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

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**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 September 30, 2016**

**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**

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**ALLIANCE DATA SYSTEMS CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of incorporation or organization)*

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

**7500 Dallas Parkway, Suite 700**  
**Plano, Texas 75024**  
*(Address of principal executive office, including zip code)*

**(214) 494-3000**  
*(Registrant's telephone number, including area code)*

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

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

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

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

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

As of October 26, 2016, 57,759,199 shares of common stock were outstanding.

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## ALLIANCE DATA SYSTEMS CORPORATION

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**PART I****Item 1. Financial Statements.**

**ALLIANCE DATA SYSTEMS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

|   | September 30,<br>2016                   | December 31,<br>2015 |
|---|---|----------------------|
|   | (In millions, except per share amounts) |                      |
| <b>ASSETS</b>   |   |                      |
| Cash and cash equivalents   | \$ 1,500.5                              | \$ 1,168.0           |
| Trade receivables, less allowance for doubtful accounts (\$7.3 and \$4.0 at September 30, 2016 and December 31, 2015, respectively)                       | 687.0                                   | 706.5                |
| Credit card and loan receivables:   |   |                      |
| Credit card receivables – restricted for securitization investors   | 9,928.1                                 | 10,592.4             |
| Other credit card and loan receivables  | 4,687.7                                 | 3,207.1              |
| Total credit card and loan receivables  | 14,615.8                                | 13,799.5             |
| Allowance for loan loss   | (874.4)                                 | (741.6)              |
| Credit card and loan receivables, net   | 13,741.4                                | 13,057.9             |
| Credit card and loan receivables held for sale  | 525.1                                   | 95.5                 |
| Deferred tax asset, net   | —                                       | 288.1                |
| Inventories, net  | 278.0                                   | 228.0                |
| Other current assets  | 441.1                                   | 249.8                |
| Redemption settlement assets, restricted  | 428.7                                   | 456.6                |
| Total current assets  | 17,601.8                                | 16,250.4             |
| Property and equipment, net   | 583.4                                   | 576.7                |
| Deferred tax asset, net   | 4.6                                     | 0.6                  |
| Intangible assets, net  | 1,077.0                                 | 1,203.7              |
| Goodwill  | 3,837.8                                 | 3,814.1              |
| Other non-current assets  | 535.2                                   | 504.4                |
| Total assets  | <u>\$ 23,639.8</u>                      | <u>\$ 22,349.9</u>   |
| <b>LIABILITIES AND EQUITY</b>   |   |                      |
| Accounts payable  | \$ 429.7                                | \$ 442.4             |
| Accrued expenses  | 344.9                                   | 566.5                |
| Current portion of deposits   | 3,911.6                                 | 2,980.3              |
| Current portion of non-recourse borrowings of consolidated securitization entities  | 1,324.1                                 | 1,049.3              |
| Current portion of long-term and other debt   | 421.7                                   | 369.4                |
| Other current liabilities   | 379.4                                   | 294.5                |
| Deferred revenue  | 628.8                                   | 699.0                |
| Deferred tax liability, net   | —                                       | 1.7                  |
| Total current liabilities   | 7,440.2                                 | 6,403.1              |
| Deferred revenue  | 147.1                                   | 145.9                |
| Deferred tax liability, net   | 294.9                                   | 631.5                |
| Deposits  | 3,702.4                                 | 2,625.6              |
| Non-recourse borrowings of consolidated securitization entities   | 4,575.2                                 | 5,433.4              |
| Long-term and other debt  | 5,404.3                                 | 4,648.0              |
| Other liabilities   | 291.9                                   | 285.0                |
| Total liabilities   | 21,856.0                                | 20,172.5             |
| Commitments and contingencies (Note 11)   |   |                      |
| Redeemable non-controlling interest   | —                                       | 167.4                |
| Stockholders' equity:   |   |                      |
| Common stock, \$0.01 par value; authorized, 200.0 shares; issued, 112.4 shares and 112.1 shares at September 30, 2016 and December 31, 2015, respectively | 1.1                                     | 1.1                  |
| Additional paid-in capital  | 3,019.2                                 | 2,981.0              |
| Treasury stock, at cost, 54.6 shares and 51.3 shares at September 30, 2016 and December 31, 2015, respectively  | (4,620.1)                               | (3,927.3)            |
| Retained earnings   | 3,514.2                                 | 3,092.5              |
| Accumulated other comprehensive loss  | (130.6)                                 | (137.3)              |
| Total stockholders' equity  | 1,783.8                                 | 2,010.0              |
| Total liabilities and equity  | <u>\$ 23,639.8</u>                      | <u>\$ 22,349.9</u>   |

See accompanying notes to unaudited condensed consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

|  | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                 |
|--|-------------------------------------|-----------------|------------------------------------|-----------------|
|  | 2016                                | 2015            | 2016                               | 2015            |
| (In millions, except per share amounts)  |                                     |                 |                                    |                 |
| <b>Revenues</b>  |                                     |                 |                                    |                 |
| Transaction  | \$ 72.4                             | \$ 83.1         | \$ 223.8                           | \$ 263.2        |
| Redemption   | 296.3                               | 220.9           | 836.6                              | 747.2           |
| Finance charges, net   | 954.9                               | 737.9           | 2,645.2                            | 2,101.4         |
| Marketing services   | 516.3                               | 499.0           | 1,437.4                            | 1,435.5         |
| Other revenue  | 45.7                                | 48.2            | 167.5                              | 143.6           |
| Total revenue  | <u>1,885.6</u>                      | <u>1,589.1</u>  | <u>5,310.5</u>                     | <u>4,690.9</u>  |
| <b>Operating expenses</b>  |                                     |                 |                                    |                 |
| Cost of operations (exclusive of depreciation and amortization disclosed separately below) | 1,045.6                             | 901.0           | 3,077.6                            | 2,787.5         |
| Provision for loan loss  | 251.3                               | 171.7           | 651.0                              | 461.9           |
| General and administrative   | 41.0                                | 40.9            | 111.4                              | 112.0           |
| Regulatory settlement  | —                                   | 64.6            | —                                  | 64.6            |
| Depreciation and other amortization  | 42.6                                | 36.5            | 123.5                              | 105.0           |
| Amortization of purchased intangibles  | 84.1                                | 86.9            | 261.2                              | 262.1           |
| Total operating expenses   | <u>1,464.6</u>                      | <u>1,301.6</u>  | <u>4,224.7</u>                     | <u>3,793.1</u>  |
| Operating income   | 421.0                               | 287.5           | 1,085.8                            | 897.8           |
| <b>Interest expense</b>  |                                     |                 |                                    |                 |
| Securitization funding costs   | 31.1                                | 23.1            | 91.5                               | 71.5            |
| Interest expense on deposits   | 22.6                                | 13.7            | 60.0                               | 37.1            |
| Interest expense on long-term and other debt, net  | 54.6                                | 45.3            | 159.3                              | 132.2           |
| Total interest expense, net  | <u>108.3</u>                        | <u>82.1</u>     | <u>310.8</u>                       | <u>240.8</u>    |
| Income before income taxes   | \$ 312.7                            | \$ 205.4        | \$ 775.0                           | \$ 657.0        |
| Provision for income taxes   | 105.2                               | 75.0            | 268.0                              | 231.7           |
| Net income   | \$ 207.5                            | \$ 130.4        | \$ 507.0                           | \$ 425.3        |
| Less: Net income attributable to non-controlling interest                                  | —                                   | 2.0             | 1.8                                | 3.0             |
| Net income attributable to common stockholders   | <u>\$ 207.5</u>                     | <u>\$ 128.4</u> | <u>\$ 505.2</u>                    | <u>\$ 422.3</u> |
| <b>Net income attributable to common stockholders per share:</b>                           |                                     |                 |                                    |                 |
| Basic (Note 2)   | <u>\$ 3.56</u>                      | <u>\$ 2.09</u>  | <u>\$ 7.15</u>                     | <u>\$ 6.55</u>  |
| Diluted (Note 2)   | <u>\$ 3.55</u>                      | <u>\$ 2.08</u>  | <u>\$ 7.12</u>                     | <u>\$ 6.51</u>  |
| <b>Weighted average shares:</b>  |                                     |                 |                                    |                 |
| Basic (Note 2)   | <u>58.3</u>                         | <u>61.4</u>     | <u>59.0</u>                        | <u>62.1</u>     |
| Diluted (Note 2)   | <u>58.4</u>                         | <u>61.8</u>     | <u>59.2</u>                        | <u>62.6</u>     |

See accompanying notes to unaudited condensed consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|   | <u>Three Months Ended</u><br><u>September 30,</u> |                 | <u>Nine Months Ended</u><br><u>September 30,</u> |                 |
|---|---|-----------------|--|-----------------|
|   | <u>2016</u>                                       | <u>2015</u>     | <u>2016</u>                                      | <u>2015</u>     |
| (In millions)   |   |                 |  |                 |
| Net income  | \$ 207.5  | \$ 130.4        | \$ 507.0   | \$ 425.3        |
| <b>Other comprehensive income (loss):</b>                           |   |                 |  |                 |
| Unrealized gain (loss) on securities available-for-sale             | 0.2   | 1.1             | 5.3  | (0.5)           |
| Tax benefit (expense)   | —   | (0.7)           | (1.4)  | (0.6)           |
| Unrealized gain (loss) on securities available-for-sale, net of tax | <u>0.2</u>  | <u>0.4</u>      | <u>3.9</u>                                       | <u>(1.1)</u>    |
| Unrealized gain (loss) on cash flow hedges                          | (0.8)   | 1.9             | (2.6)  | (1.9)           |
| Tax benefit (expense)   | 0.2   | (0.4)           | 0.7  | 0.5             |
| Unrealized gain (loss) on cash flow hedges, net of tax              | <u>(0.6)</u>                                      | <u>1.5</u>      | <u>(1.9)</u>                                     | <u>(1.4)</u>    |
| Unrealized loss on net investment hedge                             | (4.1)   | —               | (11.4)   | —               |
| Tax benefit (expense)   | —   | —               | —  | —               |
| Unrealized loss on net investment hedge, net of tax                 | <u>(4.1)</u>                                      | <u>—</u>        | <u>(11.4)</u>                                    | <u>—</u>        |
| Foreign currency translation adjustments                            | 5.1   | 4.6             | 16.1   | (39.9)          |
| Other comprehensive income (loss), net of tax                       | <u>0.6</u>  | <u>6.5</u>      | <u>6.7</u>                                       | <u>(42.4)</u>   |
| Total comprehensive income, net of tax                              | \$ 208.1  | \$ 136.9        | \$ 513.7   | \$ 382.9        |
| Less: Comprehensive income attributable to non-controlling interest | —   | 2.4             | 1.2  | 3.4             |
| Comprehensive income attributable to common stockholders            | <u>\$ 208.1</u>                                   | <u>\$ 134.5</u> | <u>\$ 512.5</u>                                  | <u>\$ 379.5</u> |

See accompanying notes to unaudited condensed consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | Nine Months Ended<br>September 30, |                  |
|--|------------------------------------|------------------|
|  | 2016                               | 2015             |
|  | (In millions)                      |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                    |                  |
| Net income   | \$ 507.0                           | \$ 425.3         |
| Adjustments to reconcile net income to net cash provided by operating activities:        |                                    |                  |
| Depreciation and amortization  | 384.7                              | 367.1            |
| Deferred income taxes  | (57.0)                             | (62.8)           |
| Provision for loan loss  | 651.0                              | 461.9            |
| Non-cash stock compensation  | 59.5                               | 73.3             |
| Amortization of deferred financing costs   | 25.3                               | 23.5             |
| Change in deferred revenue   | (114.1)                            | (34.2)           |
| Change in contingent liability   | —                                  | (99.6)           |
| Change in other operating assets and liabilities, net of acquisitions                    | (238.0)                            | (83.0)           |
| Originations of credit card and loan receivables held for sale                           | (5,182.7)                          | (4,569.8)        |
| Sales of credit card and loan receivables held for sale                                  | 5,186.6                            | 4,556.3          |
| Other  | 106.7                              | (26.8)           |
| Net cash provided by operating activities  | <u>1,329.0</u>                     | <u>1,031.2</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                    |                  |
| Change in redemption settlement assets   | 55.4                               | (16.4)           |
| Change in cash collateral, restricted  | 2.3                                | 18.0             |
| Change in restricted cash  | (126.8)                            | (0.4)            |
| Change in credit card and loan receivables   | (1,048.8)                          | (913.8)          |
| Purchase of credit card portfolios   | (903.4)                            | —                |
| Proceeds from sale of credit card portfolios   | 5.9                                | 26.9             |
| Payments for acquired businesses, net of cash  | —                                  | (45.4)           |
| Capital expenditures   | (158.3)                            | (140.1)          |
| Purchases of other investments   | (13.6)                             | (38.8)           |
| Maturities/sales of other investments  | 38.6                               | 8.0              |
| Other  | (2.9)                              | (1.0)            |
| Net cash used in investing activities  | <u>(2,151.6)</u>                   | <u>(1,103.0)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                    |                  |
| Borrowings under debt agreements   | 3,086.5                            | 2,426.4          |
| Repayments of borrowings   | (2,305.0)                          | (1,528.9)        |
| Payment of acquisition-related contingent consideration                                  | —                                  | (205.9)          |
| Acquisition of non-controlling interest  | (360.7)                            | (87.4)           |
| Issuances of deposits  | 3,727.5                            | 2,191.9          |
| Repayments of deposits   | (1,714.4)                          | (1,743.0)        |
| Non-recourse borrowings of consolidated securitization entities                          | 2,567.5                            | 2,570.0          |
| Repayments/maturities of non-recourse borrowings of consolidated securitization entities | (3,150.0)                          | (2,788.8)        |
| Payment of deferred financing costs  | (20.7)                             | (16.4)           |
| Purchase of treasury shares  | (692.8)                            | (856.9)          |
| Other  | 12.7                               | 31.8             |
| Net cash provided by (used in) financing activities                                      | <u>1,150.6</u>                     | <u>(7.2)</u>     |
| Effect of exchange rate changes on cash and cash equivalents                             | 4.5                                | (20.9)           |
| Change in cash and cash equivalents  | 332.5                              | (99.9)           |
| Cash and cash equivalents at beginning of period   | 1,168.0                            | 1,077.2          |
| Cash and cash equivalents at end of period   | <u>\$ 1,500.5</u>                  | <u>\$ 977.3</u>  |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>   |                                    |                  |
| Interest paid  | <u>\$ 287.2</u>                    | <u>\$ 223.7</u>  |
| Income taxes paid, net   | <u>\$ 342.7</u>                    | <u>\$ 225.9</u>  |

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, 2015, filed with the SEC on February 25, 2016.

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.

For purposes of comparability, certain prior period amounts have been reclassified to conform to the current year presentation in accordance with GAAP.

***Recently Issued Accounting Standards***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Companies may adopt ASU 2014-09 using a full retrospective approach or report the cumulative effect as of the date of adoption. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and to permit early adoption of the standard, but not before the original effective date of December 15, 2016. The Company is evaluating the impact that adoption of ASU 2014-09 will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory.” ASU 2015-11 changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company does not expect the adoption of this standard to materially impact its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 requires that equity investments be measured at fair value with changes in fair value recognized in net income. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost adjusted for changes in observable prices minus impairment. Additionally, ASU 2016-01 requires entities that elect the fair value option for financial liabilities to recognize changes in fair value related to instrument-specific credit risk in other comprehensive income. Finally, entities must assess valuation allowances for deferred tax assets related to available-for-sale debt securities in combination with their other deferred tax assets. ASU 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the impact that adoption of ASU 2016-01 will have on its consolidated financial statements.

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

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” that replaces existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is evaluating the impact that adoption of ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 simplifies certain aspects of share-based transactions, including income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification in the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the impact that adoption of ASU 2016-09 will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 requires entities to utilize a financial instrument impairment model that is based on expected losses over the life of the exposure rather than a model based on an incurred loss approach to establish an allowance. ASU 2016-13 also expands the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the allowance. In addition, ASU 2016-13 modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted beginning after December 15, 2018. The Company is evaluating the impact that adoption of ASU 2016-13 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 will make eight targeted changes on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the impact that adoption of ASU 2016-15 will have on its consolidated financial statements.

***Recently Adopted Accounting Standards***

In February 2015, the FASB issued ASU No. 2015-02, “Amendments to the Consolidation Analysis,” which amended the consolidation requirements in Accounting Standards Codification (“ASC”) 810, “Consolidation.” ASU 2015-02 makes targeted amendments to the current consolidation guidance for VIEs. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015, with retrospective or modified retrospective application allowed. The Company adopted this standard as of January 1, 2016 with modified retrospective application. The adoption of this standard did not have an impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Subsequently, in August 2015, the FASB issued ASU 2015-15, “Imputation of Interest,” which adds SEC staff guidance on the presentation of debt issuance costs related to line-of-credit arrangements, allowing for the deferral and presentation of debt issuance costs as an asset and subsequent amortization of the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company maintained the deferral and presentation of these line-of-credit debt issuance costs as an asset. ASU 2015-03 is effective for interim and annual reporting periods beginning after December 15, 2015, with retrospective application required. The Company adopted this standard as of January 1, 2016 with retrospective application. Under ASU 2015-03 and ASU 2015-15, unamortized debt issuance costs of \$72.0 million were reclassified from other non-current assets to a reduction of debt as of December 31, 2015 in the consolidated balance sheets.



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

In April 2015, the FASB issued ASU No. 2015-05, “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” ASU 2015-05 provides guidance about whether a cloud computing arrangement includes a software license and is effective for interim and annual reporting periods beginning after December 15, 2015, with retrospective or prospective application allowed. The Company adopted this standard as of January 1, 2016 with prospective application. The adoption of this standard did not have an impact on the Company’s consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes.” ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for interim and annual periods beginning after December 15, 2016, with retrospective or prospective application allowed and early adoption permitted. The Company’s prospective adoption of this standard resulted in a reduction in current deferred tax assets of \$288.1 million, a reduction in current deferred tax liabilities of \$1.7 million, an increase in non-current deferred tax assets of \$0.2 million and a reduction in non-current deferred tax liabilities of \$286.2 million as of January 1, 2016. Prior period amounts were not restated.

## 2. EARNINGS PER SHARE

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

|   | <u>Three Months Ended</u><br><u>September 30,</u> |                 | <u>Nine Months Ended</u><br><u>September 30,</u> |                 |
|---|---|-----------------|--|-----------------|
|   | <u>2016</u>                                       | <u>2015</u>     | <u>2016</u>                                      | <u>2015</u>     |
| (In millions except per share amounts)  |   |                 |  |                 |
| <b>Numerator:</b>   |   |                 |  |                 |
| Net income attributable to common stockholders  | \$ 207.5  | \$ 128.4        | \$ 505.2   | \$ 422.3        |
| Less: Accretion of redeemable non-controlling interest  | —   | —               | 83.5   | 15.2            |
| Net income attributable to common stockholders after accretion of redeemable non-controlling interest | <u>\$ 207.5</u>                                   | <u>\$ 128.4</u> | <u>\$ 421.7</u>                                  | <u>\$ 407.1</u> |
| <b>Denominator:</b>   |   |                 |  |                 |
| Weighted average shares, basic  | 58.3  | 61.4            | 59.0   | 62.1            |
| Weighted average effect of dilutive securities:   |   |                 |  |                 |
| Net effect of dilutive stock options and unvested restricted stock                                    | 0.1   | 0.4             | 0.2  | 0.5             |
| Denominator for diluted calculation   | <u>58.4</u>                                       | <u>61.8</u>     | <u>59.2</u>                                      | <u>62.6</u>     |
| <b>Net income attributable to common stockholders per share:</b>                                      |   |                 |  |                 |
| Basic   | <u>\$ 3.56</u>                                    | <u>\$ 2.09</u>  | <u>\$ 7.15</u>                                   | <u>\$ 6.55</u>  |
| Diluted   | <u>\$ 3.55</u>                                    | <u>\$ 2.08</u>  | <u>\$ 7.12</u>                                   | <u>\$ 6.51</u>  |

See Note 12, “Redeemable Non-Controlling Interest,” for additional information regarding accretion of the redeemable non-controlling interest.

For each of the three and nine months ended September 30, 2016, approximately 0.2 million restricted stock units were excluded from the calculation of weighted average dilutive common shares as the effect would have been anti-dilutive. There were no anti-dilutive shares excluded from the calculation of weighted average dilutive common shares for each of the three months and nine months ended September 30, 2015.

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

**3. 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:

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
|   | (In millions)         |                      |
| Principal receivables   | \$ 13,898.1           | \$ 13,196.4          |
| Billed and accrued finance charges                                      | 651.5                 | 537.8                |
| Other credit card receivables   | 66.2                  | 65.3                 |
| Total credit card and loan receivables                                  | 14,615.8              | 13,799.5             |
| Less: Credit card receivables – restricted for securitization investors | 9,928.1               | 10,592.4             |
| Other credit card and loan receivables                                  | <u>\$ 4,687.7</u>     | <u>\$ 3,207.1</u>    |

***Allowance for Loan Loss***

The Company maintains an allowance for loan loss at a level that is appropriate to absorb probable losses inherent in credit card and loan receivables. The allowance for loan loss covers forecasted uncollectible principal as well as unpaid interest and fees. The allowance for loan loss is evaluated monthly for appropriateness.

In estimating the allowance for principal loan losses, management utilizes a migration analysis of delinquent and current credit card and loan receivables. Migration analysis is a technique used to estimate the likelihood that a credit card or loan receivable will progress through the various stages of delinquency and to charge-off. The allowance is maintained through an adjustment to the provision for loan loss. Charge-offs of principal amounts, net of recoveries are deducted from the allowance. In estimating the allowance for uncollectible unpaid interest and fees, the Company utilizes historical charge-off trends, analyzing actual charge-offs for the prior three months. The allowance is maintained through an adjustment to finance charges, net. In evaluating the allowance for loan loss for both principal and unpaid interest and fees, management also considers factors that may impact loan loss experience, including seasoning and growth, account collection strategies, economic conditions, bankruptcy filings, policy changes, payment rates and forecasting uncertainties.

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

|   | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                 |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
|   | 2016                                | 2015            | 2016                               | 2015            |
|   | (In millions)                       |                 |                                    |                 |
| Balance at beginning of period  | \$ 782.6                            | \$ 623.3        | \$ 741.6                           | \$ 570.2        |
| Provision for loan loss   | 251.3                               | 171.7           | 651.0                              | 461.9           |
| Allowance associated with credit card and loan receivables transferred to held for sale | —                                   | —               | (15.0)                             | —               |
| Change in estimate for uncollectible unpaid interest and fees                           | 5.0                                 | —               | 10.0                               | 4.5             |
| Recoveries  | 73.6                                | 48.8            | 183.5                              | 129.6           |
| Principal charge-offs   | (238.1)                             | (172.6)         | (696.7)                            | (495.0)         |
| Balance at end of period  | <u>\$ 874.4</u>                     | <u>\$ 671.2</u> | <u>\$ 874.4</u>                    | <u>\$ 671.2</u> |

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 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.

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

The Company records the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. Actual charge-offs for unpaid interest and fees were \$126.4 million and \$88.9 million for the three months ended September 30, 2016 and 2015, respectively, and \$355.2 million and \$258.2 million for the nine months ended September 30, 2016 and 2015, 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 beyond 90 days, 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 delinquency trends of the Company's credit card and loan receivables portfolio:

|  | September 30,<br>2016             | % of<br>Total | December 31,<br>2015 | % of<br>Total |
|--|-----------------------------------|---------------|----------------------|---------------|
|  | (In millions, except percentages) |               |                      |               |
| Receivables outstanding - principal                      | \$ 13,898.1                       | 100.0 %       | \$ 13,196.4          | 100.0 %       |
| Principal receivables balances contractually delinquent: |                                   |               |                      |               |
| 31 to 60 days  | 226.1                             | 1.6 %         | 178.5                | 1.4 %         |
| 61 to 90 days  | 156.9                             | 1.1           | 124.1                | 0.9           |
| 91 or more days  | 315.5                             | 2.3           | 257.0                | 1.9           |
| Total  | <u>\$ 698.5</u>                   | <u>5.0 %</u>  | <u>\$ 559.6</u>      | <u>4.2 %</u>  |

**Modified Credit Card Receivables**

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 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. These 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 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. Modified credit card receivables are evaluated at their present value with impairment measured as the difference between the credit card receivable balance and the discounted present value of cash flows expected to be collected. Consistent with the Company's measurement of impairment of modified credit card receivables on a pooled basis, the discount rate used for credit card receivables is the average current annual percentage rate the Company applies to non-impaired credit card receivables, which approximates what would have been applied to the pool of modified credit card receivables prior to impairment. In assessing the appropriate allowance for loan loss, these modified credit card receivables are included in the general pool of credit card receivables with the allowance determined under the contingent loss model of ASC 450-20, "Loss Contingencies." If the Company applied accounting under ASC 310-40, "Troubled Debt Restructurings by Creditors," to the modified credit card receivables in these programs, there would not be a material difference in the allowance for loan loss.

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

The Company had \$204.4 million and \$169.2 million, respectively, as a recorded investment in impaired credit card receivables with an associated allowance for loan loss of \$46.3 million and \$36.7 million, respectively, as of September 30, 2016 and December 31, 2015. These modified credit card receivables represented less than 2% of the Company's total credit card receivables as of both September 30, 2016 and December 31, 2015.

The average recorded investment in impaired credit card receivables was \$196.1 million and \$149.2 million for the three months ended September 30, 2016 and 2015, respectively, and \$185.8 million and \$141.5 million for the nine months ended September 30, 2016 and 2015, 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 \$4.8 million and \$3.8 million for the three months ended September 30, 2016 and 2015, respectively, and \$13.9 million and \$10.7 million for the nine months ended September 30, 2016 and 2015, respectively, in interest income associated with modified credit card receivables during the period that such credit card receivables were impaired.

The following tables provide 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 September 30, 2016 |                                      |                                       | Nine Months Ended September 30, 2016 |                                      |                                       |
|--|---------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|
|  | 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 | 53,041                                | \$ 63.8                              | \$ 63.7                               | 151,069                              | \$ 180.9                             | \$ 180.7                              |

  

|  | Three Months Ended September 30, 2015 |                                      |                                       | Nine Months Ended September 30, 2015 |                                      |                                       |
|--|---------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|
|  | 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 | 44,955                                | \$ 48.1                              | \$ 48.0                               | 120,074                              | \$ 129.8                             | \$ 129.7                              |

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

|  | Three Months Ended September 30, 2016 |                     | Nine Months Ended September 30, 2016 |                     |
|--|---------------------------------------|---------------------|--------------------------------------|---------------------|
|  | Number of Restructurings              | Outstanding Balance | Number of Restructurings             | Outstanding Balance |
|  | (Dollars in millions)                 |                     |                                      |                     |
| Troubled debt restructurings that subsequently defaulted – credit card receivables | 27,606                                | \$ 31.3             | 75,828                               | \$ 84.1             |

  

|  | Three Months Ended September 30, 2015 |                     | Nine Months Ended September 30, 2015 |                     |
|--|---------------------------------------|---------------------|--------------------------------------|---------------------|
|  | Number of Restructurings              | Outstanding Balance | Number of Restructurings             | Outstanding Balance |
|  | (Dollars in millions)                 |                     |                                      |                     |
| Troubled debt restructurings that subsequently defaulted – credit card receivables | 20,212                                | \$ 21.4             | 55,940                               | \$ 58.0             |

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

**Age of Credit Card and Loan Receivable Accounts**

The following tables set forth, as of September 30, 2016 and 2015, the number of active credit card and loan receivable accounts with balances and the related principal balances outstanding, based upon the age of the active credit card and loan receivable accounts from origination:

| <u>Age of Accounts Since Origination</u> | <u>September 30, 2016</u>                      |  |  |  |
|--|--|--|--|--|
|  | <u>Number of Active Accounts with Balances</u> | <u>Percentage of Active Accounts with Balances</u> | <u>Principal Receivables Outstanding</u> | <u>Percentage of Principal Receivables Outstanding</u> |
|  | (In millions, except percentages)              |  |  |  |
| 0-12 Months                              | 6.2  | 28.6 %   | \$ 3,539.0                               | 25.5 %   |
| 13-24 Months                             | 3.7  | 17.2   | 2,468.0                                  | 17.8   |
| 25-36 Months                             | 2.4  | 11.1   | 1,730.8                                  | 12.4   |
| 37-48 Months                             | 1.7  | 7.9  | 1,214.9                                  | 8.7  |
| 49-60 Months                             | 1.2  | 5.7  | 870.3                                    | 6.3  |
| Over 60 Months                           | 6.3  | 29.5   | 4,075.1                                  | 29.3   |
| Total                                    | <u>21.5</u>                                    | <u>100.0 %</u>                                     | <u>\$ 13,898.1</u>                       | <u>100.0 %</u>   |

| <u>Age of Accounts Since Origination</u> | <u>September 30, 2015</u>                      |  |  |  |
|--|--|--|--|--|
|  | <u>Number of Active Accounts with Balances</u> | <u>Percentage of Active Accounts with Balances</u> | <u>Principal Receivables Outstanding</u> | <u>Percentage of Principal Receivables Outstanding</u> |
|  | (In millions, except percentages)              |  |  |  |
| 0-12 Months                              | 5.9  | 29.8 %   | \$ 2,994.1                               | 26.5 %   |
| 13-24 Months                             | 3.0  | 15.3   | 1,783.8                                  | 15.8   |
| 25-36 Months                             | 2.1  | 10.6   | 1,266.6                                  | 11.2   |
| 37-48 Months                             | 1.5  | 7.6  | 917.3                                    | 8.1  |
| 49-60 Months                             | 1.1  | 5.6  | 676.0                                    | 6.0  |
| Over 60 Months                           | 6.1  | 31.1   | 3,660.1                                  | 32.4   |
| Total                                    | <u>19.7</u>                                    | <u>100.0 %</u>                                     | <u>\$ 11,297.9</u>                       | <u>100.0 %</u>   |

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

**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. The proprietary scoring models are based on historical data and require various assumptions about future performance. 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. Obligor credit quality is monitored at least monthly during the life of an account. The following table reflects composition of the Company's credit card and loan receivables by obligor credit quality as of September 30, 2016 and 2015:

| Probability of an Account Becoming 91 or More Days Past Due or Becoming Charged-off (within the next 12 months) | September 30, 2016                      |   | September 30, 2015                      |   |
|---|---|---|---|---|
|   | Total Principal Receivables Outstanding | Percentage of Principal Receivables Outstanding | Total Principal Receivables Outstanding | Percentage of Principal Receivables Outstanding |
|   | (In millions, except percentages)       |   |   |   |
| No Score  | \$ 220.6                                | 1.6 %   | \$ 176.4                                | 1.6 %   |
| 27.1% and higher  | 1,072.5                                 | 7.7   | 607.9                                   | 5.4   |
| 17.1% - 27.0%   | 691.1                                   | 5.0   | 944.3                                   | 8.3   |
| 12.6% - 17.0%   | 741.9                                   | 5.3   | 1,140.0                                 | 10.1  |
| 3.7% - 12.5%  | 5,097.3                                 | 36.7  | 4,413.4                                 | 39.1  |
| 1.9% - 3.6%   | 3,006.3                                 | 21.6  | 2,405.3                                 | 21.3  |
| Lower than 1.9%   | 3,068.4                                 | 22.1  | 1,610.6                                 | 14.2  |
| Total   | <u>\$ 13,898.1</u>                      | <u>100.0 %</u>                                  | <u>\$ 11,297.9</u>                      | <u>100.0 %</u>                                  |

**Transfer of Financial Assets**

The Company originates loans under an agreement with one of its clients, and after origination, these loan receivables are sold to the client at par value plus accrued interest. These transfers qualify for sale treatment as they meet the conditions established in ASC 860-10, "Transfers and Servicing." Following the sale, the client owns the loan receivables, bears the risk of loss in the event of loan defaults and is responsible for all servicing functions related to the loan receivables. The loan receivables originated by the Company that have not yet been sold to the client were \$59.3 million and \$61.5 million at September 30, 2016 and December 31, 2015, respectively, and are included in credit card and loan receivables held for sale in the Company's unaudited condensed consolidated balance sheets and carried at the lower of cost or fair value. The carrying value of these loan receivables approximates fair value due to the short duration between the date of origination and sale. Originations and sales of these loan receivables held for sale are reflected as operating activities in the Company's unaudited condensed consolidated statements of cash flows.

Upon the client's purchase of the originated loan receivables, the Company is obligated to purchase a participating interest in a pool of loan receivables that includes the loan receivables originated by the Company. Such interest participates on a pro rata basis in the cash flows of the underlying pool of loan receivables, including principal repayments, finance charges, losses and recoveries. The Company bears the risk of loss related to its participation interest in this pool.

During the nine months ended September 30, 2016 and 2015, the Company purchased \$259.2 million and \$227.7 million, respectively, of loan receivables under these agreements.

The total outstanding balance of these loan receivables was \$251.8 million and \$222.6 million as of September 30, 2016 and December 31, 2015, respectively, and was included in other credit card and loan receivables in the Company's unaudited condensed consolidated balance sheets.

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

***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 \$465.8 million and \$34.0 million as of September 30, 2016 and December 31, 2015, respectively. In the first quarter of 2016, the Company transferred two credit card portfolios totaling approximately \$415.3 million into credit card and loan receivables held for sale. The portfolios were transferred at the net carrying amount, inclusive of the related reserves for losses of \$15.0 million, which approximates the lower of cost or fair value and which will be the measurement basis until the sale of the portfolios. In June 2016, the Company sold one credit card portfolio previously classified as held for sale for cash proceeds of \$5.9 million and recognized a \$0.5 million loss on the transaction.

***Portfolio Acquisitions***

During the nine months ended September 30, 2016, the Company acquired the credit card portfolios below.

- In January 2016, the Company acquired a private label credit card portfolio for cash consideration of \$520.3 million, which consisted of approximately \$468.3 million of credit card receivables and \$52.0 million of intangible assets.
- In March 2016, the Company acquired a private label credit card portfolio for cash consideration of \$211.3 million, which consisted of approximately \$196.2 million of credit card receivables and \$15.1 million of intangible assets.
- In March 2016, the Company acquired a private label credit card portfolio for cash consideration of \$17.5 million, which consisted of approximately \$17.5 million of credit card receivables and a de minimis amount of intangible assets.
- In September 2016, the Company acquired a co-brand credit card portfolio for initial cash consideration of \$154.3 million, which consists of approximately \$141.1 million of credit card receivables, \$20.6 million of intangible assets and a rewards liability of \$7.4 million, all of which remain subject to customary purchase price adjustments.

In October 2016, the Company acquired a private label credit card portfolio for initial cash consideration of \$107.8 million, subject to customary purchase price adjustments.

***Securitized Credit Card Receivables***

The Company regularly securitizes its credit card receivables through its credit card securitization trusts, consisting of the 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 are not reflected in the Company’s unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2016 and 2015.

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.

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

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

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
|   | (In millions)         |                      |
| Total credit card receivables – restricted for securitization investors   | \$ 9,928.1            | \$ 10,592.4          |
| Principal amount of credit card receivables – restricted for securitization investors, 91 days or more past due | \$ 222.2              | \$ 198.8             |

  

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|---------|------------------------------------|----------|
|  | 2016                                | 2015    | 2016                               | 2015     |
|  | (In millions)                       |         |                                    |          |
| Net charge-offs of securitized principal | \$ 134.6                            | \$ 94.1 | \$ 423.7                           | \$ 290.6 |

#### 4. INVENTORIES, NET

Inventories, net of \$278.0 million and \$228.0 million at September 30, 2016 and December 31, 2015, 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 or market 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.

#### 5. OTHER INVESTMENTS

Other investments consist of marketable securities and U.S. Treasury bonds and are included in other current assets and other assets in the Company's unaudited condensed consolidated balance sheets. The principal components of other investments, which are carried at fair value, are as follows:

|                       | September 30, 2016 |                     |                      |            | December 31, 2015 |                     |                      |            |
|-----------------------|--------------------|---------------------|----------------------|------------|-------------------|---------------------|----------------------|------------|
|                       | Amortized<br>Cost  | Unrealized<br>Gains | Unrealized<br>Losses | Fair Value | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair Value |
|                       | (In millions)      |                     |                      |            |                   |                     |                      |            |
| Marketable securities | \$ 120.7           | \$ 1.8              | \$ (0.2)             | \$ 122.3   | \$ 121.5          | \$ 0.4              | \$ (1.7)             | \$ 120.2   |
| U.S. Treasury bonds   | 75.0               | 0.8                 | —                    | 75.8       | 100.1             | 0.2                 | (0.1)                | 100.2      |
| Total                 | \$ 195.7           | \$ 2.6              | \$ (0.2)             | \$ 198.1   | \$ 221.6          | \$ 0.6              | \$ (1.8)             | \$ 220.4   |

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of September 30, 2016 and December 31, 2015, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

|                       | September 30, 2016  |                      |                      |                      |            |                      |
|-----------------------|---------------------|----------------------|----------------------|----------------------|------------|----------------------|
|                       | Less than 12 months |                      | 12 Months or Greater |                      | Total      |                      |
|                       | Fair Value          | Unrealized<br>Losses | Fair Value           | Unrealized<br>Losses | Fair Value | Unrealized<br>Losses |
|                       | (In millions)       |                      |                      |                      |            |                      |
| Marketable securities | \$ 15.9             | \$ (0.1)             | \$ 12.9              | \$ (0.1)             | \$ 28.8    | \$ (0.2)             |
| Total                 | \$ 15.9             | \$ (0.1)             | \$ 12.9              | \$ (0.1)             | \$ 28.8    | \$ (0.2)             |



**ALLIANCE DATA SYSTEMS CORPORATION**  
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|                       | December 31, 2015   |                   |                      |                   |                 |                   |
|-----------------------|---------------------|-------------------|----------------------|-------------------|-----------------|-------------------|
|                       | 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 | \$ 40.8             | \$ (0.7)          | \$ 34.6              | \$ (1.0)          | \$ 75.4         | \$ (1.7)          |
| U.S. Treasury bonds   | 50.0                | (0.1)             | —                    | —                 | 50.0            | (0.1)             |
| Total                 | <u>\$ 90.8</u>      | <u>\$ (0.8)</u>   | <u>\$ 34.6</u>       | <u>\$ (1.0)</u>   | <u>\$ 125.4</u> | <u>\$ (1.8)</u>   |

The amortized cost and estimated fair value of the marketable securities and U.S. Treasury bonds at September 30, 2016 by contractual maturity are as follows:

|  | Amortized       | Fair Value      |
|--|-----------------|-----------------|
|  | Cost            |                 |
|  | (In millions)   |                 |
| Due in one year or less                | \$ 31.9         | \$ 31.9         |
| Due after one year through five years  | 50.0            | 50.8            |
| Due after five years through ten years | 3.6             | 3.7             |
| Due after ten years                    | 110.2           | 111.7           |
| Total                                  | <u>\$ 195.7</u> | <u>\$ 198.1</u> |

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the security's issuer, and the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. 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. As of September 30, 2016, the Company does not consider the investments to be other-than-temporarily impaired.

There were no realized gains or losses from the sale of investment securities for the three and nine months ended September 30, 2016 and 2015.

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

**6. 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:

|                 | September 30, 2016 |                  |                   |            | December 31, 2015 |                  |                   |            |
|-----------------|--------------------|------------------|-------------------|------------|-------------------|------------------|-------------------|------------|
|                 | Amortized Cost     | Unrealized Gains | Unrealized Losses | Fair Value | Amortized Cost    | Unrealized Gains | Unrealized Losses | Fair Value |
|                 | (In millions)      |                  |                   |            |                   |                  |                   |            |
| Restricted cash | \$ 80.9            | \$ —             | \$ —              | \$ 80.9    | \$ 270.3          | \$ —             | \$ —              | \$ 270.3   |
| Mutual funds    | 26.4               | 0.5              | —                 | 26.9       | 25.2              | —                | (0.3)             | 24.9       |
| Corporate bonds | 319.0              | 2.2              | (0.3)             | 320.9      | 160.4             | 1.1              | (0.1)             | 161.4      |
| Total           | \$ 426.3           | \$ 2.7           | \$ (0.3)          | \$ 428.7   | \$ 455.9          | \$ 1.1           | \$ (0.4)          | \$ 456.6   |

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of September 30, 2016 and December 31, 2015, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

|                 | September 30, 2016  |                   |                      |                   |            |                   |
|-----------------|---------------------|-------------------|----------------------|-------------------|------------|-------------------|
|                 | 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 | \$ 48.8             | \$ (0.3)          | \$ —                 | \$ —              | \$ 48.8    | \$ (0.3)          |
| Total           | \$ 48.8             | \$ (0.3)          | \$ —                 | \$ —              | \$ 48.8    | \$ (0.3)          |

  

|                 | December 31, 2015   |                   |                      |                   |            |                   |
|-----------------|---------------------|-------------------|----------------------|-------------------|------------|-------------------|
|                 | Less than 12 months |                   | 12 Months or Greater |                   | Total      |                   |
|                 | Fair Value          | Unrealized Losses | Fair Value           | Unrealized Losses | Fair Value | Unrealized Losses |
|                 | (In millions)       |                   |                      |                   |            |                   |
| Mutual funds    | \$ 24.9             | \$ (0.3)          | \$ —                 | \$ —              | \$ 24.9    | \$ (0.3)          |
| Corporate bonds | 27.8                | (0.1)             | —                    | —                 | 27.8       | (0.1)             |
| Total           | \$ 52.7             | \$ (0.4)          | \$ —                 | \$ —              | \$ 52.7    | \$ (0.4)          |

The amortized cost and estimated fair value of the securities at September 30, 2016 by contractual maturity are as follows:

|                                       | Amortized Cost | Estimated Fair Value |
|---------------------------------------|----------------|----------------------|
|                                       | (In millions)  |                      |
| Due in one year or less               | \$ 104.9       | \$ 105.7             |
| Due after one year through five years | 240.5          | 242.1                |
| Total                                 | \$ 345.4       | \$ 347.8             |

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the security's issuer, and the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. 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. As of September 30, 2016, the Company does not consider the investments to be other-than-temporarily impaired.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**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 nine months ended September 30, 2016 and 2015.

**7. INTANGIBLE ASSETS AND GOODWILL**

***Intangible Assets***

Intangible assets consist of the following:

|   | <b>September 30, 2016</b> |                                 |                   | <b>Amortization Life and Method</b>  |
|---|---------------------------|---------------------------------|-------------------|--------------------------------------|
|   | <b>Gross Assets</b>       | <b>Accumulated Amortization</b> | <b>Net</b>        |                                      |
|   | <b>(In millions)</b>      |                                 |                   |                                      |
| <i>Finite Lived Assets</i>                  |                           |                                 |                   |                                      |
| Customer contracts and lists                | \$ 1,178.0                | \$ (467.3)                      | \$ 710.7          | 3-12 years—straight line             |
| Premium on purchased credit card portfolios | 344.1                     | (156.2)                         | 187.9             | 3-10 years—straight line             |
| Customer database                           | 63.6                      | (38.4)                          | 25.2              | 3 years—straight line                |
| Collector database                          | 53.3                      | (50.7)                          | 2.6               | 30 years—15% declining balance       |
| Publisher networks                          | 140.2                     | (49.9)                          | 90.3              | 5-7 years—straight line              |
| Tradenames                                  | 90.4                      | (52.2)                          | 38.2              | 3-15 years—straight line             |
| Purchased data lists                        | 11.6                      | (6.1)                           | 5.5               | 1-5 years—straight line, accelerated |
| Favorable lease                             | 6.9                       | (2.7)                           | 4.2               | 3-10 years—straight line             |
|   | <u>\$ 1,888.1</u>         | <u>\$ (823.5)</u>               | <u>\$ 1,064.6</u> |                                      |
| <i>Indefinite Lived Assets</i>              |                           |                                 |                   |                                      |
| Tradenames                                  | 12.4                      | —                               | 12.4              | Indefinite life                      |
| Total intangible assets                     | <u>\$ 1,900.5</u>         | <u>\$ (823.5)</u>               | <u>\$ 1,077.0</u> |                                      |

|   | <b>December 31, 2015</b> |                                 |                   | <b>Amortization Life and Method</b>   |
|---|--------------------------|---------------------------------|-------------------|---------------------------------------|
|   | <b>Gross Assets</b>      | <b>Accumulated Amortization</b> | <b>Net</b>        |                                       |
|   | <b>(In millions)</b>     |                                 |                   |                                       |
| <i>Finite Lived Assets</i>                  |                          |                                 |                   |                                       |
| Customer contracts and lists                | \$ 1,195.2               | \$ (361.6)                      | \$ 833.6          | 3-12 years—straight line              |
| Premium on purchased credit card portfolios | 259.5                    | (114.0)                         | 145.5             | 3-10 years—straight line, accelerated |
| Customer databases                          | 210.3                    | (163.1)                         | 47.2              | 3-10 years—straight line              |
| Collector database                          | 50.5                     | (47.7)                          | 2.8               | 30 years—15% declining balance        |
| Publisher networks                          | 140.2                    | (29.2)                          | 111.0             | 5-7 years—straight line               |
| Tradenames                                  | 84.8                     | (44.1)                          | 40.7              | 2-15 years—straight line              |
| Purchased data lists                        | 11.9                     | (6.4)                           | 5.5               | 1-5 years—straight line, accelerated  |
| Favorable lease                             | 6.9                      | (1.9)                           | 5.0               | 3-10 years—straight line              |
| Noncompete agreements                       | 1.3                      | (1.3)                           | —                 | 3 years—straight line                 |
|   | <u>\$ 1,960.6</u>        | <u>\$ (769.3)</u>               | <u>\$ 1,191.3</u> |                                       |
| <i>Indefinite Lived Assets</i>              |                          |                                 |                   |                                       |
| Tradenames                                  | 12.4                     | —                               | 12.4              | Indefinite life                       |
| Total intangible assets                     | <u>\$ 1,973.0</u>        | <u>\$ (769.3)</u>               | <u>\$ 1,203.7</u> |                                       |

With the credit card portfolio acquisitions made during the nine months ended September 30, 2016, the Company acquired \$87.7 million of intangible assets, consisting of \$26.5 million of customer relationships being amortized over a weighted average life of 3.0 years and \$61.2 million of marketing relationships being amortized over a weighted average life of 8.7 years. For more information on these portfolio acquisitions, see Note 3, “Credit Card and Loan Receivables.”

In June 2016, BrandLoyalty Group B.V. (“BrandLoyalty”) acquired a tradename for €8.0 million (\$9.0 million on September 30, 2016), with an estimated life of 8.0 years.

**ALLIANCE DATA SYSTEMS CORPORATION**  
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The estimated amortization expense related to intangible assets for the next five years and thereafter is as follows:

|   | <b>For<br/>the Years Ending<br/>December 31,<br/>(In millions)</b> |
|---|--|
| 2016 (excluding the nine months ended September 30, 2016) | \$ 75.0  |
| 2017  | 273.5  |
| 2018  | 235.6  |
| 2019  | 188.0  |
| 2020  | 125.4  |
| 2021 & thereafter   | 167.1  |

**Goodwill**

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

|   | <b>LoyaltyOne®</b>   | <b>Epsilon®</b> | <b>Card Services</b> | <b>Corporate / Other</b> | <b>Total</b> |
|---|----------------------|-----------------|----------------------|--------------------------|--------------|
|   | <b>(In millions)</b> |                 |                      |                          |              |
| January 1, 2015                         | \$ 713.5             | \$ 2,890.3      | \$ 261.7             | \$ —                     | \$ 3,865.5   |
| Goodwill acquired during year           | 34.7                 | —               | —                    | —                        | 34.7         |
| Effects of foreign currency translation | (84.7)               | (1.4)           | —                    | —                        | (86.1)       |
| December 31, 2015                       | \$ 663.5             | \$ 2,888.9      | \$ 261.7             | \$ —                     | \$ 3,814.1   |
| Effects of foreign currency translation | 26.1                 | (2.4)           | —                    | —                        | 23.7         |
| September 30, 2016                      | \$ 689.6             | \$ 2,886.5      | \$ 261.7             | \$ —                     | \$ 3,837.8   |

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

**8. DEBT**

In connection with the Company's adoption of ASU 2015-03, the December 31, 2015 debt balances have been retrospectively adjusted for unamortized discount and debt issuance costs. Debt consists of the following:

| Description   | September 30,<br>2016 | December 31,<br>2015 | Maturity                               | Interest Rate  |
|---|-----------------------|----------------------|--|----------------|
| (Dollars in millions)   |                       |                      |  |                |
| <i>Long-term and other debt:</i>  |                       |                      |  |                |
| 2013 revolving line of credit   | \$ 839.0              | \$ 465.0             | July 2018 or December 2019             | (1)            |
| 2013 term loans   | 2,874.3               | 2,703.8              | Various (2)                            | (1)            |
| BrandLoyalty credit facility  | 311.8                 | 69.7                 | June 2020                              | (3)            |
| Senior notes due 2017   | 400.0                 | 400.0                | December 2017                          | 5.250%         |
| Senior notes due 2020   | 500.0                 | 500.0                | April 2020                             | 6.375%         |
| Senior notes due 2022   | 600.0                 | 600.0                | August 2022                            | 5.375%         |
| Senior notes due 2023 (€300.0 million)                                  | 337.2                 | 325.8                | November 2023                          | 5.250%         |
| Capital lease obligations and other debt                                | 3.9                   | —                    | Various – January 2019 – August 2019   | 2.89% to 3.06% |
| Total long-term and other debt  | 5,866.2               | 5,064.3              |  |                |
| Less: Unamortized discount and debt issuance costs                      | 40.2                  | 46.9                 |  |                |
| Less: Current portion   | 421.7                 | 369.4                |  |                |
| Long-term portion   | <u>\$ 5,404.3</u>     | <u>\$ 4,648.0</u>    |  |                |
| <i>Deposits:</i>  |                       |                      |  |                |
| Certificates of deposit   | \$ 5,470.5            | \$ 4,252.0           | Various – October 2016 – November 2021 | 0.59% to 2.80% |
| Money market deposits   | 2,164.9               | 1,370.3              | On demand                              | (4)            |
| Total deposits  | 7,635.4               | 5,622.3              |  |                |
| Less: Unamortized discount and debt issuance costs                      | 21.4                  | 16.4                 |  |                |
| Less: Current portion   | 3,911.6               | 2,980.3              |  |                |
| Long-term portion   | <u>\$ 3,702.4</u>     | <u>\$ 2,625.6</u>    |  |                |
| <i>Non-recourse borrowings of consolidated securitization entities:</i> |                       |                      |  |                |
| Fixed rate asset-backed term note securities                            | \$ 3,990.7            | \$ 3,458.2           | Various – October 2016 – June 2021     | 1.26% to 4.55% |
| Floating rate asset-backed term note securities                         | 360.0                 | 810.0                | April 2018                             | (5)            |
| Conduit asset-backed securities   | 1,560.0               | 2,225.0              | Various - March 2017 – December 2017   | (6)            |
| Total non-recourse borrowings of consolidated securitization entities   | 5,910.7               | 6,493.2              |  |                |
| Less: Unamortized discount and debt issuance costs                      | 11.4                  | 10.5                 |  |                |
| Less: Current portion   | 1,324.1               | 1,049.3              |  |                |
| Long-term portion   | <u>\$ 4,575.2</u>     | <u>\$ 5,433.4</u>    |  |                |

(1)The interest rate is based upon the London Interbank Offered Rate (“LIBOR”) plus an applicable margin. At September 30, 2016, the weighted average interest rate was 2.53% for each of the 2013 revolving line of credit and 2013 term loans.

(2) The maturity dates for the 2013 term loans are September 2017, July 2018 and December 2019.

(3)The interest rate is based upon the Euro Interbank Offered Rate plus an applicable margin. At September 30, 2016, the weighted average interest rate was 1.34% and 2.25% for the BrandLoyalty revolving line of credit and term loans, respectively.

(4)The interest rates are based on the Federal Funds rate plus an applicable margin. At September 30, 2016, the interest rates ranged from 0.50% to 1.90%.

(5) The interest rate is based upon LIBOR plus an applicable margin. At September 30, 2016, the interest rate was 1.00%.

(6)The interest rate is based upon LIBOR or the asset-backed commercial paper costs of each individual conduit provider plus an applicable margin. At September 30, 2016, the interest rates ranged from 1.82% to 1.88%.

At September 30, 2016, the Company was in compliance with its financial covenants.

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***Long-term and Other Debt***

*2013 Credit Agreement*

In the second quarter of 2016, ADSC, as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Data Management, LLC, Comenity LLC, Comenity Servicing LLC, Aspen Marketing Services, LLC, Conversant LLC and Commission Junction, LLC as guarantors, amended its credit agreement (the “2013 Credit Agreement”).

The Company extended the maturity of certain term loans with principal amount of \$200.0 million from September 2016 to September 2017. Additionally, the Company exercised the accordion feature to borrow incremental term loans in the aggregate principal amount of \$277.5 million and increased the commitments under the revolving line of credit by \$22.5 million. These borrowings bear interest at the same rates as, and are generally subject to the same terms as, the 2013 Credit Agreement.

As of September 30, 2016, the 2013 Credit Agreement provided for \$3.1 billion in term loans (the “2013 term loans”) subject to certain principal repayments and a \$1.3 billion revolving line of credit (the “2013 revolving line of credit”). Total availability under the 2013 revolving line of credit at September 30, 2016 was \$483.5 million.

*BrandLoyalty Credit Agreement*

In June 2016, BrandLoyalty and certain of its subsidiaries, as borrower and guarantors, amended and restated its credit agreement (as amended, the “2016 BrandLoyalty Credit Agreement”) to provide for an A-1 term loan facility of €90.0 million and an A-2 term loan facility of €100.0 million. The A-1 term loan facility provides for quarterly principal payments of €7.5 million through June 2018 and €3.75 million thereafter through June 2020. In addition, the maturity date of the committed revolving line of credit of €62.5 million and uncommitted revolving line of credit of €62.5 million was extended from August 2018 to June 2020. The 2016 BrandLoyalty Credit Agreement provides for a reduction in commitment on each of the uncommitted and committed revolving lines of credit of €25.0 million in August 2018.

The 2016 BrandLoyalty Credit Agreement is secured by the accounts receivable, inventory, fixed assets, bank accounts and shares of BrandLoyalty Group and certain of its subsidiaries.

All advances under the 2016 BrandLoyalty Credit Agreement are denominated in Euros. The interest rate fluctuates and is equal to EURIBOR, as defined in the 2016 BrandLoyalty Credit Agreement, plus an applicable margin based on BrandLoyalty’s senior net leverage ratio. The 2016 BrandLoyalty Credit Agreement contains financial covenants, including a senior net leverage ratio, as well as usual and customary negative covenants and customary events of default.

As of September 30, 2016, amounts outstanding under the revolving lines of credit and the term loans under the 2016 BrandLoyalty Credit Agreement were €87.4 million, of which €34.9 million was uncommitted, and €190.0 million (\$98.2 million and \$213.6 million), respectively.

*Senior Notes due 2021*

In October 2016, the Company issued \$500.0 million aggregate principal amount of 5.875% senior notes due November 1, 2021 (the “Senior Notes due 2021”). The Senior Notes due 2021 accrue interest on the principal amount at the rate of 5.875% per annum from October 27, 2016, payable semiannually in arrears, on May 1 and November 1 of each year, beginning on May 1, 2017. The Company intends to use the net proceeds to repay a portion of the outstanding indebtedness under the 2013 revolving line of credit.

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

***Non-Recourse Borrowings of Consolidated Securitization Entities***

*Asset-Backed Term Notes*

In February 2016, \$625.0 million of Series 2014-A asset-backed term notes, \$175.0 million of which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets, matured and were repaid.

In May 2016, \$657.9 million of Series 2013-B asset-backed term notes, \$157.9 million of which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets, matured and were repaid.

In July 2016, Master Trust I issued \$866.7 million of asset-backed term notes, which mature in June 2021. The offering consisted of \$650.0 million of Class A notes with a fixed interest rate of 2.03% per year, \$32.5 million of Class M notes with a fixed interest rate of 2.33% per year and \$184.2 million of notes which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets.

In September 2016, Master Trust I issued \$460.5 million of asset-backed term notes, which mature in August 2018. The offering consisted of \$350.0 million of Class A notes with a fixed interest rate of 1.44% per year and \$110.5 million of notes which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets.

In October 2016, \$126.6 million of Series 2011-B asset-backed term notes, \$26.6 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 September 30, 2016, the Company collected \$126.1 million of principal payments made by its credit cardholders during the accumulation period for the repayment of the Series 2011-B notes. 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 September 30, 2016.

In October 2016, Master Trust I issued \$460.5 million of asset-backed term notes, which mature in October 2019. The offering consisted of \$350.0 million of Class A notes with a fixed interest rate of 1.72% per year, \$21.9 million of Class M notes with a fixed interest rate of 1.98% per year and \$88.6 million of notes which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets.

**9. 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 was not a party to any interest rate derivative instruments at September 30, 2016 or December 31, 2015.

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, certain of which are designated as cash flow hedges.

Additionally, in November 2015, the Company designated its Euro-denominated Senior Notes due 2023 as a net investment hedge of its investment in BrandLoyalty, which has a functional currency of the Euro, in order to reduce the volatility in stockholders' equity caused by the changes in foreign currency exchange rates of the Euro with respect to the U.S. dollar. The change in fair value of the Senior Notes due 2023 due to remeasurement of the effective portion is recorded in other comprehensive income (loss). The ineffective portion of this hedging instrument impacts net income when the ineffectiveness occurs. For the three and nine months ended September 30, 2016, losses of \$4.1 million and \$11.4 million, net of tax, respectively, were recognized in other comprehensive income and no ineffectiveness was recorded on the net investment hedge.

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The following tables present the fair values of the derivative instruments included within the Company's unaudited condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015:

| <b>September 30, 2016</b>                 |                            |                   |                               |                             |
|---|----------------------------|-------------------|-------------------------------|-----------------------------|
|   | <b>Notional<br/>Amount</b> | <b>Fair Value</b> | <b>Balance Sheet Location</b> | <b>Maturity</b>             |
| <b>(In millions)</b>                      |                            |                   |                               |                             |
| <i>Designated as hedging instruments:</i> |                            |                   |                               |                             |
| Foreign currency exchange hedges          | \$ 19.3                    | \$ 0.3            | Other current assets          | October 2016 to April 2017  |
| Foreign currency exchange hedges          | \$ 59.0                    | \$ 1.1            | Other current liabilities     | October 2016 to August 2017 |
| Net investment hedge                      | <u>\$ 337.2</u>            | <u>\$ 15.2</u>    | Long-term and other debt      | November 2023               |

| <b>December 31, 2015</b>                  |                            |                   |                               |                                |
|---|----------------------------|-------------------|-------------------------------|--------------------------------|
|   | <b>Notional<br/>Amount</b> | <b>Fair Value</b> | <b>Balance Sheet Location</b> | <b>Maturity</b>                |
| <b>(In millions)</b>                      |                            |                   |                               |                                |
| <i>Designated as hedging instruments:</i> |                            |                   |                               |                                |
| Foreign currency exchange hedges          | \$ 56.7                    | \$ 2.7            | Other current assets          | January 2016 to October 2016   |
| Foreign currency exchange hedges          | \$ 23.7                    | \$ 0.4            | Other current liabilities     | January 2016 to September 2016 |
| Net investment hedge                      | <u>\$ 325.8</u>            | <u>\$ 3.8</u>     | Long-term and other debt      | November 2023                  |

|   |               |             |                           |               |
|---|---------------|-------------|---------------------------|---------------|
| <i>Not designated as hedging instruments:</i> |               |             |                           |               |
| Foreign currency exchange forward contract    | \$ 103.7      | \$ 1.3      | Other current liabilities | February 2016 |
| Foreign currency exchange hedges              | <u>\$ 0.5</u> | <u>\$ —</u> | Other current liabilities | January 2016  |

***Derivatives Designated as Hedging Instruments***

Losses of \$0.6 million and \$1.9 million, net of tax, were recognized in other comprehensive income for the three and nine months ended September 30, 2016, respectively, related to foreign currency exchange hedges designated as effective. Changes in the fair value of these hedges, excluding any ineffective portion are recorded in other comprehensive income (loss) until the hedged transactions affect net income. The ineffective portion of these cash flow hedges impacts net income when the ineffectiveness occurs. For the three and nine months ended September 30, 2016, gains of \$0.3 million and losses of \$0.3 million, respectively, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations), and \$0.1 million of ineffectiveness was recorded for each of the three and nine months ended September 30, 2016. At September 30, 2016, \$0.6 million is expected to be reclassified from accumulated other comprehensive income into net income in the coming 12 months.

Gains of \$1.4 million and losses of \$1.5 million, net of tax, were recognized in other comprehensive income for the three and nine months ended September 30, 2015, respectively, related to foreign currency exchange hedges designated as effective. For the three and nine months ended September 30, 2015, gains of \$0.7 million and losses of \$0.3 million, respectively, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations) and no ineffectiveness was recorded.



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

***Derivatives Not Designated as Hedging Instruments***

The following tables summarize activity related to and identify the location of the Company's outstanding derivatives not designated as hedging instruments for the three and nine months ended September 30, 2016 and 2015 recognized in the Company's unaudited condensed consolidated statements of income:

|  | Three Months Ended September 30, 2016             |                                       | Three Months Ended September 30, 2015             |                                       |
|--|---|---------------------------------------|---|---------------------------------------|
|  | Income Statement Location                         | Gain (Loss) on Derivative Instruments | Income Statement Location                         | Gain (Loss) on Derivative Instruments |
|  | (In millions)                                     |                                       |   |                                       |
| Interest rate derivatives                  | Interest expense on long-term and other debt, net | \$ —                                  | Interest expense on long-term and other debt, net | \$ 0.1                                |
|  | Nine Months Ended September 30, 2016              |                                       | Nine Months Ended September 30, 2015              |                                       |
|  | Income Statement Location                         | Gain (Loss) on Derivative Instruments | Income Statement Location                         | Gain (Loss) on Derivative Instruments |
|  | (In millions)                                     |                                       |   |                                       |
| Interest rate derivatives                  | Interest expense on long-term and other debt, net | \$ —                                  | Interest expense on long-term and other debt, net | \$ 0.2                                |
| Foreign currency exchange forward contract | General and administrative                        | \$ (0.1)                              | General and administrative                        | \$ (13.7)                             |
| Foreign currency exchange hedges           | Cost of operations                                | \$ —                                  | Cost of operations                                | \$ 0.4                                |

For the three months ended September 30, 2015, a de minimis loss related to foreign currency exchange hedges not designated as hedging instruments was recognized in cost of operations in the Company's unaudited condensed consolidated statements of income.

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 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 September 30, 2016, 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.

**10. DEFERRED REVENUE**

The AIR MILES Reward Program collects fees from its sponsors based on the number of AIR MILES reward miles issued and, in limited circumstances, the number of AIR MILES reward miles redeemed. Because management has determined that the earnings process is not complete at the time an AIR MILES reward mile is issued, the recognition of redemption and service revenue is deferred.

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

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

|  | Deferred Revenue |            |          |
|--|------------------|------------|----------|
|  | Service          | Redemption | Total    |
|  | (In millions)    |            |          |
| December 31, 2015  | \$ 292.3         | \$ 552.6   | \$ 844.9 |
| Cash proceeds  | 138.3            | 264.9      | 403.2    |
| Revenue recognized   | (145.7)          | (371.1)    | (516.8)  |
| Other  | —                | (0.6)      | (0.6)    |
| Effects of foreign currency translation                                    | 15.8             | 29.4       | 45.2     |
| September 30, 2016   | \$ 300.7         | \$ 475.2   | \$ 775.9 |
| Amounts recognized in the unaudited condensed consolidated balance sheets: |                  |            |          |
| Current liabilities  | \$ 153.6         | \$ 475.2   | \$ 628.8 |
| Non-current liabilities  | \$ 147.1         | \$ —       | \$ 147.1 |

## 11. COMMITMENTS AND CONTINGENCIES

### *Regulatory Matters*

On September 8, 2015, Comenity Bank and Comenity Capital Bank (collectively, the “Banks”) each entered into a consent order with the Federal Deposit Insurance Corporation (“FDIC”) in settlement of the FDIC’s review of the Banks’ practices regarding the marketing, promotion and sale of certain add-on products. The Banks entered into the consent orders for the purpose of resolving these matters without admitting or denying any violations of law or regulation set forth in the orders. Under the consent orders, the Banks were required to collectively provide restitution of approximately \$61.5 million to eligible customers for actions occurring between January 2008 and September 2014 and \$2.5 million in civil money penalties to the FDIC. As of September 30, 2016, the Company had satisfied in full its restitution obligations to the eligible customers under these consent orders.

## 12. REDEEMABLE NON-CONTROLLING INTEREST

On January 2, 2014, the Company acquired a 60% ownership interest in BrandLoyalty. Pursuant to the BrandLoyalty share purchase agreement, the Company could acquire the remaining 40% ownership interest in BrandLoyalty over a four-year period from the acquisition date at 10% per year at predetermined valuation multiples. If specified annual earnings targets were met by BrandLoyalty, the Company was required to acquire the additional 10% ownership interest for the year achieved; otherwise, the sellers had a put option to sell the Company their 10% ownership interest for the respective year.

The specified annual earnings targets were met for the years ended December 31, 2014 and 2015. Accordingly, the Company acquired an additional 10% ownership interest each year, effective January 1, 2015 and 2016, increasing its ownership percentage to 70% and 80%, respectively. The Company paid €77.2 million (\$87.4 million) and €91.1 million (\$102.0 million) on February 10, 2015 and February 8, 2016, respectively, to acquire the additional 10% ownership interests.

The Company and the minority shareholders of BrandLoyalty entered into a supplemental agreement to the share purchase agreement to accelerate the purchase of the remaining 20% ownership interest for a purchase price of €230.0 million (\$258.8 million), resulting in the Company’s 100% ownership of BrandLoyalty, effective as of April 1, 2016.

For the nine months ended September 30, 2016, the Company adjusted the carrying amount of the redeemable non-controlling interest by \$83.5 million to the redemption value.

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

A reconciliation of the changes in the redeemable non-controlling interest is as follows:

|   | <b>Redeemable<br/>Non-Controlling<br/>Interest</b> |
|---|--|
|   | <b>(In millions)</b>                               |
| <b>Balance at January 1, 2015</b>                                   | \$ 235.6   |
| Net income attributable to non-controlling interest                 | 8.9  |
| Other comprehensive income attributable to non-controlling interest | 0.9  |
| Adjustment to redemption value                                      | 45.0   |
| Foreign currency translation adjustments                            | (24.1)   |
| Reclassification to accrued expenses                                | (98.9)   |
| <b>Balance at December 31, 2015</b>                                 | \$ 167.4   |
| Net income attributable to non-controlling interest                 | 1.8  |
| Other comprehensive income attributable to non-controlling interest | (0.7)  |
| Adjustment to redemption value                                      | 83.5   |
| Foreign currency translation adjustments                            | 6.8  |
| Redemption of non-controlling interest                              | (258.8)  |
| <b>Balance at September 30, 2016</b>                                | \$ —   |

### 13. STOCKHOLDERS' EQUITY

#### *Stock Repurchase Program*

On January 1, 2016, the Company's Board of Directors authorized a stock repurchase program to acquire up to \$500.0 million of the Company's outstanding common stock from January 1, 2016 through December 31, 2016. On February 15, 2016, the Company's Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2016 to acquire an additional \$500.0 million of the Company's outstanding common stock through December 31, 2016, for a total authorization of \$1.0 billion. The stock repurchase program is subject to any restrictions pursuant to the terms of the Company's credit agreements, indentures, and applicable securities laws or otherwise.

For the nine months ended September 30, 2016, the Company acquired a total of 3.3 million shares of its common stock for \$692.8 million. As of September 30, 2016, the Company had \$307.2 million available under the stock repurchase program.

#### *Stock Compensation Expense*

Total stock-based compensation expense recognized in the Company's unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2016 and 2015 is as follows:

|                            | <b>Three Months Ended</b> |                | <b>Nine Months Ended</b> |                |
|----------------------------|---------------------------|----------------|--------------------------|----------------|
|                            | <b>September 30,</b>      |                | <b>September 30,</b>     |                |
|                            | <b>2016</b>               | <b>2015</b>    | <b>2016</b>              | <b>2015</b>    |
|                            | <b>(In millions)</b>      |                |                          |                |
| Cost of operations         | \$ 13.2                   | \$ 16.8        | \$ 43.6                  | \$ 56.6        |
| General and administrative | 4.8                       | 5.0            | 15.9                     | 16.7           |
| Total                      | <u>\$ 18.0</u>            | <u>\$ 21.8</u> | <u>\$ 59.5</u>           | <u>\$ 73.3</u> |

During the nine months ended September 30, 2016, the Company awarded 277,036 performance-based restricted stock units with a weighted average grant date fair value per share of \$187.49 as determined on the date of grant. The performance restriction on the awards will lapse upon determination by the Board of Directors or the Compensation Committee of the Board of Directors that the Company's earnings before taxes for the period from January 1, 2016 to December 31, 2016 met certain pre-defined vesting criteria that permit a range from 50% to 150% of such performance-based restricted stock units to vest. Upon such determination, the restrictions will lapse with respect to 33% of the award on February 16, 2017, an additional 33% of the award on February 16, 2018 and the final 34% of the award on February 16, 2019, 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 nine months ended September 30, 2016, the Company awarded 99,543 service-based restricted stock units with a weighted average grant date fair value per share of \$193.48 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.

**Dividend**

On October 20, 2016, the Company's Board of Directors declared a quarterly cash dividend of \$0.52 per share on the Company's common stock, payable on December 16, 2016 to stockholders of record at the close of business on November 3, 2016.

**14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

| <u>Three Months Ended September 30, 2016</u>                          | <u>Net<br/>Unrealized<br/>Gains (Losses)<br/>on Securities</u> | <u>Unrealized<br/>Gains (Losses)<br/>on Cash<br/>Flow Hedges</u> | <u>Unrealized<br/>Gains (Losses)<br/>on Net<br/>Investment Hedge<br/>(In millions)</u> | <u>Foreign<br/>Currency<br/>Translation<br/>Adjustments <sup>(1)</sup></u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</u> |
|---|--|--|--|--|--|
| <b>Balance at June 30, 2016</b>                                       | \$ 3.6   | \$ —   | \$ (11.1)  | \$ (123.7)   | \$ (131.2)   |
| Changes in other comprehensive income (loss) before reclassifications | 0.2  | (0.7)  | (4.1)  | 5.1  | 0.5  |
| Amounts reclassified from other comprehensive income (loss)           | —  | 0.1  | —  | —  | 0.1  |
| Changes in other comprehensive income (loss)                          | 0.2  | (0.6)  | (4.1)  | 5.1  | 0.6  |
| <b>Balance at September 30, 2016</b>                                  | <u>\$ 3.8</u>  | <u>\$ (0.6)</u>  | <u>\$ (15.2)</u>   | <u>\$ (118.6)</u>  | <u>\$ (130.6)</u>  |
| <br>  |  |  |  |  |  |
| <u>Three Months Ended September 30, 2015</u>                          | <u>Net<br/>Unrealized<br/>Gains (Losses)<br/>on Securities</u> | <u>Unrealized<br/>Gains (Losses)<br/>on Cash<br/>Flow Hedges</u> | <u>Unrealized<br/>Gains (Losses)<br/>on Net<br/>Investment Hedge<br/>(In millions)</u> | <u>Foreign<br/>Currency<br/>Translation<br/>Adjustments <sup>(1)</sup></u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</u> |
| <b>Balance at June 30, 2015</b>                                       | \$ 1.2   | \$ (0.6)   | \$ —   | \$ (125.0)   | \$ (124.4)   |
| Changes in other comprehensive income (loss) before reclassifications | 0.4  | 2.2  | —  | 4.6  | 7.2  |
| Amounts reclassified from other comprehensive income (loss)           | —  | (0.7)  | —  | —  | (0.7)  |
| Changes in other comprehensive income (loss)                          | 0.4  | 1.5  | —  | 4.6  | 6.5  |
| <b>Balance at September 30, 2015</b>                                  | <u>\$ 1.6</u>  | <u>\$ 0.9</u>  | <u>\$ —</u>  | <u>\$ (120.4)</u>  | <u>\$ (117.9)</u>  |

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

| Nine Months Ended September 30, 2016                                     | Net<br>Unrealized<br>Gains (Losses)<br>on Securities | Unrealized<br>Gains (Losses)<br>on Cash<br>Flow Hedges | Unrealized<br>Gains (Losses)<br>on Net<br>Investment Hedge<br>(In millions) | Foreign<br>Currency<br>Translation<br>Adjustments <sup>(1)</sup> | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|--|--|---|--|--|
| <b>Balance at December 31, 2015</b>                                      | \$ (0.1)   | \$ 1.3   | \$ (3.8)  | \$ (134.7)   | \$ (137.3)   |
| Changes in other comprehensive income<br>(loss) before reclassifications | 3.9  | (2.6)  | (11.4)  | 16.1   | 6.0  |
| Amounts reclassified from other<br>comprehensive income (loss)           | —  | 0.7  | —   | —  | 0.7  |
| Changes in other comprehensive income<br>(loss)                          | 3.9  | (1.9)  | (11.4)  | 16.1   | 6.7  |
| <b>Balance at September 30, 2016</b>                                     | <b>\$ 3.8</b>  | <b>\$ (0.6)</b>  | <b>\$ (15.2)</b>  | <b>\$ (118.6)</b>  | <b>\$ (130.6)</b>                                      |

  

| Nine Months Ended September 30, 2015                                     | Net<br>Unrealized<br>Gains (Losses)<br>on Securities | Unrealized<br>Gains (Losses)<br>on Cash<br>Flow Hedges | Unrealized<br>Gains (Losses)<br>on Net<br>Investment Hedge<br>(In millions) | Foreign<br>Currency<br>Translation<br>Adjustments <sup>(1)</sup> | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|--|--|---|--|--|
| <b>Balance at December 31, 2014</b>                                      | \$ 2.7   | \$ 2.3   | \$ —  | \$ (80.5)  | \$ (75.5)  |
| Changes in other comprehensive income<br>(loss) before reclassifications | (1.1)  | (1.8)  | —   | (39.9)   | (42.8)   |
| Amounts reclassified from other<br>comprehensive income (loss)           | —  | 0.4  | —   | —  | 0.4  |
| Changes in other comprehensive income<br>(loss)                          | (1.1)  | (1.4)  | —   | (39.9)   | (42.4)   |
| <b>Balance at September 30, 2015</b>                                     | <b>\$ 1.6</b>  | <b>\$ 0.9</b>  | <b>\$ —</b>   | <b>\$ (120.4)</b>  | <b>\$ (117.9)</b>                                      |

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

## 15. FINANCIAL INSTRUMENTS

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.

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

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

|   | September 30, 2016 |            | December 31, 2015 |            |
|---|--------------------|------------|-------------------|------------|
|   | Carrying Amount    | Fair Value | Carrying Amount   | Fair Value |
|   | (In millions)      |            |                   |            |
| <b>Financial assets</b>   |                    |            |                   |            |
| Cash and cash equivalents                                       | \$ 1,500.5         | \$ 1,500.5 | \$ 1,168.0        | \$ 1,168.0 |
| Trade receivables, net  | 687.0              | 687.0      | 706.5             | 706.5      |
| Credit card and loan receivables, net                           | 13,741.4           | 14,479.2   | 13,057.9          | 13,057.9   |
| Credit card and loan receivables held for sale                  | 525.1              | 566.4      | 95.5              | 95.5       |
| Redemption settlement assets, restricted                        | 428.7              | 428.7      | 456.6             | 456.6      |
| Other investments   | 198.1              | 198.1      | 220.4             | 220.4      |
| Cash collateral, restricted                                     | 5.0                | 5.0        | 7.2               | 7.2        |
| Derivative instruments  | 0.3                | 0.3        | 2.7               | 2.7        |
| <b>Financial liabilities</b>                                    |                    |            |                   |            |
| Accounts payable  | 429.7              | 429.7      | 442.4             | 442.4      |
| Derivative instruments  | 1.1                | 1.1        | 1.7               | 1.7        |
| Deposits  | 7,614.0            | 7,682.5    | 5,605.9           | 5,654.6    |
| Non-recourse borrowings of consolidated securitization entities | 5,899.3            | 5,966.7    | 6,482.7           | 6,502.7    |
| Long-term and other debt  | 5,826.0            | 5,869.6    | 5,017.4           | 5,040.0    |

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

*Cash and cash equivalents, trade receivables, net and accounts payable* — The carrying amount approximates fair value due to the short maturity and the relatively liquid nature of these assets and liabilities.

*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 and loan receivables held for sale* — Loan receivables held for sale are recorded at the lower of cost or fair value, and their carrying amount approximates fair value due to the short duration of the holding period of the receivables prior to sale. The fair value of credit card portfolios held for sale is based on significant unobservable inputs, including forecasted yields and net loss estimates.

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

*Cash collateral, restricted* — Cash collateral, restricted consists of spread deposits and excess funding deposits and is included in other non-current assets in the unaudited condensed consolidated balance sheets. Spread deposits are held by a trustee or agent and are used to absorb shortfalls in the available net cash flows related to securitized credit card receivables if those available net cash flows are insufficient to satisfy certain obligations of the WFN Trusts and WFC Trust. Spread deposits are recorded at their fair value based on discounted cash flow models. The Company uses a valuation model that calculates the present value of estimated cash flows for each asset. The fair value is based on the term of the underlying securities and a discount rate. Excess funding deposits represent cash amounts deposited with the trustee of the securitizations and are used to supplement seller’s interest. The carrying amount of excess funding deposits approximates its fair value due to the relatively short maturity period and average interest rates, which approximate current market rates.

*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.

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

*Deposits* — 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.

*Derivative instruments* — The Company's foreign currency cash flow hedges are included in other current assets and other current liabilities in the unaudited condensed consolidated balance sheets and 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, including interest rate curves and option volatility. The fair value of the foreign currency derivative instruments is estimated based on published quotations of spot foreign currency rates and forward points which are converted into implied foreign currency rates.

***Financial Assets and Financial Liabilities Fair Value Hierarchy***

ASC 820 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.

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

The following tables provide information for the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2016 and December 31, 2015:

|   | Balance at<br>September 30,<br>2016 | Fair Value Measurements at<br>September 30, 2016 Using |                 |               |
|---|-------------------------------------|--|-----------------|---------------|
|   |                                     | Level 1  | Level 2         | Level 3       |
|   |                                     | (In millions)  |                 |               |
| Mutual funds <sup>(1)</sup>                     | \$ 26.9                             | \$ 26.9  | \$ —            | \$ —          |
| Corporate bonds <sup>(1)</sup>                  | 320.9                               | —  | 320.9           | —             |
| Marketable securities <sup>(2)</sup>            | 122.3                               | 5.0  | 117.3           | —             |
| U.S. Treasury bonds <sup>(2)</sup>              | 75.8                                | 75.8   | —               | —             |
| Cash collateral, restricted <sup>(3)</sup>      | 5.0                                 | —  | —               | 5.0           |
| Derivative instruments <sup>(4)</sup>           | 0.3                                 | —  | 0.3             | —             |
| <b>Total assets measured at fair value</b>      | <b>\$ 551.2</b>                     | <b>\$ 107.7</b>  | <b>\$ 438.5</b> | <b>\$ 5.0</b> |
| Derivative instruments <sup>(4)</sup>           | \$ 1.1                              | \$ —   | \$ 1.1          | \$ —          |
| <b>Total liabilities measured at fair value</b> | <b>\$ 1.1</b>                       | <b>\$ —</b>  | <b>\$ 1.1</b>   | <b>\$ —</b>   |

  

|   | Balance at<br>December 31,<br>2015 | Fair Value Measurements at<br>December 31, 2015 Using |                 |               |
|---|------------------------------------|---|-----------------|---------------|
|   |                                    | Level 1   | Level 2         | Level 3       |
|   |                                    | (In millions)   |                 |               |
| Mutual funds <sup>(1)</sup>                     | \$ 24.9                            | \$ 24.9   | \$ —            | \$ —          |
| Corporate bonds <sup>(1)</sup>                  | 161.4                              | —   | 161.4           | —             |
| Marketable securities <sup>(2)</sup>            | 120.2                              | 4.8   | 115.4           | —             |
| U.S. Treasury bonds <sup>(2)</sup>              | 100.2                              | 100.2   | —               | —             |
| Cash collateral, restricted <sup>(3)</sup>      | 7.2                                | 2.3   | —               | 4.9           |
| Derivative instruments <sup>(4)</sup>           | 2.7                                | —   | 2.7             | —             |
| <b>Total assets measured at fair value</b>      | <b>\$ 416.6</b>                    | <b>\$ 132.2</b>                                       | <b>\$ 279.5</b> | <b>\$ 4.9</b> |
| Derivative instruments <sup>(4)</sup>           | \$ 1.7                             | \$ —  | \$ 1.7          | \$ —          |
| <b>Total liabilities measured at fair value</b> | <b>\$ 1.7</b>                      | <b>\$ —</b>   | <b>\$ 1.7</b>   | <b>\$ —</b>   |

- (1) Amounts are included in redemption settlement assets in the unaudited condensed consolidated balance sheets.
- (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 non-current assets in the unaudited condensed consolidated balance sheets.
- (4) Amounts are included in other current assets and other current liabilities in the unaudited condensed consolidated balance sheets.

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the three months and nine months ended September 30, 2016 and September 30, 2015.



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

The following tables summarize the changes in fair values of the Company's asset and liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 825:

|   | <b>Cash Collateral, Restricted</b> |               |                          |               |
|---|------------------------------------|---------------|--------------------------|---------------|
|   | <b>Three Months Ended</b>          |               | <b>Nine Months Ended</b> |               |
|   | <b>September 30,</b>               |               | <b>September 30,</b>     |               |
|   | <b>2016</b>                        | <b>2015</b>   | <b>2016</b>              | <b>2015</b>   |
|   | (In millions)                      |               |                          |               |
| Balance at beginning of period  | \$ 5.0                             | \$ 4.8        | \$ 4.9                   | \$ 22.5       |
| Total gains (realized or unrealized):   |                                    |               |                          |               |
| Included in earnings  | —                                  | 0.1           | 0.1                      | 0.4           |
| Purchases   | —                                  | —             | —                        | —             |
| Sales   | —                                  | —             | —                        | —             |
| Issuances   | —                                  | —             | —                        | —             |
| Settlements   | —                                  | —             | —                        | (18.0)        |
| Transfers in or out of Level 3  | —                                  | —             | —                        | —             |
| Balance at end of period  | <u>\$ 5.0</u>                      | <u>\$ 4.9</u> | <u>\$ 5.0</u>            | <u>\$ 4.9</u> |
| Gains for the period included in earnings related to assets still held at end of period | <u>\$ —</u>                        | <u>\$ 0.1</u> | <u>\$ 0.1</u>            | <u>\$ 0.1</u> |

|   | <b>Contingent Consideration</b> |             |                          |             |
|---|---------------------------------|-------------|--------------------------|-------------|
|   | <b>Three Months Ended</b>       |             | <b>Nine Months Ended</b> |             |
|   | <b>September 30,</b>            |             | <b>September 30,</b>     |             |
|   | <b>2016</b>                     | <b>2015</b> | <b>2016</b>              | <b>2015</b> |
|   | (In millions)                   |             |                          |             |
| Balance at beginning of period  | \$ —                            | \$ —        | \$ —                     | \$ 326.0    |
| Total gains (realized or unrealized):   |                                 |             |                          |             |
| Included in earnings  | —                               | —           | —                        | —           |
| Purchases   | —                               | —           | —                        | 0.5         |
| Sales   | —                               | —           | —                        | —           |
| Issuances   | —                               | —           | —                        | —           |
| Settlements   | —                               | —           | —                        | (305.5)     |
| Foreign currency transaction adjustments  | —                               | —           | —                        | (21.0)      |
| Transfers in or out of Level 3  | —                               | —           | —                        | —           |
| Balance at end of period  | <u>\$ —</u>                     | <u>\$ —</u> | <u>\$ —</u>              | <u>\$ —</u> |
| Gains for the period included in earnings related to assets still held at end of period | <u>\$ —</u>                     | <u>\$ —</u> | <u>\$ —</u>              | <u>\$ —</u> |

Spread deposits included in cash collateral, restricted are recorded at their fair value based on discounted cash flow models, utilizing the term of one month. The unobservable input used to calculate the fair value was the discount rate of 3.8%, which was based on an interest rate curve that is observable in the market as adjusted for an unobservable credit spread. Significant increases in the term or the discount rate would result in a lower fair value. Conversely, significant decreases in the term or the discount rate would result in a higher fair value. For the three and nine months ended September 30, 2016 and 2015, gains included in earnings attributable to cash collateral, restricted were included in securitization funding costs in the Company's unaudited condensed consolidated statements of income.

The contingent consideration represents the additional consideration that the Company was required to pay as part of the earn-out provisions included in the BrandLoyalty share purchase agreement. The fair value was determined based on BrandLoyalty's earnings for the year ended December 31, 2014 using the methodology defined in the BrandLoyalty share purchase agreement. The obligation was settled in the first quarter of 2015.

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

*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 September 30, 2016 and December 31, 2015:

|  | Fair Value Measurements at<br>September 30, 2016 |                   |             |                    |
|--|--|-------------------|-------------|--------------------|
|  | Total  | Level 1           | Level 2     | Level 3            |
|  | (In millions)                                    |                   |             |                    |
| <b>Financial assets:</b>                       |  |                   |             |                    |
| Cash and cash equivalents                      | \$ 1,500.5                                       | \$ 1,500.5        | \$ —        | \$ —               |
| Credit card and loan receivables, net          | 14,479.2   | —                 | —           | 14,479.2           |
| Credit card and loan receivables held for sale | 566.4  | —                 | —           | 566.4              |
| Total  | <u>\$ 16,546.1</u>                               | <u>\$ 1,500.5</u> | <u>\$ —</u> | <u>\$ 15,045.6</u> |

|   |                    |             |                    |             |
|---|--------------------|-------------|--------------------|-------------|
| <b>Financial liabilities:</b>                                   |                    |             |                    |             |
| Deposits  | \$ 7,682.5         | \$ —        | \$ 7,682.5         | \$ —        |
| Non-recourse borrowings of consolidated securitization entities | 5,966.7            | —           | 5,966.7            | —           |
| Long-term and other debt  | 5,869.6            | —           | 5,869.6            | —           |
| Total   | <u>\$ 19,518.8</u> | <u>\$ —</u> | <u>\$ 19,518.8</u> | <u>\$ —</u> |

|  | Fair Value Measurements at<br>December 31, 2015 |                   |             |                    |
|--|---|-------------------|-------------|--------------------|
|  | Total   | Level 1           | Level 2     | Level 3            |
|  | (In millions)                                   |                   |             |                    |
| <b>Financial assets:</b>                       |   |                   |             |                    |
| Cash and cash equivalents                      | \$ 1,168.0                                      | \$ 1,168.0        | \$ —        | \$ —               |
| Credit card and loan receivables, net          | 13,057.9  | —                 | —           | 13,057.9           |
| Credit card and loan receivables held for sale | 95.5  | —                 | —           | 95.5               |
| Total  | <u>\$ 14,321.4</u>                              | <u>\$ 1,168.0</u> | <u>\$ —</u> | <u>\$ 13,153.4</u> |

|   |                    |             |                    |             |
|---|--------------------|-------------|--------------------|-------------|
| <b>Financial liabilities:</b>                                   |                    |             |                    |             |
| Deposits  | \$ 5,654.6         | \$ —        | \$ 5,654.6         | \$ —        |
| Non-recourse borrowings of consolidated securitization entities | 6,502.7            | —           | 6,502.7            | —           |
| Long-term and other debt  | 5,040.0            | —           | 5,040.0            | —           |
| Total   | <u>\$ 17,197.3</u> | <u>\$ —</u> | <u>\$ 17,197.3</u> | <u>\$ —</u> |

## 16. INCOME TAXES

For the three and nine months ended September 30, 2016, the Company utilized an effective tax rate of 33.6% and 34.6%, respectively, to calculate its provision for income taxes. For the three and nine months ended September 30, 2015, the Company utilized an effective tax rate of 36.5% and 35.3%, respectively. The effective tax rate for the current year quarter reflects a state tax benefit related to a state ruling and higher than expected tax benefits related to permanent deductions. The effective tax rate for the nine months ended September 30, 2015 reflects a favorable state ruling and a lapse in an applicable statute of limitations.

## 17. 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 Company's chief operating decision maker is the President and Chief Executive Officer. The operating segments are reviewed separately because each operating segment represents a strategic business unit that generally offers different products.

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

The Company operates in the following reportable segments: LoyaltyOne, Epsilon, and Card Services. Segment operations consist of the following:

- LoyaltyOne provides coalition and short-term loyalty programs through the Company’s Canadian AIR MILES Reward Program and BrandLoyalty;
- Epsilon provides end-to-end, integrated marketing solutions that leverage rich data, analytics, creativity and technology to help clients more effectively acquire, retain and grow relationships with their customers; 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.”

| <u>Three Months Ended September 30, 2016</u>                   | <u>LoyaltyOne</u> | <u>Epsilon</u> | <u>Card Services</u> | <u>Corporate/<br/>Other</u> | <u>Eliminations</u> | <u>Total</u> |
|--|-------------------|----------------|----------------------|-----------------------------|---------------------|--------------|
|  | (In millions)     |                |                      |                             |                     |              |
| Revenues   | \$ 383.8          | \$ 543.2       | \$ 965.8             | \$ 0.1                      | \$ (7.3)            | \$ 1,885.6   |
| Income (loss) before income taxes                              | \$ 56.4           | \$ 48.2        | \$ 304.4             | \$ (96.3)                   | \$ —                | \$ 312.7     |
| Interest expense, net  | 1.3               | —              | 53.7                 | 53.3                        | —                   | 108.3        |
| Operating income (loss)  | 57.7              | 48.2           | 358.1                | (43.0)                      | —                   | 421.0        |
| Depreciation and amortization                                  | 22.1              | 79.5           | 23.0                 | 2.1                         | —                   | 126.7        |
| Stock compensation expense                                     | 2.5               | 7.1            | 3.5                  | 4.9                         | —                   | 18.0         |
| Adjusted EBITDA <sup>(1)</sup>                                 | 82.3              | 134.8          | 384.6                | (36.0)                      | —                   | 565.7        |
| Less: Securitization funding costs                             | —                 | —              | 31.1                 | —                           | —                   | 31.1         |
| Less: Interest expense on deposits                             | —                 | —              | 22.6                 | —                           | —                   | 22.6         |
| Less: Adjusted EBITDA attributable to non-controlling interest | —                 | —              | —                    | —                           | —                   | —            |
| Adjusted EBITDA, net <sup>(1)</sup>                            | \$ 82.3           | \$ 134.8       | \$ 330.9             | \$ (36.0)                   | \$ —                | \$ 512.0     |

| <u>Three Months Ended September 30, 2015</u>                   | <u>LoyaltyOne</u> | <u>Epsilon</u> | <u>Card Services</u> | <u>Corporate/<br/>Other</u> | <u>Eliminations</u> | <u>Total</u> |
|--|-------------------|----------------|----------------------|-----------------------------|---------------------|--------------|
|  | (In millions)     |                |                      |                             |                     |              |
| Revenues   | \$ 299.1          | \$ 532.4       | \$ 764.0             | \$ 0.2                      | \$ (6.6)            | \$ 1,589.1   |
| Income (loss) before income taxes                              | \$ 47.9           | \$ 42.6        | \$ 202.7             | \$ (87.8)                   | \$ —                | \$ 205.4     |
| Interest expense, net  | 0.7               | —              | 36.8                 | 44.6                        | —                   | 82.1         |
| Operating income (loss)  | 48.6              | 42.6           | 239.5                | (43.2)                      | —                   | 287.5        |
| Depreciation and amortization                                  | 21.1              | 81.7           | 18.1                 | 2.5                         | —                   | 123.4        |
| Stock compensation expense                                     | 2.3               | 10.7           | 3.8                  | 5.0                         | —                   | 21.8         |
| Regulatory settlement  | —                 | —              | 64.6                 | —                           | —                   | 64.6         |
| Adjusted EBITDA <sup>(1)</sup>                                 | 72.0              | 135.0          | 326.0                | (35.7)                      | —                   | 497.3        |
| Less: Securitization funding costs                             | —                 | —              | 23.1                 | —                           | —                   | 23.1         |
| Less: Interest expense on deposits                             | —                 | —              | 13.7                 | —                           | —                   | 13.7         |
| Less: Adjusted EBITDA attributable to non-controlling interest | 7.5               | —              | —                    | —                           | —                   | 7.5          |
| Adjusted EBITDA, net <sup>(1)</sup>                            | \$ 64.5           | \$ 135.0       | \$ 289.2             | \$ (35.7)                   | \$ —                | \$ 453.0     |

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

| Nine Months Ended September 30, 2016                           | LoyaltyOne    | Epsilon    | Card Services | Corporate/<br>Other | Eliminations | Total      |
|--|---------------|------------|---------------|---------------------|--------------|------------|
|  | (In millions) |            |               |                     |              |            |
| Revenues   | \$ 1,090.7    | \$ 1,555.3 | \$ 2,687.1    | \$ 0.2              | \$ (22.8)    | \$ 5,310.5 |
| Income (loss) before income taxes                              | \$ 165.6      | \$ 46.5    | \$ 838.6      | \$ (275.7)          | \$ —         | \$ 775.0   |
| Interest expense, net  | 2.0           | —          | 151.5         | 157.3               | —            | 310.8      |
| Operating income (loss)  | 167.6         | 46.5       | 990.1         | (118.4)             | —            | 1,085.8    |
| Depreciation and amortization                                  | 65.5          | 246.6      | 65.4          | 7.2                 | —            | 384.7      |
| Stock compensation expense                                     | 7.7           | 25.1       | 10.9          | 15.8                | —            | 59.5       |
| Adjusted EBITDA <sup>(1)</sup>                                 | 240.8         | 318.2      | 1,066.4       | (95.4)              | —            | 1,530.0    |
| Less: Securitization funding costs                             | —             | —          | 91.5          | —                   | —            | 91.5       |
| Less: Interest expense on deposits                             | —             | —          | 60.0          | —                   | —            | 60.0       |
| Less: Adjusted EBITDA attributable to non-controlling interest | 5.5           | —          | —             | —                   | —            | 5.5        |
| Adjusted EBITDA, net <sup>(1)</sup>                            | \$ 235.3      | \$ 318.2   | \$ 914.9      | \$ (95.4)           | \$ —         | \$ 1,373.0 |

| Nine Months Ended September 30, 2015                           | LoyaltyOne    | Epsilon    | Card Services | Corporate/<br>Other | Eliminations | Total      |
|--|---------------|------------|---------------|---------------------|--------------|------------|
|  | (In millions) |            |               |                     |              |            |
| Revenues   | \$ 988.8      | \$ 1,532.5 | \$ 2,189.1    | \$ 0.3              | \$ (19.8)    | \$ 4,690.9 |
| Income (loss) before income taxes                              | \$ 143.9      | \$ 69.5    | \$ 692.4      | \$ (248.8)          | \$ —         | \$ 657.0   |
| Interest expense, net  | 2.0           | —          | 108.6         | 130.2               | —            | 240.8      |
| Operating income (loss)  | 145.9         | 69.5       | 801.0         | (118.6)             | —            | 897.8      |
| Depreciation and amortization                                  | 61.6          | 244.5      | 54.1          | 6.9                 | —            | 367.1      |
| Stock compensation expense                                     | 8.1           | 37.2       | 11.3          | 16.7                | —            | 73.3       |
| Regulatory settlement  | —             | —          | 64.6          | —                   | —            | 64.6       |
| Adjusted EBITDA <sup>(1)</sup>                                 | 215.6         | 351.2      | 931.0         | (95.0)              | —            | 1,402.8    |
| Less: Securitization funding costs                             | —             | —          | 71.5          | —                   | —            | 71.5       |
| Less: Interest expense on deposits                             | —             | —          | 37.1          | —                   | —            | 37.1       |
| Less: Adjusted EBITDA attributable to non-controlling interest | 18.4          | —          | —             | —                   | —            | 18.4       |
| Adjusted EBITDA, net <sup>(1)</sup>                            | \$ 197.2      | \$ 351.2   | \$ 822.4      | \$ (95.0)           | \$ —         | \$ 1,275.8 |

(1) Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable financial measure based on GAAP plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization, amortization of purchased intangibles and regulatory settlement. Adjusted EBITDA, net is also a non-GAAP financial measure equal to adjusted EBITDA less securitization funding costs, interest expense on deposits and adjusted EBITDA attributable to the non-controlling interest. 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.

## 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, 2015, filed with the Securities and Exchange Commission, or SEC, on February 25, 2016.

### 2016 Highlights and Recent Developments

For the nine months ended September 30, 2016:

- ☐ Revenue increased 13% to \$5.3 billion as compared to the nine months ended September 30, 2015.
- ☐ Net income increased 19% to \$507.0 million as compared to the nine months ended September 30, 2015.
- ☐ Adjusted EBITDA, net increased 8% to \$1.4 billion as compared to the nine months ended September 30, 2015.
- ☐ We repurchased approximately 3.3 million shares for \$692.8 million.
- ☐ We purchased three private label credit card portfolios and one co-brand credit card portfolio for cash consideration of approximately \$903.4 million. The co-brand credit card portfolio remains subject to customary purchase price adjustments.
- ☐ We acquired 10% ownership interest in BrandLoyalty Group B.V., or BrandLoyalty, for approximately \$102.0 million, which brought our ownership interest to 80.0%, effective January 1, 2016. We acquired the remaining 20% ownership interest in BrandLoyalty for approximately \$258.8 million, which brought our ownership interest to 100.0%, effective April 1, 2016.
- ☐ On October 10, 2016, our Board of Directors voted to expand the size of the Board to nine directors and appointed Timothy J. Theriault as a director.
- ☐ On October 20, 2016, our Board of Directors declared a quarterly cash dividend of \$0.52 per share with a record date of November 3, 2016 and a payable date of December 16, 2016.

### LoyaltyOne®

LoyaltyOne generates revenue primarily from our coalition and short-term loyalty programs through our AIR MILES® Reward Program and BrandLoyalty.

Revenue for the LoyaltyOne segment increased 10% to \$1.1 billion and adjusted EBITDA, net increased 19% to \$235.3 million for the nine months ended September 30, 2016, in each case as compared to the prior year period. Excluding foreign currency impacts, revenue increased approximately 14% with adjusted EBITDA and adjusted EBITDA, net increasing approximately 16% and 24%, respectively. Revenue was positively impacted by the timing of short-term loyalty programs in market and expansion into new markets and by a 28% increase in the number of AIR MILES reward miles redeemed, as redemption activity accelerated in the third quarter of 2016 due to the upcoming year-end expiration date. Should redemptions stay at elevated levels and in amounts greater than our expectations, this could impact the assumptions associated with our AIR MILES Reward Program, including our estimate of breakage.

Adjusted EBITDA, net was positively impacted by the increase in revenue as discussed above and our additional ownership interest in BrandLoyalty during the nine months ended September 30, 2016.

For the AIR MILES Reward Program, AIR MILES reward miles issued and AIR MILES reward miles redeemed are the two primary drivers of revenue and indicators of success of the program. The number of AIR MILES reward miles issued impacts future revenue recognized with respect to the number of AIR MILES reward miles redeemed and the amount of breakage for those AIR MILES reward miles expected to remain unredeemed.

AIR MILES reward miles issued during the nine months ended September 30, 2016 increased 2% as compared to the nine months ended September 30, 2015, while AIR MILES reward miles redeemed increased 28%. For the nine months ended September 30, 2016, the AIR MILES Cash program option represented approximately 23% of the AIR MILES reward miles issued and 19% of the AIR MILES reward miles redeemed.

During the nine months ended September 30, 2016, we announced an expansion of our relationship with Sobeys to begin issuing AIR MILES reward miles at Needs Convenience and Sobeys express convenience store locations in all Atlantic-Canadian provinces. In addition, we announced the signing of a new multi-year agreement with Morrisons, a U.K. grocer, to provide analytics support and consulting services.

Our short-term loyalty programs have continued their expansion into North America in 2016 with the announcement of BrandLoyalty's signing of Lowes Foods, a regional U.S. supermarket chain. As part of this agreement, BrandLoyalty will manage a promotional campaign in 75 Lowes Foods stores in North Carolina, South Carolina and Virginia.

#### *Epsilon®*

Epsilon is a leading marketing services firm providing end-to-end, integrated marketing solutions that leverage rich data, analytics, creativity and technology to help clients more effectively acquire, retain and grow relationships with their customers. Services include strategic consulting, customer database technologies, omnichannel marketing, loyalty management, proprietary data, predictive modeling, permission-based email marketing, personalized digital marketing and a full range of direct and digital agency services.

Revenue increased 1% to \$1.6 billion and adjusted EBITDA, net decreased 9% to \$318.2 million for the nine months ended September 30, 2016 as compared to the prior year period. Digital and technology platforms revenue increased 9%, driven by strength in CRM services and our automotive vertical. These strengths were offset in part by weakness in our agency offerings, specifically in the telecommunications, consumer packaged goods and retail verticals. Adjusted EBITDA was negatively impacted by increased payroll costs for the nine months ended September 30, 2016.

During the nine months ended September 30, 2016, we announced new multi-year agreements with Lamps Plus, a national lighting retailer, and Amica Mutual Insurance Company, a national insurer, to provide targeted email marketing services. We announced a new multi-year agreement with Shire plc, a global biotechnology company, to build and host a database platform and provide database marketing services. In addition, we announced the signing of a new multi-year agreement with Del Monte Foods, a national food producer and distributor. Del Monte Foods named Epsilon the agency of record, to develop a multi-channel creative campaign and communications plan and provide marketing services. We also announced the signing of a new multi-year agency services agreement with Brookdale Senior Living, a national provider of senior living communities, to provide strategic creative, account management and analytics services. During the nine months ended September 30, 2016, we also announced the signing of a new multi-year agreement with CNO Financial Group, Inc., a national holding company to insurers, to build a database platform and provide database marketing services.

#### *Card Services*

Card Services provides risk management solutions, account origination, funding services, transaction processing, marketing, customer care and collection services for our more than 160 private label retail and co-brand credit card programs.

Revenue, generated primarily from finance charges and late fees as well as other servicing fees, increased 23% to \$2.7 billion and adjusted EBITDA, net increased 11% to \$914.9 million for the nine months ended September 30, 2016 as compared to the prior year period. These increases were driven by higher average credit card and loan receivables. Credit sales and average credit card and loan receivables increased 19% and 25%, respectively, for the nine months ended September 30, 2016 as compared to the prior year period as a result of recent client signings and credit card portfolio acquisitions.

Delinquency rates were 5.0% of principal credit card and loan receivables at September 30, 2016 as compared to 4.5% at September 30, 2015. The principal net charge-off rate was 5.0% for the nine months ended September 30, 2016 as compared to 4.4% for the prior year period. For the year ended December 31, 2016, we expect our charge-off rate to approximate 5.0%.

During the nine months ended September 30, 2016, we announced new long-term agreements to provide private label credit card services to Boscov's Department Store, LLC, a national department store chain, Hot Topic Inc., a mall and web-based specialty retailer of music and pop culture-based licensed and influenced apparel and accessories, and Century 21 Department Store, a discount department store chain. In addition, we announced the signing of a new long-term agreement to develop a co-brand credit card program for Bed Bath & Beyond Inc., a retailer of domestic merchandise and home furnishings. We also announced the signing of a new long-term agreements to provide private label and co-brand credit card services to Forever 21, Inc., a fashion retailer, and Ulta Beauty, a beauty retailer. We signed a new multi-year agreement with Williams-Sonoma, a home and kitchen furnishings retailer, to provide private label and co-brand credit card services and acquired the co-brand credit card portfolio in the third quarter of 2016. We also signed a new multi-year agreement with The Children's Place, a children's apparel retailer, to provide private label credit card services and acquired the private label credit card portfolio in the fourth quarter of 2016.

### **Critical Accounting Policies and Estimates**

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Annual Report filed on Form 10-K for the fiscal year ended December 31, 2015.

### **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 that have been recently issued.

### **Use of Non-GAAP Financial Measures**

Adjusted EBITDA is a non-GAAP financial measure equal to net income, 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, amortization of purchased intangibles and regulatory settlement. Adjusted EBITDA, net is also a non-GAAP financial measure equal to adjusted EBITDA less securitization funding costs, interest expense on deposits and adjusted EBITDA attributable to the non-controlling interest.

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 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<br>September 30, |          | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|----------|------------------------------------|------------|
|  | 2016                                | 2015     | 2016                               | 2015       |
|  | (In millions)                       |          |                                    |            |
| Net income   | \$ 207.5                            | \$ 130.4 | \$ 507.0                           | \$ 425.3   |
| Stock compensation expense                                     | 18.0                                | 21.8     | 59.5                               | 73.3       |
| Provision for income taxes                                     | 105.2                               | 75.0     | 268.0                              | 231.7      |
| Interest expense, net  | 108.3                               | 82.1     | 310.8                              | 240.8      |
| Depreciation and other amortization                            | 42.6                                | 36.5     | 123.5                              | 105.0      |
| Amortization of purchased intangibles                          | 84.1                                | 86.9     | 261.2                              | 262.1      |
| Regulatory settlement  | —                                   | 64.6     | —                                  | 64.6       |
| Adjusted EBITDA  | 565.7                               | 497.3    | 1,530.0                            | 1,402.8    |
| Less: Securitization funding costs                             | 31.1                                | 23.1     | 91.5                               | 71.5       |
| Less: Interest expense on deposits                             | 22.6                                | 13.7     | 60.0                               | 37.1       |
| Less: Adjusted EBITDA attributable to non-controlling interest | —                                   | 7.5      | 5.5                                | 18.4       |
| Adjusted EBITDA, net   | \$ 512.0                            | \$ 453.0 | \$ 1,373.0                         | \$ 1,275.8 |

### Consolidated Results of Operations

|  | Three Months Ended September 30,  |             |          | Nine Months Ended September 30, |             |          |
|--|-----------------------------------|-------------|----------|---------------------------------|-------------|----------|
|  | 2016                              | 2015        | % Change | 2016                            | 2015        | % Change |
|  | (in millions, except percentages) |             |          |                                 |             |          |
| Revenues   |                                   |             |          |                                 |             |          |
| Transaction  | \$ 72.4                           | \$ 83.1     | (13)%    | \$ 223.8                        | \$ 263.2    | (15)%    |
| Redemption   | 296.3                             | 220.9       | 34       | 836.6                           | 747.2       | 12       |
| Finance charges, net   | 954.9                             | 737.9       | 29       | 2,645.2                         | 2,101.4     | 26       |
| Marketing services   | 516.3                             | 499.0       | 3        | 1,437.4                         | 1,435.5     | —        |
| Other revenue  | 45.7                              | 48.2        | (5)      | 167.5                           | 143.6       | 17       |
| Total revenue  | 1,885.6                           | 1,589.1     | 19 %     | 5,310.5                         | 4,690.9     | 13 %     |
| Operating expenses   |                                   |             |          |                                 |             |          |
| Cost of operations (exclusive of depreciation and amortization disclosed separately below) | 1,045.6                           | 901.0       | 16       | 3,077.6                         | 2,787.5     | 10       |
| Provision for loan loss  | 251.3                             | 171.7       | 46       | 651.0                           | 461.9       | 41       |
| General and administrative   | 41.0                              | 40.9        | —        | 111.4                           | 112.0       | —        |
| Regulatory settlement  | —                                 | 64.6        | (100)    | —                               | 64.6        | (100)    |
| Depreciation and other amortization  | 42.6                              | 36.5        | 17       | 123.5                           | 105.0       | 18       |
| Amortization of purchased intangibles  | 84.1                              | 86.9        | (3)      | 261.2                           | 262.1       | —        |
| Total operating expenses   | 1,464.6                           | 1,301.6     | 13 %     | 4,224.7                         | 3,793.1     | 11 %     |
| Operating income   | 421.0                             | 287.5       | 46 %     | 1,085.8                         | 897.8       | 21 %     |
| Interest expense   |                                   |             |          |                                 |             |          |
| Securitization funding costs   | 31.1                              | 23.1        | 34       | 91.5                            | 71.5        | 28       |
| Interest expense on deposits   | 22.6                              | 13.7        | 65       | 60.0                            | 37.1        | 62       |
| Interest expense on long-term and other debt, net  | 54.6                              | 45.3        | 21       | 159.3                           | 132.2       | 21       |
| Total interest expense, net  | 108.3                             | 82.1        | 32       | 310.8                           | 240.8       | 29       |
| Income before income tax   | \$ 312.7                          | \$ 205.4    | 52 %     | \$ 775.0                        | \$ 657.0    | 18 %     |
| Provision for income taxes   | 105.2                             | 75.0        | 40       | 268.0                           | 231.7       | 16       |
| Net income   | \$ 207.5                          | \$ 130.4    | 59 %     | \$ 507.0                        | \$ 425.3    | 19 %     |
| Key Operating Metrics:   |                                   |             |          |                                 |             |          |
| Credit card statements generated   | 69.0                              | 60.0        | 15 %     | 204.2                           | 177.9       | 15 %     |
| Credit sales   | \$ 6,985.6                        | \$ 6,000.4  | 16 %     | \$ 20,262.6                     | \$ 16,968.8 | 19 %     |
| Average credit card and loan receivables   | \$ 13,995.1                       | \$ 11,369.4 | 23 %     | \$ 13,679.0                     | \$ 10,971.0 | 25 %     |
| AIR MILES reward miles issued  | 1,431.5                           | 1,355.7     | 6 %      | 4,150.2                         | 4,066.8     | 2 %      |
| AIR MILES reward miles redeemed  | 1,851.2                           | 1,061.3     | 74 %     | 4,367.3                         | 3,416.1     | 28 %     |



**Three months ended September 30, 2016 compared to the three months ended September 30, 2015**

*Revenue.* Total revenue increased \$296.5 million, or 19%, to \$1.9 billion for the three months ended September 30, 2016 from \$1.6 billion for the three months ended September 30, 2015. The net increase was due to the following:

- *Transaction.* Revenue decreased \$10.7 million, or 13%, to \$72.4 million for the three months ended September 30, 2016 primarily due to other servicing fees charged to our credit cardholders, which decreased \$15.5 million due to changes in program fee structures, offset in part by a \$3.8 million increase in AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, due to strength of financial services sponsors.
- *Redemption.* Revenue increased \$75.4 million, or 34%, to \$296.3 million for the three months ended September 30, 2016. Revenue for our coalition loyalty program increased \$69.7 million due to a 74% increase in AIR MILES reward miles redeemed during the current year quarter, and revenue increased \$5.7 million due to the timing of short-term loyalty programs in market as compared to the prior year quarter.
- *Finance charges, net.* Revenue increased \$217.0 million, or 29%, to \$954.9 million for the three months ended September 30, 2016, which was driven by higher average credit card and loan receivables, which impacted revenue by \$199.2 million. The increase in average credit card and loan receivables was a result of a combination of recent credit card portfolio acquisitions and strong cardholder spending. Additionally, an increase in yield contributed the remaining \$17.8 million of the increase.
- *Marketing Services.* Revenue increased \$17.3 million, or 3%, to \$516.3 million for the three months ended September 30, 2016. The increase in revenue was driven by growth in our CRM services and automotive vertical, but offset by weakness in our agency offerings, specifically in the consumer packaged goods vertical.
- *Other revenue.* Revenue decreased \$2.5 million, or 5%, to \$45.7 million for the three months ended September 30, 2016 due to fewer consulting services provided by Epsilon in the current year quarter.

*Cost of operations.* Cost of operations increased \$144.6 million, or 16%, to \$1.0 billion for the three months ended September 30, 2016 as compared to \$901.0 million for the three months ended September 30, 2015. The increase was due to the following:

- Within the LoyaltyOne segment, cost of operations increased \$74.4 million primarily due to a \$67.0 million increase in cost of redemptions associated with the increase in redemption revenue.
- Within the Epsilon segment, cost of operations increased \$7.5 million due to a \$6.2 million increase in payroll and benefit expenses, driven by an increase in the number of associates, due in part to duplicative cost of our India operations, and severance costs.
- Within the Card Services segment, cost of operations increased by \$63.4 million. Payroll and benefit expenses increased \$22.1 million due to an increase in the number of associates to support growth, and marketing expenses increased \$4.2 million due to growth in credit sales. Other operating expenses increased \$37.1 million as a result of higher data processing expenses and credit card processing costs due to increases in volume associated with growth in credit card and loan receivables.

*Provision for loan loss.* Provision for loan loss increased \$79.6 million, or 46%, to \$251.3 million for the three months ended September 30, 2016 as compared to \$171.7 million for the three months ended September 30, 2015. The increase in the provision for loan loss was driven by higher credit card and loan receivables as well as an increase in net losses.

*General and administrative.* General and administrative expenses were relatively flat at \$41.0 million for the three months ended September 30, 2016 as compared to \$40.9 million for the three months ended September 30, 2015.

*Regulatory settlement.* For the three months ended September 30, 2015, we incurred approximately \$64.6 million in expenses primarily associated with consent orders with the Federal Deposit Insurance Corporation, or FDIC, to provide restitution of approximately \$61.5 million to eligible customers and \$2.5 million in civil money penalties to the FDIC.

*Depreciation and other amortization.* Depreciation and other amortization increased \$6.1 million, or 17%, to \$42.6 million for the three months ended September 30, 2016, as compared to \$36.5 million for the three months ended September 30, 2015, due to additional assets placed into service from recent capital expenditures.

*Amortization of purchased intangibles.* Amortization of purchased intangibles decreased \$2.8 million, or 3%, to \$84.1 million for the three months ended September 30, 2016 as compared to \$86.9 million for the three months ended September 30, 2015. The decrease is driven by fully amortized databases and customer contracts, offset in part by additional amortization associated with the intangible assets from recent portfolio acquisitions.

*Interest expense, net.* Total interest expense, net increased \$26.2 million, or 32%, to \$108.3 million for the three months ended September 30, 2016 as compared to \$82.1 million for the three months ended September 30, 2015. The increase was due to the following:

- *Securitization funding costs.* Securitization funding costs increased \$8.0 million due to higher average borrowings with higher average interest rates.
- *Interest expense on deposits.* Interest expense on deposits increased \$8.9 million due to higher average borrowings and higher average interest rates.
- *Interest expense on long-term and other debt, net.* Interest expense on long-term and other debt, net increased \$9.3 million as a result of the €300.0 million senior notes due 2023 issued in November 2015, which increased interest expense by \$4.4 million, and higher average balances related to the credit facility resulting from the incremental term loan borrowings and higher average interest rates due to the increase in the LIBOR rate, which increased interest expense by \$4.9 million.

*Taxes.* Income tax expense increased \$30.2 million to \$105.2 million for the three months ended September 30, 2016 from \$75.0 million for the three months ended September 30, 2015 due to an increase in taxable income, offset by a decline in the effective tax rate. The effective tax rate for the current year quarter improved to 33.6% as compared to 36.5% for the prior year quarter. The effective tax rate for the current year quarter reflects a state tax benefit related to a state ruling and higher than expected tax benefits related to permanent deductions.

#### ***Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015***

*Revenue.* Total revenue increased \$619.6 million, or 13%, to \$5.3 billion for the nine months ended September 30, 2016 from \$4.7 billion for the nine months ended September 30, 2015. The net increase was due to the following:

- *Transaction.* Revenue decreased \$39.4 million, or 15%, to \$223.8 million for the nine months ended September 30, 2016 primarily due to other servicing fees charged to our credit cardholders, which decreased \$44.6 million due to changes in program fee structures, offset in part by a \$6.5 million increase in AIR MILES reward miles issuance fees, for which we provide marketing and administrative services.
- *Redemption.* Revenue increased \$89.4 million, or 12%, to \$836.6 million for the nine months ended September 30, 2016. Revenue for our coalition loyalty program increased \$58.5 million due to an increase in AIR MILES reward miles redeemed during the current year period, despite a decline in the Canadian dollar relative to the U.S. dollar, which negatively impacted revenue by \$19.8 million. Additionally, revenue increased \$30.9 million due to the timing of short-term loyalty programs in market as compared to the prior year period.
- *Finance charges, net.* Revenue increased \$543.8 million, or 26%, to \$2.6 billion for the nine months ended September 30, 2016. This increase was driven by an increase in average credit card and loan receivables, which increased revenue \$575.0 million through a combination of recent credit card portfolio acquisitions and strong cardholder spending. This increase was offset in part by an approximate 30 basis point decline in yield due to the onboarding of new programs and program changes.
- *Marketing Services.* Revenue was relatively flat at \$1.4 billion for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015, as growth in our CRM services was offset by weakness in our agency offerings.

- *Other revenue.* Revenue increased \$23.9 million, or 17%, to \$167.5 million for the nine months ended September 30, 2016 due to additional consulting services provided by Epsilon.

*Cost of operations.* Cost of operations increased \$290.1 million, or 10%, to \$3.1 billion for the nine months ended September 30, 2016 as compared to \$2.8 billion for the nine months ended September 30, 2015. The increase was due to the following:

- Within the LoyaltyOne segment, cost of operations increased \$76.3 million due to an increase in cost of redemptions of \$66.8 million associated with the increase in redemption revenue. The increase in cost of operations was offset in part by a decline in the Canadian dollar relative to the U.S. dollar.
- Within the Epsilon segment, cost of operations increased \$43.7 million due to a \$37.4 million increase in payroll and benefit expenses, driven by an approximate 10% increase in the number of associates, due in part to duplicative cost of our India operations, and severance costs.
- Within the Card Services segment, cost of operations increased by \$173.0 million. Payroll and benefit expenses increased \$54.9 million due to an increase in the number of associates to support growth, and marketing expenses increased \$15.2 million due to growth in credit sales. Other operating expenses increased \$102.9 million as a result of higher data processing expenses and credit card processing costs due to increases in volume associated with growth in credit card and loan receivables.

*Provision for loan loss.* Provision for loan loss increased \$189.1 million, or 41%, to \$651.0 million for the nine months ended September 30, 2016 as compared to \$461.9 million for the nine months ended September 30, 2015. The increase in the provision for loan loss was driven by higher credit card and loan receivables as well as an increase in net losses.

*General and administrative.* General and administrative expenses were relatively flat at \$111.4 million for the nine months ended September 30, 2016 as compared to \$112.0 million for the nine months ended September 30, 2015.

*Regulatory settlement.* For the nine months ended September 30, 2015, we incurred approximately \$64.6 million in expenses primarily associated with consent orders with the FDIC to provide restitution of approximately \$61.5 million to eligible customers and \$2.5 million in civil money penalties to the FDIC.

*Depreciation and other amortization.* Depreciation and other amortization increased \$18.5 million, or 18%, to \$123.5 million for the nine months ended September 30, 2016, as compared to \$105.0 million for the nine months ended September 30, 2015, due to additional assets placed into service from recent capital expenditures.

*Amortization of purchased intangibles.* Amortization of purchased intangibles was relatively flat at \$261.2 million for the nine months ended September 30, 2016 as compared to \$262.1 million for the nine months ended September 30, 2015, as the amortization associated with the intangibles for portfolio premiums acquired was offset by certain fully amortized intangible assets.

*Interest expense, net.* Total interest expense, net increased \$70.0 million, or 29%, to \$310.8 million for the nine months ended September 30, 2016 as compared to \$240.8 million for the nine months ended September 30, 2015. The increase was due to the following:

- *Securitization funding costs.* Securitization funding costs increased \$20.0 million due to higher average borrowings with higher average interest rates.
- *Interest expense on deposits.* Interest expense on deposits increased \$22.9 million due to higher average borrowings and higher average interest rates.
- *Interest expense on long-term and other debt, net.* Interest expense on long-term and other debt, net increased \$27.1 million as a result of the €300.0 million senior notes due 2023 issued in November 2015, which increased interest expense by \$13.1 million, and higher average balances related to the credit facility resulting from the incremental term loan borrowings and higher average interest rates due to the increase in the LIBOR rate, which increased interest expense by \$14.7 million.

**Taxes.** Income tax expense increased \$36.3 million to \$268.0 million for the nine months ended September 30, 2016 from \$231.7 million for the nine months ended September 30, 2015 due to an increase in taxable income, offset in part by a decline in the effective tax rate. The effective tax rate for the nine months ended September 30, 2016 improved to 34.6% as compared to 35.3% for the nine months ended September 30, 2015. The effective tax rate for the current year period reflects a state tax benefit related to a state ruling and higher than expected tax benefits related to permanent deductions.

### Segment Revenue and Adjusted EBITDA, net

|   | Three Months Ended September 30, |            |          | Nine Months Ended September 30, |            |          |
|---|----------------------------------|------------|----------|---------------------------------|------------|----------|
|   | 2016                             | 2015       | % Change | 2016                            | 2015       | % Change |
| (in millions, except percentages)           |                                  |            |          |                                 |            |          |
| <b>Revenue:</b>                             |                                  |            |          |                                 |            |          |
| LoyaltyOne                                  | \$ 383.8                         | \$ 299.1   | 28 %     | \$ 1,090.7                      | \$ 988.8   | 10 %     |
| Epsilon                                     | 543.2                            | 532.4      | 2        | 1,555.3                         | 1,532.5    | 1        |
| Card Services                               | 965.8                            | 764.0      | 26       | 2,687.1                         | 2,189.1    | 23       |
| Corporate/Other                             | 0.1                              | 0.2        | nm       | 0.2                             | 0.3        | nm       |
| Eliminations                                | (7.3)                            | (6.6)      | nm       | (22.8)                          | (19.8)     | nm       |
| Total                                       | \$ 1,885.6                       | \$ 1,589.1 | 19 %     | \$ 5,310.5                      | \$ 4,690.9 | 13 %     |
| <b>Adjusted EBITDA, net <sup>(1)</sup>:</b> |                                  |            |          |                                 |            |          |
| LoyaltyOne                                  | \$ 82.3                          | \$ 64.5    | 28 %     | \$ 235.3                        | \$ 197.2   | 19 %     |
| Epsilon                                     | 134.8                            | 135.0      | —        | 318.2                           | 351.2      | (9)      |
| Card Services                               | 330.9                            | 289.2      | 14       | 914.9                           | 822.4      | 11       |
| Corporate/Other                             | (36.0)                           | (35.7)     | 1        | (95.4)                          | (95.0)     | —        |
| Total                                       | \$ 512.0                         | \$ 453.0   | 13 %     | \$ 1,373.0                      | \$ 1,275.8 | 8 %      |

(1) Adjusted EBITDA, net is equal to net income, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and amortization, amortization of purchased intangibles and regulatory settlement, less securitization funding costs, interest expense on deposits and adjusted EBITDA attributable to the non-controlling interest. For a reconciliation of adjusted EBITDA, net to net income, the most directly comparable GAAP financial measure, see “Use of Non-GAAP Financial Measures” included in this report.

nm – not meaningful.

### Three months ended September 30, 2016 compared to the three months ended September 30, 2015

**Revenue.** Total revenue increased \$296.5 million, or 19%, to \$1.9 billion for the three months ended September 30, 2016 from \$1.6 billion for the three months ended September 30, 2015. The increase was due to the following:

- **LoyaltyOne.** Revenue increased \$84.7 million, or 28%, to \$383.8 million for the three months ended September 30, 2016 primarily due to a \$69.7 million increase related to the increase in AIR MILES reward miles redeemed, a \$5.7 million increase related the timing of short-term loyalty programs in market and a \$3.8 million increase in AIR MILES reward miles issuance fees during the three months ended September 30, 2016 as compared to the prior year quarter.
- **Epsilon.** Revenue increased \$10.8 million, or 2%, to \$543.2 million for the three months ended September 30, 2016 due to an \$18.7 million increase in digital and technology platforms revenue, driven by strength in our CRM services. This increase was offset in part by a \$7.9 million decrease in our agency offerings, specifically in the consumer packaged goods vertical.
- **Card Services.** Revenue increased \$201.8 million, or 26%, to \$965.8 million for the three months ended September 30, 2016, driven by a \$217.0 million increase in finance charges, net as a result of an increase in average credit card and loan receivables due to recent portfolio acquisitions and strong cardholder spending. Servicing fees declined \$15.5 million primarily due to changes in program fee structures.

*Adjusted EBITDA, net.* Adjusted EBITDA, net increased \$59.0 million, or 13%, to \$512.0 million for the three months ended September 30, 2016 from \$453.0 million for the three months ended September 30, 2015. The net increase was due to the following:

- *LoyaltyOne.* Adjusted EBITDA, net increased \$17.8 million, or 28%, to \$82.3 million for the three months ended September 30, 2016 primarily due to the increase in revenue discussed above, offset in part by the associated increase in cost of redemptions. Additionally, in the prior year period, adjusted EBITDA, net was reduced by \$7.5 million of adjusted EBITDA attributable to the non-controlling interest. Effective April 1, 2016, there is no longer a non-controlling interest in BrandLoyalty as we now own 100%.
- *Epsilon.* Adjusted EBITDA, net was \$134.8 million for the three months ended September 30, 2016, as compared to \$135.0 million for the nine months ended September 30, 2015, as the increase in revenue noted above was offset by an increase in payroll and benefit costs associated with duplicative cost of our India operations and severance costs.
- *Card Services.* Adjusted EBITDA, net increased \$41.7 million, or 14%, to \$330.9 million for the three months ended September 30, 2016. Adjusted EBITDA, net was positively impacted by an increase in finance charges, net, but was offset in part by both an increase in operating expenses due to increased volumes and an increase in the provision for loan loss resulting from the increase in credit card and loan receivables.
- *Corporate/Other.* Adjusted EBITDA, net decreased \$0.3 million to a loss of \$36.0 million for the three months ended September 30, 2016, due in part to an increase in charitable contributions.

#### ***Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015***

*Revenue.* Total revenue increased \$619.6 million, or 13%, to \$5.3 billion for the nine months ended September 30, 2016 from \$4.7 billion for the nine months ended September 30, 2015. The increase was due to the following:

- *LoyaltyOne.* Revenue increased \$101.9 million, or 10%, to \$1.1 billion for the nine months ended September 30, 2016 primarily due to a \$58.5 million increase related to the increase in AIR MILES reward miles redeemed, a \$30.9 million increase related the timing of short-term loyalty programs in market and a \$6.5 million increase in AIR MILES reward miles issuance fees during the nine months ended September 30, 2016 as compared to the prior year period. The decline in the Canadian dollar relative to the U.S. dollar negatively impacted revenue by \$32.3 million in the current year as compared to the prior year period.
- *Epsilon.* Revenue increased \$22.8 million, or 1%, to \$1.6 billion for the nine months ended September 30, 2016 due to a \$93.0 million increase in digital and technology platforms revenue, driven by strength in CRM services as well as strength in our automotive platforms. This increase was offset in part by a \$70.2 million decrease in our agency offerings, specifically in the telecommunications, consumer packaged goods and retail verticals.
- *Card Services.* Revenue increased \$498.0 million, or 23%, to \$2.7 billion for the nine months ended September 30, 2016, driven by a \$543.8 million increase in finance charges, net as a result of an increase in average credit card and loan receivables due to recent portfolio acquisitions and strong cardholder spending. Other servicing fees decreased \$44.6 million primarily due to changes in program fee structures.

*Adjusted EBITDA, net.* Adjusted EBITDA, net increased \$97.2 million, or 8%, to \$1.4 billion for the nine months ended September 30, 2016 from \$1.3 billion for the nine months ended September 30, 2015. The net increase was due to the following:

- *LoyaltyOne.* Adjusted EBITDA, net increased \$38.1 million, or 19%, to \$235.3 million for the nine months ended September 30, 2016 due to the increase in revenue discussed above, as adjusted EBITDA margins remained relatively consistent between periods. Additionally, adjusted EBITDA, net was impacted by the increase of our ownership in BrandLoyalty, which increased to 80% effective January 1, 2016 and to 100% effective April 1, 2016. The portion of adjusted EBITDA attributable to the non-controlling interest decreased to \$5.5 million for the nine months ended September 30, 2016, as compared to \$18.4 million in the prior year period, resulting in a \$12.9 million increase to adjusted EBITDA, net.

- *Epsilon*. Adjusted EBITDA, net decreased \$33.0 million, or 9%, to \$318.2 million for the nine months ended September 30, 2016, primarily due to an increase in payroll costs of \$49.5 million in the current year period.
- *Card Services*. Adjusted EBITDA, net increased \$92.5 million, or 11%, to \$914.9 million for the nine months ended September 30, 2016. Adjusted EBITDA, net was positively impacted by an increase in finance charges, net, but offset in part by both an increase in operating expenses due to increased volumes and an increase in the provision for loan loss resulting from an increase in both credit card and loan receivables and net losses.
- *Corporate/Other*. Adjusted EBITDA, net decreased \$0.4 million to a loss of \$95.4 million for the nine months ended September 30, 2016, due in part to an increase in consulting and professional services fees.

## 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 when 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 beyond 90 days, 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:

|  | September 30,<br>2016             | % of<br>Total | December 31,<br>2015 | % of<br>Total |
|--|-----------------------------------|---------------|----------------------|---------------|
|  | (In millions, except percentages) |               |                      |               |
| Receivables outstanding - principal                      | \$ 13,898.1                       | 100.0 %       | \$ 13,196.4          | 100.0 %       |
| Principal receivables balances contractually delinquent: |                                   |               |                      |               |
| 31 to 60 days  | 226.1                             | 1.6 %         | 178.5                | 1.4 %         |
| 61 to 90 days  | 156.9                             | 1.1           | 124.1                | 0.9           |
| 91 or more days  | 315.5                             | 2.3           | 257.0                | 1.9           |
| Total  | <u>\$ 698.5</u>                   | <u>5.0 %</u>  | <u>\$ 559.6</u>      | <u>4.2 %</u>  |

*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<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|---|-------------------------------------|-------------|------------------------------------|-------------|
|   | 2016                                | 2015        | 2016                               | 2015        |
|   | (In millions, except percentages)   |             |                                    |             |
| Average credit card and loan receivables                                    | \$ 13,995.1                         | \$ 11,369.4 | \$ 13,679.0                        | \$ 10,971.0 |
| Net charge-offs of principal receivables                                    | 164.5                               | 123.7       | 513.2                              | 365.4       |
| Net charge-offs as a percentage of average credit card and loan receivables | 4.7 %                               | 4.4 %       | 5.0 %                              | 4.4 %       |

See Note 3, "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

Our primary sources of liquidity include cash generated from operating activities, our credit card securitization program, deposits issued by Comenity Bank and Comenity Capital Bank, our credit agreements and issuances of debt and equity securities. In addition to our efforts to renew and expand our current liquidity sources, we continue to seek new funding sources.

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. As of September 30, 2016, Comenity Bank's Common Equity Tier 1 capital ratio was 15.1%, Tier 1 capital ratio was 15.1%, total capital ratio was 16.4% and leverage ratio was 14.5%. As of September 30, 2016, Comenity Capital Bank's Common Equity Tier 1 capital ratio was 13.4%, Tier 1 capital ratio was 13.4%, total capital ratio was 14.7% and leverage ratio was 12.8%. Comenity Bank and Comenity Capital Bank are considered well capitalized.

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

We may from time to time seek to retire or purchase our outstanding debt through cash purchases or exchanges for other securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

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.

### Cash Flow Activity

*Operating Activities.* We generated cash flow from operating activities of \$1.3 billion and \$1.0 billion for the nine months ended September 30, 2016 and 2015, respectively. The increase in operating cash flows of \$297.8 million during the nine months ended September 30, 2016 as compared to the prior year period was due to increased profitability as well as non-cash charges to income, such as the increase in the provision for loan loss, offset in part by an increase in cash used in working capital, due primarily to decreases in deferred revenue and accrued expenses during the current year period. Additionally, the settlement of the contingent liability associated with the BrandLoyalty acquisition in February 2015 negatively impacted our operating cash flow in the prior year period.

*Investing Activities.* Cash used in investing activities was \$2.2 billion and \$1.1 billion for the nine months ended September 30, 2016 and 2015, respectively. Significant components of investing activities are as follows:

- *Restricted cash.* During the nine months ended September 30, 2016, we collected principal accumulation of \$126.1 million for the repayment of non-recourse borrowings of consolidated securitized debt that was repaid in October 2016.



- *Credit card and loan receivables, net.* Cash decreased \$1.0 billion and \$913.8 million for the nine months ended September 30, 2016 and 2015, respectively, due to the growth in credit card and loan receivables and strong cardholder spending in both periods.
- *Purchase of credit card portfolios.* During the nine months ended September 30, 2016, we paid approximately \$903.4 million to acquire three private label credit card portfolios and one co-brand credit card portfolio.

*Financing Activities.* Cash provided by financing activities was \$1.2 billion for the nine months ended September 30, 2016, compared to cash used in financing activities of \$7.2 million for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, the primary sources of cash were net borrowings under our debt agreements, including \$374.0 million in net borrowings under the credit facility and €190.0 million in term loan borrowings under the 2016 BrandLoyalty Credit Agreement, and net issuances of deposits. These sources were partially offset by uses of \$692.8 million to acquire treasury shares and \$360.7 million to acquire the remaining 30% ownership interest in BrandLoyalty. For the nine months ended September 30, 2015, the primary uses of cash were \$856.9 million to acquire treasury shares, \$205.9 million to settle the BrandLoyalty contingent liability and \$87.4 million to acquire an additional 10% ownership interest in BrandLoyalty in February 2015.

## **Debt**

### *Long-term and Other Debt*

During the nine months ended September 30, 2016, we extended the maturity of certain term loans with principal amount of \$200.0 million from September 2016 to September 2017. In addition, we exercised the accordion feature to borrow incremental term loans in the aggregate principal amount of \$277.5 million and increased the commitments under our revolving line of credit by \$22.5 million. These borrowings bear interest at the same rates as, and are generally subject to the same terms as, the 2013 credit facility.

As of September 30, 2016, we had \$839.0 million outstanding under our credit facility and total availability of \$483.5 million. Our total leverage ratio, as defined in our credit agreement, was 2.9 to 1 at September 30, 2016, as compared to the maximum covenant ratio of 3.5 to 1.

In June 2016, BrandLoyalty amended its credit agreement. The BrandLoyalty credit agreement, as amended, provides for €190.0 million in term loans and extends the maturity of the €62.5 million committed revolving line of credit and €62.5 million uncommitted revolving line of credit. The credit agreement matures on June 10, 2020, with reductions in commitments for each of the revolving lines of credit of €25.0 million in August 2018. As of September 30, 2016, the amount outstanding under the revolving lines of credit is €87.4 million (\$98.2 million).

As of September 30, 2016, we were in compliance with our debt covenants.

In October 2016, we issued \$500.0 million aggregate principal amount of 5.875% senior notes due November 1, 2021, or the Senior Notes due 2021. The Senior Notes due 2021 accrue interest on the principal amount at the rate of 5.875% per annum from October 27, 2016, payable semiannually in arrears, on May 1 and November 1 of each year, beginning on May 1, 2017. We intend to use the net proceeds to repay a portion of the outstanding indebtedness under the 2013 revolving line of credit.

### *Deposits*

We utilize money market deposits and certificates of deposit to finance the operating activities and fund securitization enhancement requirements of our bank subsidiaries, Comenity Bank and Comenity Capital Bank.

As of September 30, 2016, we had \$2.2 billion in money market deposits outstanding with interest rates ranging from 0.50% to 1.90%. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

As of September 30, 2016, we had \$5.5 billion in certificates of deposit outstanding with interest rates ranging from 0.59% to 2.80% and maturities ranging from October 2016 to November 2021. Certificate of deposit borrowings are subject to regulatory capital requirements.



### 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, or Master Trust I, World Financial Network Credit Card Master Note Trust and World Financial Network Credit Card 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 the primary vehicle through which we finance Comenity Bank's and Comenity Capital Bank's credit card receivables.

As of September 30, 2016, the WFN Trusts and the WFC Trust had approximately \$9.9 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.

At September 30, 2016, we had \$5.9 billion of non-recourse borrowings of consolidated securitization entities, of which \$1.3 billion is due within the next 12 months. As of September 30, 2016, total capacity under the conduit facilities was \$2.7 billion, of which \$1.6 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the unaudited condensed consolidated balance sheets.

In October 2016, Master Trust I issued \$460.5 million of asset-backed term notes, which mature in October 2019. The offering consisted of \$350.0 million of Class A notes with a fixed interest rate of 1.72% per year, \$21.9 million of Class M notes with a fixed interest rate of 1.98% per year and \$88.6 million of notes which were retained by us and eliminated from the unaudited condensed consolidated balance sheets.

The following table shows the maturities of borrowing commitments as of September 30, 2016 for the WFN Trusts and the WFC Trust by year:

|                                   | 2016          | 2017       | 2018       | 2019     | 2020 and<br>Thereafter | Total      |
|-----------------------------------|---------------|------------|------------|----------|------------------------|------------|
|                                   | (In millions) |            |            |          |                        |            |
| Term notes                        | \$ 100.0      | \$ 950.0   | \$ 1,341.0 | \$ 802.2 | \$ 1,157.5             | \$ 4,350.7 |
| Conduit facilities <sup>(1)</sup> | —             | 2,650.0    | —          | —        | —                      | 2,650.0    |
| Total <sup>(2)</sup>              | \$ 100.0      | \$ 3,600.0 | \$ 1,341.0 | \$ 802.2 | \$ 1,157.5             | \$ 7,000.7 |

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

(2) Total amounts do not include \$1.9 billion 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 8, "Debt," of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding our debt.

### Stock Repurchase Programs

We have authorization to repurchase up to \$1.0 billion of our outstanding common stock through December 31, 2016 under our stock repurchase program. During the nine months ended September 30, 2016, we repurchased approximately 3.3 million shares of our common stock for an aggregate amount of \$692.8 million.

See Note 13, "Stockholders' Equity," of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding our stock repurchases.

### Dividend

On October 20, 2016, our Board of Directors declared a quarterly cash dividend of \$0.52 per share on our common stock, payable on December 16, 2016 to stockholders of record at the close of business on November 3, 2016.

### **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.

There has been no material change from our Annual Report on Form 10-K for the year ended December 31, 2015 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 September 30, 2016, 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 September 30, 2016 (the end of our third 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 third quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **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. 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:

- loss of, or reduction in demand for services from, significant clients;
- increased redemptions by AIR MILES Reward Program collectors;
- increases in the cost of doing business, including market interest rates;
- loss of active AIR MILES Reward Program collectors;
- disruptions in the airline or travel industries;
- failure to identify or successfully integrate business acquisitions;
- increases in net charge-offs in credit card and loan receivables;
- inability to access the asset-backed securitization funding market;
- 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 FDIC, 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, 2016 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. 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.

## 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 Note 11, "Commitments and Contingencies," of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

### 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, 2015 or our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016.

***Current and proposed regulation and legislation relating to our card services could limit our business activities, product offerings and fees charged and may have a significant impact on our business, results of operation and financial condition.***

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted into law. The Dodd-Frank Act, among other things, includes a sweeping reform of the regulation and supervision of financial institutions, as well as of the regulation of derivatives and capital market activities.

The full impact of the Dodd-Frank Act is difficult to assess because many provisions require federal agencies to adopt implementing regulations, and some of the final implementing regulations have not yet been issued. In addition, the Dodd-Frank Act mandates multiple studies, which could result in future legislative or regulatory action. In particular, the Government Accountability Office issued its study on whether it is necessary, in order to strengthen the safety and soundness of institutions or the stability of the financial system of the United States, to eliminate the exemptions to the definition of "bank" under the Bank Holding Company Act for certain institutions including limited purpose credit card banks and industrial loan companies. The study did not recommend the elimination of these exemptions. However, if legislation were enacted to eliminate these exemptions without any grandfathering of or accommodations for existing institutions, we could be required to become a bank holding company and cease certain of our activities that are not permissible for bank holding companies or divest our credit card bank subsidiary, Comenity Bank, or our industrial bank subsidiary, Comenity Capital Bank.

The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB"), a federal consumer protection regulator with authority to make further changes to the federal consumer protection laws and regulations. The CFPB assumed rulemaking authority under the existing federal consumer financial protection laws, and enforces those laws against and examines certain non-depository institutions and insured depository institutions with total assets greater than \$10 billion and their affiliates.

As of October 1, 2016, both Comenity Bank and Comenity Capital Bank are under the CFPB's supervision and the CFPB may, from time to time, conduct reviews of their practices. In addition, the CFPB's broad rulemaking authority is expected to impact their operations. For example, the CFPB's rulemaking authority may allow it to change regulations adopted in the past by other regulators including regulations issued under the Truth in Lending Act or the CARD Act by the Board of Governors of the Federal Reserve System. The CFPB's ability to rescind, modify or interpret past regulatory guidance could increase our compliance costs and litigation exposure. Furthermore, the CFPB has broad authority to prevent "unfair, deceptive or abusive" acts or practices and has taken enforcement action against other credit card issuers and financial services companies. Evolution of these standards could result in changes to pricing, practices, procedures and other activities relating to our credit card accounts in ways that could reduce the associated return. It is unclear what changes would be promulgated by the CFPB and what effect, if any, such changes would have on our credit accounts.

The Dodd-Frank Act authorizes certain state officials to enforce regulations issued by the CFPB and to enforce the Dodd-Frank Act's general prohibition against unfair, deceptive or abusive practices. To the extent that states enact requirements that differ from federal standards or courts adopt interpretations of federal consumer laws that differ from those adopted by the federal banking agencies, we may be required to alter products or services offered in some jurisdictions or cease offering products, which will increase compliance costs and reduce our ability to offer the same products and services to consumers nationwide.

Various federal and state laws and regulations significantly limit the retail credit card services activities in which we are permitted to engage. Such laws and regulations, among other things, limit the fees and other charges that we can impose on consumers, limit or proscribe certain other terms of our products and services, require specified disclosures to consumers, or require that we maintain certain licenses, qualifications and minimum capital levels. In some cases, the precise application of these statutes and regulations is not clear. In addition, numerous legislative and regulatory proposals are advanced each year which, if adopted, could have a material adverse effect on our profitability or further restrict the manner in which we conduct our activities. The CARD Act acts to limit or modify certain credit card practices and requires increased disclosures to consumers. The credit card practices addressed by the rules include, but are not limited to, restrictions on the application of rate increases to existing and new balances, payment allocation, default pricing, imposition of late fees and two-cycle billing. The failure to comply with, or adverse changes in, the laws or regulations to which our business is subject, or adverse changes in their interpretation, could have a material adverse effect on our ability to collect our receivables and generate fees on the receivables, thereby adversely affecting our profitability.

In the normal course of business, from time to time, Comenity Bank and Comenity Capital Bank have been named as defendants in various legal actions, including arbitrations, class actions and other litigation arising in connection with their business activities. While historically the arbitration provision in each bank's customer agreement has generally limited such bank's exposure to consumer class action litigation, there can be no assurance that the banks will be successful in enforcing the arbitration clause in the future. There may also be legislative, administrative or regulatory efforts to directly or indirectly prohibit the use of pre-dispute arbitration clauses. The CFPB publicly announced that it is considering proposing rules that would ban consumer financial companies from using arbitration clauses that limit a consumer's right to participate in class action litigation.

Comenity Bank and Comenity Capital Bank are also involved, from time to time, in reviews, investigations, and proceedings (both formal and informal) by governmental agencies regarding the bank's business, which could subject the bank to significant fines, penalties, obligations to change its business practices or other requirements. In September 2015, each bank entered into a consent order with the FDIC agreeing to collectively provide restitution of approximately \$61.5 million to eligible customers, to pay \$2.5 million in civil money penalties to the FDIC and to make further enhancements to their compliance and other processes related to the marketing, promotion and sale of add-on products.

The effect of the Dodd-Frank Act on our business and operations could be significant, depending upon final implementing regulations, the actions of our competitors and the behavior of other marketplace participants. In addition, we may be required to invest significant management time and resources to address the various provisions of the Dodd-Frank Act and the numerous regulations that are required to be issued under it. The Dodd-Frank Act and any related legislation or regulations may have a material impact on our business, results of operations and financial condition.

**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 September 30, 2016:

| <u>Period</u>       | <u>Total Number of Shares Purchased</u> <sup>(1)</sup> | <u>Average Price Paid per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u> <sup>(2)</sup> |
|---------------------|--|-------------------------------------|---|--|
| <b>During 2016:</b> |  |                                     |   |  |
| July 1-31           | 123,942  | \$ 212.39                           | 119,700   | \$ 451.2   |
| August 1-31         | 409,793  | 208.77                              | 407,000   | 366.3  |
| September 1-30      | 278,587  | 214.70                              | 275,000   | 307.2  |
| <b>Total</b>        | <b>812,322</b>   | <b>\$ 211.36</b>                    | <b>801,700</b>  | <b>\$ 307.2</b>  |

(1) During the period represented by the table, 10,622 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) On January 1, 2016, our Board of Directors authorized a stock repurchase program to acquire up to \$500.0 million of our outstanding common stock from January 1, 2016 through December 31, 2016. On February 15, 2016, our Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2016 to acquire an additional \$500.0 million of our outstanding common stock through December 31, 2016, for a total authorization of \$1.0 billion. Both authorizations are subject to any restrictions pursuant to the terms of our credit agreements, indentures, applicable securities laws or otherwise.

**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)       | 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        | (b)(c)(d) | Third Amendment to Receivables Purchase Agreement, dated as of July 6, 2016, between Comenity Bank and WFN Credit Company, LLC.  | 8-K                       | 4.2     | 7/8/16      |
| 10.2        | (b)(c)(d) | Supplemental Indenture No. 6 to Master Indenture, dated as of July 6, 2016, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.  | 8-K                       | 4.3     | 7/8/16      |
| 10.3        | (a)       | Tenth Amendment to the Transfer and Servicing Agreement, dated as of July 6, 2016, among Comenity Bank, WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust.   | 8-K                       | 4.4     | 7/8/16      |
| 10.4        | (b)(c)(d) | Series 2016-A Indenture Supplement, dated as of July 27, 2016, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.   | 8-K                       | 4.1     | 7/28/16     |
| +10.5       | (b)(c)(d) | Form of Non-employee Director Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan.   | 10-Q                      | 10.4    | 8/8/16      |
| 10.6        | (b)(c)(d) | Series 2016-B Indenture Supplement, dated as of September 22, 2016, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.  | 8-K                       | 4.1     | 9/23/16     |
| 10.7        | (a)       | Indenture, dated October 27, 2016, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Regions Bank, as trustee (including the form of the Company's 5.875% Senior Note due November 1, 2021). | 8-K                       | 4.1     | 10/28/16    |
| 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.                  |                           |         |             |

| Exhibit No. | Filer | Description  | Incorporated by Reference |         |             |
|-------------|-------|--|---------------------------|---------|-------------|
|             |       |  | Form                      | Exhibit | Filing Date |
| *101.INS    | (a)   | XBRL Instance Document                                 |                           |         |             |
| *101.SCH    | (a)   | XBRL Taxonomy Extension Schema Document                |                           |         |             |
| *101.CAL    | (a)   | XBRL Taxonomy Extension Calculation Linkbase Document  |                           |         |             |
| *101.DEF    | (a)   | XBRL Taxonomy Extension Definition Linkbase Document   |                           |         |             |
| *101.LAB    | (a)   | XBRL Taxonomy Extension Label Linkbase Document        |                           |         |             |
| *101.PRE    | (a)   | XBRL Taxonomy Extension Presentation Linkbase Document |                           |         |             |

\* Filed herewith

+ Management contract, compensatory plan or arrangement

(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/ EDWARD J. HEFFERNAN

Edward J. Heffernan

*President and Chief Executive Officer*

Date: November 7, 2016

By: /s/ CHARLES L. HORN

Charles L. Horn

*Executive Vice President and Chief Financial Officer*

Date: November 7, 2016



**CERTIFICATION OF THE  
CHIEF EXECUTIVE OFFICER  
OF  
ALLIANCE DATA SYSTEMS CORPORATION**

I, Edward J. Heffernan, 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/ EDWARD J. HEFFERNAN

\_\_\_\_\_  
Edward J. Heffernan  
Chief Executive Officer

Date: November 7, 2016

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**CERTIFICATION OF THE  
CHIEF FINANCIAL OFFICER  
OF  
ALLIANCE DATA SYSTEMS CORPORATION**

I, Charles L. Horn, 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/ CHARLES L. HORN

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Charles L. Horn  
Chief Financial Officer

Date: November 7, 2016

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**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 September 30, 2016 (the "Form 10-Q") of Alliance Data Systems Corporation (the "Registrant").

I, Edward J. Heffernan, 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/ EDWARD J. HEFFERNAN

Edward J. Heffernan

Chief Executive Officer

Date: November 7, 2016

Subscribed and sworn to before me  
this 7<sup>th</sup> day of November, 2016.

/s/ JANE BAEDKE

Name: Jane Baedke

Title: Notary Public

My commission expires:

October 23, 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.

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**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 September 30, 2016 (the "Form 10-Q") of Alliance Data Systems Corporation (the "Registrant").

I, Charles L. Horn, 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/ CHARLES L. HORN

Charles L. Horn

Chief Financial Officer

Date: November 7, 2016

Subscribed and sworn to before me  
this 7<sup>th</sup> day of November, 2016.

/s/ JANE BAEDKE

Name: Jane Baedke

Title: Notary Public

My commission expires:

October 23, 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.

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