ON BY HOLDERS OF CLASS A COMMON STOCK ONLY): AMEND THE TRUST AGREEMENT TO EXTEND THE DATE THAT THE TRUSTEE WILL LIQUIDATE AND DISTRIBUTE ALL FUNDS HELD IN THE TRUST ACCOUNT TO A DATE THAT IS 150 DAYS AFTER JULY 22, 2016, PROVIDED THAT A DEFINITIVE AGREEMENT FOR A BUSINESS COMBINATION IS EXECUTED ON OR BEFORE JULY 22, 2016, AND PERMIT THE TRUSTEE TO RELEASE FUNDS FROM THE TRUST ACCOUNT IN CONSIDERATION OF REDEEMED PUBLIC SHARES

Issuer

For

None

3. REGARDLESS OF WHETHER YOU VOTE "FOR" OR "AGAINST" PROPOSALS 1 AND 2 OR "ABSTAIN," IF YOU HOLD SHARES OF THE CORPORATION'S CLASS A COMMON STOCK ISSUED IN THE CORPORATION'S INITIAL PUBLIC OFFERING, OR PUBLIC SHARES, YOU MAY EXERCISE YOUR REDEMPTION RIGHTS WITH RESPECT TO ALL OR A PORTION OF YOUR PUBLIC SHARES BY MARKING THE "FOR" BOX TO THE RIGHT. IF YOU EXERCISE YOUR REDEMPTION RIGHTS, THEN YOU WILL BE EXCHANGING THE INDICATED NUMBER OF YOUR PUBLIC SHARES FOR CASH AND YOU ... (DUE TO SPACE LIMITS, SEE PROXY STATEMENT FOR FULL PROPOSAL)

Issuer

SIGNATURES

Pursuant to the requirements of the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Special Opportunities Fund, Inc.

By (Signature and Title)* /s/ Andrew Dakos
Andrew Dakos, President

Date 7/28/2016

* Print the name and title of each signing officer under his or her signature.
