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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2020

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	**31-1429215**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

3075 Loyalty Circle
Columbus, Ohio 43219
(Address of principal executive office, including zip code)

(614) 729-4000
(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock, par value $0.01 per share	ADS	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer ☑	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of July 23, 2020, 47,715,021 shares of common stock were outstanding.

ALLIANCE DATA SYSTEMS CORPORATION

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PART I

Item 1. Financial Statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2020	December 31, 2019
	(in millions, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 4,960.0	$ 3,874.4
Accounts receivable, net, less allowance for doubtful accounts ($3.8 and $3.4 at June 30, 2020 and December 31, 2019, respectively)	428.5	451.1
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	10,714.7	13,504.2
Other credit card and loan receivables	5,094.3	5,958.9
Total credit card and loan receivables	15,809.0	19,463.1
Allowance for loan loss	(2,096.3)	(1,171.1)
Credit card and loan receivables, net	13,712.7	18,292.0
Credit card receivables held for sale	83.1	408.0
Inventories, net	194.0	218.0
Other current assets	648.4	268.4
Redemption settlement assets, restricted	617.5	600.8
Total current assets	20,644.2	24,112.7
Property and equipment, net	255.5	282.3
Right of use assets - operating	249.4	264.3
Deferred tax asset, net	46.1	45.2
Intangible assets, net	109.6	153.3
Goodwill	944.3	954.9
Other non-current assets	618.3	682.1
Total assets	$ 22,867.4	$ 26,494.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 263.5	$ 300.8
Accrued expenses	239.5	327.8
Current operating lease liabilities	21.2	22.6
Current portion of deposits	7,107.3	6,942.4
Current portion of non-recourse borrowings of consolidated securitization entities	2,613.0	3,030.8
Current portion of long-term and other debt	101.3	101.4
Other current liabilities	238.9	338.3
Deferred revenue	793.3	807.9
Total current liabilities	11,378.0	11,872.0
Deferred revenue	101.0	114.1
Deferred tax liability, net	51.9	80.0
Long-term operating lease liabilities	278.3	291.7
Deposits	4,114.2	5,209.3
Non-recourse borrowings of consolidated securitization entities	2,394.6	4,253.2
Long-term and other debt	3,101.8	2,748.5
Other liabilities	293.0	337.7
Total liabilities	21,712.8	24,906.5
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $0.01 par value; authorized, 200.0 shares; issued, 115.1 and 115.0 shares at June 30, 2020 and December 31, 2019, respectively	1.2	1.1
Additional paid-in capital	3,267.7	3,257.7
Treasury stock, at cost, 67.4 shares at each of June 30, 2020 and December 31, 2019, respectively	(6,733.9)	(6,733.9)
Retained earnings	4,707.1	5,163.3
Accumulated other comprehensive loss	(87.5)	(99.9)
Total stockholders' equity	1,154.6	1,588.3
Total liabilities and stockholders' equity	$ 22,867.4	$ 26,494.8

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(in millions, except per share amounts)			
Revenues				
Services	$ 37.9	$ 66.4	$ 84.5	$ 139.7
Redemption, net	84.7	153.7	205.6	265.5
Finance charges, net	856.7	1,128.4	2,071.0	2,277.5
Total revenue	979.3	1,348.5	2,361.1	2,682.7
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	492.8	654.8	992.1	1,295.3
Provision for loan loss	250.1	257.3	906.0	509.5
General and administrative	20.4	57.3	44.3	95.5
Depreciation and other amortization	20.3	19.3	37.7	39.9
Amortization of purchased intangibles	21.0	22.5	42.4	48.3
Total operating expenses	804.6	1,011.2	2,022.5	1,988.5
Operating income	174.7	337.3	338.6	694.2
Interest expense				
Securitization funding costs	42.7	51.6	92.6	108.8
Interest expense on deposits	58.9	53.2	119.2	102.0
Interest expense on long-term and other debt, net	26.1	38.7	54.4	76.6
Total interest expense, net	127.7	143.5	266.2	287.4
Income from continuing operations before income taxes	47.0	193.8	72.4	406.8
Provision for income taxes	8.6	51.4	4.0	86.1
Income from continuing operations	$ 38.4	$ 142.4	$ 68.4	$ 320.7
Loss from discontinued operations, net of taxes	—	(3.4)	—	(32.6)
Net income	$ 38.4	$ 139.0	$ 68.4	$ 288.1
Basic income (loss) per share (Note 3):				
Income from continuing operations	$ 0.81	$ 2.72	$ 1.44	$ 6.08
Loss from discontinued operations	$ —	$ (0.07)	$ —	$ (0.62)
Net income per share	$ 0.81	$ 2.65	$ 1.44	$ 5.46
Diluted income (loss) per share (Note 3):				
Income from continuing operations	$ 0.81	$ 2.71	$ 1.43	$ 6.07
Loss from discontinued operations	$ —	$ (0.07)	$ —	$ (0.62)
Net income per share	$ 0.81	$ 2.64	$ 1.43	$ 5.45
Weighted average shares (Note 3):				
Basic	47.6	51.3	47.6	52.1
Diluted	47.7	52.6	47.7	52.9

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Net income	$ 38.4	$ 139.0	$ 68.4	$ 288.1
Other comprehensive income:				
Unrealized gain on securities available-for-sale	13.5	6.2	16.1	16.2
Tax expense	(0.1)	(0.8)	(1.1)	(1.8)
Unrealized gain on securities available-for-sale, net of tax	13.4	5.4	15.0	14.4
Unrealized loss on cash flow hedges	(1.1)	(0.1)	(0.7)	(0.2)
Tax benefit	0.3	—	0.2	—
Unrealized loss on cash flow hedges, net of tax	(0.8)	(0.1)	(0.5)	(0.2)
Unrealized gain (loss) on net investment hedge	—	(9.6)	—	6.5
Tax benefit (expense)	—	2.3	—	(1.6)
Unrealized gain (loss) on net investment hedge, net of tax	—	(7.3)	—	4.9
Foreign currency translation adjustments (inclusive of deconsolidation of $3.8 million related to sale of a business for the six months ended June 30, 2020)	18.0	8.2	(2.1)	(2.7)
Other comprehensive income, net of tax	30.6	6.2	12.4	16.4
Total comprehensive income, net of tax	$ 69.0	$ 145.2	$ 80.8	$ 304.5

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Three Months Ended June 30, 2020	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
					(in millions)				
Balance at April 1, 2020	115.0	$ 1.2	—	$ —	$3,259.7	$(6,733.9)	$4,678.8	$ (118.1)	$ 1,087.7
Net income	—	—	—	—	—	—	38.4	—	38.4
Other comprehensive income	—	—	—	—	—	—	—	30.6	30.6
Stock-based compensation	—	—	—	—	6.2	—	—	—	6.2
Dividends and dividend equivalent rights declared ($0.21 per common share)	—	—	—	—	—	—	(10.1)	—	(10.1)
Other	0.1	—	—	—	1.8	—	—	—	1.8
Balance at June 30, 2020	115.1	$ 1.2	—	$ —	$3,267.7	$(6,733.9)	$4,707.1	$ (87.5)	$ 1,154.6

Three Months Ended June 30, 2019	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
					(in millions)				
Balance at April 1, 2019	113.2	$ 1.1	—	$ —	$3,177.0	$(5,938.5)	$5,127.8	$ (127.9)	$ 2,239.5
Net income	—	—	—	—	—	—	139.0	—	139.0
Other comprehensive income	—	—	—	—	—	—	—	6.2	6.2
Stock-based compensation	—	—	—	—	31.2	—	—	—	31.2
Issuance of preferred stock	—	—	0.2	—	42.1	(42.1)	—	—	—
Dividends and dividend equivalent rights declared ($0.63 per common share)	—	—	—	—	—	—	(33.5)	—	(33.5)
Other	0.1	—	—	—	9.3	—	—	—	9.3
Balance at June 30, 2019	113.3	$ 1.1	0.2	$ —	$3,259.6	$(5,980.6)	$5,233.3	$ (121.7)	$ 2,391.7

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – (CONTINUED)

Six Months Ended June 30, 2020	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
					(in millions)				
Balance at December 31, 2019	115.0	$ 1.1	—	$ —	$3,257.7	$(6,733.9)	$5,163.3	$ (99.9)	$ 1,588.3
Net income	—	—	—	—	—	—	68.4	—	68.4
Cumulative effect adjustment to retained earnings in accordance with ASU 2016-13	—	—	—	—	—	—	(485.0)	—	(485.0)
Other comprehensive income	—	—	—	—	—	—	—	12.4	12.4
Stock-based compensation	—	—	—	—	11.0	—	—	—	11.0
Dividends and dividend equivalent rights declared ($0.63 per common share for the three months ended March 31, 2020 and $0.21 per common share for the three months ended June 30, 2020)	—	—	—	—	—	—	(39.6)	—	(39.6)
Other	0.1	0.1	—	—	(1.0)	—	—	—	(0.9)
Balance at June 30, 2020	115.1	$ 1.2	—	$ —	$3,267.7	$(6,733.9)	$4,707.1	$ (87.5)	$ 1,154.6

Six Months Ended June 30, 2019	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
					(in millions)				
Balance at December 31, 2018	113.0	$ 1.1	—	$ —	$3,172.4	$(5,715.7)	$5,012.4	$ (138.1)	$ 2,332.1
Net income	—	—	—	—	—	—	288.1	—	288.1
Other comprehensive income	—	—	—	—	—	—	—	16.4	16.4
Stock-based compensation	—	—	—	—	51.3	—	—	—	51.3
Issuance of preferred stock	—	—	0.2	—	42.1	(42.1)	—	—	—
Repurchases of common stock	—	—	—	—	—	(222.8)	—	—	(222.8)
Dividends and dividend equivalent rights declared ($0.63 per common share)	—	—	—	—	—	—	(67.2)	—	(67.2)
Other	0.3	—	—	—	(6.2)	—	—	—	(6.2)
Balance at June 30, 2019	113.3	$ 1.1	0.2	$ —	$3,259.6	$(5,980.6)	$5,233.3	$ (121.7)	$ 2,391.7

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2020	2019
	(in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 68.4	$ 288.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	80.1	161.5
Deferred income taxes	131.4	(47.6)
Provision for loan loss	906.0	509.5
Non-cash stock compensation	11.0	51.3
Amortization of deferred financing costs	18.3	22.1
Asset impairment charges	34.2	15.6
Change in operating assets and liabilities, net of sale of business	(179.8)	(38.3)
Other	(2.1)	127.5
Net cash provided by operating activities	1,067.5	1,089.7
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	(18.7)	(2.0)
Change in credit card and loan receivables	3,053.4	(20.9)
Proceeds from sale of business	25.4	—
Proceeds from sale of credit card portfolios	289.5	539.3
Purchase of credit card portfolios	—	(936.5)
Payments for acquired businesses, net of cash	—	(6.7)
Capital expenditures	(26.1)	(92.2)
Purchases of other investments	(14.8)	(13.0)
Maturities/sales of other investments	31.2	11.2
Other	0.1	6.5
Net cash provided by (used in) investing activities	3,340.0	(514.3)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	650.0	2,077.3
Repayments of borrowings	(300.7)	(1,974.8)
Non-recourse borrowings of consolidated securitization entities	350.0	2,193.3
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(2,630.0)	(3,117.2)
Net (decrease) increase in deposits	(936.4)	742.8
Payment of deferred financing costs	(3.0)	(18.8)
Dividends paid	(40.4)	(67.0)
Purchase of treasury shares	—	(222.8)
Other	(1.1)	(9.4)
Net cash used in financing activities	(2,911.6)	(396.6)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2.9)	8.2
Change in cash, cash equivalents and restricted cash	1,493.0	187.0
Cash, cash equivalents and restricted cash at beginning of period	3,958.1	3,967.7
Cash, cash equivalents and restricted cash at end of period	$ 5,451.1	$ 4,154.7
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 276.6	$ 323.6
Income taxes paid, net	$ 49.9	$ 139.7

The unaudited condensed consolidated statements of cash flows are presented with the combined cash flows from discontinued operations with cash flows from continuing operations within each cash flow statement category.

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation ("ADSC" or, including its consolidated subsidiaries and variable interest entities ("VIEs"), 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 on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 28, 2020.

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 (1) the reported amounts of assets; (2) liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (3) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Effective March 31, 2019, the Company's divested Epsilon segment met the criteria set forth in Accounting Standards Codification ("ASC") 205-20, "Presentation of Financial Statements — Discontinued Operations," and was subsequently sold on July 1, 2019. The Company's products and services are reported under two segments—LoyaltyOne® and Card Services.

Recently Issued Accounting Standards

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, "Simplifying the Accounting for Income Taxes." ASU 2019-12 eliminates certain exceptions within ASC 740, "Income Taxes," and clarifies certain aspects of ASC 740 to promote consistency among reporting entities. ASU 2019-12 is effective for interim and annual reporting periods beginning after December 15, 2020, with early adoption permitted. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The Company does not expect the adoption of ASU 2019-12 to have a material impact on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This ASU provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts and hedging relationships that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. This ASU is elective and is effective upon issuance for all entities. The Company is evaluating the impact that adoption of ASU 2020-04 will have on its consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," or ASC 326. This standard, referred to as Current Expected Credit Loss ("CECL"), required entities to utilize a financial instrument impairment model to establish an allowance based on expected losses over the life of the exposure rather than a model based on an incurred loss approach. Estimates of expected credit losses under the CECL model are based on relevant information about past events, current conditions, and reasonable and supportable forward-looking forecasts regarding the collectability of the loan portfolio.

The Company adopted CECL on January 1, 2020 and recorded an increase in its allowance for loan loss at adoption of $644.0 million, which was recorded through a cumulative-effect adjustment to retained earnings, net of taxes. CECL also expanded the disclosure requirements regarding an entity's assumptions, models, and methods for estimating its allowance for loan loss. See Note 6, "Credit Card and Loan Receivables," for the Company's CECL disclosures.

In addition, CECL modified the impairment model for available-for-sale debt securities and provided for a simplified accounting model for purchased financial assets with credit deterioration since their origination. CECL impacts the Company's valuation of its accounts receivable and available-for-sale debt securities, with respect to which the Company's adoption did not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 modifies the disclosure requirements on fair value measurements from Accounting Standards Codification ("ASC") 820, "Fair Value Measurement." ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company's adoption of this standard on January 1, 2020 did not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." ASU 2018-15 requires customers in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40, "Intangibles—Goodwill and Other—Internal-Use Software," to determine which implementation costs may be capitalized. ASU 2018-15 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company adopted ASU 2018-15 on January 1, 2020 on a prospective basis and the adoption did not have a material impact on its consolidated financial statements.

2. REVENUE

The Company's products and services are reported under two segments—LoyaltyOne and Card Services, as shown below. The following tables present revenue disaggregated by major source:

Three Months Ended June 30, 2020	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Disaggregation of Revenue by Major Source:				
Coalition loyalty program	$ 61.6	$ —	$ —	$ 61.6
Short-term loyalty programs	84.8	—	—	84.8
Servicing fees, net	—	(28.5)	—	(28.5)
Other	1.6	—	—	1.6
Revenue from contracts with customers	$ 148.0	$ (28.5)	$ —	$ 119.5
Finance charges, net	—	856.7	—	856.7
Investment income	3.1	—	—	3.1
Total	$ 151.1	$ 828.2	$ —	$ 979.3

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Three Months Ended June 30, 2019	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Disaggregation of Revenue by Major Source:				
Coalition loyalty program	$ 71.4	$ —	$ —	$ 71.4
Short-term loyalty programs	153.1	—	—	153.1
Servicing fees, net	—	(31.5)	—	(31.5)
Other	23.9	—	0.1	24.0
Revenue from contracts with customers	$ 248.4	$ (31.5)	$ 0.1	$ 217.0
Finance charges, net	—	1,128.4	—	1,128.4
Investment income	3.1	—	—	3.1
Total	$ 251.5	$ 1,096.9	$ 0.1	$ 1,348.5

Six Months Ended June 30, 2020	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Disaggregation of Revenue by Major Source:				
Coalition loyalty program	$ 132.9	$ —	$ —	$ 132.9
Short-term loyalty programs	205.1	—	—	205.1
Servicing fees, net	—	(59.1)	—	(59.1)
Other	4.9	—	—	4.9
Revenue from contracts with customers	$ 342.9	$ (59.1)	$ —	$ 283.8
Finance charges, net	—	2,071.0	—	2,071.0
Investment income	6.3	—	—	6.3
Total	$ 349.2	$ 2,011.9	$ —	$ 2,361.1

Six Months Ended June 30, 2019	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Disaggregation of Revenue by Major Source:				
Coalition loyalty program	$ 142.8	$ —	$ —	$ 142.8
Short-term loyalty programs	262.7	—	—	262.7
Servicing fees, net	—	(50.2)	—	(50.2)
Other	43.7	—	0.1	43.8
Revenue from contracts with customers	$ 449.2	$ (50.2)	$ 0.1	$ 399.1
Finance charges, net	—	2,277.5	—	2,277.5
Investment income	6.1	—	—	6.1
Total	$ 455.3	$ 2,227.3	$ 0.1	$ 2,682.7

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

The following tables present revenue disaggregated by geographic region based on the location of the subsidiary that generally correlates with the location of the customer:

Three Months Ended June 30, 2020	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Disaggregation of Revenue by Geographic Region:				
United States	$ 4.2	$ 828.2	$ —	$ 832.4
Canada	64.7	—	—	64.7
Europe, Middle East and Africa	50.7	—	—	50.7
Asia Pacific	13.4	—	—	13.4
Other	18.1	—	—	18.1
Total	$ 151.1	$ 828.2	$ —	$ 979.3

Three Months Ended June 30, 2019	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Disaggregation of Revenue by Geographic Region:				
United States	$ 9.5	$ 1,096.9	$ 0.1	$ 1,106.5
Canada	85.4	—	—	85.4
Europe, Middle East and Africa	117.6	—	—	117.6
Asia Pacific	24.2	—	—	24.2
Other	14.8	—	—	14.8
Total	$ 251.5	$ 1,096.9	$ 0.1	$ 1,348.5

Six Months Ended June 30, 2020	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Disaggregation of Revenue by Geographic Region:				
United States	$ 6.3	$ 2,011.9	$ —	$ 2,018.2
Canada	143.8	—	—	143.8
Europe, Middle East and Africa	119.3	—	—	119.3
Asia Pacific	50.4	—	—	50.4
Other	29.4	—	—	29.4
Total	$ 349.2	$ 2,011.9	$ —	$ 2,361.1

Six Months Ended June 30, 2019	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Disaggregation of Revenue by Geographic Region:				
United States	$ 15.9	$ 2,227.3	$ 0.1	$ 2,243.3
Canada	174.4	—	—	174.4
Europe, Middle East and Africa	199.0	—	—	199.0
Asia Pacific	41.7	—	—	41.7
Other	24.3	—	—	24.3
Total	$ 455.3	$ 2,227.3	$ 0.1	$ 2,682.7

Contract Liabilities

The Company records a contract liability when cash payments are received in advance of its performance, which applies to the service and redemption of an AIR MILES® reward mile and the reward products for its short-term loyalty programs.

A reconciliation of contract liabilities for the AIR MILES Reward Program is as follows:

	Deferred Revenue		
	Service	Redemption	Total
		(in millions)	
Balance at January 1, 2020	$ 258.6	$ 663.4	$ 922.0
Cash proceeds	80.1	135.1	215.2
Revenue recognized (1)	(94.5)	(108.5)	(203.0)
Other	—	0.4	0.4
Effects of foreign currency translation	(11.4)	(28.9)	(40.3)
Balance at June 30, 2020	$ 232.8	$ 661.5	$ 894.3
Amounts recognized in the consolidated balance sheets:			
Deferred revenue (current)	$ 131.8	$ 661.5	$ 793.3
Deferred revenue (non-current)	$ 101.0	$ —	$ 101.0

(1) Reported on a gross basis herein.

The deferred redemption obligation associated with the AIR MILES Reward Program is effectively due on demand from the collector base, thus the timing of revenue recognition is based on the redemption by the collector. Service revenue is amortized over the expected life of a mile, with the deferred revenue balance expected to be recognized into revenue in the amount of $78.6 million in 2020, $94.9 million in 2021, $50.2 million in 2022, and $9.1 million in 2023.

Additionally, contract liabilities for the Company's short-term loyalty programs are recognized in other current liabilities in the Company's unaudited condensed consolidated balance sheets. The beginning balance as of January 1, 2020 was $122.8 million and the closing balance as of June 30, 2020 was $73.9 million, with the change due to revenue recognized of approximately $151.9 million during the six months ended June 30, 2020, offset in part by cash payments received in advance of program performance.

Contract Costs

The Company recognizes an asset for the incremental costs of obtaining or fulfilling a contract with the retailer for a credit card program agreement to the extent it expects to recover those costs, in accordance with ASC 340-40, "Other Assets and Deferred Costs." Contract costs are deferred and amortized on a straight-line basis over the respective term of the agreement, which represents the period of service. Depending on the nature of the contract costs, the amortization is recorded as a reduction to revenue, or costs of operations, in the Company's unaudited condensed consolidated statements of income. As of December 31, 2019, the remaining unamortized contract costs were $406.8 million and are included in other current assets and other non-current assets in the Company's unaudited condensed consolidated balance sheets.

The Company performs an impairment assessment when events or changes in circumstances indicate that the carrying amount of contract costs may not be recoverable. Due to deteriorated economic conditions from COVID-19 resulting in retail store closures and a significant decline in credit sales, the Company's impairment assessment for certain of its deferred contract costs as of June 30, 2020 resulted in an asset impairment charge within its Card Services segment of $31.1 million that is included in cost of operations in its unaudited condensed consolidated statements of income. As of June 30, 2020, the remaining unamortized contract costs were $349.9 million and are included in other current assets and other non-current assets in the Company's unaudited condensed consolidated balance sheets.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

3. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted net income per share of common stock:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions, except per share amounts)			
Basic income per share:				
Numerator:				
Income from continuing operations	$ 38.4	$ 142.4	$ 68.4	$ 320.7
Less: Dividends declared on preferred stock	—	0.9	—	0.9
Less: Allocation of undistributed earnings	—	2.4	—	2.7
Income from continuing operations - basic	38.4	139.1	68.4	317.1
Loss from discontinued operations, net of tax	—	(3.4)	—	(32.6)
Net income - basic	$ 38.4	$ 135.7	$ 68.4	$ 284.5
Denominator:				
Weighted average shares, basic	47.6	51.3	47.6	52.1
Basic income (loss) attributable to common stockholders per share:				
Income from continuing operations	$ 0.81	$ 2.72	$ 1.44	$ 6.08
Loss from discontinued operations	$ —	$ (0.07)	$ —	$ (0.62)
Net income per share	$ 0.81	$ 2.65	$ 1.44	$ 5.46
Diluted income per share [(1)]:				
Numerator:				
Income from continuing operations	$ 38.4	$ 142.4	$ 68.4	$ 320.7
Loss from discontinued operations, net of tax	—	(3.4)	—	(32.6)
Net income	$ 38.4	$ 139.0	$ 68.4	$ 288.1
Denominator:				
Weighted average shares, basic	47.6	51.3	47.6	52.1
Weighted average effect of dilutive securities:				
Shares from assumed conversion of preferred stock	—	1.1	—	0.6
Net effect of dilutive stock options and unvested restricted stock [(2)]	0.1	0.2	0.1	0.2
Denominator for diluted calculation	47.7	52.6	47.7	52.9
Diluted income (loss) attributable to common stockholders per share:				
Income from continuing operations	$ 0.81	$ 2.71	$ 1.43	$ 6.07
Loss from discontinued operations	$ —	$ (0.07)	$ —	$ (0.62)
Net income per share	$ 0.81	$ 2.64	$ 1.43	$ 5.45

(1) Computed using the if-converted method, as the result was more dilutive.

(2) For both the three and six months ended June 30, 2020, 0.3 million restricted stock units were excluded from each calculation of weighted average dilutive common shares as the effect would have been anti-dilutive. For the three and six months ended June 30, 2019, 0.2 million and 0.3 million of restricted stock units, respectively, were excluded from the calculation of weighted average dilutive common shares as the effect would have been anti-dilutive.

On April 25, 2019, the Company entered into an exchange agreement with ValueAct Holdings, L.P. pursuant to which ValueAct exchanged an aggregate of 1,500,000 shares of the Company’s common stock for an aggregate of 150,000 shares of Series A Non-Voting Convertible Preferred Stock (“preferred stock”). In October 2019, ValueAct exchanged all 150,000 shares of preferred stock back to common stock.

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For the three and six months ended June 30, 2019, the Company's calculation of basic and diluted EPS was computed using the two-class method for those periods in which participating securities were outstanding. The two-class method is an earnings allocation that determines EPS for each class of common stock and participating securities according to dividends declared and participation rights in undistributed earnings.

4. DISPOSITION

On January 10, 2020, the Company sold Precima®, a provider of retail strategy and customer data applications and analytics, to Nielsen Holdings plc for total consideration of $43.8 million. The purchase and sale agreement provides for $10.0 million in contingent consideration based upon the occurrence of specified events and performance of the business, with two earnout determination dates in September 2020 and September 2021, respectively. The Company estimated the fair value of the contingent purchase price at approximately $6.5 million, which is included in the total consideration below. As of June 30, 2020, the estimated fair value of the contingent purchase price remains $6.5 million. Precima was included in the Company's LoyaltyOne segment. The pre-tax gain was recorded in cost of operations in the Company's unaudited condensed consolidated statements of income.

	January 10, 2020 (in millions)
Total consideration [(1)]	$ 43.8
Net carrying value of assets and liabilities (including other comprehensive income)	26.8
Allocation of goodwill	3.2
Strategic transaction costs	5.8
Pre-tax gain on sale of business, net of strategic transaction costs	$ 8.0

(1) Consideration as defined included cash associated with the sold Precima entities, which was $10.8 million.

5. DISCONTINUED OPERATIONS

Effective March 31, 2019, the Company's divested Epsilon segment met the criteria set forth in ASC 205-20, "Presentation of Financial Statements — Discontinued Operations," and was subsequently sold on July 1, 2019.

The following table summarizes the results of discontinued operations for the three and six months ended June 30, 2019:

	Three Months Ended June 30, 2019 (in millions)	Six Months Ended June 30, 2019 (in millions)
Revenue	$ 491.8	$ 999.6
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	465.5	908.9
Depreciation and other amortization	0.7	29.7
Amortization of purchased intangibles	—	43.5
Interest expense [(1)]	32.0	64.1
Loss before benefit from income taxes	(6.4)	(46.6)
Benefit from income taxes [(1)]	(3.0)	(14.0)
Loss from discontinued operations, net of taxes [(2)]	$ (3.4)	$ (32.6)

(1) On April 30, 2019, the Company amended its credit agreement, which among other items, provided that upon consummation of the sale of Epsilon, a mandatory payment of $500.0 million of the revolving credit facility was required and all of the Company's outstanding senior notes was required to be redeemed. As such, for the three and six months ended June 30, 2019, interest expense has been allocated to discontinued operations on the basis of the

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Company's $500.0 million mandatory repayment of its revolving line of credit and $1.9 billion in senior notes outstanding.

(2) Reflects the results of operations of the Company's former Epsilon segment, direct costs identifiable to the Epsilon segment and the allocation of interest expense on corporate debt.

Depreciation and amortization and capital expenditures from discontinued operations for the three and six months ended June 30, 2019 are as follows:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
	(in millions)	(in millions)
Depreciation and amortization	$ 0.7	$ 73.2
Capital expenditures	$ 49.0	$ 55.8

6. CREDIT CARD AND LOAN RECEIVABLES

The Company's credit card and loan receivables are the only portfolio segment or class of financing receivables. Quantitative information about the components of credit card and loan receivables is presented in the table below:

	June 30, 2020	December 31, 2019
	(in millions)	
Principal receivables	$ 14,975.4	$ 18,413.1
Billed and accrued finance charges	759.8	977.3
Other	73.8	72.7
Total credit card and loan receivables	15,809.0	19,463.1
Less: Credit card receivables – restricted for securitization investors	10,714.7	13,504.2
Other credit card and loan receivables	$ 5,094.3	$ 5,958.9

Allowance for Loan Loss

Effective January 1, 2020, the Company adopted ASC 326 on a modified retrospective approach and applied a CECL model to determine its allowance for loan loss. The allowance for loan loss is an estimate of expected credit losses, measured over the estimated life of its credit card and loan receivables that considers forecasts of future economic conditions in addition to information about past events and current conditions. The estimate under the CECL model is significantly influenced by the composition, characteristics and quality of the Company's portfolio of credit card and loan receivables, as well as the prevailing economic conditions and forecasts utilized. The estimate of the allowance for loan loss includes an estimate for uncollectible principal as well as unpaid interest and fees. Charge-offs of principal amounts, net of recoveries are deducted from the allowance. The allowance is maintained through an adjustment to the provision for loan loss and is evaluated for appropriateness. Prior to January 1, 2020, the Company's allowance for loan loss was determined utilizing an incurred loss model under ASC 450, "Contingencies."

ASC 326 requires entities to use a "pooled" approach to estimate expected credit losses for financial assets with similar risk characteristics. As part of its CECL implementation, the Company evaluated multiple risk characteristics of its credit card and loan receivables portfolio, and determined delinquency status and credit quality to be the most significant characteristics for estimating expected credit losses. To estimate its allowance for loan loss, the Company segregates its credit card and loan receivables into four groups with similar risk characteristics, on the basis of delinquency status and credit quality risk score. These risk characteristics are evaluated on at least an annual basis, or more frequently as facts and circumstances warrant. The Company's credit card and loan receivables do not have stated maturities and therefore prepayments are not factored into the determination of the estimated life of the credit card and loan receivables. In determining the estimated life of a credit card and loan receivable, payments were applied to the measurement date balance with no payments allocated to future purchase activity. The Company uses a combination of First In First Out ("FIFO") and the Credit Card Accountability, Responsibility, and Disclosure Act of 2009 ("CARD Act") methodology to model balance paydown.

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The Company's groups of pooled financial assets with similar risk characteristics and their estimated life is as follows:

	Estimated Life (in months)
Group A (Current, risk score - high)	14
Group B (Current, risk score - low)	19
Group C (Delinquent, risk score - high)	17
Group D (Delinquent, risk score - low)	26

In estimating its allowance for loan loss, for each identified group, management utilizes various models and estimation techniques based on historical loss experience, current conditions, reasonable and supportable forecasts and other relevant factors. These models utilize historical data and applicable macroeconomic variables with statistical analysis and behavioral relationships with credit performance. The Company's quantitative estimate of expected credit losses under CECL is impacted by certain forecasted economic factors. Management utilizes a third party service to analyze a number of scenarios, but uses one scenario to determine the macroeconomic variables over the forecast period. The Company considers the forecast used to be reasonable and supportable over the estimated life of the credit card and loan receivables, with no reversion period. In addition to the quantitative estimate of expected credit losses, the Company also incorporates qualitative adjustments for certain factors such as Company-specific risks, changes in current economic conditions that may not be captured in the quantitatively derived results, or other relevant factors to ensure the allowance for loan loss reflects the Company's best estimate of current expected credit losses. As permitted by ASC 326, the Company excludes unbilled finance charges from its amortized cost basis of credit card and loan receivables. At June 30, 2020, unbilled finance charges were $226.4 million and included in other credit card and loan receivables in the Company's unaudited condensed consolidated balance sheet.

The following table presents the Company's allowance for loan loss for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Balance at beginning of period	$ 2,150.8	$ 1,021.1	$ 1,171.1	$ 1,038.3
Adoption of ASC 326 [(1)]	—	—	644.0	—
Provision for loan loss	250.1	257.3	906.0	509.5
Change in estimate for uncollectible unpaid interest and fees	—	(10.0)	—	(10.0)
Recoveries	56.9	56.7	124.8	116.5
Principal charge-offs	(361.5)	(314.2)	(749.6)	(643.4)
Balance at end of period	$ 2,096.3	$ 1,010.9	$ 2,096.3	$ 1,010.9

(1) Recorded January 1, 2020 through a cumulative-effect adjustment to retained earnings, net of taxes.

During the three months ended June 30, 2020, the decrease in the allowance for loan loss was due to a decline in credit card and loan receivables and improved delinquencies, offset in part by worsening macroeconomic variables. During the six months ended June 30, 2020, the increase in the allowance for loan loss was due to a $644.0 million cumulative-effect adjustment for the adoption of ASC 326 as well as deterioration of the macroeconomic outlook due to COVID-19. Additionally, the worsening macroeconomic environment also increased the principal charge-offs for the three and six months ended June 30, 2020 as compared to the same respective periods in the prior year.

Net Charge-offs

Net charge-offs include the principal amount of losses from credit cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased credit cardholders, less recoveries and exclude charged-off interest, fees and fraud losses. Charged-off interest and fees reduce finance charges, net while fraud losses are recorded as a cost of operations expense. Credit card and loan receivables, including unpaid interest and fees, are charged-off in the month during which an account becomes 180 days contractually past due, except in the case of customer bankruptcies or death.

Credit card and loan receivables, including unpaid interest and fees, associated with customer bankruptcies or death are charged-off in each month subsequent to 60 days after the receipt of notification of the bankruptcy or death, but in any case, not later than the 180-day contractual time frame.

Charge-offs for unpaid interest and fees were $197.7 million and $193.8 million for the three months ended June 30, 2020 and 2019, respectively, and $429.6 million and $412.6 million for the six months ended June 30, 2020 and 2019, respectively.

Delinquencies

A credit card account is contractually delinquent if the Company does not receive the minimum payment by the specified due date on the cardholder's statement. It is the Company's policy to continue to accrue interest and fee income on all credit card accounts, except in limited circumstances, until the credit card account balance and all related interest and other fees are paid or charged-off, typically at 180 days delinquent. When an account becomes delinquent, a message is printed on the credit cardholder's billing statement requesting payment. After an account becomes 30 days past due, a proprietary collection scoring algorithm automatically scores the risk of the account becoming further delinquent. The collection system then recommends a collection strategy for the past due account based on the collection score and account balance and dictates the contact schedule and collections priority for the account. If the Company is unable to make a collection after exhausting all in-house collection efforts, the Company may engage collection agencies and outside attorneys to continue those efforts.

The following table presents the amortized cost basis of the aging analysis of the Company's credit card and loan receivables portfolio:

	Aging Analysis of Delinquent Amortized Cost Credit Card and Loan Receivables					
	31 to 60 days delinquent	61 to 90 days delinquent	91 or more days delinquent	Total delinquent	Current	Total
	(in millions)					
As of June 30, 2020	$ 228.7	$ 148.8	$ 471.4	$ 848.9	$ 14,637.7	$ 15,486.6
As of December 31, 2019	$ 399.1	$ 293.9	$ 698.4	$ 1,391.4	$ 17,656.4	$ 19,047.8

Modified Credit Card Receivables

Forbearance Programs

In response to the COVID-19 pandemic, the Company offered forbearance programs to affected cardholders, which provide for short-term modifications in the form of payment deferrals and late fee waivers to borrowers who were current as of their most recent billing cycle prior to April 2020. Specifically, the Company provided for late fee waivers and payment deferrals for up to two months for approximately $1.8 billion of credit card and loan receivables, based on the balance in the month of enrollment, through June 30, 2020 and the extension of certain promotional plans of approximately $89.0 million for up to three months. As of June 30, 2020, the credit card and loan receivables in these deferred forbearance programs was approximately $534.8 million. Additionally, the Company instituted two short-term programs with durations of three and six months, which provide concessions consisting primarily of a reduced minimum payment and an interest rate reduction, the balance of which was $58.6 million as of June 30, 2020.

As these short-term modifications were made in response to COVID-19 to borrowers who were current prior to any relief, these are not considered troubled debt restructurings under the Interagency Statement guidance on certain loan modifications and an interpretation of ASC 310-40, "Receivables—Troubled Debt Restructurings by Creditors."

Troubled Debt Restructurings

The Company holds certain credit card receivables for which the terms have been modified. The Company's modified credit card receivables include credit card receivables for which temporary hardship concessions have been granted and credit card receivables in permanent workout programs. These modified credit card receivables include

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concessions consisting primarily of a reduced minimum payment and an interest rate reduction. The temporary programs' concessions remain in place for a period no longer than twelve months, while the permanent programs remain in place through the payoff of the credit card receivables if the credit cardholder complies with the terms of the program. Additionally, the Company instituted two temporary hardship programs with durations of three and six months with similar terms to our short-term forbearance programs, for borrowers who were not current as of their most recent billing cycle prior to April 2020. As of June 30, 2020, the outstanding balance of credit card and loan receivables in these two short-term temporary hardship programs treated as troubled debt restructurings totaled approximately $28.6 million and are included in the troubled debt restructuring tables below.

Troubled debt restructuring concessions do not include the forgiveness of unpaid principal, but may involve the reversal of certain unpaid interest or fee assessments. In the case of the temporary hardship programs, at the end of the concession period, credit card receivable terms revert to standard rates. These arrangements are automatically terminated if the customer fails to make payments in accordance with the terms of the program, at which time their account reverts back to its original terms. Credit card receivables for which temporary hardship and permanent concessions were granted are each considered troubled debt restructurings and are collectively evaluated for impairment.

The Company had $430.7 million and $308.7 million, respectively, as a recorded investment in impaired credit card receivables as of June 30, 2020 and December 31, 2019, respectively, which represented less than 3% of the Company's total credit card receivables. The average recorded investment in impaired credit card receivables was $387.5 million and $290.5 million for the three months ended June 30, 2020 and 2019, respectively, and $351.1 million and $294.1 million for the six months ended June 30, 2020 and 2019, respectively.

Interest income on these modified credit card receivables is accounted for in the same manner as other accruing credit card receivables. Cash collections on these modified credit card receivables are allocated according to the same payment hierarchy methodology applied to credit card receivables that are not in such programs. The Company recognized $7.1 million and $6.0 million for the three months ended June 30, 2020 and 2019, respectively, and $12.6 million and $11.7 million for the six months ended June 30, 2020 and 2019, respectively, in interest income associated with modified credit card receivables during the period that such credit card receivables were impaired.

The following table provides information on credit card receivables that are considered troubled debt restructurings as described above, which entered into a modification program during the specified periods:

	Three Months Ended June 30, 2020			Six Months Ended June 30, 2020		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in millions)					
Troubled debt restructurings – credit card receivables	95,454	$ 156.1	$ 155.8	170,519	$ 268.9	$ 268.5

	Three Months Ended June 30, 2019			Six Months Ended June 30, 2019		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in millions)					
Troubled debt restructurings – credit card receivables	58,210	$ 86.7	$ 86.6	128,504	$ 191.0	$ 190.7

The table below summarizes troubled debt restructurings that have defaulted in the specified periods where the default occurred within 12 months of their modification date:

	Three Months Ended June 30, 2020		Six Months Ended June 30, 2020	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in millions)			
Troubled debt restructurings that subsequently defaulted – credit card receivables	21,606	$ 31.2	53,276	$ 75.3

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	Three Months Ended June 30, 2019		Six Months Ended June 30, 2019	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in millions)			
Troubled debt restructurings that subsequently defaulted – credit card receivables	29,439	$ 39.9	79,895	$ 105.3

Credit Quality

The Company uses proprietary scoring models developed specifically for the purpose of monitoring the Company's obligor credit quality. The proprietary scoring models are used as a tool in the underwriting process and for making credit decisions. Information regarding customer performance is factored into these proprietary scoring models to determine the probability of an account becoming 91 or more days past due at any time within the next 12 months. The following table reflects the composition of the Company's credit card and loan receivables on an amortized cost basis by obligor credit quality as of June 30, 2020 and December 31, 2019:

	Amortized Cost Revolving Credit Card and Loan Receivables			
	June 30, 2020		December 31, 2019	
Probability of an Account Becoming 91 or More Days Past Due or Becoming Charged-off (within the next 12 months)	Amortized Cost Basis	Percentage of Amortized Cost Basis Outstanding	Amortized Cost Basis	Percentage of Amortized Cost Basis Outstanding
	(in millions, except percentages)			
No Score	$ 168.0	1.1 %	$ 298.4	1.6 %
27.1% and higher	1,444.8	9.3	1,648.8	8.7
17.1% - 27.0%	961.2	6.2	1,108.5	5.8
12.6% - 17.0%	950.9	6.1	1,171.7	6.2
3.7% - 12.5%	6,582.1	42.5	8,292.1	43.5
1.9% - 3.6%	2,698.6	17.4	3,375.3	17.7
Lower than 1.9%	2,681.0	17.4	3,153.0	16.5
Total	$ 15,486.6	100.0 %	$ 19,047.8	100.0 %

Note: The Company's credit card and loan receivables are revolving receivables as they do not have stated maturities and are exempted from certain vintage disclosures required under ASC 326.

The proprietary scoring models are based on historical data and require various assumptions about future performance, which the Company updates periodically. Obligor credit quality is monitored at least monthly during the life of an account.

Portfolios Held for Sale

The Company has certain credit card portfolios held for sale, which are carried at the lower of cost or fair value, of $83.1 million and $408.0 million as of June 30, 2020 and December 31, 2019, respectively.

During the six months ended June 30, 2020, the Company sold a credit card portfolio for cash consideration of approximately $289.5 million and recognized a gain of approximately $20.4 million on the transaction, which was recorded in cost of operations in the Company's unaudited condensed consolidated statements of income.

During the six months ended June 30, 2019, the Company sold four credit card portfolios for cash consideration of approximately $539.3 million and recognized approximately $1.8 million in net gains on the transactions, which were recorded in cost of operations in the Company's unaudited condensed consolidated statements of income. Additionally, during the six months ended June 30, 2019, the Company transferred one credit card portfolio totaling approximately $510.3 million into credit card receivables held for sale.

The Company recorded portfolio valuation adjustments, which are reflected in cost of operations in the Company's unaudited condensed consolidated statements of income, of $2.1 million and $40.1 million for the three months ended

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June 30, 2020 and 2019, respectively, and $6.3 million and $100.0 million for the six months ended June 30, 2020 and 2019, respectively.

Portfolio Acquisitions

During the six months ended June 30, 2019, the Company acquired four credit card portfolios for purchase prices totaling approximately $936.5 million. No portfolio acquisitions were made during the six months ended June 30, 2020.

Securitized Credit Card Receivables

The Company regularly securitizes its credit card receivables through its credit card securitization trusts, consisting of World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust (“Master Trust I”) and World Financial Network Credit Card Master Trust III (“Master Trust III”) (collectively, the “WFN Trusts”), and World Financial Capital Credit Card Master Note Trust (the “WFC Trust”). The Company continues to own and service the accounts that generate credit card receivables held by the WFN Trusts and the WFC Trust. In its capacity as a servicer, each of the respective banks earns a fee from the WFN Trusts and the WFC Trust to service and administer the credit card receivables, collect payments and charge-off uncollectible receivables. These fees are eliminated and therefore not reflected in the Company’s unaudited condensed consolidated statements of income for the three and six months ended June 30, 2020 and 2019.

The WFN Trusts and the WFC Trust are VIEs and the assets of these consolidated VIEs include certain credit card receivables that are restricted to settle the obligations of those entities and are not expected to be available to the Company or its creditors. The liabilities of the consolidated VIEs include non-recourse secured borrowings and other liabilities for which creditors or beneficial interest holders do not have recourse to the general credit of the Company.

The tables below present quantitative information about the components of total securitized credit card receivables, delinquencies and net charge-offs:

	June 30, 2020	December 31, 2019
	(in millions)	
Total credit card receivables – restricted for securitization investors	$ 10,714.7	$ 13,504.2
Principal amount of credit card receivables – restricted for securitization investors, 91 days or more past due	$ 213.0	$ 321.8

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Net charge-offs of securitized principal	$ 215.1	$ 224.6	$ 454.6	$ 464.1

7. INVENTORIES, NET

Inventories, net of $194.0 million and $218.0 million at June 30, 2020 and December 31, 2019, respectively, primarily consist of finished goods to be utilized as rewards in the Company’s loyalty programs. Inventories, net are stated at the lower of cost and net realizable value and valued primarily on a first-in-first-out basis. The Company records valuation adjustments to its inventories if the cost of inventory exceeds the amount it expects to realize from the ultimate sale or disposal of the inventory. These estimates are based on management’s judgment regarding future market conditions and an analysis of historical experience.

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8. OTHER INVESTMENTS

Other investments consist of marketable securities and U.S. Treasury bonds and are included in other current assets and other non-current assets in the Company's unaudited condensed consolidated balance sheets. Marketable securities include available-for-sale debt securities, mutual funds and domestic certificate of deposit investments. The principal components of other investments, which are carried at fair value, are as follows:

	June 30, 2020				December 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)							
Marketable securities	$ 240.5	$ 7.2	$ —	$ 247.7	$ 257.2	$ 3.0	$ (0.4)	$ 259.8
Total	$ 240.5	$ 7.2	$ —	$ 247.7	$ 257.2	$ 3.0	$ (0.4)	$ 259.8

There were no unrealized losses at June 30, 2020, and the following table shows the unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2019, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	December 31, 2019					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Marketable securities	$ 18.8	$ (0.2)	$ 13.1	$ (0.2)	$ 31.9	$ (0.4)
Total	$ 18.8	$ (0.2)	$ 13.1	$ (0.2)	$ 31.9	$ (0.4)

The amortized cost and estimated fair value of the marketable securities and U.S. Treasury bonds at June 30, 2020 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due in one year or less	$ 41.0	$ 41.0
Due after one year through five years	1.4	1.4
Due after five years through ten years	—	—
Due after ten years	198.1	205.3
Total	$ 240.5	$ 247.7

Market values were determined for each individual security in the investment portfolio. Effective January 1, 2020, the Company adopted ASC 326, which replaced the other-than-temporary impairment model for available-for-sale debt securities. For available-for-sale debt securities in which fair value is less than cost, ASC 326 requires that credit-related impairment, if any, be recognized through an allowance for credit losses and adjusted each period for changes in credit risk. The Company typically invests in highly-rated securities with low probabilities of default and has the intent and ability to hold the investments until maturity, and the Company performs an assessment each period for credit-related impairment. As of June 30, 2020, the Company does not consider its investments to be impaired.

There were no realized gains or losses from the sale of investment securities for the three or six months ended June 30, 2020 and 2019.

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9. REDEMPTION SETTLEMENT ASSETS

Redemption settlement assets consist of restricted cash and securities available-for-sale and are designated for settling redemptions by collectors of the AIR MILES Reward Program in Canada under certain contractual relationships with sponsors of the AIR MILES Reward Program. The principal components of redemption settlement assets, which are carried at fair value, are as follows:

	June 30, 2020				December 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)							
Restricted cash	$ 49.9	$ —	$ —	$ 49.9	$ 39.3	$ —	$ —	$ 39.3
Mutual funds	24.7	—	—	24.7	25.1	—	—	25.1
Corporate bonds	531.0	12.1	(0.2)	542.9	536.0	2.4	(2.0)	536.4
Total	$ 605.6	$ 12.1	$ (0.2)	$ 617.5	$ 600.4	$ 2.4	$ (2.0)	$ 600.8

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of June 30, 2020 and December 31, 2019, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	June 30, 2020					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Corporate bonds	$ 25.0	$ (0.2)	$ 3.7	$ —	$ 28.7	$ (0.2)
Total	$ 25.0	$ (0.2)	$ 3.7	$ —	$ 28.7	$ (0.2)

	December 31, 2019					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Corporate bonds	$ 166.6	$ (1.3)	$ 155.1	$ (0.7)	$ 321.7	$ (2.0)
Total	$ 166.6	$ (1.3)	$ 155.1	$ (0.7)	$ 321.7	$ (2.0)

The amortized cost and estimated fair value of the securities at June 30, 2020 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due in one year or less	$ 107.0	$ 107.4
Due after one year through five years	420.0	431.0
Due after five year through ten years	28.7	29.2
Total	$ 555.7	$ 567.6

Market values were determined for each individual security in the investment portfolio. Effective January 1, 2020, the Company adopted ASC 326, which replaced the other-than-temporary impairment model for available-for-sale debt securities. For available-for-sale debt securities in which fair value is less than cost, ASC 326 requires that credit-related impairment, if any, be recognized through an allowance for credit losses and adjusted each period for changes in credit risk. The Company typically invests in highly-rated securities with low probabilities of default and has the intent and ability to hold the investments until maturity, and the Company performs an assessment each period for credit-related impairment. As of June 30, 2020, the Company does not consider its investments to be impaired.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

There were no realized gains or losses from the sale of investment securities for the three and six months ended June 30, 2020. Realized losses from the sale of investment securities for the three and six months ended June 30, 2019 were de minimis.

10. LEASES

The Company has operating leases for general office properties, warehouses, data centers, call centers, automobiles and certain equipment. As of June 30, 2020, the Company's leases have remaining lease terms of less than 1 year to 18 years, some of which may include renewal options. For leases in which the implicit rate is not readily determinable, the Company uses its incremental borrowing rate as of the lease commencement date to determine the present value of the lease payments. The incremental borrowing rate is based on the Company's specific rate of interest to borrow on a collateralized basis, over a similar term and in a similar economic environment as the lease.

Leases with an initial term of 12 months or less are not recognized on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. Additionally, the Company accounts for lease and nonlease components as a single lease component for its identified asset classes.

The components of lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Operating lease cost	$ 9.9	$ 10.4	$ 20.2	$ 20.7
Short-term lease cost	0.2	0.6	0.5	1.2
Variable lease cost	2.9	1.7	3.1	3.6
Total	$ 13.0	$ 12.7	$ 23.8	$ 25.5

Other information related to leases was as follows:

	June 30, 2020	June 30, 2019
Weighted-average remaining lease term (in years):		
Operating leases	11.2	11.6
Weighted-average discount rate:		
Operating leases	5.2%	5.2%

Supplemental cash flow information related to leases was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 11.3	$ 10.3	$ 25.7	$ 25.6
Right of use assets obtained in exchange for lease obligations:				
Operating leases	$ 0.2	$ 1.2	$ 2.8	$ 9.8

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Maturities of the lease liabilities as of June 30, 2020 were as follows:

Year	Operating Leases
	(in millions)
2020 (excluding the six months ended June 30, 2020)	$ 16.3
2021	39.6
2022	38.6
2023	37.0
2024	34.9
Thereafter	237.0
Total undiscounted lease liabilities	403.4
Less: Amount representing interest	(103.9)
Total present value of minimum lease payments	$ 299.5
Amounts recognized in the June 30, 2020 consolidated balance sheet:	
Current operating lease liabilities	$ 21.2
Long-term operating lease liabilities	278.3
Total	$ 299.5

The Company evaluates its right of use assets for impairment in accordance with ASC 360, “Property, Plant and Equipment,” when events or changes in circumstances indicate that a right of use asset’s carrying amount may not be recoverable. For the three months ended June 30, 2020, the Company performed an impairment assessment for the right of use asset associated with one of its locations that it ceased use with the intent to sublease. As a result of this impairment assessment, the Company recorded an asset impairment charge within its Card Services segment of $3.1 million, which is included in cost of operations in its unaudited condensed consolidated statements of income. As a result of COVID-19, the Company is evaluating potential office consolidations or closures.

11. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	June 30, 2020			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
		(in millions)		
Finite Lived Assets				
Customer contracts and lists	$ 325.7	$ (302.5)	$ 23.2	7 years—straight line
Premium on purchased credit card portfolios	176.4	(96.7)	79.7	1-13 years—straight line
Collector database	51.5	(50.8)	0.7	5 years—straight line
Tradenames	31.9	(27.1)	4.8	8-15 years—straight line
	$ 585.5	$ (477.1)	$ 108.4	
Indefinite Lived Assets				
Tradename	1.2	—	1.2	Indefinite life
Total intangible assets	$ 586.7	$ (477.1)	$ 109.6	

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

	December 31, 2019			
	Gross Assets	Accumulated Amortization (in millions)	Net	Amortization Life and Method
Finite Lived Assets				
Customer contracts and lists	$ 325.1	$ (278.7)	$ 46.4	7 years—straight line
Premium on purchased credit card portfolios	192.6	(93.2)	99.4	1-13 years—straight line
Collector database	53.9	(52.9)	1.0	5 years—straight line
Tradenames	31.8	(26.5)	5.3	8-15 years—straight line
	$ 603.4	$ (451.3)	$ 152.1	
Indefinite Lived Assets				
Tradename	1.2	—	1.2	Indefinite life
Total intangible assets	$ 604.6	$ (451.3)	$ 153.3	

The estimated amortization expense related to intangible assets for the next five years and thereafter is as follows:

	For the Years Ending December 31, (in millions)
2020 (excluding the six months ended June 30, 2020)	$ 39.3
2021	22.2
2022	17.5
2023	12.8
2024	10.7
Thereafter	5.9

Goodwill

The changes in the carrying amount of goodwill are as follows:

	LoyaltyOne	Card Services (in millions)	Total
Balance at January 1, 2020	$ 690.9	$ 264.0	$ 954.9
Goodwill related to sale of Precima	(3.2)	—	(3.2)
Effects of foreign currency translation	(7.4)	—	(7.4)
Balance at June 30, 2020	$ 680.3	$ 264.0	$ 944.3

Approximately $3.2 million of LoyaltyOne goodwill was allocated to Precima upon sale in January 2020, based on a relative fair value allocation of the businesses.

The Company tests goodwill for impairment annually, as of July 31, or when events and circumstances change that would indicate the carrying value may not be recoverable. As of June 30, 2020, the Company does not believe it is more likely than not that the fair value of its reporting units is less than its carrying amount. However, in light of the COVID-19 pandemic and current uncertainty in the macroeconomic environment, future deterioration in the economy could adversely impact the Company's reporting units and result in a goodwill impairment.

12. RESTRUCTURING AND OTHER CHARGES

In 2019, the Company, under the direction of the Board of Directors, evaluated the cost structure and executed on certain cost saving initiatives at each segment. These charges included restructuring and other exit activities related to reductions in force, terminations of certain product lines, reduction or closure of certain leased office space, asset impairments, changes in management structure and fundamental reorganizations that affect the nature and focus of operations. Restructuring and other charges incurred at the Corporate segment were recorded to general and administrative expense in the Company's unaudited condensed consolidated statements of income, and restructuring and other charges incurred in the LoyaltyOne and Card Services segments were recorded to cost of operations in the

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Company's unaudited condensed consolidated statements of income. These charges related to actions taken in 2019 are not expected to continue in 2020. For the three and six months ended June 30, 2020, the restructuring and other charges incurred relate to changes in the Company's original estimate and consisted of adjustments to the Company's liability. The following tables summarize the restructuring and other charges incurred by reportable segment for all restructuring activities for the periods presented.

Three Months Ended June 30, 2020	Termination Benefits	Asset Impairments	Lease Termination Costs (in millions)	Other Exit Costs	Total
Corporate/Other	$ —	$ —	$ —	$ —	$ —
LoyaltyOne	0.1	—	—	—	0.1
Card Services	(1.3)	—	—	—	(1.3)
Total	$ (1.2)	$ —	$ —	$ —	$ (1.2)

Three Months Ended June 30, 2019	Termination Benefits	Asset Impairments	Lease Termination Costs (in millions)	Other Exit Costs	Total
Corporate/Other	$ 11.3	$ 11.1	$ —	$ —	$ 22.4
LoyaltyOne	—	—	—	—	—
Card Services	—	—	—	—	—
Total	$ 11.3	$ 11.1	$ —	$ —	$ 22.4

Six Months Ended June 30, 2020	Termination Benefits	Asset Impairments	Lease Termination Costs (in millions)	Other Exit Costs	Total
Corporate/Other	$ —	$ —	$ —	$ —	$ —
LoyaltyOne	0.1	—	—	—	0.1
Card Services	(7.8)	—	—	—	(7.8)
Total	$ (7.7)	$ —	$ —	$ —	$ (7.7)

Six Months Ended June 30, 2019	Termination Benefits	Asset Impairments	Lease Termination Costs (in millions)	Other Exit Costs	Total
Corporate/Other	$ 11.3	$ 11.1	$ —	$ —	$ 22.4
LoyaltyOne	1.3	4.5	—	2.1	7.9
Card Services	—	—	—	—	—
Total	$ 12.6	$ 15.6	$ —	$ 2.1	$ 30.3

The Company's liability for restructuring and other charges is recognized in accrued expenses and other liabilities in its unaudited condensed consolidated balance sheets. The following table summarizes the activities related to the restructuring and other charges, as discussed above, for the three and six months ended June 30, 2020:

Three Months Ended June 30, 2020	Termination Benefits	Asset Impairments	Lease Termination Costs (in millions)	Other Exit Costs	Total
Liability as of March 31, 2020	$ 15.0	$ —	$ —	$ —	$ 15.0
Adjustments for non-cash charges	(1.2)	—	—	—	(1.2)
Cash payments	(4.5)	—	—	—	(4.5)
Liability as of June 30, 2020	$ 9.3	$ —	$ —	$ —	$ 9.3

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Six Months Ended June 30, 2020	Termination Benefits	Asset Impairments	Lease Termination Costs (in millions)	Other Exit Costs	Total
Liability as of January 1, 2020	$ 34.7	$ —	$ —	$ 0.1	$ 34.8
Adjustments for non-cash charges	(7.7)	—	—	—	(7.7)
Cash payments	(17.7)	—	—	(0.1)	(17.8)
Liability as of June 30, 2020	$ 9.3	$ —	$ —	$ —	$ 9.3

The Company’s outstanding liability related to restructuring and other charges is expected to be settled by the end of 2021, with the majority settled in 2020.

13. DEBT

Debt consists of the following:

Description	June 30, 2020	December 31, 2019	Maturity	Interest Rate
	(Dollars in millions)			
Long-term and other debt:				
2017 revolving line of credit	$ 400.0	$ —	December 2022	(1)
2017 term loans	1,978.1	2,028.8	December 2022	(2)
BrandLoyalty credit agreement	—	—	April 2023	(3)
Senior notes due 2024	850.0	850.0	December 2024	4.750%
Total long-term and other debt	3,228.1	2,878.8		
Less: Unamortized debt issuance costs	25.0	28.9		
Less: Current portion	101.3	101.4		
Long-term portion	$ 3,101.8	$ 2,748.5		
Deposits:				
Certificates of deposit	$ 7,239.9	$ 8,585.2	Various – Jul 2020 to Jun 2025	1.00% to 4.00%
Money market deposits	3,998.7	3,589.8	Non-maturity	(4)
Total deposits	11,238.6	12,175.0		
Less: Unamortized debt issuance costs	17.1	23.3		
Less: Current portion	7,107.3	6,942.4		
Long-term portion	$ 4,114.2	$ 5,209.3		
Non-recourse borrowings of consolidated securitization entities:				
Fixed rate asset-backed term note securities	$ 4,491.0	$ 4,891.0	Various – Aug 2020 to Sep 2022	2.03% to 3.95%
Conduit asset-backed securities	525.0	2,405.0	Various – Apr 2021 to Jul 2021	(5)
Total non-recourse borrowings of consolidated securitization entities	5,016.0	7,296.0		
Less: Unamortized debt issuance costs	8.4	12.0		
Less: Current portion	2,613.0	3,030.8		
Long-term portion	$ 2,394.6	$ 4,253.2		

(1) The interest rate is based upon LIBOR plus an applicable margin. At June 30, 2020, the weighted average interest rate for the revolving line of credit was 1.93%.

(2) The interest rate is based upon LIBOR plus an applicable margin. The weighted average interest rate for the term loans was 1.93% and 3.30% at June 30, 2020 and December 31, 2019, respectively.

(3) The interest rate is based upon the Euro Interbank Offered Rate plus an applicable margin.

(4) The interest rates are based on the Federal Funds rate plus an applicable margin. At June 30, 2020, the interest rates ranged from 0.34% to 3.50%. At December 31, 2019, the interest rates ranged from 1.84% to 3.50%.

(5) The interest rate is based upon LIBOR or the asset-backed commercial paper costs of each individual conduit provider plus an applicable margin. At June 30, 2020, the interest rates ranged from 1.35% to 2.36%. At December 31, 2019, the interest rates ranged from 2.79% to 2.96%.

At June 30, 2020, the Company was in compliance with its financial covenants.

Long-term and Other Debt

The Company’s credit agreement, as amended, provided for $2,028.8 million in term loans subject to certain principal repayments and a $750.0 million revolving line of credit. As of June 30, 2020, the Company had $1,978.1 million in term loans outstanding with $350.0 million total availability under the revolving line of credit.

BrandLoyalty Credit Agreement

In April 2020, BrandLoyalty and certain of its subsidiaries, as borrowers and guarantors, terminated its existing facility and entered into a new credit agreement (the “2020 BrandLoyalty Credit Agreement”) that provides for a committed revolving line of credit of €30.0 million ($33.7 million as of June 30, 2020), an uncommitted revolving line of credit of €30.0 million ($33.7 million as of June 30, 2020), and an accordion feature permitting BrandLoyalty to request an increase in either the committed or uncommitted line of credit up to €80.0 million ($89.9 million as of June 30, 2020) in aggregate. Each of the committed and uncommitted revolving line of credit are schedule to mature on April 3, 2023, subject to BrandLoyalty’s request to extend for two additional one-year terms at the absolute discretion of the lenders at the time of such requests.

All advances under the 2020 BrandLoyalty Credit Agreement are denominated in Euros. The interest rate fluctuates and is equal to EURIBOR, as defined in the 2020 BrandLoyalty Credit Agreement, plus an applicable margin based on BrandLoyalty’s senior net leverage ratio. The 2020 BrandLoyalty Credit Agreement contains financial covenants, including a senior net leverage ratio, as well as usual and customary negative covenants, representations, general and information undertakings and events of default.

As of June 30, 2020, there were no amounts outstanding under the 2020 BrandLoyalty Credit Agreement.

Non-Recourse Borrowings of Consolidated Securitization Entities

Asset-Backed Term Notes

In May 2020, $450.7 million of Series 2017-A asset-backed term notes, $50.7 million of which were retained by the Company and eliminated from the Company’s unaudited condensed consolidated balance sheets, matured and were repaid.

As of June 30, 2020, the Company collected $415.1 million of principal payments made by its credit cardholders during the accumulation period for the repayment of the Series 2015-B notes, which mature in August 2020. The cash is restricted to the securitization investors and is reflected in other current assets in the Company’s unaudited condensed consolidated balance sheet as of June 30, 2020.

Conduit Facilities

The Company has access to committed undrawn capacity through three conduit facilities to support the funding of its credit card receivables through Master Trust I, Master Trust III and the WFC Trust.

In April 2020, Master Trust I amended its 2009-VFN conduit facility, decreasing the capacity from $1.18 billion to $1.0 billion and extending the maturity to July 2021. In April 2020, Master Trust III amended its 2009-VFC conduit facility, decreasing the capacity from $1.3 billion to $1.0 billion and extending the maturity to July 2021.

As of June 30, 2020, total capacity under the conduit facilities was $4.2 billion, of which $525.0 million had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the unaudited condensed consolidated balance sheets.

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14. DERIVATIVE INSTRUMENTS

The Company uses derivatives to manage risks associated with certain assets and liabilities arising from the potential adverse impact of fluctuations in interest rates and foreign currency exchange rates.

The Company limits its exposure on derivatives by entering into contracts with institutions that are established dealers who maintain certain minimum credit criteria established by the Company. At June 30, 2020, the Company does not maintain any derivative instruments subject to master agreements that would require the Company to post collateral or that contain any credit-risk related contingent features.

The Company enters into foreign currency derivatives to reduce the volatility of the Company's cash flows resulting from changes in foreign currency exchange rates associated with certain inventory transactions, some of which are designated as cash flow hedges. The Company generally hedges foreign currency exchange rate risks for periods of 12 months or less. As of June 30, 2020, the maximum term over which the Company is hedging its exposure to the variability of future cash flows associated with certain inventory transactions is eight months.

Certain foreign currency exchange forward contracts are not designated as hedges as they do not meet the specific hedge accounting requirements of ASC 815, "Derivatives and Hedging." Changes in the fair value of the derivative instruments not designated as hedging instruments are recorded in the unaudited condensed consolidated statements of income as they occur. Gains and losses on derivatives not designated as hedging instruments are included in other operating activities in the unaudited condensed consolidated statements of cash flows for all periods presented.

The following tables present the fair values of the derivative instruments included within the Company's unaudited condensed consolidated balance sheets as of June 30, 2020 and December 31, 2019:

	June 30, 2020 (in millions)			
	Notional Amount	Fair Value	Balance Sheet Location	Maturity
Designated as hedging instruments:				
Foreign currency exchange hedges	$ 9.5	$ 0.3	Other current assets	July 2020 to January 2021
Foreign currency exchange hedges	$ 37.4	$ 0.9	Other current liabilities	July 2020 to February 2021

	December 31, 2019 (in millions)			
	Notional Amount	Fair Value	Balance Sheet Location	Maturity
Designated as hedging instruments:				
Foreign currency exchange hedges	$ 5.5	$ 0.2	Other current assets	January 2020 to February 2020
Foreign currency exchange hedges	$ 7.8	$ 0.3	Other current liabilities	February 2020 to July 2020

Derivatives Designated as Hedging Instruments

Losses of $0.8 million and $0.5 million, net of tax, were recognized in other comprehensive income for the three and six months ended June 30, 2020, respectively, and losses of $0.1 million and $0.2 million, net of tax, were recognized in other comprehensive income for the three and six months ended June 30, 2019, respectively, related to foreign currency exchange hedges designated as effective.

Changes in the fair value of these hedges are recorded in other comprehensive income until the hedged transactions affect net income. Reclassifications from accumulated other comprehensive loss into net income (cost of operations) for each of the periods presented were not material. At June 30, 2020, $0.6 million is expected to be reclassified from accumulated other comprehensive income into net income in the coming 12 months.

Derivatives Not Designated as Hedging Instruments

As of June 30, 2020, the Company did not hold any derivatives not designated as hedging instruments, and there were no gains or losses related to derivatives not designated as hedging instruments for the three and six months ended June 30, 2020.

For the three and six months ended June 30, 2019, losses of $1.2 million and $2.4 million, respectively, related to foreign currency exchange forward contracts not designated as hedging instruments were recognized in general and administrative expense in the Company’s unaudited condensed consolidated statements of income.

15. COMMITMENTS AND CONTINGENCIES

Regulatory Matters

On September 10, 2019, Comenity Capital Bank submitted a bank merger application to the Federal Deposit Insurance Corporation (“FDIC”) seeking the FDIC’s approval to merge Comenity Bank with and into Comenity Capital Bank as the surviving bank entity. On the same date, Comenity Capital Bank and Comenity Bank each submitted counterpart bank merger applications to the Utah Department of Financial Institutions and the Delaware Office of the State Bank Commissioner, respectively, in connection with the proposed merger. The merger application remains subject to regulatory review and approval and no guarantee can be provided as to the outcome or timing of such review.

Indemnification

On July 1, 2019, the Company completed the sale of its Epsilon segment to Publicis Groupe S.A. (“Publicis”). Under the terms of the agreement governing that transaction, the Company agreed to indemnify Publicis and its affiliates from and against any losses arising out of or related to a Department of Justice (“DOJ”) investigation. The DOJ investigation relates to third-party marketers who sent, or allegedly sent, deceptive mailings and the provision of data and services to those marketers by Epsilon’s data practice. Epsilon has actively cooperated with the DOJ in connection with its ongoing investigation. The Company records a loss contingency when a loss is probable and an amount can be reasonably estimated. For the year ended December 31, 2019, the Company recorded a loss contingency of $32.9 million, net of tax, which was included in loss from discontinued operations. As these estimates are initially developed substantially earlier than when the ultimate loss is known, no assurance can be given that the investigation will be resolved on these, or other, terms. Therefore, this loss contingency may be refined each period as additional information becomes available. As of June 30, 2020, there was no change to the Company’s estimate of loss contingency.

16. STOCKHOLDERS’ EQUITY

Stock Repurchase Program

In July 2019, the Company’s Board of Directors authorized a new stock repurchase program to acquire up to $1.1 billion of its outstanding common stock from July 5, 2019 through June 30, 2020. As of December 31, 2019, the Company had $347.8 million remaining under its authorized stock repurchase program. On April 23, 2020, the Company announced that it has suspended its stock repurchase program.

For the three and six months ended June 30, 2020, the Company did not repurchase any shares of its outstanding common stock under its authorized stock repurchase program. At June 30, 2020, $347.8 million of this program expired unused.

Stock Compensation Expense

During the six months ended June 30, 2020, the Company awarded 149,078 service-based restricted stock units with a weighted average grant date fair value per share of $91.16 as determined on the date of grant. Service-based restricted stock units typically vest ratably over three years provided that the participant is employed by the Company on each such vesting date.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

During the six months ended June 30, 2020, the Company awarded 219,186 performance-based restricted stock units with a weighted average grant date fair value per share of $100.50 as determined on the date of grant with pre-defined vesting criteria that typically permit a range from 0% to 150% to be earned. If the performance targets are met, the restrictions will lapse with respect to 33% of the award on February 18, 2021, an additional 33% of the award on February 18, 2022 and the final 34% of the award on February 18, 2023, provided that the participant is employed by the Company on each such vesting date.

During the six months ended June 30, 2020, the Company also awarded 20,770 restricted stock units with a market-based condition subject to pre-defined vesting criteria that permit a range from 0% to 175% to be earned. The fair market value of these awards is $78.92 and was estimated utilizing Monte Carlo simulations of the Company's stock price correlation, expected volatility and risk-free rate over two-year time horizons matching the performance period. Upon determination of the market condition, the restrictions will lapse with respect to the entire award on February 18, 2022, provided that the participant is employed by the Company on such vesting date.

Stock-based compensation expense recognized in the Company's unaudited condensed consolidated statements of income for the three and six months ended June 30, 2020 and 2019 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Cost of operations	$ 3.3	$ 6.5	$ 6.1	$ 13.2
General and administrative	2.9	3.7	4.9	8.4
Total	$ 6.2	$ 10.2	$ 11.0	$ 21.6

For the three and six months ended June 30, 2019, an additional $19.9 million and $29.7 million of stock-based compensation expense related to associates from the Company's divested Epsilon segment was recorded to discontinued operations.

Dividends

On January 30, 2020, the Company's Board of Directors declared a quarterly cash dividend of $0.63 per share on the Company's common stock to stockholders of record at the close of business on February 14, 2020, resulting in a dividend payment of $30.0 million on March 19, 2020.

On April 23, 2020, the Company's Board of Directors declared a quarterly cash dividend of $0.21 per share on the Company's common stock to stockholders of record at the close of business on May 14, 2020, resulting in a dividend payment of $10.0 million on June 18, 2020.

Additionally, the Company paid $0.4 million in cash related to dividend equivalent rights for the six months ended June 30, 2020.

On July 23, 2020, the Company's Board of Directors declared a quarterly cash dividend of $0.21 per share on the Company's common stock to stockholders of record at the close of business on August 14, 2020 and payable on September 18, 2020.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

17. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in each component of accumulated other comprehensive loss, net of tax effects, are as follows:

Three Months Ended June 30, 2020	Net Unrealized Gains (Losses) on Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments [1]	Accumulated Other Comprehensive Loss
			(in millions)		
Balance at March 31, 2020	$ 4.1	$ 0.2	$ (7.5)	$ (114.9)	$ (118.1)
Changes in other comprehensive income (loss)	13.4	(0.8)	—	18.0	30.6
Balance at June 30, 2020	$ 17.5	$ (0.6)	$ (7.5)	$ (96.9)	$ (87.5)

Three Months Ended June 30, 2019	Net Unrealized Gains (Losses) on Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments [1]	Accumulated Other Comprehensive Loss
			(in millions)		
Balance at March 31, 2019	$ (1.7)	$ (0.3)	$ (0.2)	$ (125.7)	$ (127.9)
Changes in other comprehensive income (loss)	5.4	(0.1)	(7.3)	8.2	6.2
Balance at June 30, 2019	$ 3.7	$ (0.4)	$ (7.5)	$ (117.5)	$ (121.7)

Six Months Ended June 30, 2020	Net Unrealized Gains (Losses) on Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments [1]	Accumulated Other Comprehensive Loss
			(in millions)		
Balance at December 31, 2019	$ 2.5	$ (0.1)	$ (7.5)	$ (94.8)	$ (99.9)
Changes in other comprehensive income (loss)	15.0	(0.5)	—	(5.9)	8.6
Recognition resulting from the sale of Precima's foreign subsidiaries	—	—	—	3.8	3.8
Balance at June 30, 2020	$ 17.5	$ (0.6)	$ (7.5)	$ (96.9)	$ (87.5)

Six Months Ended June 30, 2019	Net Unrealized Gains (Losses) on Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments [1]	Accumulated Other Comprehensive Loss
			(in millions)		
Balance at December 31, 2018	$ (10.7)	$ (0.2)	$ (12.4)	$ (114.8)	$ (138.1)
Changes in other comprehensive income (loss)	14.4	(0.2)	4.9	(2.7)	16.4
Balance at June 30, 2019	$ 3.7	$ (0.4)	$ (7.5)	$ (117.5)	$ (121.7)

(1) Primarily related to the impact of changes in the Canadian dollar and Euro foreign currency exchange rates.

In accordance with ASC 830, “Foreign Currency Matters,” upon the sale of Precima on January 10, 2020, $3.8 million of accumulated foreign currency translation adjustments attributable to Precima’s foreign subsidiaries sold were reclassified from accumulated other comprehensive loss and included in the calculation of the gain on sale of Precima. Other reclassifications from accumulated other comprehensive loss into net income for each of the periods presented were not material.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

18. FAIR VALUE MEASUREMENTS

In accordance with ASC 825, "Financial Instruments," the Company is required to disclose the fair value of financial instruments for which it is practical to estimate fair value. To obtain fair values, observable market prices are used if available. In some instances, observable market prices are not readily available and fair value is determined using present value or other techniques appropriate for a particular financial instrument. These techniques involve judgment and as a result are not necessarily indicative of the amounts the Company would realize in a current market exchange. The use of different assumptions or estimation techniques may have a material effect on the estimated fair value amounts.

Fair Value of Financial Instruments — The estimated fair values of the Company's financial instruments are as follows:

	June 30, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Financial assets				
Credit card and loan receivables, net	$ 13,712.7	$ 14,651.7	$ 18,292.0	$ 19,126.0
Credit card receivables held for sale	83.1	86.5	408.0	436.2
Redemption settlement assets, restricted	617.5	617.5	600.8	600.8
Other investments	247.7	247.7	259.8	259.8
Derivative instruments	0.3	0.3	0.2	0.2
Financial liabilities				
Derivative instruments	0.9	0.9	0.3	0.3
Deposits	11,221.5	11,510.6	12,151.7	12,303.6
Non-recourse borrowings of consolidated securitization entities	5,007.6	5,085.2	7,284.0	7,333.6
Long-term and other debt	3,203.1	3,143.3	2,849.9	2,878.8

The following techniques and assumptions were used by the Company in estimating fair values of financial instruments as disclosed herein:

Credit card and loan receivables, net — The Company utilizes a discounted cash flow model using unobservable inputs, including estimated yields (interest and fee income), loss rates, payment rates and discount rates to estimate the fair value measurement of the credit card and loan receivables.

Credit card receivables held for sale — The Company utilizes a discounted cash flow model using unobservable inputs, including forecasted yields and net charge-off estimates to estimate the fair value measurement of the credit card portfolios held for sale, as well as market data as applicable.

Redemption settlement assets, restricted — Redemption settlement assets, restricted are recorded at fair value based on quoted market prices for the same or similar securities.

Other investments — Other investments consist of marketable securities and U.S. Treasury bonds and are included in other current assets and other non-current assets in the unaudited condensed consolidated balance sheets. Other investments are recorded at fair value based on quoted market prices for the same or similar securities.

Deposits — For money market deposits, carrying value approximates fair value due to the liquid nature of these deposits. For certificates of deposit, the fair value is estimated based on the current observable market rates available to the Company for similar deposits with similar remaining maturities.

Non-recourse borrowings of consolidated securitization entities — The fair value is estimated based on the current observable market rates available to the Company for similar debt instruments with similar remaining maturities or quoted market prices for the same transaction.

Long-term and other debt — The fair value is estimated based on the current observable market rates available to the Company for similar debt instruments with similar remaining maturities or quoted market prices for the same transaction.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Derivative instruments — The Company's foreign currency cash flow hedges are recorded at fair value based on a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs.

Financial Assets and Financial Liabilities Fair Value Hierarchy

ASC 820, "Fair Value Measurements and Disclosures," establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1, defined as observable inputs such as quoted prices in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3, defined as unobservable inputs where little or no market data exists, therefore requiring an entity to develop its own assumptions.

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The use of different techniques to determine fair value of these financial instruments could result in different estimates of fair value at the reporting date.

The following tables provide information for the assets and liabilities carried at fair value measured on a recurring basis as of June 30, 2020 and December 31, 2019:

	Balance at June 30, 2020	Fair Value Measurements at June 30, 2020 Using		
		Level 1	Level 2	Level 3
		(in millions)		
Mutual funds (1)	$ 24.7	$ 24.7	$ —	$ —
Corporate bonds (1)	542.9	—	542.9	—
Marketable securities (2)	247.7	34.7	213.0	—
Derivative instruments (3)	0.3	—	0.3	—
Total assets measured at fair value	$ 815.6	$ 59.4	$ 756.2	$ —
Derivative instruments (3)	$ 0.9	$ —	$ 0.9	$ —
Total liabilities measured at fair value	$ 0.9	$ —	$ 0.9	$ —

	Balance at December 31, 2019	Fair Value Measurements at December 31, 2019 Using		
		Level 1	Level 2	Level 3
		(in millions)		
Mutual funds (1)	$ 25.1	$ 25.1	$ —	$ —
Corporate bonds (1)	536.4	—	536.4	—
Marketable securities (2)	259.8	26.2	233.6	—
Derivative instruments (3)	0.2	—	0.2	—
Total assets measured at fair value	$ 821.5	$ 51.3	$ 770.2	$ —
Derivative instruments (3)	$ 0.3	$ —	$ 0.3	$ —
Total liabilities measured at fair value	$ 0.3	$ —	$ 0.3	$ —

(1) Amounts are included in redemption settlement assets in the unaudited condensed consolidated balance sheets.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(2) Amounts are included in other current assets and other non-current assets in the unaudited condensed consolidated balance sheets.

(3) Amounts are included in other current assets and other current liabilities in the unaudited condensed consolidated balance sheets.

Financial Instruments Disclosed but Not Carried at Fair Value

The following tables provide assets and liabilities disclosed but not carried at fair value as of June 30, 2020 and December 31, 2019:

	Fair Value Measurements at June 30, 2020			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Financial assets:				
Credit card and loan receivables, net	$ 14,651.7	$ —	$ —	$ 14,651.7
Credit card receivables held for sale	86.5	—	—	86.5
Total	$ 14,738.2	$ —	$ —	$ 14,738.2
Financial liabilities:				
Deposits	$ 11,510.6	$ —	$ 11,510.6	$ —
Non-recourse borrowings of consolidated securitization entities	5,085.2	—	5,085.2	—
Long-term and other debt	3,143.3	—	3,143.3	—
Total	$ 19,739.1	$ —	$ 19,739.1	$ —

	Fair Value Measurements at December 31, 2019			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Financial assets:				
Credit card and loan receivables, net	$ 19,126.0	$ —	$ —	$ 19,126.0
Credit card receivables held for sale	436.2	—	—	436.2
Total	$ 19,562.2	$ —	$ —	$ 19,562.2
Financial liabilities:				
Deposits	$ 12,303.6	$ —	$ 12,303.6	$ —
Non-recourse borrowings of consolidated securitization entities	7,333.6	—	7,333.6	—
Long-term and other debt	2,878.8	—	2,878.8	—
Total	$ 22,516.0	$ —	$ 22,516.0	$ —

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are recognized or disclosed at fair value on a nonrecurring basis, including property and equipment, right of use assets, deferred contract assets, goodwill, and intangible assets. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, including when there is evidence of impairment. For both the three and six months ended June 30, 2020, the Company recorded asset impairment charges of $34.2 million related to deferred contract costs and certain right of use assets. The fair value was determined utilizing discounted cash flow models over the estimated life of each asset. The principal assumptions used in the Company's impairment analysis were forecasted future cash flows and the discount rate, which are considered Level 3 inputs. See Note 2, "Revenue," and Note 10, "Leases," for more information regarding asset impairments. For the three and six months ended June 30, 2019, as part of restructuring and other charges, the Company recorded asset impairments of $11.1 million and $15.6 million, respectively. See Note 12, "Restructuring and Other Charges," for more information.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

19. INCOME TAXES

For the three months ended June 30, 2020 and 2019, the Company utilized an effective tax rate of 18.3% and 26.6%, respectively, to calculate its provision for income taxes. For the six months ended June 30, 2020 and 2019, the Company utilized an effective tax rate of 5.5% and 21.2%, respectively, to calculate its provision for income taxes.

The decrease in the effective tax rate for the three months ended June 30, 2020 as compared to the three months ended June 30, 2019 resulted primarily from a discrete tax benefit recorded in the current quarter from a reduction in tax reserves following the expiration of a statute of limitations. The decrease in the effective tax rate for the six months ended June 30, 2020 as compared to the six months ended June 30, 2019 resulted primarily from discrete tax benefits from a reduction of tax reserves related to the aforementioned statute of limitations expiration as well as a favorable settlement with a state tax authority in the first quarter of 2020.

20. SEGMENT INFORMATION

Operating segments are defined by ASC 280, "Segment Reporting," as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The operating segments are reviewed separately because each operating segment represents a strategic business unit that generally offers different products and services.

The Company operates in the LoyaltyOne and Card Services reportable segments, which consist of the following:

- LoyaltyOne provides coalition and short-term loyalty programs through the Company's Canadian AIR MILES Reward Program and BrandLoyalty; and
- Card Services provides risk management solutions, account origination, funding, transaction processing, customer care, collections and marketing services for the Company's private label and co-brand credit card programs.

Corporate and other immaterial businesses are reported collectively as an "all other" category labeled "Corporate/Other." Income taxes are not allocated to the segments in the computation of segment operating profit for internal evaluation purposes and have also been included in "Corporate/Other."

Three Months Ended June 30, 2020	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Revenues	$ 151.1	$ 828.2	$ —	$ 979.3
Income (loss) before income taxes	$ 24.0	$ 70.3	$ (47.3)	$ 47.0
Interest expense, net	(0.2)	101.6	26.3	127.7
Operating income (loss)	23.8	171.9	(21.0)	174.7
Depreciation and amortization	18.4	22.1	0.8	41.3
Stock compensation expense	1.5	1.8	2.9	6.2
Gain on sale of business, net of strategic transaction costs	—	—	—	—
Strategic transaction costs	0.1	—	2.5	2.6
Asset impairments	—	34.2	—	34.2
Restructuring and other charges	0.1	(1.3)	—	(1.2)
Adjusted EBITDA (1)	43.9	228.7	(14.8)	257.8
Less: Securitization funding costs	—	42.7	—	42.7
Less: Interest expense on deposits	—	58.9	—	58.9
Adjusted EBITDA, net (1)	$ 43.9	$ 127.1	$ (14.8)	$ 156.2

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Three Months Ended June 30, 2019	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Revenues	$ 251.5	$ 1,096.9	$ 0.1	$ 1,348.5
Income (loss) before income taxes	$ 27.5	$ 262.8	$ (96.5)	$ 193.8
Interest expense, net	0.8	104.8	37.9	143.5
Operating income (loss)	28.3	367.6	(58.6)	337.3
Depreciation and amortization	19.6	20.8	1.4	41.8
Stock compensation expense	2.9	3.6	3.7	10.2
Strategic transaction costs	0.2	—	2.5	2.7
Restructuring and other charges	—	—	22.4	22.4
Adjusted EBITDA [1]	51.0	392.0	(28.6)	414.4
Less: Securitization funding costs	—	51.6	—	51.6
Less: Interest expense on deposits	—	53.2	—	53.2
Adjusted EBITDA, net [1]	$ 51.0	$ 287.2	$ (28.6)	$ 309.6

Six Months Ended June 30, 2020	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Revenues	$ 349.2	$ 2,011.9	$ —	$ 2,361.1
Income (loss) before income taxes	$ 70.6	$ 102.4	$ (100.6)	$ 72.4
Interest expense, net	(0.3)	211.8	54.7	266.2
Operating income (loss)	70.3	314.2	(45.9)	338.6
Depreciation and amortization	36.6	41.8	1.7	80.1
Stock compensation expense	2.5	3.6	4.9	11.0
Gain on sale of business, net of strategic transaction costs	(8.0)	—	—	(8.0)
Strategic transaction costs	0.2	—	3.1	3.3
Asset impairments	—	34.2	—	34.2
Restructuring and other charges	0.1	(7.8)	—	(7.7)
Adjusted EBITDA [1]	101.7	386.0	(36.2)	451.5
Less: Securitization funding costs	—	92.6	—	92.6
Less: Interest expense on deposits	—	119.2	—	119.2
Adjusted EBITDA, net [1]	$ 101.7	$ 174.2	$ (36.2)	$ 239.7

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Six Months Ended June 30, 2019	LoyaltyOne	Card Services	Corporate/ Other	Total
		(in millions)		
Revenues	$ 455.3	$ 2,227.3	$ 0.1	$ 2,682.7
Income (loss) before income taxes	$ 50.5	$ 529.7	$ (173.4)	$ 406.8
Interest expense, net	1.9	210.8	74.7	287.4
Operating income (loss)	52.4	740.5	(98.7)	694.2
Depreciation and amortization	39.8	45.0	3.4	88.2
Stock compensation expense	5.8	7.4	8.4	21.6
Strategic transaction costs	0.2	—	2.5	2.7
Restructuring and other charges	7.9	—	22.4	30.3
Adjusted EBITDA [1]	106.1	792.9	(62.0)	837.0
Less: Securitization funding costs	—	108.8	—	108.8
Less: Interest expense on deposits	—	102.0	—	102.0
Adjusted EBITDA, net [1]	$ 106.1	$ 582.1	$ (62.0)	$ 626.2

(1) Adjusted EBITDA is a non-GAAP financial measure equal to income from continuing operations, the most directly comparable financial measure based on GAAP plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization and amortization of purchased intangibles. Adjusted EBITDA also excludes the gain on the sale of Precima, strategic transaction costs, which represent costs for professional services associated with strategic initiatives, asset impairments and restructuring and other charges.

Adjusted EBITDA, net is also a non-GAAP financial measure equal to adjusted EBITDA less securitization funding costs and interest expense on deposits. Adjusted EBITDA and adjusted EBITDA, net are presented in accordance with ASC 280 as they are the primary performance metrics utilized to assess performance of the segments.

21. SUPPLEMENTAL CASH FLOW INFORMATION

The unaudited condensed consolidated statements of cash flows are presented with the combined cash flows from discontinued operations with cash flows from continuing operations within each cash flow statement category. The following table provides a reconciliation of cash and cash equivalents to the total of the amounts reported in the unaudited condensed consolidated statements of cash flows:

	June 30, 2020	June 30, 2019
	(in millions)	
Cash and cash equivalents	$ 4,960.0	$ 4,069.0
Restricted cash included within other current assets [1]	441.2	39.8
Restricted cash included within redemption settlement assets, restricted [2]	49.9	45.9
Total cash, cash equivalents and restricted cash	$ 5,451.1	$ 4,154.7

(1) Includes cash restricted for principal and interest repayments of non-recourse borrowings of consolidated securitized debt and other restricted cash within other current assets. At June 30, 2020, restricted cash included $415.1 million in principal accumulation for the repayment of non-recourse borrowings of consolidated securitized debt that matures in August 2020.

(2) See Note 9, “Redemption Settlement Assets,” for additional information regarding the nature of restrictions on redemption settlement assets.

Caution Regarding Forward-Looking Statements

This Form 10-Q and the documents incorporated by reference herein 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. Forward-looking statements give our expectations or forecasts of future events and can generally be identified by the use of words such as “believe,” “expect,” “anticipate,” “estimate,” “intend,” “project,” “plan,” “likely,” “may,” “should” or other words or phrases of similar import. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding strategic initiatives, our expected operating results, future economic conditions including currency exchange rates, future dividend declarations and the guidance we give with respect to our anticipated financial performance. We believe that our expectations are based on reasonable assumptions. Forward-looking statements, however, are subject to a number of risks and uncertainties that could cause actual results to differ materially from the projections, anticipated results or other expectations expressed in this report, and no assurances can be given that our expectations will prove to have been correct. These risks and uncertainties include, but are not limited to, the following:

- continuing impacts related to COVID-19, including relief measures for impacted borrowers and depositors, labor shortages due to quarantine, reduction in demand from clients, supply chain disruption for our reward suppliers and disruptions in the airline or travel industries;
- loss of, or reduction in demand for services from, significant clients;
- increases in net charge-offs in credit card and loan receivables and increases in the allowance for loan loss that may result from the application of the current expected credit loss model;
- failure to identify, complete or successfully integrate or disaggregate business acquisitions or divestitures;
- continued financial responsibility with respect to a divested business, including required equity ownership, guarantees, indemnities or other financial obligations;
- failure to realize expected cost savings from restructuring plans;
- increases in the cost of doing business, including market interest rates;
- inability to access financial or capital markets, including the asset-backed securitization funding market or deposits market;
- loss of active AIR MILES® Reward Program collectors;
- increased redemptions by AIR MILES Reward Program collectors;
- unfavorable fluctuations in foreign currency exchange rates;
- limitations on consumer credit, loyalty or marketing services from new legislative or regulatory actions related to consumer protection and consumer privacy;
- increases in Federal Deposit Insurance Corporation, Delaware or Utah regulatory capital requirements for banks;
- failure to maintain exemption from regulation under the Bank Holding Company Act;
- loss or disruption, due to cyber attack or other service failures, of data center operations or capacity;
- loss of consumer information due to compromised physical or cyber security; and
- those factors set forth in the Risk Factors section in our Annual Report on Form 10-K for the most recently ended fiscal year as well as those factors discussed in Item 1A of our Form 10-Q for the quarter ended March 31, 2019 and this Form 10-Q, elsewhere in this Form 10-Q and in the documents incorporated by reference in this Form 10-Q.

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. Further risks and uncertainties include, but are not limited to, the impact of strategic initiatives on us or our business if any transactions are undertaken, and whether the anticipated benefits of such transactions can be realized.

Any forward-looking statements contained in this Form 10-Q speak only as of the date made, and we undertake no obligation, other than as required by applicable law, to update or revise any forward-looking statements, whether as a result of new information, subsequent events, anticipated or unanticipated circumstances or otherwise.

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 related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission, or SEC, on February 28, 2020.

2020 Recent Developments

- Effective February 3, 2020, our Board of Directors appointed Ralph Andretta as Alliance Data's President and Chief Executive Officer as well as a Director of the Company.
- For the six months ended June 30, 2020, as compared to the six months ended June 30, 2019:
  - Revenue decreased 12% to $2.4 billion.
  - Net income decreased 76% to $68.4 million.
  - Adjusted EBITDA, net decreased 62% to $239.7 million.
- Effective January 1, 2020, we adopted Accounting Standards Codification, or ASC, 326, "Financial Instruments—Credit Losses," and applied a current expected credit loss, or CECL, model to determine our allowance for loan loss. Estimates of expected credit losses under the CECL model are based on relevant information about past events, current conditions, and reasonable and supportable forward-looking forecasts regarding the collectability of the loan portfolio. Our adoption of CECL on January 1, 2020 resulted in an increase in our allowance for loan loss at adoption of $644.0 million, which was recorded through a cumulative-effect adjustment to retained earnings, net of taxes. The impact of CECL is significantly influenced by the composition, characteristics and quality of our portfolio of credit card and loan receivables, as well as the prevailing economic conditions and forecasts utilized and can lead to volatility in our provision for loan loss.
- In January 2020, we sold Precima, a provider of retail strategy and customer data applications and analytics, for total consideration of approximately $43.8 million, which includes contingent consideration with an estimated fair value of $6.5 million, upon the occurrence of specified events and performance of the business. Precima was included in our LoyaltyOne segment.
- We paid dividends and dividend equivalent rights of $40.4 million for the six months ended June 30, 2020.
- We sold one credit card portfolio for cash consideration of $289.5 million during the six months ended June 30, 2020.

COVID-19 Update

On March 11, 2020, the World Health Organization, or WHO, declared the current coronavirus, or COVID-19, outbreak to be a global pandemic. Both prior to and in response to this declaration and the rapid spread of COVID-19 around the world and within the United States, international, federal, state and local governments have imposed varying degrees of restrictions on social and commercial activity in an effort to slow the spread of the illness. As a result, COVID-19 restrictions have adversely impacted and continue to adversely impact our associates, our business partners, and our customers. In response to the COVID-19 pandemic, first and foremost, we have prioritized the health and safety of our associates. Effective teleworking protocols are in place for more than 95% of our associates.

With respect to our business segments in the second quarter of 2020, our Card Services segment performed better than our expectations on key credit metrics in the second quarter of 2020. Following a low point in April 2020, credit sales increased progressively as stores reopened, reaching a high point at the end of June 2020. At the same time, payment trends remained relatively stable across the majority of our cardholder base. We continued to execute effectively for cardholders and clients across the enterprise, while maintaining teleworking protocols and ensuring safe on-site work environments. We have forbearance plans in place for cardholders in need and are engaging with them regularly. A majority of our retail clients' stores are now open, and we are working closely with clients on targeted programs and strategies to drive sales with support for both store-based clients and ecommerce sales as the online channel continues to perform strongly. At LoyaltyOne, we are adjusting the timing of significant coalition and sponsor-specific promotions and marketing programs for our coalition loyalty program. Additionally, we are pivoting the reward portfolio, enhancing efforts on redemption categories that focus on high-demand, non-travel reward options, stay-athome products and services, and AIR MILES Cash redemptions. AIR MILES reward miles issued decreased 26% due to declines in discretionary spending and delays in promotional activity by our sponsors amid COVID-19. AIR MILES reward miles redeemed declined 42% as travel redemptions were negatively impacted by COVID-19, but offset in part by solid merchandise redemptions. Many of our short-term loyalty programs have been delayed, negatively impacting the second quarter of 2020; however, the grocery vertical remains strong as an essential consumer shopping category.

We continue to monitor the rapidly evolving situation and guidance from international, federal, state and local government and public health authorities. In addition, surges in COVID-19 cases may cause people to self-quarantine or governments to shut down nonessential businesses again. Given the dynamic nature of this situation, we cannot reasonably estimate the impacts of COVID-19 on our financial condition, results of operations or cash flows at this time. However, we expect COVID-19 to have an adverse impact on future revenue growth as well as overall profitability. We continue to evaluate and implement additional cost saving measures while maintaining service levels and positioning for future growth.

Consolidated Results of Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
	(in millions, except percentages)					
Revenues						
Services	$ 37.9	$ 66.4	(43)%	$ 84.5	$ 139.7	(40)%
Redemption, net	84.7	153.7	(45)	205.6	265.5	(23)
Finance charges, net	856.7	1,128.4	(24)	2,071.0	2,277.5	(9)
Total revenue	979.3	1,348.5	(27)	2,361.1	2,682.7	(12)
Operating expenses						
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	492.8	654.8	(25)	992.1	1,295.3	(23)
Provision for loan loss	250.1	257.3	(3)	906.0	509.5	78
General and administrative	20.4	57.3	(64)	44.3	95.5	(54)
Depreciation and other amortization	20.3	19.3	5	37.7	39.9	(5)
Amortization of purchased intangibles	21.0	22.5	(7)	42.4	48.3	(12)
Total operating expenses	804.6	1,011.2	(20)	2,022.5	1,988.5	2
Operating income	174.7	337.3	(48)	338.6	694.2	(51)
Interest expense						
Securitization funding costs	42.7	51.6	(17)	92.6	108.8	(15)
Interest expense on deposits	58.9	53.2	11	119.2	102.0	17
Interest expense on long-term and other debt, net	26.1	38.7	(33)	54.4	76.6	(29)
Total interest expense, net	127.7	143.5	(11)	266.2	287.4	(7)
Income from continuing operations before income taxes	47.0	193.8	(76)	72.4	406.8	(82)
Provision for income taxes	8.6	51.4	(83)	4.0	86.1	(95)
Income from continuing operations	38.4	142.4	(73)	68.4	320.7	(79)
Loss from discontinued operations, net of taxes	—	(3.4)	nm *	—	(32.6)	nm *
Net income	$ 38.4	$ 139.0	(72)%	$ 68.4	$ 288.1	(76)%
Key Operating Metrics:						
Credit card statements generated	55.0	70.1	(22)%	122.3	142.9	(14)%
Credit sales	$ 4,799.2	$ 7,551.3	(36)%	$ 10,898.4	$ 13,866.7	(21)%
Average credit card and loan receivables	$ 16,116.3	$ 16,797.5	(4)%	$ 17,205.4	$ 16,823.9	2 %
AIR MILES reward miles issued	1,053.1	1,422.5	(26)%	2,368.9	2,680.7	(12)%
AIR MILES reward miles redeemed	608.2	1,050.3	(42)%	1,602.2	2,138.8	(25)%

* not meaningful

Three months ended June 30, 2020 compared to the three months ended June 30, 2019

Revenue. Total revenue decreased $369.2 million, or 27%, to $979.3 million for the three months ended June 30, 2020 from $1,348.5 million for the three months ended June 30, 2019. The decrease was due to the following:

- *Services*. Revenue decreased $28.5 million, or 43%, to $37.9 million for the three months ended June 30, 2020 primarily due to the sale of Precima in January 2020, which resulted in a $19.0 million decrease in revenue as compared to the prior year quarter, as well as a $4.0 million decrease in other servicing fees charged to cardholders due to a decline in revenue from certain payment protection products due to lower volumes and a $4.6 million decrease in coalition servicing and brand revenue, which was impacted by declines in AIR MILES reward miles issued.

- *Redemption, net*. Revenue decreased $69.0 million, or 45%, to $84.7 million for the three months ended June 30, 2020 as redemption revenue from our short-term loyalty programs decreased $68.5 million due to a decline in programs in market across most regions due to the impact of COVID-19. In response to COVID-19, certain of our customers have delayed their short-term loyalty programs, which may continue to negatively impact our redemption revenue in the second half of 2020.

- *Finance charges, net*. Revenue decreased $271.7 million, or 24%, to $856.7 million for the three months ended June 30, 2020. The decrease was driven by an approximate 350 basis point decline in finance charge yield, which decreased revenue by $140.6 million, and a 12% decline in normalized average receivables, which includes receivables held for sale, that decreased revenue by $131.1 million. The decrease in finance charge yield was due to a 230 basis point decline in late fee yield primarily attributable to forbearance programs offered, including waivers of late fees, in response to COVID-19, as well as interest rate cuts by the Federal Reserve. The decrease in normalized average receivables resulted from lower sales volumes due to COVID-19, as credit sales decreased 36% as compared to the prior year quarter.

Cost of operations. Cost of operations decreased $162.0 million, or 25%, to $492.8 million for the three months ended June 30, 2020 as compared to $654.8 million for the three months ended June 30, 2019. The decrease was due to the following:

- Within the LoyaltyOne segment, cost of operations decreased $94.8 million, including a $54.0 million decline in cost of redemptions due to the decline in redemption revenue discussed above and the sale of Precima in January 2020, which resulted in a $19.2 million decrease in cost of operations as compared to the prior year quarter. Additionally, cost of operations decreased due to cost saving initiatives executed in 2019, including a decline in payroll and benefits costs of $7.6 million.

- Within the Card Services segment, cost of operations decreased $67.2 million, including a $38.0 million decrease in valuation adjustments to certain portfolios within credit card receivables held for sale, a $30.8 million decrease in marketing expense due to the decline in credit sales, a $12.6 million decrease in payroll and benefits costs due to cost saving initiatives executed in the fourth quarter of 2019 and various other declines in credit card processing costs driven by reductions in volume. These decreases were offset in part by $34.2 million in asset impairment charges recorded in the current year quarter related to deferred contract costs and certain right of use assets.

Provision for loan loss. Provision for loan loss decreased $7.2 million, or 3%, to $250.1 million for the three months ended June 30, 2020 as compared to $257.3 million for the three months ended June 30, 2019, due to the decline in credit card and loan receivables, offset in part by the increase in reserve rate and higher net charge-offs.

General and administrative. General and administrative expenses decreased $36.9 million, or 64%, to $20.4 million for the three months ended June 30, 2020 as compared to $57.3 million for the three months ended June 30, 2019 due to cost saving initiatives implemented in the first half of 2019, which among other items included reduced headcount, office space, charitable contributions and overall corporate overhead costs. In addition, the three months ended June 30, 2019 was impacted by $22.4 million in restructuring charges incurred related to our Corporate reorganization.

Depreciation and other amortization. Depreciation and other amortization increased $1.0 million, or 5%, to $20.3 million for the three months ended June 30, 2020 as compared to $19.3 million for the three months ended June 30, 2019, primarily due to additional assets placed into service from recent capital expenditures, offset in part by certain fully depreciated property and equipment at LoyaltyOne.

Amortization of purchased intangibles. Amortization of purchased intangibles decreased $1.5 million, or 7%, to $21.0 million for the three months ended June 30, 2020, as compared to $22.5 million for the three months ended June 30, 2019, primarily due to certain fully amortized intangible assets, including portfolio premiums.

Interest expense, net. Total interest expense, net decreased $15.8 million, or 11%, to $127.7 million for the three months ended June 30, 2020 as compared to $143.5 million for the three months ended June 30, 2019. The net decrease was due to the following:

- *Securitization funding costs*. Securitization funding costs decreased $8.9 million due to lower average borrowings, which decreased funding costs by approximately $9.4 million, offset in part by higher average interest rates, which increased funding costs by approximately $0.5 million.

- *Interest expense on deposits*. Interest expense on deposits increased $5.7 million due to higher average interest rates, which increased interest expense by approximately $6.8 million, offset in part by lower average borrowings, which decreased interest expense by approximately $1.1 million.

- *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net decreased $12.6 million primarily due to a $22.2 million decrease in interest expense on term debt and revolving line of credit due to lower average borrowings, offset in part by a $10.1 million increase in interest expense due to the issuance of senior notes in December 2019.

Taxes. Income tax expense related to continuing operations decreased $42.8 million to $8.6 million for the three months ended June 30, 2020 from $51.4 million for the three months ended June 30, 2019, primarily related to a $146.8 million reduction in earnings before taxes. The effective tax rate for the three months ended June 30, 2020 was 18.3% as compared to 26.6% for the prior year quarter, primarily resulting from a discrete tax benefit recorded in the current quarter from a reduction in tax reserves following the expiration of a statute of limitations.

Loss from discontinued operations, net of taxes. Loss from discontinued operations, net of taxes was $3.4 million for the three months ended June 30, 2019, which represents results of operations for our former Epsilon segment, direct costs identifiable to the Epsilon segment and the allocation of interest expense on corporate debt.

Six months ended June 30, 2020 compared to the six months ended June 30, 2019

Revenue. Total revenue decreased $321.6 million, or 12%, to $2,361.1 million for the six months ended June 30, 2020 from $2,682.7 million for the six months ended June 30 2019. The decrease was due to the following:

- *Services*. Revenue decreased $55.2 million, or 40%, to $84.5 million for the six months ended June 30, 2020 primarily due to the sale of Precima in January 2020, which resulted in a $33.6 million decrease in revenue as compared to the prior year period, as well as a $3.8 million decline in coalition program servicing and brand revenue due to a decrease in AIR MILES reward miles issued. Additionally, servicing fees generated from servicing certain third-party credit card receivables decreased $6.8 million, servicing fees charged to cardholders decreased $3.7 million and other servicing revenue decreased $5.4 million.

- *Redemption, net*. Revenue decreased $59.9 million, or 23%, to $205.6 million for the six months ended June 30, 2020 as redemption revenue from our short-term loyalty programs decreased $60.1 million due to a decline in programs in market across most regions due to the impact of COVID-19. In response to COVID-19, certain of our customers have delayed their short-term loyalty programs, which may continue to negatively impact our redemption revenue in the second half of 2020.

- *Finance charges, net*. Revenue decreased $206.5 million, or 9%, to $2,071.0 million for the six months ended June 30, 2020. The decrease was driven by a 6% decrease in normalized average receivables, which includes receivables held for sale, which decreased revenue by $143.8 million, and an approximate 70 basis point decrease in finance charge yield, which decreased revenue by $62.7 million. The decrease in normalized average receivables was due to lower sales volumes due to COVID-19, as credit sales decreased 21% as compared to the prior year. The decrease in finance charge yield was due primarily to forbearance programs offered, including waivers of late fees, in response to COVID-19, as well as interest rate cuts by the Federal Reserve.

Cost of operations. Cost of operations decreased $303.2 million, or 23%, to $992.1 million for the six months ended June 30, 2020 as compared to $1,295.3 million for the six months ended June 30, 2019. The decrease was due to the following:

- Within the LoyaltyOne segment, cost of operations decreased $120.8 million, including a $52.4 million decrease in cost of redemptions due to the decline in redemption revenue discussed above, and the sale of Precima in January 2020, which resulted in a $43.0 million decrease in cost of operations as compared to the prior year period. Additionally, cost of operations decreased due to cost saving initiatives executed in 2019, including a decline in payroll and benefits costs of $9.4 million.

- Within the Card Services segment, cost of operations decreased $182.4 million, including a $93.7 million decrease in valuation adjustments to certain portfolios within credit card receivables held for sale, a $49.0

million decrease in marketing expense due to the decline in volumes, a $45.6 million decrease in payroll and benefits costs due to cost saving initiatives executed in the fourth quarter of 2019 and a $20.4 million gain recognized on the sale of a credit card portfolio in February 2020. These decreases were offset in part by $34.2 million in asset impairment charges recorded in the second quarter of 2020, related to deferred contract costs and certain right of use assets.

Provision for loan loss. Provision for loan loss increased $396.5 million, or 78%, to $906.0 million for the six months ended June 30, 2020 as compared to $509.5 million for the six months ended June 30, 2019, due to a higher allowance for loan loss related to estimated lifetime losses under the CECL model due to the projected impacts of COVID-19. The CECL model is influenced by the prevailing economic conditions and forecast utilized, which can create volatility in our provision for loan loss.

General and administrative. General and administrative expenses decreased $51.2 million, or 54%, to $44.3 million for the six months ended June 30, 2020 as compared to $95.5 million for the six months ended June 30, 2019, driven by cost saving initiatives implemented in the first half of 2019, which among other items included reduced headcount, office space, charitable contributions and overall corporate overhead costs. In addition, the six months ended June 30, 2019 was impacted by $22.4 million in restructuring charges incurred related to our Corporate reorganization.

Depreciation and other amortization. Depreciation and other amortization decreased $2.2 million, or 5%, to $37.7 million for the six months ended June 30, 2020 as compared to $39.9 million for the six months ended June 30, 2019, primarily due to certain fully depreciated property and equipment at LoyaltyOne, offset in part by additional assets placed into service from recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles decreased $5.9 million, or 12%, to $42.4 million for the six months ended June 30, 2020, as compared to $48.3 million for the six months ended June 30, 2019, primarily due to certain fully amortized intangible assets, including portfolio premiums.

Interest expense, net. Total interest expense, net decreased $21.2 million, or 7%, to $266.2 million for the six months ended June 30, 2020 as compared to $287.4 million for the six months ended June 30, 2019. The net decrease was due to the following:

- *Securitization funding costs*. Securitization funding costs decreased $16.2 million due to lower average borrowings, which decreased funding costs by approximately $17.7 million, offset in part by higher average interest rates, which increased funding costs by approximately $1.5 million.

- *Interest expense on deposits*. Interest expense on deposits increased $17.2 million due to higher average interest rates, which increased interest expense by approximately $17.8 million, offset in part by lower average borrowings, which decreased interest expense by approximately $0.6 million.

- *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net decreased $22.2 million primarily due to a $40.7 million decrease in interest expense on term debt and revolving line of credit due to lower average borrowings, offset in part by a $20.2 million increase in interest expense due to the issuance of senior notes in December 2019.

Taxes. Income tax expense related to continuing operations decreased $82.1 million to $4.0 million for the six months ended June 30, 2020 from $86.1 million for the six months ended June 30, 2019, primarily related to a $334.4 million reduction in earnings before taxes. The effective tax rate for the six months ended June 30, 2020 was 5.5% as compared to 21.2% for the prior year period primarily due to discrete tax benefits resulting from a reduction of tax reserves related to the statute of limitations expiration in the current quarter as well as a favorable settlement with a state tax authority in the first quarter of 2020.

Loss from discontinued operations, net of taxes. Loss from discontinued operations, net of taxes was $32.6 million for the six months ended June 30, 2019, which represents results of operations for our former Epsilon segment, direct costs identifiable to the Epsilon segment and the allocation of interest expense on corporate debt.

Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure equal to income from continuing operations, the most directly comparable financial measure based on accounting principles generally accepted in the United States of America, or

GAAP, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization, and the amortization of purchased intangibles. Adjusted EBITDA excludes the gain on the sale of Precima, strategic transaction costs, which represent costs for professional services associated with strategic initiatives, asset impairments, and restructuring and other charges.

Adjusted EBITDA, net is also a non-GAAP financial measure equal to adjusted EBITDA less securitization funding costs and interest expense on deposits.

We use adjusted EBITDA and adjusted EBITDA, net 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, and we believe it provides useful information to our investors regarding our performance and overall results of operations. Adjusted EBITDA and adjusted EBITDA, net are each considered an important indicator of the operational strength of our businesses. Adjusted EBITDA eliminates the uneven effect across all business segments of considerable amounts of non-cash depreciation of tangible assets and amortization of intangible assets, including certain intangible assets that were recognized in business combinations. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Management evaluates the costs of such tangible and intangible assets, such as capital expenditures, investment spending and return on capital and therefore the effects are excluded from adjusted EBITDA. Adjusted EBITDA also eliminates the non-cash effect of stock compensation expense.

Adjusted EBITDA and adjusted EBITDA, net are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, either operating income, income from continuing operations or net income as indicators of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, adjusted EBITDA and adjusted EBITDA, net are not intended to represent funds available for dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The adjusted EBITDA and adjusted EBITDA, net measures presented in this Quarterly Report on Form 10-Q 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Income from continuing operations	$ 38.4	$ 142.4	$ 68.4	$ 320.7
Stock compensation expense	6.2	10.2	11.0	21.6
Provision for income taxes	8.6	51.4	4.0	86.1
Interest expense, net	127.7	143.5	266.2	287.4
Depreciation and other amortization	20.3	19.3	37.7	39.9
Amortization of purchased intangibles	21.0	22.5	42.4	48.3
Gain on sale of business, net of strategic transaction costs (1)	—	—	(8.0)	—
Strategic transaction costs (2)	2.6	2.7	3.3	2.7
Asset impairments (3)	34.2	—	34.2	—
Restructuring and other charges (4)	(1.2)	22.4	(7.7)	30.3
Adjusted EBITDA	257.8	414.4	451.5	837.0
Less: Securitization funding costs	42.7	51.6	92.6	108.8
Less: Interest expense on deposits	58.9	53.2	119.2	102.0
Adjusted EBITDA, net	$ 156.2	$ 309.6	$ 239.7	$ 626.2

(1) Represents gain on sale of Precima in January 2020, net of strategic transaction costs. Precima was included in the Company's LoyaltyOne segment. See Note 4, "Disposition," of the Notes to Unaudited Condensed Consolidated Financial Statements for more information.

(2) Represents costs for professional services associated with strategic initiatives.

(3) Represents asset impairment charges recorded in the second quarter of 2020, related to deferred contract costs and certain right of use assets. See Note 2, "Revenue," and Note 10, "Leases," of the Notes to Unaudited Condensed Consolidated Financial Statements for more information.

(4) Represents costs associated with restructuring or other exit activities. See Note 12, "Restructuring and Other Charges," of the Notes to Unaudited Condensed Consolidated Financial Statements for more information.

Segment Revenue and Adjusted EBITDA, net

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
	(in millions, except percentages)					
Revenue:						
LoyaltyOne	$ 151.1	$ 251.5	(40)%	$ 349.2	$ 455.3	(23)%
Card Services	828.2	1,096.9	(24)	2,011.9	2,227.3	(10)
Corporate/Other	—	0.1	nm *	—	0.1	nm *
Total	$ 979.3	$ 1,348.5	(27)%	$ 2,361.1	$ 2,682.7	(12)%
Adjusted EBITDA, net:						
LoyaltyOne	$ 43.9	$ 51.0	(14)%	$ 101.7	$ 106.1	(4)%
Card Services	127.1	287.2	(56)	174.2	582.1	(70)
Corporate/Other	(14.8)	(28.6)	(48)	(36.2)	(62.0)	(42)
Total	$ 156.2	$ 309.6	(50)%	$ 239.7	$ 626.2	(62)%

* not meaningful

Three months ended June 30, 2020 compared to the three months ended June 30, 2019

Revenue. Total revenue decreased $369.2 million, or 27%, to $979.3 million for the three months ended June 30, 2020 from $1,348.5 million for the three months ended June 30, 2019. The decrease was due to the following:

- *LoyaltyOne*. Revenue decreased $100.4 million, or 40%, to $151.1 million for the three months ended June 30, 2020 as revenue from our short-term loyalty programs decreased $71.5 million due to a decline in programs in market across most regions due to the impact of COVID-19. In response to COVID-19, certain of our customers have delayed their short-term loyalty programs, which may continue to negatively impact our redemption revenue in the second half of 2020. Additionally, the sale of Precima in January 2020 resulted in a $19.0 million decrease in revenue as compared to the prior year quarter, and the 26% decline in AIR MILES reward miles issued negatively impacted coalition program servicing and brand revenue by $4.6 million.

- *Card Services*. Revenue decreased $268.7 million, or 24%, to $828.2 million for the three months ended June 30, 2020, driven by a $271.7 million decrease in finance charges, net due to a decrease in yield attributable to forbearance programs offered in response to COVID-19 and a decline in receivables due to lower volumes resulting from store closures due to COVID-19.

Adjusted EBITDA, net. Adjusted EBITDA, net decreased $153.4 million, or 50%, to $156.2 million for the three months ended June 30, 2020 from $309.6 million for the three months ended June 30, 2019. The net decrease was due to the following:

- *LoyaltyOne*. Adjusted EBITDA, net decreased $7.1 million, or 14%, to $43.9 million for the three months ended June 30, 2020, due to lost margin on the revenue declines discussed above, offset in part from improved cost management and expense reductions, including cost saving initiatives executed in 2019.

- *Card Services*. Adjusted EBITDA, net decreased $160.1 million, or 56%, to $127.1 million for the three months ended June 30, 2020 due to the decrease in revenue as discussed above, a decrease in cost of operations due to reduced volumes, a $38.0 million decline in valuation adjustments to certain portfolios held for sale in 2019, a $7.2 million decline in the provision for loan loss and cost saving initiatives. For the three months ended June 30, 2020, asset impairments of $34.2 million were excluded from adjusted EBITDA, net.

- *Corporate/Other*. Adjusted EBITDA, net improved $13.8 million to a loss of $14.8 million for the three months ended June 30, 2020 due to cost saving initiatives implemented in 2019, which among other items included reduced headcount, office space, charitable contributions and overall corporate overhead costs. For the three months ended June 30, 2019, restructuring and other charges of $22.4 million were excluded from adjusted EBITDA, net.

Six months ended June 30, 2020 compared to the six months ended June 30, 2019

Revenue. Total revenue decreased $321.6 million, or 12%, to $2,361.1 million for the six months ended June 30, 2020 from $2,682.7 million for the six months ended June 30, 2019. The decrease was due to the following:

- *LoyaltyOne*. Revenue decreased $106.1 million, or 23%, to $349.2 million for the six months ended June 30, 2020 as revenue from our short-term loyalty programs decreased $62.7 million due to a decline in programs in market across most regions due to the impact of COVID-19. Additionally, the sale of Precima in January 2020 resulted in a $33.6 million decrease in revenue as compared to the prior year.

- *Card Services*. Revenue decreased $215.4 million, or 10%, to $2.0 billion for the six months ended June 30, 2020, driven by a $206.5 million decrease in finance charges, net due to a decline in receivables due to lower volumes resulting from COVID-19 store closures and a decrease in yield due to forbearance programs offered in response to COVID-19.

Adjusted EBITDA, net. Adjusted EBITDA, net decreased $386.5 million, or 62%, to $239.7 million for the six months ended June 30, 2020 from $626.2 million for the six months ended June 30, 2019. The net decrease was due to the following:

- *LoyaltyOne*. Adjusted EBITDA, net decreased $4.4 million, or 4%, to $101.7 million for the six months ended June 30, 2020, due to lost margin on the revenue declines discussed above, offset in part from improved cost management and expense reductions, including cost saving initiatives executed in 2019. For the six months ended June 30, 2020, the $8.0 million gain on the sale of Precima, net of transaction costs was excluded from adjusted EBITDA, net. For the six months ended June 30, 2019, BrandLoyalty restructuring costs of $7.9 million were excluded from adjusted EBITDA, net.

- *Card Services*. Adjusted EBITDA, net decreased $407.9 million, or 70%, to $174.2 million for the six months ended June 30, 2020 primarily due to the decrease in revenue as discussed above and a $396.5 million increase in provision for loan loss due to the weaker macroeconomic environment and the impact of COVID-19, as well as the implementation of the CECL model. These decreases were offset in part by a $93.7 million decrease in valuation adjustments to certain portfolios within credit card receivables held for sale and reductions in cost of operations due to cost saving initiatives executed in the fourth quarter of 2019. For the six months ended June 30, 2020, asset impairments of $34.2 million were excluded from adjusted EBITDA, net.

- *Corporate/Other*. Adjusted EBITDA, net improved $25.8 million to a loss of $36.2 million for the six months ended June 30, 2020 due to cost saving initiatives implemented in 2019, which among other items included reduced headcount, office space, charitable contributions and overall corporate overhead costs. For the six months ended June 30, 2019, restructuring and other charges of $22.4 million were excluded from adjusted EBITDA, net.

Asset Quality

Our delinquency and net charge-off rates reflect, among other factors, the credit risk of our credit card and loan receivables, the success of our collection and recovery efforts, and general economic conditions.

Delinquencies. A credit card account is contractually delinquent if we do not receive the minimum payment by the specified due date on the cardholder’s statement. Our policy is to continue to accrue interest and fee income on all credit card accounts, except in limited circumstances, until the credit card account balance and all related interest and other fees are paid or charged-off, typically at 180 days delinquent. When an account becomes delinquent, a message is printed on the credit cardholder’s billing statement requesting payment. After an account becomes 30 days past due, a proprietary collection scoring algorithm automatically scores the risk of the account becoming further delinquent. The collection system then recommends a collection strategy for the past due account based on the collection score and account balance and dictates the contact schedule and collections priority for the account. If we are unable to make a collection after exhausting all in-house collection efforts, we may engage collection agencies and outside attorneys to continue those efforts.

The following table presents the delinquency trends of our credit card and loan receivables portfolio based on the principal balances of our credit card and loan receivables:

	June 30, 2020	% of Total	December 31, 2019	% of Total
	(in millions, except percentages)			
Receivables outstanding - principal	$ 14,975.4	100.0 %	$ 18,413.1	100.0 %
Principal receivables balances contractually delinquent:				
31 to 60 days	$ 194.0	1.3 %	$ 337.4	1.8 %
61 to 90 days	117.1	0.8	233.6	1.3
91 or more days	339.5	2.2	496.5	2.7
Total	$ 650.6	4.3 %	$ 1,067.5	5.8 %

In response to the COVID-19 pandemic, we have offered forbearance programs to affected cardholders, which provide for short-term modifications in the form of payment deferrals and late fee waivers to borrowers who were current as of their most recent billing cycle prior to the announcement of the forbearance programs. Those accounts receiving forbearance relief may not advance to the next delinquency cycle, including eventually to charge-off, in the same timeframe that would have occurred had the forbearance relief not been granted.

Net Charge-Offs. Our net charge-offs include the principal amount of losses from cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased credit cardholders, less recoveries and exclude charged-off interest, fees and fraud losses. Charged-off interest and fees reduce finance charges, net while fraud losses are recorded as an expense. Credit card and loan receivables, including unpaid interest and fees, are charged-off in the month during which an account becomes 180 days contractually past due, except in the case of customer bankruptcies or death. Credit card and loan receivables, including unpaid interest and fees, associated with customer bankruptcies or death are charged-off in each month subsequent to 60 days after the receipt of notification of the bankruptcy or death, but in any case, not later than the 180-day contractual time frame.

The net charge-off rate is calculated by dividing net charge-offs of principal receivables for the period by the average credit card and loan receivables for the period. Average credit card and loan receivables represent the average balance of the cardholder receivables at the beginning of each month in the periods indicated. The following table presents our net charge-offs for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions, except percentages)			
Average credit card and loan receivables	$ 16,116.3	$ 16,797.5	$ 17,205.4	$ 16,823.9
Net charge-offs of principal receivables	304.6	257.5	624.8	526.9
Net charge-offs as a percentage of average credit card and loan receivables	7.6 %	6.1 %	7.3 %	6.3 %

See Note 6, “Credit Card and Loan Receivables,” of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information related to the securitization of our credit card receivables.

Liquidity and Capital Resources

Cash Flow Activity

Operating Activities. We generated cash flow from operating activities of $1,067.5 million and $1,089.7 million for the six months ended June 30, 2020 and 2019, respectively. The year-over-year decrease in operating cash flows of $22.2 million was due to lower profitability.

Investing Activities. Cash provided by investing activities was $3,340.0 million for the six months ended June 30, 2020, and cash used in investing activities was $514.3 million for the six months ended June 30, 2019. Significant components of investing activities are as follows:

- *Credit card and loan receivables.* Cash increased $3,053.4 million for the six months ended June 30, 2020 due to a decrease in credit card and loan receivables in 2020 resulting from COVID-19 store closures. Cash decreased $20.9 million for the six months ended June 30, 2019 due to growth in credit card and loan receivables.

- *Proceeds from sale of business.* During the six months ended June 30, 2020, we received cash consideration of $25.4 million from the sale of Precima.
- *Proceeds from sale of credit card portfolios.* During the six months ended June 30, 2020, we received cash consideration of $289.5 million from the sale of a credit card portfolio. During the six months ended June 30, 2019, we received cash consideration of $539.3 million from the sale of four credit card portfolios.
- *Purchase of credit card portfolios.* During the six months ended June 30, 2019, we paid cash consideration of $936.5 million to acquire four credit card portfolios.
- *Capital expenditures.* Cash paid for capital expenditures was $26.1 million and $92.2 million for the six months ended June 30, 2020 and 2019, respectively. Capital expenditures for the six months ended June 30, 2019 included $55.8 million related to our divested Epsilon segment, which was presented as a discontinued operation in the prior year period.

Financing Activities. Cash used in financing activities was $2,911.6 million and $396.6 million for the six months ended June 30, 2020 and 2019, respectively. Significant components of financing activities are as follows:

- *Debt.* Cash increased $349.3 million and $102.5 million for the six months ended June 30, 2020 and 2019, respectively, due to net borrowings under the revolving line of credit.
- *Non-recourse borrowings of consolidated securitization entities.* Cash decreased $2,280.0 million and $923.9 million for the six months ended June 30, 2020 and 2019, respectively, due to net repayments and maturities under the asset-backed term notes and conduit facilities as well as declines in credit card and loan receivables for the six months ended June 30, 2020.
- *Deposits.* Cash decreased $936.4 million and increased $742.8 million for the six months ended June 30, 2020 and 2019, respectively, due to timing of maturities and issuances.
- *Dividends.* Cash paid for quarterly dividends and dividend equivalents was $40.4 million and $67.0 million for the six months ended June 30, 2020 and 2019, respectively.
- *Treasury shares.* Cash paid for treasury shares was $222.8 million for the six months ended June 30, 2019. We did not repurchase any shares of our outstanding common stock for the six months ended June 30, 2020.

Liquidity

Our primary sources of liquidity include cash generated from operating activities, our credit agreements and issuances of debt or equity securities, our credit card securitization program and deposits issued by Comenity Bank and Comenity Capital Bank. In addition to our efforts to renew and expand our current liquidity sources, we continue to seek new funding sources. We introduced a consumer retail deposit platform in 2019, and retail deposits comprised approximately $1.8 billion of our $11.2 billion deposits outstanding at June 30, 2020.

Our primary uses of cash are for ongoing business operations, repayments of our debt, capital expenditures, investments or acquisitions, stock repurchases and dividends.

We believe that internally generated funds and other sources of liquidity discussed below will be sufficient to meet working capital needs, capital expenditures, and other business requirements for at least the next 12 months. However, continued volatility in the financial and capital markets due to COVID-19 may limit our access to or increase our cost of capital or make capital unavailable on terms acceptable to us or at all.

Debt

Long-term and Other Debt

In April 2020, BrandLoyalty terminated its existing facility and entered into a new credit agreement to provide for a committed revolving line of credit of €30.0 million ($33.7 million as of June 30, 2020), an uncommitted revolving line of credit of €30.0 million ($33.7 million as of June 30, 2020), and an accordion feature permitting BrandLoyalty to request an increase in either the committed or uncommitted revolving line of credit up to €80.0 million ($89.9 million as of June 30, 2020) in aggregate. The revolving lines of credit mature in April 2023, subject to BrandLoyalty's request to extend for two additional one-year terms at the discretion of the lenders. As of June 30, 2020, we had no amounts outstanding under our BrandLoyalty Credit Agreement.

As of June 30, 2020, we had $400.0 million outstanding under our revolving line of credit and total availability of $350.0 million. Our total leverage ratio, as defined in our credit agreement, was less than 2.0 to 1 at June 30, 2020, as compared to the maximum covenant ratio of 3.5 to 1.

As of June 30, 2020, we were in compliance with our debt covenants.

Funding Sources

Deposits

We utilize certificates of deposit and money market deposits to finance the operating activities, including funding for our non-securitized credit card receivables, and fund securitization enhancement requirements of our bank subsidiaries, Comenity Bank and Comenity Capital Bank.

As of June 30, 2020, we had $7.2 billion in certificates of deposit outstanding with interest rates ranging from 1.00% to 4.00% and maturities ranging from July 2020 to June 2025. Certificate of deposit borrowings are subject to regulatory capital requirements.

As of June 30, 2020, we had $4.0 billion in money market deposits outstanding with interest rates ranging from 0.34% to 3.50%. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

Securitization Program

We sell a majority of the credit card receivables originated by Comenity Bank to WFN Credit Company, LLC, which in turn sells them to World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust, or Master Trust I, and World Financial Network Credit Card Master Trust III, or Master Trust III, or collectively, the WFN Trusts, as part of our credit card securitization program, which has been in existence since January 1996. We also sell our credit card receivables originated by Comenity Capital Bank to World Financial Capital Credit Company, LLC, which in turn sells them to World Financial Capital Master Note Trust, or the WFC Trust. These securitization programs are a principal vehicle through which we finance Comenity Bank's and Comenity Capital Bank's credit card receivables.

As of June 30, 2020, the WFN Trusts and the WFC Trust had approximately $10.7 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits, additional receivables and subordinated classes. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and the WFC Trust and by the performance of the credit card receivables in these credit card securitization trusts.

In April 2020, Master Trust I amended its 2009-VFN conduit facility, decreasing the capacity from $1.18 billion to $1.0 billion and extending the maturity to July 2021. In April 2020, Master Trust III amended its 2009-VFC conduit facility, decreasing the capacity from $1.3 billion to $1.0 billion and extending the maturity to July 2021.

At June 30, 2020, we had $5.0 billion of non-recourse borrowings of consolidated securitization entities, of which $2.6 billion is due within the next 12 months. As of June 30, 2020, total capacity under the conduit facilities was $4.2 billion, of which $525.0 million had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the unaudited condensed consolidated balance sheets.

The following table shows the maturities of borrowing commitments as of June 30, 2020 for the WFN Trusts and the WFC Trust by year:

	2020	2021	2022	2023	Thereafter	Total
			(in millions)			
Term notes	$ 1,067.2	$ 1,852.1	$ 1,571.7	$ —	$ —	$ 4,491.0
Conduit facilities [1]	—	4,175.0	—	—	—	4,175.0
Total [2]	$ 1,067.2	$ 6,027.1	$ 1,571.7	$ —	$ —	$ 8,666.0

(1) Amount represents borrowing capacity, not outstanding borrowings.

(2) Total amounts do not include $712.2 million of debt issued by the credit card securitization trusts that was retained by us and eliminated in the unaudited condensed consolidated financial statements.

See Note 13, “Debt,” of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding our debt.

Regulatory Matters

Quantitative measures established by regulations to ensure capital adequacy require Comenity Bank and Comenity Capital Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Tier 1 and total capital to risk weighted assets and of Tier 1 capital to average assets. Comenity Bank and Comenity Capital Bank are considered well capitalized. The actual capital ratios and minimum ratios as of June 30, 2020 are as follows:

	Actual Ratio	Minimum Ratio for Capital Adequacy Purposes	Minimum Ratio to be Well Capitalized under Prompt Corrective Action Provisions
Comenity Bank			
Tier 1 capital to average assets	15.6 %	4.0 %	5.0 %
Common Equity Tier 1 capital to risk-weighted assets	19.8	4.5	6.5
Tier 1 capital to risk-weighted assets	19.8	6.0	8.0
Total capital to risk-weighted assets	21.1	8.0	10.0
Comenity Capital Bank			
Tier 1 capital to average assets	12.4 %	4.0 %	5.0 %
Common Equity Tier 1 capital to risk-weighted assets	16.4	4.5	6.5
Tier 1 capital to risk-weighted assets	16.4	6.0	8.0
Total capital to risk-weighted assets	17.7	8.0	10.0

Comenity Bank and Comenity Capital Bank have adopted the option provided by the interim final rule issued by joint federal bank regulatory agencies, which largely delays the effects of CECL on its regulatory capital for the next two years, after which the effects will be phased-in over a three-year period from January 1, 2022 through December 31, 2024. Under the interim final rule, the amount of adjustments to regulatory capital deferred until the phase-in period includes both the initial impact of our adoption of CECL at January 1, 2020 and 25% of subsequent changes in our allowance for credit losses during each quarter of the two-year period ended December 31, 2021.

Stock Repurchase Programs

We had an authorized stock repurchase program to acquire up to $1.1 billion of our outstanding common stock from July 5, 2019 through June 30, 2020. At December 31, 2019 we had $347.8 million remaining under the stock repurchase program. On April 23, 2020, we announced the suspension of our stock repurchase program.

For the six months ended June 30, 2020, we did not repurchase any shares of our outstanding common stock, and $347.8 million of this program expired unused at June 30, 2020.

Dividends

On January 30, 2020, our Board of Directors declared a quarterly cash dividend of $0.63 per share on our common stock to stockholders of record at the close of business on February 14, 2020, resulting in a dividend payment of $30.0 million on March 19, 2020.

On April 23, 2020, our Board of Directors declared a quarterly cash dividend of $0.21 per share on our common stock to stockholders of record at the close of business on May 14, 2020, resulting in a dividend payment of $10.0 million on June 18, 2020.

Additionally, we paid $0.4 million in cash related to dividend equivalent rights for the six months ended June 30, 2020.

On July 23, 2020, our Board of Directors declared a quarterly cash dividend of $0.21 per share on our common stock to stockholders of record at the close of business on August 14, 2020 and payable on September 18, 2020.

Critical Accounting Policies and Estimates

With the exception of the adoption of ASC 326, there have been no significant 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 filed on Form 10-K for the fiscal year ended December 31, 2019. See “Recently Adopted Accounting Standards” under Note 1, “Summary of Significant Accounting Policies,” of the Notes to Unaudited Condensed Consolidated Financial Statements for information regarding the adoption of ASC 326 on January 1, 2020.

Recently Issued Pronouncements

See “Recently Issued Accounting Standards” under Note 1, “Summary of Significant Accounting Policies,” of the Notes to Unaudited Condensed Consolidated Financial Statements for a discussion of certain accounting standards recently issued.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our primary market risks include interest rate risk, credit risk, and foreign currency exchange rate risk.

Except for the broad, continuing negative impacts of the COVID-19 pandemic on the global economy and major financial markets and the risk factors described in Part II Item 1A included in this report, there has been no other material change from our Annual Report on Form 10-K for the year ended December 31, 2019 or our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 related to our exposure to market risk from interest rate risk, credit risk, and foreign currency exchange rate risk.

Item 4. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of June 30, 2020, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2020 (the end of our second fiscal quarter), our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our second quarter 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

From time to time we are involved in various claims and lawsuits arising in the ordinary course of our business that we believe will not have a material adverse effect on our business or financial condition, including claims and lawsuits alleging breaches of our contractual obligations. See *Indemnification* in Note 15, “Commitments and Contingencies,” of the Notes to Unaudited Condensed Consolidated Financial Statements.

Item 1A. Risk Factors.

Other than as set forth below, there have been no material changes to the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019 or our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

Impacts related to the COVID-19 pandemic are expected to continue to pose risks to our business for the foreseeable future, heighten many of our known risks and may have a material adverse impact on our results of operations, financial condition and liquidity.

On March 11, 2020, the WHO declared the current coronavirus, or COVID-19, outbreak to be a global pandemic. Both prior to and in response to this declaration and the rapid spread of COVID-19 around the world and within the United States, international, federal, state and local government or other authorities have instituted certain preventative measures, including border closures, travel bans, prohibitions on group events and gatherings, shutdowns or other operational restrictions on certain businesses, curfews, shelter-in-place orders, quarantines and recommendations to practice social distancing. Certain jurisdictions have begun reopening only to return to more stringent restrictions where increases in COVID-19 cases occur. These restrictions have continued to disrupt economic activity worldwide, resulting in volatility in the global capital markets, instability in the credit and financial markets, reduced commercial and consumer confidence and spending, widespread furloughs and layoffs, closure or restricted operating conditions for retail stores, labor shortages, regulatory recommendations to provide relief for impacted consumer borrowers and depositors, disruption in supply chains (including availability of raw materials, ability to manufacture goods and delivery of finished products to suppliers and retailers), and near complete cessation of many hospitality and travel industry operations. Even as governmental restrictions are lifted and economies gradually reopen, the ongoing economic impacts and health concerns associated with the pandemic may continue to affect consumer behavior, spending levels and retail preferences.

Specific impacts on our operations and financial results include, but are not limited to, the following:

- Short and long-term difficulties of our retail partners in consumer-based businesses due to restricted foot traffic, any inability to convert in-store sales to e-commerce, trouble maintaining supply chain integrity for both availability of desired products and delivery to end consumers, and reduced consumer confidence and spending may result in increased bankruptcy risk for our retail partners, decreased retail credit sales and decreases in our credit card and loan receivables balances.
- Decreased retail credit sales reduces the usage of our private label and co-brand credit cards, which reduces our revenue from finance charges and other servicing fees.
- Rising unemployment, the potential for rising consumer bankruptcies and the expectation that we will offer, for a temporary period of time, forbearance programs for impacted cardholders both reduces or delays our revenue

from finance charges and other servicing fees and increases our exposure to rising delinquencies, net charge-offs in credit card and loan receivables and increases to our allowance for loan loss.

- Deferral of short-term programs or the inability to source or deliver rewards for these programs across borders may reduce or defer revenue or increase our costs of operations.
- Reduced demand for hospitality, airline and other travel-related rewards within our AIR MILES Reward Program due to the multiple COVID-19 restrictions noted negatively impacts redemption revenue as collectors both changed existing reward travel and are unable to schedule future reward travel with any certainty as to the duration of restrictions.
- Volatility in the financial markets may increase our cost of capital and/or limit its availability, and prolonged periods of increased financial stress enhance the potential for a rating downgrade on our asset-backed debt, the occurrence of early amortization events as well as non-compliance with financial covenants or other events of default across our significant asset-backed and other indebtedness.
- Increased operational risk, including impacts to our data and call center network integrity and availability in addition to heightened cybercriminal activity and other payment fraud risk in this environment of e-commerce and online banking reliance, may affect our ability to timely and effectively meet the needs of both our clients and cardholders across our lines of business.
- Increased risks to the health and safety of our associates and that of our third-party vendors may impact our ability to maintain service levels for our partners.

To the extent the COVID-19 pandemic adversely affects our business, results of operations, financial condition and liquidity, many of the other risks described in the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 may also be heightened. The complete impact of COVID-19 on our business, results of operations, financial condition and liquidity remains dependent on future developments, including the duration, or any continued recurrence, of the pandemic and the related length and severity of its impact on the global economy, which cannot be predicted at this time.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table presents information with respect to purchases of our common stock made during the three months ended June 30, 2020:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
				(Dollars in millions)
During 2020:				
April 1-30	20,665	$ 39.51	—	$ 347.8
May 1-31	14,025	43.82	—	347.8
June 1-30	12,533	51.57	—	—
Total	47,223	$ 43.99	—	$ —

(1) During the period represented by the table, 47,223 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Savings Plan for the benefit of the employees who participated in that portion of the plan.

(2) In 2019, our Board of Directors authorized a new stock repurchase program to acquire up to $1.1 billion of our outstanding common stock from July 5, 2019 through June 30, 2020. Our authorization is subject to any restrictions pursuant to the terms of our credit agreements and applicable securities laws or otherwise. On April 23, 2020, we announced the suspension of our stock repurchase program. On June 30, 2020, $347.8 million of this program expired unused.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

(a) None
(b) None

Item 6. Exhibits.

(a) *Exhibits:*

EXHIBIT INDEX

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
3.1	(a)	Third Amended and Restated Certificate of Incorporation of the Registrant.	8-K	3.2	6/10/16
3.2	(a)	Certificate of Designations of Series A Preferred Non-Voting Convertible Preferred Stock of the Registrant.	8-K	3.1	4/29/19
3.3	(a)	Fifth Amended and Restated Bylaws of the Registrant.	8-K	3.1	2/1/16
4	(a)	Specimen Certificate for shares of Common Stock of the Registrant.	10-Q	4	8/8/03
#10.1	(a)	Secured Facilities Agreement, dated as of April 3, 2020, by and among Brand Loyalty Group B.V. and certain subsidiaries parties thereto, as borrowers and guarantors, Deutsche Bank AG, Amsterdam Branch (as Arranger) and Coöperatieve Rabobank U.A. (as Arranger, Agent and Security Agent).	8-K	10.1	4/8/20
10.2	(b) (c) (d)	First Addendum to Appendix A of Third Amended and Restated Service Agreement, as Amended, dated as of April 28, 2020, by and between Comenity Servicing LLC and Comenity Bank.	8-K	99.1	5/4/20
10.3	(b) (c) (d)	Supplemental Indenture No. 7 to Master Indenture, dated as of June 11, 2020, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	6/16/20
10.4	(b) (c) (d)	Eleventh Amendment to Second Amended and Restated Pooling and Servicing Agreement, dated as of June 11, 2020, among Comenity Bank, WFN Credit Company, LLC, and MUFG Union Bank, N.A.	8-K	4.2	6/16/20
10.5	(b) (c) (d)	Fourth Amendment to Receivables Purchase Agreement, dated as of June 11, 2020, between Comenity Bank and WFN Credit Company, LLC.	8-K	4.3	6/16/20

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.6	(b) (c) (d)	Omnibus Amendment, dated as of June 11, 2020, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.4	6/16/20
+10.7	(a)	Separation Agreement, dated as of June 22, 2020, by and among LoyaltyOne, Co., Alliance Data Systems Corporation and Bryan A. Pearson.	8-K	10.1	6/26/20
*31.1	(a)	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
*31.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
*32.1	(a)	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.			
*32.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.			
*101	(a)	The following financial information from Alliance Data Systems Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income (Loss), (iii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements.			
*104	(a)	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).			

* Filed herewith

\+ Management contract, compensatory plan or arrangement

\# Pursuant to Item 601 (b)(10)(iv) of Regulation S-K, certain identified information has been excluded from this exhibit because it is both not material and would likely cause competitive harm to the registrant if publicly disclosed. Schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. Registrant hereby undertakes to furnish supplementally an unredacted copy of the exhibit or a copy of any omitted schedule upon request by the U.S. Securities and Exchange Commission.

(a) Alliance Data Systems Corporation

(b) WFN Credit Company

(c) World Financial Network Credit Card Master Trust

(d) World Financial Network Credit Card Master Note Trust

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALLIANCE DATA SYSTEMS CORPORATION

By: /s/ TIMOTHY P. KING
Timothy P. King
Executive Vice President and Chief Financial Officer

Date: August 4, 2020

By: /s/ LAURA SANTILLAN
Laura Santillan
Senior Vice President and Chief Accounting Officer

Date: August 4, 2020

Exhibit 31.1

CERTIFICATION OF THE
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

I, Ralph J. Andretta, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alliance Data Systems Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ralph J. Andretta

Ralph J. Andretta
Chief Executive Officer

Date: August 4, 2020

Exhibit 31.2

CERTIFICATION OF THE
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

I, Timothy P. King, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alliance Data Systems Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Timothy P. King

Timothy P. King
Chief Financial Officer

Date: August 4, 2020

Exhibit 32.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2020 (the “Form 10-Q”) of Alliance Data Systems Corporation (the “Registrant”).

I, Ralph J. Andretta, certify that to the best of my knowledge:

(i) the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Ralph J. Andretta
Ralph J. Andretta
Chief Executive Officer

Date: August 4, 2020

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2020 (the “Form 10-Q”) of Alliance Data Systems Corporation (the “Registrant”).

I, Timothy P. King, certify that to the best of my knowledge:

(i) the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Timothy P. King
Timothy P. King
Chief Financial Officer

Date: August 4, 2020

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.