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

FORM 10-Q

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

For the quarterly period ended June 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

ALLIANCE DATA SYSTEMS CORPORATION
(Exact name of registrant as specified in its charter)

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

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)

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 R 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 R 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 R	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 R

As of July 27, 2016, 58,529,080 shares of common stock were outstanding.

ALLIANCE DATA SYSTEMS CORPORATION

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PART I

Item 1. Financial Statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2016	December 31, 2015
	(In millions, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 1,316.5	$ 1,168.0
Trade receivables, less allowance for doubtful accounts ($8.1 and $4.0 at June 30, 2016 and December 31, 2015, respectively)	666.4	706.5
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	9,748.6	10,592.4
Other credit card and loan receivables	4,236.6	3,207.1
Total credit card and loan receivables	13,985.2	13,799.5
Allowance for loan loss	(782.6)	(741.6)
Credit card and loan receivables, net	13,202.6	13,057.9
Credit card and loan receivables held for sale	508.1	95.5
Deferred tax asset, net	—	288.1
Inventories, net	225.4	228.0
Other current assets	296.9	249.8
Redemption settlement assets, restricted	473.2	456.6
Total current assets	16,689.1	16,250.4
Property and equipment, net	584.1	576.7
Deferred tax asset, net	3.2	0.6
Intangible assets, net	1,128.8	1,203.7
Goodwill	3,835.1	3,814.1
Other non-current assets	530.9	504.4
Total assets	$ 22,771.2	$ 22,349.9
LIABILITIES AND EQUITY		
Accounts payable	$ 397.5	$ 442.4
Accrued expenses	273.0	566.5
Current portion of deposits	3,479.5	2,980.3
Current portion of non-recourse borrowings of consolidated securitization entities	2,084.0	1,049.3
Current portion of long-term and other debt	229.8	369.4
Other current liabilities	307.0	294.5
Deferred revenue	702.6	699.0
Deferred tax liability, net	—	1.7
Total current liabilities	7,473.4	6,403.1
Deferred revenue	151.3	145.9
Deferred tax liability, net	336.2	631.5
Deposits	3,386.3	2,625.6
Non-recourse borrowings of consolidated securitization entities	3,916.2	5,433.4
Long-term and other debt	5,485.9	4,648.0
Other liabilities	292.2	285.0
Total liabilities	21,041.5	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 June 30, 2016 and December 31, 2015, respectively	1.1	1.1
Additional paid-in capital	3,003.7	2,981.0
Treasury stock, at cost, 53.8 shares and 51.3 shares at June 30, 2016 and December 31, 2015, respectively	(4,450.7)	(3,927.3)
Retained earnings	3,306.8	3,092.5
Accumulated other comprehensive loss	(131.2)	(137.3)
Total stockholders' equity	1,729.7	2,010.0
Total liabilities and equity	$ 22,771.2	$ 22,349.9

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions, except per share amounts)			
Revenues				
Transaction	$ 68.9	$ 86.8	$ 151.3	$ 180.1
Redemption	262.1	218.1	540.2	526.3
Finance charges, net	882.3	684.0	1,690.3	1,363.4
Marketing services	469.1	465.4	921.1	936.6
Other revenue	66.4	46.3	122.1	95.4
Total revenue	1,748.8	1,500.6	3,425.0	3,101.8
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	1,027.9	896.6	2,031.9	1,886.4
Provision for loan loss	227.8	155.3	399.7	290.3
General and administrative	42.9	40.9	70.5	71.1
Depreciation and other amortization	41.1	34.9	80.9	68.5
Amortization of purchased intangibles	88.5	87.2	177.1	175.2
Total operating expenses	1,428.2	1,214.9	2,760.1	2,491.5
Operating income	320.6	285.7	664.9	610.3
Interest expense				
Securitization funding costs	30.0	24.6	60.4	48.4
Interest expense on deposits	20.2	11.6	37.4	23.4
Interest expense on long-term and other debt, net	53.5	44.5	104.7	87.0
Total interest expense, net	103.7	80.7	202.5	158.8
Income before income tax	$ 216.9	$ 205.0	$ 462.4	$ 451.5
Provision for income taxes	76.2	75.0	162.8	156.6
Net income	$ 140.7	$ 130.0	$ 299.6	$ 294.9
Less: Net income (loss) attributable to non-controlling interest	—	(1.3)	1.8	1.0
Net income attributable to common stockholders	$ 140.7	$ 131.3	$ 297.8	$ 293.9
Net income attributable to common stockholders per share:				
Basic (Note 2)	$ 1.24	$ 2.12	$ 3.61	$ 4.46
Diluted (Note 2)	$ 1.24	$ 2.11	$ 3.60	$ 4.43
Weighted average shares:				
Basic (Note 2)	58.8	61.9	59.3	62.5
Diluted (Note 2)	59.0	62.3	59.6	63.0

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Net income	$ 140.7	$ 130.0	$ 299.6	$ 294.9
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available-for-sale	2.1	(3.0)	5.1	(1.6)
Tax benefit (expense)	(0.3)	0.6	(1.4)	0.1
Unrealized gain (loss) on securities available-for-sale, net of tax	1.8	(2.4)	3.7	(1.5)
Unrealized gain (loss) on cash flow hedges	1.5	(0.6)	(1.8)	(3.8)
Tax benefit (expense)	(0.4)	0.1	0.5	0.9
Unrealized gain (loss) on cash flow hedges, net of tax	1.1	(0.5)	(1.3)	(2.9)
Unrealized gain (loss) on net investment hedge	8.3	—	(7.3)	—
Foreign currency translation adjustments	(14.2)	18.1	11.0	(44.5)
Other comprehensive income (loss), net of tax	(3.0)	15.2	6.1	(48.9)
Total comprehensive income, net of tax	$ 137.7	$ 145.2	$ 305.7	$ 246.0
Less: Comprehensive income (loss) attributable to non-controlling interest	—	(1.8)	1.2	1.0
Comprehensive income attributable to common stockholders	$ 137.7	$ 147.0	$ 304.5	$ 245.0

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 299.6	$ 294.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	258.0	243.7
Deferred income taxes	(14.0)	(42.9)
Provision for loan loss	399.7	290.3
Non-cash stock compensation	41.4	51.5
Amortization of deferred financing costs	16.8	15.5
Change in deferred revenue	(49.5)	(27.2)
Change in contingent liability	—	(99.6)
Change in other operating assets and liabilities, net of acquisitions	(302.6)	(106.6)
Originations of credit card and loan receivables held for sale	(3,386.5)	(2,888.6)
Sales of credit card and loan receivables held for sale	3,393.9	2,856.9
Other	74.3	(24.1)
Net cash provided by operating activities	731.1	563.8
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	18.4	(8.6)
Change in cash collateral restricted	2.3	16.5
Change in credit card and loan receivables	(352.6)	(272.1)
Purchase of credit card portfolios	(749.1)	—
Proceeds from the sale of credit card portfolios	5.9	26.9
Capital expenditures	(107.6)	(88.1)
Purchases of other investments	(9.5)	(17.6)
Maturities/sales of other investments	32.7	4.8
Other	(9.3)	(1.1)
Net cash used in investing activities	(1,168.8)	(339.3)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	2,449.9	1,751.1
Repayments of borrowings	(1,766.2)	(1,102.3)
Payment of acquisition-related contingent consideration	—	(205.9)
Acquisition of non-controlling interest	(360.7)	(87.4)
Issuances of deposits	2,431.8	1,010.2
Repayments of deposits	(1,168.3)	(1,205.4)
Non-recourse borrowings of consolidated securitization entities	1,205.0	1,620.0
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(1,690.0)	(1,588.8)
Payment of deferred financing costs	(11.1)	(7.3)
Purchase of treasury shares	(522.6)	(676.7)
Other	12.5	29.4
Net cash provided by (used in) financing activities	580.3	(463.1)
Effect of exchange rate changes on cash and cash equivalents	5.9	(16.3)
Change in cash and cash equivalents	148.5	(254.9)
Cash and cash equivalents at beginning of period	1,168.0	1,077.2
Cash and cash equivalents at end of period	$ 1,316.5	$ 822.3
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 193.7	$ 152.7
Income taxes paid, net	$ 258.9	$ 131.7

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") 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 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 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.

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 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 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.

Recently Adopted Accounting Standards

In February 2015, the FASB issued ASU 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 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.

In April 2015, the FASB issued ASU 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.

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

In November 2015, the FASB issued ASU 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:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In millions, except per share amounts)			
Numerator:				
Net income attributable to common stockholders	$ 140.7	$ 131.3	$ 297.8	$ 293.9
Less: Accretion of redeemable non-controlling interest	67.6	—	83.5	15.2
Net income attributable to common stockholders after accretion of redeemable non-controlling interest	$ 73.1	$ 131.3	$ 214.3	$ 278.7
Denominator:				
Weighted average shares, basic	58.8	61.9	59.3	62.5
Weighted average effect of dilutive securities:				
Net effect of dilutive stock options and unvested restricted stock	0.2	0.4	0.3	0.5
Denominator for diluted calculations	59.0	62.3	59.6	63.0
Net income attributable to common stockholders per share:				
Basic	$ 1.24	$ 2.12	$ 3.61	$ 4.46
Diluted	$ 1.24	$ 2.11	$ 3.60	$ 4.43

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

For the three and six months ended June 30, 2016, approximately 0.3 million and 0.2 million restricted stock units, respectively, 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 six months ended June 30, 2015.

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:

	June 30, 2016	December 31, 2015
	(In millions)	
Principal receivables	$ 13,326.4	$ 13,196.4
Billed and accrued finance charges	595.3	537.8
Other credit card receivables	63.5	65.3
Total credit card and loan receivables	13,985.2	13,799.5
Less: Credit card receivables – restricted for securitization investors	9,748.6	10,592.4
Other credit card and loan receivables	$ 4,236.6	$ 3,207.1

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Balance at beginning of period	$ 727.2	$ 586.7	$ 741.6	$ 570.2
Provision for loan loss	227.8	155.3	399.7	290.3
Allowance associated with credit card and loan receivables transferred to held for sale	—	—	(15.0)	—
Change in estimate for uncollectible unpaid interest and fees	—	3.0	5.0	4.5
Recoveries	52.9	41.4	109.8	80.8
Principal charge-offs	(225.3)	(163.1)	(458.5)	(322.5)
Balance at end of period	$ 782.6	$ 623.3	$ 782.6	$ 623.3

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.

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 $110.6 million and $84.0 million for the three months ended June 30, 2016 and 2015, respectively, and $228.8 million and $169.4 million for the six months ended June 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:

	June 30, 2016	% of Total	December 31, 2015	% of Total
	(In millions, except percentages)			
Receivables outstanding – principal	$ 13,326.4	100.0%	$ 13,196.4	100.0%
Principal receivables balances contractually delinquent:				
31 to 60 days	203.9	1.5%	178.5	1.4%
61 to 90 days	145.5	1.1	124.1	0.9
91 or more days	262.7	2.0	257.0	1.9
Total	$ 612.1	4.6%	$ 559.6	4.2%

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.

The Company had $188.8 million and $169.2 million, respectively, as a recorded investment in impaired credit card receivables with an associated allowance for loan loss of $39.5 million and $36.7 million, respectively, as of June 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 June 30, 2016 and December 31, 2015.

The average recorded investment in impaired credit card receivables was $186.6 million and $140.9 million for the three months ended June 30, 2016 and 2015, respectively, and $180.7 million and $137.7 million for the six months ended June 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 $4.6 million and $3.5 million for the three months ended June 30, 2016 and 2015, respectively, and $9.0 million and $6.9 million for the six months ended June 30, 2016 and 2015, respectively, in interest income associated with modified credit card receivables during the period that such credit card receivables were impaired.

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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 June 30, 2016			Six Months Ended June 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	47,267	$ 56.5	$ 56.4	98,028	$ 117.1	$ 117.0

	Three Months Ended June 30, 2015			Six Months Ended June 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	36,105	$ 39.2	$ 39.2	75,119	$ 81.7	$ 81.6

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 June 30, 2016		Six Months Ended June 30, 2016	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in millions)			
Troubled debt restructurings that subsequently defaulted – credit card receivables	24,529	$ 27.3	48,222	$ 52.7

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in millions)			
Troubled debt restructurings that subsequently defaulted – credit card receivables	17,335	$ 18.3	35,728	$ 36.6

Age of Credit Card and Loan Receivable Accounts

The following tables set forth, as of June 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:

	June 30, 2016			
Age of Accounts Since Origination	**Number of Active Accounts with Balances**	**Percentage of Active Accounts with Balances**	**Principal Receivables Outstanding**	**Percentage of Principal Receivables Outstanding**
	(In millions, except percentages)			
0-12 Months	6.0	27.7%	$ 3,410.3	25.6%
13-24 Months	3.6	17.0	2,346.3	17.6
25-36 Months	2.3	10.9	1,600.5	12.0
37-48 Months	1.7	7.8	1,124.9	8.4
49-60 Months	1.2	5.8	785.7	5.9
Over 60 Months	6.6	30.8	4,058.7	30.5
Total	21.4	100.0%	$ 13,326.4	100.0%

	June 30, 2015			
Age of Accounts Since Origination	**Number of Active Accounts with Balances**	**Percentage of Active Accounts with Balances**	**Principal Receivables Outstanding**	**Percentage of Principal Receivables Outstanding**
	(In millions, except percentages)			
0-12 Months	5.9	30.0%	$ 2,828.6	26.1%
13-24 Months	2.9	14.7	1,652.7	15.3
25-36 Months	2.0	10.4	1,186.1	11.0
37-48 Months	1.5	7.5	865.7	8.0
49-60 Months	1.1	5.5	650.7	6.0
Over 60 Months	6.2	31.9	3,637.7	33.6
Total	19.6	100.0%	$ 10,821.5	100.0%

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 June 30, 2016 and 2015:

	June 30, 2016		June 30, 2015	
Probability of an Account Becoming 91 or More Days Past Due or Becoming Charged-off (within the next 12 months)	**Total Principal Receivables Outstanding**	**Percentage of Principal Receivables Outstanding**	**Total Principal Receivables Outstanding**	**Percentage of Principal Receivables Outstanding**
	(In millions, except percentages)			
No Score	$ 167.7	1.3%	$ 191.4	1.8%
27.1% and higher	1,378.3	10.3	601.6	5.6
17.1% - 27.0%	836.3	6.3	1,067.1	9.8
12.6% - 17.0%	1,086.1	8.2	1,280.3	11.8
3.7% - 12.5%	5,803.0	43.5	4,423.4	40.9
1.9% - 3.6%	1,736.2	13.0	2,124.9	19.6
Lower than 1.9%	2,318.8	17.4	1,132.8	10.5
Total	$ 13,326.4	100.0%	$ 10,821.5	100.0%

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 $55.5 million and $61.5 million at June 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 six months ended June 30, 2016 and 2015, the Company purchased $169.6 million and $142.8 million, respectively, of loan receivables under these agreements. The total outstanding balance of these loan receivables was $235.3 million and $222.6 million as of June 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.

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 $452.6 million and $34.0 million as of June 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 six months ended June 30, 2016, the Company acquired three private label credit card portfolios for purchase prices totaling approximately $749.1 million and consisting of approximately $682.0 million of credit card receivables and $67.1 million of intangible assets.

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 six months ended June 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.

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

	June 30, 2016	December 31, 2015
	(In millions)	
Total credit card receivables – restricted for securitization investors	$ 9,748.6	$ 10,592.4
Principal amount of credit card receivables – restricted for securitization investors, 91 days or more past due	$ 182.1	$ 198.8

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Net charge-offs of securitized principal	$ 144.7	$ 97.6	$ 289.1	$ 196.5

4. INVENTORIES, NET

Inventories, net of $225.4 million and $228.0 million at June 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:

	June 30, 2016				December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In millions)							
Marketable securities	$ 122.8	$ 1.8	$ (0.4)	$ 124.2	$ 121.5	$ 0.4	$ (1.7)	$ 120.2
U.S. Treasury bonds	75.0	1.1	—	76.1	100.1	0.2	(0.1)	100.2
Total	$ 197.8	$ 2.9	$ (0.4)	$ 200.3	$ 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 June 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:

	June 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)					
Marketable securities	$ 4.0	$ (0.2)	$ 25.3	$ (0.2)	$ 29.3	$ (0.4)
Total	$ 4.0	$ (0.2)	$ 25.3	$ (0.2)	$ 29.3	$ (0.4)

	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	$ 90.8	$ (0.8)	$ 34.6	$ (1.0)	$ 125.4	$ (1.8)

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

	Amortized Cost	Fair Value
	(In millions)	
Due in one year or less	$ 31.9	$ 31.9
Due after one year through five years	50.0	51.0
Due after five years through ten years	3.6	3.7
Due after ten years	112.3	113.7
Total	$ 197.8	$ 200.3

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 June 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 six months ended June 30, 2016 and 2015.

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:

	June 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	$ 115.8	$ —	$ —	$ 115.8	$ 270.3	$ —	$ —	$ 270.3
Mutual funds	26.9	0.3	—	27.2	25.2	—	(0.3)	24.9
Corporate bonds	328.4	2.0	(0.2)	330.2	160.4	1.1	(0.1)	161.4
Total	$ 471.1	$ 2.3	$ (0.2)	$ 473.2	$ 455.9	$ 1.1	$ (0.4)	$ 456.6

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The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of June 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:

	June 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	$ 61.3	$ (0.2)	$ —	$ —	$ 61.3	$ (0.2)
Total	$ 61.3	$ (0.2)	$ —	$ —	$ 61.3	$ (0.2)

	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 June 30, 2016 by contractual maturity are as follows:

	Amortized Cost	Fair Value
	(In millions)	
Due in one year or less	$ 71.5	$ 72.1
Due after one year through five years	283.8	285.3
Total	$ 355.3	$ 357.4

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 June 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 six months ended June 30, 2016 and 2015.

7. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	June 30, 2016			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
	(In millions)			
Finite Lived Assets				
Customer contracts and lists	$ 1,181.5	$ (430.6)	$ 750.9	3-12 years—straight line
Premium on purchased credit card portfolios	326.6	(143.4)	183.2	3-10 years—straight line
Customer database	63.6	(33.1)	30.5	3 years—straight line
Collector database	54.2	(51.4)	2.8	30 years—15% declining balance
Publisher networks	140.2	(43.0)	97.2	5-7 years—straight line
Tradenames	94.2	(52.3)	41.9	2-15 years—straight line
Purchased data lists	11.7	(6.3)	5.4	1-5 years—straight line, accelerated
Favorable lease	6.9	(2.4)	4.5	3-10 years—straight line
	$ 1,878.9	$ (762.5)	$ 1,116.4	
Indefinite Lived Assets				
Tradenames	12.4	—	12.4	Indefinite life
Total intangible assets	$ 1,891.3	$ (762.5)	$ 1,128.8	

	December 31, 2015			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
	(In millions)			
Finite Lived Assets				
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 database	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
	$ 1,960.6	$ (769.3)	$ 1,191.3	
Indefinite Lived Assets				
Tradenames	12.4	—	12.4	Indefinite life
Total intangible assets	$ 1,973.0	$ (769.3)	$ 1,203.7	

With the credit card portfolio acquisitions made during the six months ended June 30, 2016, the Company acquired $67.1 million of intangible assets, consisting of $12.2 million of customer relationships being amortized over a weighted average life of 3.5 years and $54.9 million of marketing relationships being amortized over a weighted average life of 9.1 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 ($8.9 million on June 30, 2016), with an estimated life of 8.0 years.

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

	For the Years Ending December 31, (In millions)
2016 (excluding the six months ended June 30, 2016)	$ 147.6
2017	266.2
2018	228.1
2019	184.7
2020	123.5
2021 & thereafter	166.3

Goodwill

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

	LoyaltyOne®	Epsilon®	Card Services	Corporate/Other	Total
			(In millions)		
January 1, 2015	$ 713.5	$ 2,890.3	$ 261.7	$ —	$ 3,865.5
Goodwill acquired during the 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	22.9	(1.9)	—	—	21.0
June 30, 2016	$ 686.4	$ 2,887.0	$ 261.7	$ —	$ 3,835.1

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	June 30, 2016	December 31, 2015	Maturity	Interest Rate
	(Dollars in millions)			
Long-term and other debt:				
2013 revolving line of credit	$ 695.0	$ 465.0	July 2018 and December 2019	(1)
2013 term loans	2,911.2	2,703.8	Various (2)	(1)
BrandLoyalty credit facility	317.4	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)	333.2	325.8	November 2023	5.250%
Capital lease obligations and other debt	2.0	—	Various – January 2019 – May 2019	2.90% to 3.06%
Total long-term and other debt	5,758.8	5,064.3		
Less: Unamortized discount and debt issuance costs	43.1	46.9		
Less: Current portion	229.8	369.4		
Long-term portion	$ 5,485.9	$ 4,648.0		
Deposits:				
Certificates of deposit	$ 5,036.3	$ 4,252.0	Various – July 2016 – November 2021	0.49% to 2.80%
Money market deposits	1,849.5	1,370.3	On demand	(4)
Total deposits	6,885.8	5,622.3		
Less: Unamortized debt issuance costs	20.0	16.4		
Less: Current portion	3,479.5	2,980.3		
Long-term portion	$ 3,386.3	$ 2,625.6		
Non-recourse borrowings of consolidated securitization entities:				
Fixed rate asset-backed term note securities	$ 2,958.2	$ 3,458.2	Various – October 2016 – August 2020	1.26% to 4.55%
Floating rate asset-backed term note securities	360.0	810.0	April 2018	(5)
Conduit asset-backed securities	2,690.0	2,225.0	Various – March 2017 – December 2017	(6)
Total non-recourse borrowings of consolidated securitization entities	6,008.2	6,493.2		
Less: Unamortized debt issuance costs	8.0	10.5		
Less: Current portion	2,084.0	1,049.3		
Long-term portion	$ 3,916.2	$ 5,433.4		

(1) The interest rate is based upon the London Interbank Offered Rate ("LIBOR") plus an applicable margin. At June 30, 2016, the weighted average interest rate was 2.51% and 2.47% for the 2013 revolving line of credit and 2013 term loans, respectively.

(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 June 30, 2016, the weighted average interest rate was 0.85% 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 June 30, 2016, the interest rates ranged from 0.47% to 1.90%.

(5) The interest rate is based upon LIBOR plus an applicable margin. At June 30, 2016, the interest rate was 0.92%.

(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 June 30, 2016, the interest rates ranged from 1.42% to 1.66%.

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

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 June 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 June 30, 2016 was $627.5 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 June 30, 2016, amounts outstanding under the revolving lines of credit and the term loans under the 2016 BrandLoyalty Credit Agreement were €95.8 million, of which €43.3 million was uncommitted, and €190.0 million ($106.4 million and $211.0 million), respectively.

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.

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 June 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 six months ended June 30, 2016, a gain of $8.3 million and a loss of $7.3 million, net of tax, respectively, were recognized in other comprehensive income and no ineffectiveness was recorded on the net investment hedge.

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

	June 30, 2016			
	Notional Amount	Fair Value	Balance Sheet Location	Maturity
	(In millions)			
Designated as hedging instruments:				
Foreign currency exchange hedges	$ 40.8	$ 0.8	Other current assets	July 2016 to June 2017
Foreign currency exchange hedges	$ 45.7	$ 1.0	Other current liabilities	July 2016 to January 2017
Net investment hedge	$ 333.2	$ 11.1	Long-term and other debt	November 2023

	December 31, 2015			
	Notional Amount	Fair Value	Balance Sheet Location	Maturity
	(In millions)			
Designated as hedging instruments:				
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	$ 325.8	$ 3.8	Long-term and other debt	November 2023
Not designated as hedging instruments:				
Foreign currency exchange forward contract	$ 103.7	$ 1.3	Other current liabilities	February 2016
Foreign currency exchange hedges	$ 0.5	$ —	Other current liabilities	January 2016

Gains of $1.1 million and losses of $1.3 million, net of tax, were recognized in other comprehensive income for the three months and six months ended June 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 months and six months ended June 30, 2016, losses of $0.1 million and $0.6 million, respectively, were reclassified from accumulated other comprehensive income into net income (cost of operations) and a de minimis amount of ineffectiveness was recorded. At June 30, 2016, a de minimis amount is expected to be reclassified from accumulated other comprehensive income into net income in the coming 12 months.

Losses of $0.5 million and $2.9 million, net of tax, were recognized in other comprehensive income for the three and six months ended June 30, 2015, respectively, related to foreign currency exchange hedges designated as effective. For the three months and six months ended June 30, 2015, losses of $1.6 million and $1.0 million, respectively, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations) and a de minimis amount of ineffectiveness was recorded.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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 six months ended June 30, 2016 and 2015 recognized in the Company's unaudited condensed consolidated statements of income:

	Three Months Ended June 30, 2016		Three Months Ended June 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
Foreign currency exchange hedges	Cost of operations	$ —	Cost of operations	$ 0.1

	Six Months Ended June 30, 2016		Six Months Ended June 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
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

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 June 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.

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	90.5	172.3	262.8
Revenue recognized	(96.8)	(215.2)	(312.0)
Other	—	(0.2)	(0.2)
Effects of foreign currency translation	20.5	37.9	58.4
June 30, 2016	$ 306.5	$ 547.4	$ 853.9
Amounts recognized in the unaudited condensed consolidated balance sheets:			
Current liabilities	$ 155.2	$ 547.4	$ 702.6
Non-current liabilities	$ 151.3	$ —	$ 151.3

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 June 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 may 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 are met by BrandLoyalty, the Company must acquire the additional 10% ownership interest for the year achieved; otherwise, the sellers have 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, effective as of April 1, 2016, 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.

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

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

	Redeemable Non-Controlling Interest
	(In millions)
Balance at January 1, 2015	$ 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)
Balance at December 31, 2015	$ 167.4
Net income attributable to non-controlling interest	1.8
Other comprehensive loss 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)
Balance at June 30, 2016	$ —

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 six months ended June 30, 2016, the Company acquired a total of 2.5 million shares of its common stock for $523.4 million, of which $0.8 million had not settled as of June 30, 2016. As of June 30, 2016, the Company had $476.6 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 six months ended June 30, 2016 and 2015 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Cost of operations	$ 15.6	$ 17.8	$ 30.4	$ 39.8
General and administrative	5.9	6.3	11.0	11.7
Total	$ 21.5	$ 24.1	$ 41.4	$ 51.5

During the six months ended June 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.

During the six months ended June 30, 2016, the Company awarded 92,139 service-based restricted stock units with a weighted average grant date fair value per share of $191.78 as determined on the date of grant. Service-based restricted stock units typically vest ratably over three years provided that the participant is employed by the Company on each such vesting date.

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

14. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

Three Months Ended June 30, 2016	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments(1)	Accumulated Other Comprehensive Income (Loss)
			(In millions)		
Balance at March 31, 2016	$ 1.8	$ (1.1)	$ (19.4)	$ (109.5)	$ (128.2)
Changes in other comprehensive income (loss) before reclassifications	1.8	1.0	8.3	(14.2)	(3.1)
Amounts reclassified from other comprehensive income (loss)	—	0.1	—	—	0.1
Changes in other comprehensive income (loss)	1.8	1.1	8.3	(14.2)	(3.0)
Balance at June 30, 2016	$ 3.6	$ —	$ (11.1)	$ (123.7)	$ (131.2)

Three Months Ended June 30, 2015	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments(1)	Accumulated Other Comprehensive Income (Loss)
			(In millions)		
Balance at March 31, 2015	$ 3.6	$ (0.1)	$ —	$ (143.1)	$ (139.6)
Changes in other comprehensive income (loss) before reclassifications	(2.4)	(2.1)	—	18.1	13.6
Amounts reclassified from other comprehensive income (loss)	—	1.6	—	—	1.6
Changes in other comprehensive income (loss)	(2.4)	(0.5)	—	18.1	15.2
Balance at June 30, 2015	$ 1.2	$ (0.6)	$ —	$ (125.0)	$ (124.4)

Six Months Ended June 30, 2016	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments(1)	Accumulated Other Comprehensive Income (Loss)
			(In millions)		
Balance at December 31, 2015	$ (0.1)	$ 1.3	$ (3.8)	$ (134.7)	$ (137.3)
Changes in other comprehensive income (loss) before reclassifications	3.7	(1.9)	(7.3)	11.0	5.5
Amounts reclassified from other comprehensive income (loss)	—	0.6	—	—	0.6
Changes in other comprehensive income (loss)	3.7	(1.3)	(7.3)	11.0	6.1
Balance at June 30, 2016	$ 3.6	$ —	$ (11.1)	$ (123.7)	$ (131.2)

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

Six Months Ended June 30, 2015	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments(1)	Accumulated Other Comprehensive Income (Loss)
			(In millions)		
Balance at December 31, 2014	$ 2.7	$ 2.3	$ —	$ (80.5)	$ (75.5)
Changes in other comprehensive income (loss) before reclassifications	(1.5)	(3.9)	—	(44.5)	(49.9)
Amounts reclassified from other comprehensive income (loss)	—	1.0	—	—	1.0
Changes in other comprehensive income (loss)	(1.5)	(2.9)	—	(44.5)	(48.9)
Balance at June 30, 2015	$ 1.2	$ (0.6)	$ —	$ (125.0)	$ (124.4)

(1) 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.

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

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In millions)		
Financial assets				
Cash and cash equivalents	$ 1,316.5	$ 1,316.5	$ 1,168.0	$ 1,168.0
Trade receivables, net	666.4	666.4	706.5	706.5
Credit card and loan receivables, net	13,202.6	13,833.3	13,057.9	13,057.9
Credit card and loan receivables held for sale	508.1	558.7	95.5	95.5
Redemption settlement assets, restricted	473.2	473.2	456.6	456.6
Other investments	200.3	200.3	220.4	220.4
Cash collateral, restricted	5.0	5.0	7.2	7.2
Derivative instruments	0.8	0.8	2.7	2.7
Financial liabilities				
Accounts payable	397.5	397.5	442.4	442.4
Derivative instruments	1.0	1.0	1.7	1.7
Deposits	6,865.8	6,985.9	5,605.9	5,654.6
Non-recourse borrowings of consolidated securitization entities	6,000.2	6,069.8	6,482.7	6,502.7
Long-term and other debt	5,715.7	5,734.1	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.

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 June 30, 2016 and December 31, 2015:

	Balance at June 30, 2016	Fair Value Measurements at June 30, 2016 Using		
		Level 1	Level 2	Level 3
		(In millions)		
Mutual funds (1)	$ 27.2	$ 27.2	$ —	$ —
Corporate bonds (1)	330.2	—	330.2	—
Marketable securities (2)	124.2	5.0	119.2	—
U.S. Treasury bonds (2)	76.1	76.1	—	—
Cash collateral, restricted (3)	5.0	—	—	5.0
Derivative instruments (4)	0.8	—	0.8	—
Total assets measured at fair value	$ 563.5	$ 108.3	$ 450.2	$ 5.0
Derivative instruments (4)	$ 1.0	$ —	$ 1.0	$ —
Total liabilities measured at fair value	$ 1.0	$ —	$ 1.0	$ —

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

(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 six months ended June 30, 2016 and June 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:

	Cash Collateral, Restricted			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Balance at beginning of period	$ 5.0	$ 22.7	$ 4.9	$ 22.5
Total gains (realized or unrealized):				
Included in earnings	—	0.1	0.1	0.3
Purchases	—	—	—	—
Sales	—	—	—	—
Issuances	—	—	—	—
Settlements	—	(18.0)		(18.0)
Transfers in or out of Level 3	—	—	—	—
Balance at end of period	$ 5.0	$ 4.8	$ 5.0	$ 4.8
Gains for the period included in earnings related to assets still held at end of period	$ —	$ —	$ 0.1	$ 0.1

	Contingent Consideration			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(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	$ —	$ —	$ —	$ —
Gains for the period included in earnings related to assets still held at end of period	$ —	$ —	$ —	$ —

Spread deposits included in cash collateral, restricted are recorded at their fair value based on discounted cash flow models, utilizing the term of 4 months. The unobservable input used to calculate the fair value was the discount rate of 3.5%, 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 six months ended June 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 June 30, 2016 and December 31, 2015:

	Fair Value Measurements at June 30, 2016			
	Total	Level 1	Level 2	Level 3
	(In millions)			
Financial assets				
Cash and cash equivalents	$ 1,316.5	$ 1,316.5	$ —	$ —
Credit card and loan receivables, net	13,833.3	—	—	13,833.3
Credit card and loan receivables held for sale	558.7	—	—	558.7
Total	$ 15,708.5	$ 1,316.5	$ —	$ 14,392.0
Financial liabilities				
Deposits	$ 6,985.9	$ —	$ 6,985.9	$ —
Non-recourse borrowings of consolidated securitization entities	6,069.8	—	6,069.8	—
Long-term and other debt	5,734.1	—	5,734.1	—
Total	$ 18,789.8	$ —	$ 18,789.8	$ —

	Fair Value Measurements at December 31, 2015			
	Total	Level 1	Level 2	Level 3
	(In millions)			
Financial assets				
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	$ 14,321.4	$ 1,168.0	$ —	$ 13,153.4
Financial liabilities				
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	$ 17,197.3	$ —	$ 17,197.3	$ —

16. INCOME TAXES

For the three and six months ended June 30, 2016, the Company utilized an effective tax rate of 35.1% and 35.2%, respectively, to calculate its provision for income taxes. For the three and six months ended June 30, 2015, the Company utilized an effective tax rate of 36.6% and 34.7%, respectively. The effective tax rate for the three months ended June 30, 2016 reflects a favorable mix of earnings between jurisdictions and a benefit related to U.S. taxes on certain foreign earnings. The effective tax rate for the six months ended June 30, 2015 reflects a favorable state ruling and a lapse in an applicable statute of limitations.

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

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.

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."

Three Months Ended June 30, 2016	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
			(In millions)			
Revenues	$ 352.3	$ 518.8	$ 885.8	$ 0.1	$ (8.2)	$ 1,748.8
Income (loss) before income taxes	$ 53.3	$ 10.8	$ 250.5	$ (97.7)	$ —	$ 216.9
Interest expense, net	0.9	—	50.2	52.6	—	103.7
Operating income (loss)	54.2	10.8	300.7	(45.1)	—	320.6
Depreciation and amortization	22.5	82.4	22.4	2.3	—	129.6
Stock compensation expense	2.6	9.4	3.5	6.0	—	21.5
Adjusted EBITDA (1)	79.3	102.6	326.6	(36.8)	—	471.7
Less: Securitization funding costs	—	—	30.0	—	—	30.0
Less: Interest expense on deposits	—	—	20.2	—	—	20.2
Less: Adjusted EBITDA attributable to non-controlling interest	—	—	—	—	—	—
Adjusted EBITDA, net (1)	$ 79.3	$ 102.6	$ 276.4	$ (36.8)	$ —	$ 421.5

Three Months Ended June 30, 2015	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
			(In millions)			
Revenues	$ 301.7	$ 495.2	$ 710.4	$ —	$ (6.7)	$ 1,500.6
Income (loss) before income taxes	$ 42.3	$ 19.8	$ 230.0	$ (87.1)	$ —	$ 205.0
Interest expense, net	0.6	—	36.2	43.9	—	80.7
Operating income (loss)	42.9	19.8	266.2	(43.2)	—	285.7
Depreciation and amortization	20.5	81.7	17.6	2.3	—	122.1
Stock compensation expense	2.9	11.1	3.8	6.3	—	24.1
Adjusted EBITDA (1)	66.3	112.6	287.6	(34.6)	—	431.9
Less: Securitization funding costs	—	—	24.6	—	—	24.6
Less: Interest expense on deposits	—	—	11.6	—	—	11.6
Less: Adjusted EBITDA attributable to non-controlling interest	3.2	—	—	—	—	3.2
Adjusted EBITDA, net (1)	$ 63.1	$ 112.6	$ 251.4	$ (34.6)	$ —	$ 392.5

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

Six Months Ended June 30, 2016	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
			(In millions)			
Revenues	$ 706.9	$ 1,012.1	$ 1,721.3	$ 0.2	$ (15.5)	$ 3,425.0
Income (loss) before income taxes	$ 109.1	$ (1.7)	$ 534.3	$ (179.3)	$ —	$ 462.4
Interest expense, net	0.8	—	97.8	103.9	—	202.5
Operating income (loss)	109.9	(1.7)	632.1	(75.4)	—	664.9
Depreciation and amortization	43.4	167.1	42.4	5.1	—	258.0
Stock compensation expense	5.2	18.0	7.2	11.0	—	41.4
Adjusted EBITDA (1)	158.5	183.4	681.7	(59.3)	—	964.3
Less: Securitization funding costs	—	—	60.4	—	—	60.4
Less: Interest expense on deposits	—	—	37.4	—	—	37.4
Less: Adjusted EBITDA attributable to non-controlling interest	5.5	—	—	—	—	5.5
Adjusted EBITDA, net (1)	$ 153.0	$ 183.4	$ 583.9	$ (59.3)	$ —	$ 861.0

Six Months Ended June 30, 2015	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
			(In millions)			
Revenues	$ 689.6	$ 1,000.1	$ 1,425.1	$ 0.1	$ (13.1)	$ 3,101.8
Income (loss) before income taxes	$ 96.1	$ 26.8	$ 489.7	$ (161.1)	$ —	$ 451.5
Interest expense, net	1.3	—	71.7	85.8	—	158.8
Operating income (loss)	97.4	26.8	561.4	(75.3)	—	610.3
Depreciation and amortization	40.5	162.8	36.0	4.4	—	243.7
Stock compensation expense	5.7	26.6	7.6	11.6	—	51.5
Adjusted EBITDA (1)	143.6	216.2	605.0	(59.3)	—	905.5
Less: Securitization funding costs	—	—	48.4	—	—	48.4
Less: Interest expense on deposits	—	—	23.4	—	—	23.4
Less: Adjusted EBITDA attributable to non-controlling interest	10.9	—	—	—	—	10.9
Adjusted EBITDA, net (1)	$ 132.7	$ 216.2	$ 533.2	$ (59.3)	$ —	$ 822.8

(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, and the amortization of purchased intangibles. 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 six months ended June 30, 2016:

- Revenue increased 10% to $3.4 billion as compared to the six months ended June 30, 2015.
- Net income increased 2% to $299.6 million as compared to the six months ended June 30, 2015.
- Adjusted EBITDA, net increased 5% to $861.0 million as compared to the six months ended June 30, 2015.
- We repurchased approximately 2.5 million shares for $523.4 million.
- We purchased three existing private label credit card portfolios for total consideration of approximately $749.1 million.
- 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.

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 3% to $706.9 million and adjusted EBITDA, net increased 15% to $153.0 million for the six months ended June 30, 2016, in each case as compared to the prior year period. Excluding foreign currency impacts, revenue increased approximately 7% with adjusted EBITDA and adjusted EBITDA, net increasing approximately 16% and 21%, respectively. Revenue was positively impacted by different timing of short-term loyalty programs in market and expansion into new markets. These short-term loyalty programs are typically 12-20 weeks in duration and the number in market can move between periods on an annual basis. Adjusted EBITDA was positively impacted by margin expansion as a result of strong cost controls and lower product procurement costs, with adjusted EBITDA, net also positively impacted by our additional ownership interest in BrandLoyalty during the six months ended June 30, 2016.

Our short-term loyalty programs have continued their expansion into North America in 2016. After entering Canada last year, this year we launched one pilot program in the U.S. and four additional programs in Canada. We expect to launch a second U.S. program and fifth Canadian program later this year.

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 the number of future AIR MILES reward miles available to be redeemed. This can also impact 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 six months ended June 30, 2016 remained constant as compared to the six months ended June 30, 2015, while AIR MILES reward miles redeemed increased 7% due to higher redemptions within the AIR MILES Cash program option. For the six months ended June 30, 2016, the AIR MILES Cash program option represented approximately 22% of the AIR MILES reward miles issued and 21% of the AIR MILES reward miles redeemed.

During the six months ended June 30, 2016, we announced an expansion of our relationship with Sobeys to begin to issue 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.

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 $1.0 billion and adjusted EBITDA, net decreased 15% to $183.4 million for the six months ended June 30, 2016 as compared to the prior year period. Digital and technology platforms revenue increased 11%, driven by strength in CRM services and our automotive vertical. These strengths were offset 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 six months ended June 30, 2016.

During the six months ended June 30, 2016, we announced new multi-year agreements with Lamps Plus, a national lighting retailer, to provide targeted email marketing services, and Shire plc, a global biotechnology company, to build and host 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 21% to $1.7 billion and adjusted EBITDA, net increased 10% to $583.9 million for the six months ended June 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 21% and 26%, respectively, for the six months ended June 30, 2016 as compared to the prior year period as a result of recent client signings and credit card portfolio acquisitions.

Delinquency rates were 4.6% of principal credit card and loan receivables at June 30, 2016 as compared to 4.1% at June 30, 2015. The principal net charge-off rate was 5.2% for the six months ended June 30, 2016 as compared to 4.5% for the prior year period. For the year ended December 31, 2016, we expect our charge-off rate to approximate 5.0%.

During the six months ended June 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, and Hot Topic Inc., a mall and web-based specialty retailer of music and pop culture-based licensed and influenced apparel and accessories. 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 agreement to provide private label and co-brand credit card services to Forever 21, Inc., a fashion retailer.

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 and the amortization of purchased intangibles. 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Net income	$ 140.7	$ 130.0	$ 299.6	$ 294.9
Stock compensation expense	21.5	24.1	41.4	51.5
Provision for income taxes	76.2	75.0	162.8	156.6
Interest expense, net	103.7	80.7	202.5	158.8
Depreciation and other amortization	41.1	34.9	80.9	68.5
Amortization of purchased intangibles	88.5	87.2	177.1	175.2
Adjusted EBITDA	471.7	431.9	964.3	905.5
Less: Securitization funding costs	30.0	24.6	60.4	48.4
Less: Interest expense on deposits	20.2	11.6	37.4	23.4
Less: Adjusted EBITDA attributable to non-controlling interest	—	3.2	5.5	10.9
Adjusted EBITDA, net	$ 421.5	$ 392.5	$ 861.0	$ 822.8

Consolidated Results of Operations

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	% Change
	(In millions, except percentages)					
Revenues						
Transaction	$ 68.9	$ 86.8	(21)%	$ 151.3	$ 180.1	(16)%
Redemption	262.1	218.1	20	540.2	526.3	3
Finance charges, net	882.3	684.0	29	1,690.3	1,363.4	24
Marketing services	469.1	465.4	1	921.1	936.6	(2)
Other revenue	66.4	46.3	43	122.1	95.4	28
Total revenue	1,748.8	1,500.6	17%	3,425.0	3,101.8	10%
Operating expenses						
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	1,027.9	896.6	15	2,031.9	1,886.4	8
Provision for loan loss	227.8	155.3	47	399.7	290.3	38
General and administrative	42.9	40.9	5	70.5	71.1	(1)
Depreciation and other amortization	41.1	34.9	18	80.9	68.5	18
Amortization of purchased intangibles	88.5	87.2	1	177.1	175.2	1
Total operating expenses	1,428.2	1,214.9	18%	2,760.1	2,491.5	11%
Operating income	320.6	285.7	12%	664.9	610.3	9%
Interest expense						
Securitization funding costs	30.0	24.6	22	60.4	48.4	25
Interest expense on deposits	20.2	11.6	74	37.4	23.4	60
Interest expense on long-term and other debt, net	53.5	44.5	20	104.7	87.0	20
Total interest expense, net	103.7	80.7	28	202.5	158.8	28
Income before income taxes	$ 216.9	$ 205.0	6%	$ 462.4	$ 451.5	2%
Provision for income taxes	76.2	75.0	2	162.8	156.6	4
Net income	$ 140.7	$ 130.0	8%	$ 299.6	$ 294.9	2%
Key Operating Metrics:						
Credit card statements generated	69.7	59.2	18%	135.3	117.9	15%
Credit sales	$ 7,098.8	$ 6,008.6	18%	$ 13,277.0	$ 10,968.5	21%
Average credit card and loan receivables	$ 13,505.3	$ 10,866.2	24%	$ 13,521.0	$ 10,771.8	26%
AIR MILES reward miles issued	1,432.5	1,482.2	(3)%	2,718.7	2,711.1	—%
AIR MILES reward miles redeemed	1,232.2	1,142.1	8%	2,516.1	2,354.8	7%

Three months ended June 30, 2016 compared to the three months ended June 30, 2015

Revenue. Total revenue increased $248.2 million, or 17%, to $1.7 billion for the three months ended June 30, 2016 from $1.5 billion for the three months ended June 30, 2015. The net increase was due to the following:

- *Transaction*. Revenue decreased $17.9 million, or 21%, to $68.9 million for the three months ended June 30, 2016 primarily due to other servicing fees charged to our credit cardholders, which decreased $14.4 million due to changes in program fee structures.
- *Redemption*. Revenue increased $44.0 million, or 20%, to $262.1 million for the three months ended June 30, 2016 due to a $46.7 million increase related to the timing of short-term loyalty programs in market as compared to the prior year period. Redemption revenue for our coalition loyalty program decreased 2% due to the decline in the Canadian dollar relative to the U.S. dollar.
- *Finance charges, net*. Revenue increased $198.3 million, or 29%, to $882.3 million for the three months ended June 30, 2016, which was driven by higher average credit card and loan receivables, which impacted revenue by $193.7 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.

- *Marketing Services*. Revenue increased $3.7 million, or 1%, to $469.1 million for the three months ended June 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 telecommunications, consumer packaged goods and retail verticals.
- *Other revenue*. Revenue increased $20.1 million, or 43%, to $66.4 million for the three months ended June 30, 2016 due to additional consulting services provided by Epsilon.

Cost of operations. Cost of operations increased $131.3 million, or 15%, to $1,027.9 million for the three months ended June 30, 2016 as compared to $896.6 million for the three months ended June 30, 2015. The increase was due to the following:

- Within the LoyaltyOne segment, cost of operations increased $37.4 million primarily due to growth in our short-term loyalty programs, which increased cost of redemptions and payroll and benefits by $29.0 million and $4.1 million, respectively.
- Within the Epsilon segment, cost of operations increased $31.8 million due to a $24.4 million increase in payroll and benefit expenses, driven by duplicative cost in our India operations and severance costs, as well as an increase in our direct processing costs associated with the increase in revenue.
- Within the Card Services segment, cost of operations increased by $63.6 million. Payroll and benefit expenses increased $20.4 million due to an increase in the number of associates to support growth, and marketing expenses increased $9.8 million due to growth in credit sales. Other operating expenses increased $33.4 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 $72.5 million, or 47%, to $227.8 million for the three months ended June 30, 2016 as compared to $155.3 million for the three months ended June 30, 2015. The increase in the provision for loan loss was driven by higher ending credit card and loan receivables as well as an increase in losses.

General and administrative. General and administrative expenses increased $2.0 million, or 5%, to $42.9 million for the three months ended June 30, 2016 as compared to $40.9 million for the three months ended June 30, 2015, due to an increase in payroll and benefit expenses.

Depreciation and other amortization. Depreciation and other amortization increased $6.2 million, or 18%, to $41.1 million for the three months ended June 30, 2016, as compared to $34.9 million for the three months ended June 30, 2015, due to additional assets placed into service from recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles increased $1.3 million, or 1%, to $88.5 million for the three months ended June 30, 2016 as compared to $87.2 million for the three months ended June 30, 2015. The increase is driven by additional amortization associated with the intangible assets from recent portfolio acquisitions.

Interest expense, net. Total interest expense, net increased $23.0 million, or 28%, to $103.7 million for the three months ended June 30, 2016 as compared to $80.7 million for the three months ended June 30, 2015. The increase was due to the following:

- *Securitization funding costs*. Securitization funding costs increased $5.4 million due to higher average borrowings with comparable average interest rates.
- *Interest expense on deposits*. Interest expense on deposits increased $8.6 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 $9.0 million due to a $4.4 million increase related to the €300.0 million senior notes due 2023 issued in November 2015 and a $4.8 million increase related to the credit facility due to higher average balances resulting from the incremental term loan borrowings and higher average interest rates due to the increase in the LIBOR rate.

Taxes. Income tax expense increased $1.2 million to $76.2 million for the three months ended June 30, 2016 from $75.0 million for the three months ended June 30, 2015 due to an increase in taxable income, offset by a decline in the effective tax rate. The effective tax rate for the three months ended June 30, 2016 improved to 35.1% as compared to 36.6% for the three months ended June 30, 2015. The effective tax rate for the three months ended June 30, 2016 reflects a favorable mix of earnings between jurisdictions and a benefit related to U.S. taxes on certain foreign earnings.

Six months ended June 30, 2016 compared to the six months ended June 30, 2015

Revenue. Total revenue increased $323.2 million, or 10%, to $3.4 billion for the six months ended June 30, 2016 from $3.1 billion for the six months ended June 30, 2015. The net increase was due to the following:

- *Transaction*. Revenue decreased $28.8 million, or 16%, to $151.3 million for the six months ended June 30, 2016 primarily due to other servicing fees charged to our credit cardholders, which decreased $29.1 million due to changes in program fee structures.
- *Redemption*. Revenue increased $13.9 million, or 3%, to $540.2 million for the six months ended June 30, 2016 due to a $25.1 million increase related to the timing of short-term loyalty programs in market as compared to the prior year period. This increase was offset in part by an $11.2 million decrease in revenue related to our coalition loyalty program due to the decline in the Canadian dollar relative to the U.S. dollar.
- *Finance charges, net*. Revenue increased $326.9 million, or 24%, to $1.7 billion for the six months ended June 30, 2016. This increase was driven by an increase in average credit card and loan receivables, which increased revenue $375.7 million through a combination of recent credit card portfolio acquisitions and strong cardholder spending. This increase was offset in part by an approximate 70 basis point decline in yield due to the onboarding of new programs and program changes.
- *Marketing Services*. Revenue decreased $15.5 million, or 2%, to $921.1 million for the six months ended June 30, 2016. The decrease in revenue was driven by weakness in our agency offerings, specifically in the telecommunications, consumer packaged goods and retail verticals.
- *Other revenue*. Revenue increased $26.7 million, or 28%, to $122.1 million for the six months ended June 30, 2016 due to additional consulting services provided by Epsilon.

Cost of operations. Cost of operations increased $145.5 million, or 8%, to $2.0 billion for the six months ended June 30, 2016 as compared to $1.9 billion for the six months ended June 30, 2015. The increase was due to the following:

- Within the LoyaltyOne segment, cost of operations increased $1.9 million due to an increase in cost of redemptions associated with the increase in redemption revenue. This increase was offset in part by the decline in the Canadian dollar relative to the U.S. dollar.
- Within the Epsilon segment, cost of operations increased $36.3 million due to a $31.2 million increase in payroll and benefit expenses.
- Within the Card Services segment, cost of operations increased by $109.6 million. Payroll and benefit expenses increased $32.7 million due to an increase in the number of associates to support growth, and marketing expenses increased $11.0 million due to growth in credit sales. Other operating expenses increased $65.9 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 $109.4 million, or 38%, to $399.7 million for the six months ended June 30, 2016 as compared to $290.3 million for the six months ended June 30, 2015. The increase in the provision for loan loss was driven by higher ending credit card and loan receivables as well as an increase in losses.

General and administrative. General and administrative expenses decreased slightly to $70.5 million for the six months ended June 30, 2016 as compared to $71.1 million for the six months ended June 30, 2015. The decrease was driven by lower payroll and benefit expenses, offset in part by net foreign currency exchange gains recognized in the six months ended June 30, 2015 related to the settlement of the contingent liability associated with the BrandLoyalty acquisition.

Depreciation and other amortization. Depreciation and other amortization increased $12.4 million, or 18%, to $80.9 million for the six months ended June 30, 2016, as compared to $68.5 million for the six months ended June 30, 2015, due to additional assets placed into service from recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles increased $1.9 million, or 1%, to $177.1 million for the six months ended June 30, 2016 as compared to $175.2 million for the six months ended June 30, 2015. The increase is driven by additional amortization associated with the intangible assets from recent portfolio acquisitions.

Interest expense, net. Total interest expense, net increased $43.7 million, or 28%, to $202.5 million for the six months ended June 30, 2016 as compared to $158.8 million for the six months ended June 30, 2015. The increase was due to the following:

- *Securitization funding costs*. Securitization funding costs increased $12.0 million due to higher average borrowings with comparable average interest rates.
- *Interest expense on deposits*. Interest expense on deposits increased $14.0 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 $17.7 million due to a $8.7 million increase related to the €300.0 million senior notes due 2023 issued in November 2015 and a $9.7 million increase related to the credit facility due to higher average balances resulting from the incremental term loan borrowings and borrowings on our revolving line of credit, as well as higher average interest rates due to the increase in the LIBOR rate.

Taxes. Income tax expense increased $6.2 million to $162.8 million for the six months ended June 30, 2016 from $156.6 million for the six months ended June 30, 2015 due to a higher effective tax rate. In 2015, the effective tax rate was positively impacted by both a favorable state tax ruling and a lapse in an applicable statute of limitations.

Segment Revenue and Adjusted EBITDA, net

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% Change	2016	2015	% Change
Revenue:			(In millions, except percentages)			
LoyaltyOne	$ 352.3	$ 301.7	17%	$ 706.9	$ 689.6	3%
Epsilon	518.8	495.2	5	1,012.1	1,000.1	1
Card Services	885.8	710.4	25	1,721.3	1,425.1	21
Corporate/Other	0.1	—	nm	0.2	0.1	nm
Eliminations	(8.2)	(6.7)	nm	(15.5)	(13.1)	nm
Total	$ 1,748.8	$ 1,500.6	17%	$ 3,425.0	$ 3,101.8	10%
Adjusted EBITDA, net (1):						
LoyaltyOne	$ 79.3	$ 63.1	26%	$ 153.0	$ 132.7	15%
Epsilon	102.6	112.6	(9)	183.4	216.2	(15)
Card Services	276.4	251.4	10	583.9	533.2	10
Corporate/Other	(36.8)	(34.6)	6	(59.3)	(59.3)	—
Total	$ 421.5	$ 392.5	7%	$ 861.0	$ 822.8	5%

(1) Adjusted EBITDA, net is equal to net income, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and amortization and amortization of purchased intangibles, 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 June 30, 2016 compared to the three months ended June 30, 2015

Revenue. Total revenue increased $248.2 million, or 17%, to $1.7 billion for the three months ended June 30, 2016 from $1.5 billion for the three months ended June 30, 2015. The increase was due to the following:

- *LoyaltyOne*. Revenue increased $50.6 million, or 17%, to $352.3 million for the three months ended June 30, 2016 due to a $47.6 million increase related to the timing of short-term loyalty programs in market during the three months ended June 30, 2016 as compared to the prior year period.
- *Epsilon*. Revenue increased $23.6 million, or 5%, to $518.8 million for the three months ended June 30, 2016 due to a $46.4 million increase in digital and technology platforms revenue, driven by strength in our CRM services and automotive vertical. This increase was offset in part by a $22.8 million decrease in our agency offerings, specifically in the telecommunications, consumer packaged goods and retail verticals.
- *Card Services*. Revenue increased $175.4 million, or 25%, to $885.8 million for the three months ended June 30, 2016, driven by a $198.3 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 $22.8 million due to increased profit sharing and royalty payments associated with the signing of new clients and changes in program fee structures.

Adjusted EBITDA, net. Adjusted EBITDA, net increased $29.0 million, or 7%, to $421.5 million for the three months ended June 30, 2016 from $392.5 million for the three months ended June 30, 2015. The net increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA, net increased $16.2 million, or 26%, to $79.3 million for the three months ended June 30, 2016 due to the increase in revenue discussed above, coupled with margin expansion with growth in our short-term loyalty programs.
- *Epsilon*. Adjusted EBITDA, net decreased $10.0 million, or 9%, to $102.6 million for the three months ended June 30, 2016, as the increase in revenue noted above was offset by an increase in payroll and benefit costs associated with duplicative cost in our India operations and severance costs.
- *Card Services*. Adjusted EBITDA, net increased $25.0 million, or 10%, to $276.4 million for the three months ended June 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 the increase in credit card and loan receivables.
- *Corporate/Other*. Adjusted EBITDA, net decreased $2.2 million to a loss of $36.8 million for the three months ended June 30, 2016 due to an increase in payroll and benefit expenses.

Six months ended June 30, 2016 compared to the six months ended June 30, 2015

Revenue. Total revenue increased $323.2 million, or 10%, to $3.4 billion for the six months ended June 30, 2016 from $3.1 billion for the six months ended June 30, 2015. The increase was due to the following:

- *LoyaltyOne*. Revenue increased $17.3 million, or 3%, to $706.9 million for the six months ended June 30, 2016 due to a $25.1 million increase related to the timing of short-term loyalty programs in market during the six months ended June 30, 2016 as compared to the prior year period. This increase was offset in part by a decrease in revenue related to our coalition loyalty program due to the decline in the Canadian dollar relative to the U.S. dollar.
- *Epsilon*. Revenue increased $12.0 million, or 1%, to $1.0 billion for the six months ended June 30, 2016 due to a $74.2 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 $62.2 million decrease in our agency offerings, specifically in the telecommunications, consumer packaged goods and retail verticals.
- *Card Services*. Revenue increased $296.2 million, or 21%, to $1.7 billion for the six months ended June 30, 2016, driven by a $326.9 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 $30.3 million due to increased profit sharing and royalty payments associated with the signing of new clients and changes in program fee structures.

Adjusted EBITDA, net. Adjusted EBITDA, net increased $38.2 million, or 5%, to $861.0 million for the six months ended June 30, 2016 from $822.8 million for the six months ended June 30, 2015. The net increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA, net increased $20.3 million, or 15%, to $153.0 million for the six months ended June 30, 2016 due to the increase in revenue discussed above. Additionally, adjusted EBITDA margins expanded in the current year period as a result of strong cost controls and lower product procurement costs. These increases were offset in part by the decline in the Canadian dollar relative to the U.S. dollar, which resulted in an $8.2 million decrease in adjusted EBITDA, net.
- *Epsilon*. Adjusted EBITDA, net decreased $32.8 million, or 15%, to $183.4 million for the six months ended June 30, 2016, primarily due to an increase in payroll costs in the current year period.
- *Card Services*. Adjusted EBITDA, net increased $50.7 million, or 10%, to $583.9 million for the six months ended June 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 the increase in credit card and loan receivables.
- *Corporate/Other*. Adjusted EBITDA, net was constant at a loss of $59.3 million for the six months ended June 30, 2016 as compared to the prior year period.

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:

	June 30, 2016	% of Total	December 31, 2015	% of Total
		(In millions, except percentages)		
Receivables outstanding – principal	$ 13,326.4	100.0%	$ 13,196.4	100.0%
Principal receivables balances contractually delinquent:				
31 to 60 days	203.9	1.5%	178.5	1.4%
61 to 90 days	145.5	1.1	124.1	0.9
91 or more days	262.7	2.0	257.0	1.9
Total	$ 612.1	4.6%	$ 559.6	4.2%

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions, except percentages)			
Average credit card receivables	$ 13,505.3	$ 10,866.2	$ 13,521.0	$ 10,771.8
Net charge-offs of principal receivables	172.4	121.7	348.8	241.6
Net charge-offs as a percentage of average credit card receivables	5.1%	4.5%	5.2%	4.5%

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 June 30, 2016, Comenity Bank's Common Equity Tier 1 capital ratio was 14.8%, Tier 1 capital ratio was 14.8%, total capital ratio was 16.1% and leverage ratio was 13.7%. As of June 30, 2016, Comenity Capital Bank's Common Equity Tier 1 capital ratio was 13.0%, Tier 1 capital ratio was 13.0%, total capital ratio was 14.3% and leverage ratio was 12.6%. 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, and stock repurchases.

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 $731.1 million and $563.8 million for the six months ended June 30, 2016 and 2015, respectively. The increase in operating cash flows of $167.3 million during the six months ended June 30, 2016 as compared to the prior year period was due to an increase of 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 an increase in trade receivables 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 $1,168.8 million and $339.3 million for the six months ended June 30, 2016 and 2015, respectively. Significant components of investing activities are as follows:

- *Credit card and loan receivables, net.* Cash decreased $352.6 million and $272.1 million for the six months ended June 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 six months ended June 30, 2016, we paid approximately $749.1 million to acquire three private label credit card portfolios.
- *Proceeds from the sale of credit card portfolios*. During the six months ended June 30, 2016, we sold a credit card portfolio resulting in proceeds of approximately $5.9 million. During the six months ended June 30, 2015, we sold a credit card portfolio resulting in proceeds of approximately $26.9 million.
- *Maturities of other investments*. During the six months ended June 30, 2016, we received proceeds of $25.1 million from the maturity of a U.S. Treasury bond.

Financing Activities. Cash provided by financing activities was $580.3 million for the six months ended June 30, 2016, compared to cash used in financing activities of $463.1 million for the six months ended June 30, 2015. For the six months ended June 30, 2016, the primary sources of cash were net borrowings under our debt agreements, including the asset-backed conduit facilities. These sources were partially offset by uses of $522.6 million to acquire treasury shares and $360.7 million to acquire the remaining 30% ownership interest in BrandLoyalty. For the six months ended June 30, 2015, the primary uses of cash were $676.7 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 six months ended June 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 June 30, 2016, we had $695.0 million outstanding under our credit facility and total availability of $627.5 million. Our total leverage ratio, as defined in our credit agreement, was 2.9 to 1 at June 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 June 30, 2016, the amount outstanding under the revolving lines of credit is €95.8 million ($106.4 million).

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

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 June 30, 2016, we had $1.8 billion in money market deposits outstanding with interest rates ranging from 0.47% to 1.90%. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

As of June 30, 2016, we had $5.0 billion in certificates of deposit outstanding with interest rates ranging from 0.49% to 2.80% and maturities ranging from July 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 June 30, 2016, the WFN Trusts and the WFC Trust had approximately $9.7 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits, additional receivables and subordinated classes. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and the WFC Trust and by the performance of the credit card receivables in these credit card securitization trusts.

At June 30, 2016, we had $6.0 billion of non-recourse borrowings of consolidated securitization entities, of which $2.1 billion is due within the next 12 months. As of June 30, 2016, total capacity under the conduit facilities was $3.0 billion, of which $2.7 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the unaudited condensed consolidated balance sheets.

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 us and eliminated from the unaudited condensed consolidated balance sheets.

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

	2016	2017	2018	2019	2020 and Thereafter	Total
			(In millions)			
Term notes	$ 100.0	$ 950.0	$ 991.0	$ 802.2	$ 475.0	$ 3,318.2
Conduit facilities [1]	—	2,950.0	—	—	—	2,950.0
Total [2]	$ 100.0	$ 3,900.0	$ 991.0	$ 802.2	$ 475.0	$ 6,268.2

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

(2) Total amounts do not include $2.0 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 six months ended June 30, 2016, we repurchased approximately 2.5 million shares of our common stock for an aggregate amount of $523.4 million.

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

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 June 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 June 30, 2016 (the end of our second fiscal quarter), our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal 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.

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 Report on Form 10-Q for the quarter ended March 31, 2016.

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

The following table presents information with respect to purchases of our common stock made during the three months ended June 30, 2016:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2)
				(Dollars in millions)
During 2016:				
April 1-30	143,098	$ 209.70	139,453	$ 557.0
May 1-31	189,572	206.58	185,000	518.8
June 1-30	204,370	209.73	200,800	476.6
Total	537,040	$ 208.61	525,253	$ 476.6

(1) During the period represented by the table, 11,787 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	(a)	Incremental Term Loan Extension Request, dated as of April 15, 2016, by and among Alliance Data Systems Corporation, Wells Fargo Bank, N.A., as Administrative Agent, and Bank of America, N.A.	8-K	10.1	4/21/16
10.2	(b) (c) (d)	Second Amended and Restated Service Agreement, dated as of May 10, 2016, between Comenity Servicing LLC and Comenity Bank.	8-K	99.1	5/16/16
10.3	(a)	Amendment and Restatement Agreement, dated as of June 9, 2016, including Amended and Restated Facilities Agreement, by and among Brand Loyalty Group B.V. and certain subsidiaries parties thereto, as borrowers and guarantors, Deutsche Bank AG, Amsterdam Branch (as Arranger), ING Bank N.V. (as Arranger, Agent and Security Agent), Coöperatieve Rabobank U.A. (as Arranger) and NIBC Bank N.V. (as Arranger).	8-K	10.1	6/15/16
*+10.4	(a)	Form of Non-employee Director Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan.			
10.5	(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
10.6	(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
10.7	(b) (c) (d)	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
10.8	(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
*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.			

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
*31.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
*32.1	(a)	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.			
*32.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.			
*101.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: August 8, 2016

By: /s/ CHARLES L. HORN
Charles L. Horn
Executive Vice President and Chief Financial Officer

Date: August 8, 2016

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT AWARD AGREEMENT
UNDER THE ALLIANCE DATA SYSTEMS CORPORATION
2015 OMNIBUS INCENTIVE PLAN

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the "**Agreement**"), made as of June 27, 2016 (the "**Grant Date**") by and between Alliance Data Systems Corporation (the "**Company**") and [NAME] (the "**Participant**") who is a non-employee director of the Company.

WHEREAS, pursuant to the Company's 2015 Omnibus Incentive Plan (the "Plan"), the Company desires to afford the Participant the opportunity to acquire, or enlarge his ownership of, the Company's common stock, $0.01 par value per share ("Stock"), so that the Participant may have a direct proprietary interest in the Company's success.

WHEREAS, the Company desires to have the Participant continue to serve on the Company's Board of Directors ("**Board**") and to provide the Participant with an incentive.

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereto agree as follows:

1. **Basis for Award.** The Award is made under the Plan pursuant to Section 6(f) thereof.

2. **Restricted Stock Units Awarded**.

(a) The Company hereby awards to the Participant, in the aggregate, [# SHARES] Restricted Stock Units which shall be subject to the conditions set forth in the Plan and this Agreement.

(b) Restricted Stock Units shall be evidenced by an account established and maintained for the Participant, which shall be credited for the number of Restricted Stock Units granted to the Participant. By accepting this Award, the Participant acknowledges that the Company does not have an adequate remedy in damages for the breach by the Participant of the conditions and covenants set forth in this Agreement and agrees that the Company is entitled to and may obtain an order or a decree of specific performance against the Participant issued by any court having jurisdiction.

(c) Except as provided in the Plan or this Agreement, prior to vesting as provided in Section 3 of this Agreement, the Restricted Stock Units will be forfeited by the Participant and all of the Participant's rights to Stock underlying the Award shall immediately terminate without any payment or consideration by the Company, in the event of a Participant's early termination of service as provided in Section 4 below.

3. **Vesting**. Subject to Sections 2 and 4 of this Agreement, the restrictions thereon will lapse and Award will vest upon the earlier of:

(a) The Participant's termination of service, which for the purposes of this Agreement is defined as (i) the Participant's separation of service from the Board at the end of the Participant's elected term of service; (ii) the Participant's death; or (iii) the Participant's Disability; or

(b) June 26, 2026.

Notwithstanding the foregoing, subject to the limitations of the Plan, the Committee may accelerate the vesting of all or part of the Award at any time and for any reason. As soon as practicable after the Award vests and consistent with Section 409A of the Code, payment shall be made in Stock (based upon the Fair Market Value of the Stock on the day all restrictions lapse). The Committee shall cause the Stock to be electronically delivered to the Participant's electronic account with respect to such Stock free of all restrictions. Pursuant to Section 11, any number of shares of Stock delivered shall be net of the number of shares of Stock withheld for satisfaction of Tax-Related Items (as defined below), if applicable.

4. **Forfeiture for Early Termination of Service**. Unless otherwise determined by the Committee at time of grant or thereafter or as otherwise provided in the Plan, if the Participant terminates his service prior to the end of his elected term, any unvested portion of any outstanding Award held by a Participant at the time of such early termination of service will be forfeited upon such termination.

5. **Participant**.

Whenever the word **"Participant"** is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the beneficiaries, the executors, the administrators, or the person or persons to whom the Restricted Stock Units may be transferred by will or by the laws of descent and distribution, the word **"Participant"** shall be deemed to include such person or persons.

6. **Adjustments; Change in Control**.

(a) In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or exchange of Stock or other securities, liquidation, dissolution, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares that may be issued in respect of Restricted Stock Units. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate or in response to changes in applicable laws, regulations, or accounting principles.

(b) In connection with a Change in Control, the Committee may, in its sole discretion, accelerate the vesting and/or the lapse of restrictions with respect to the Award. If the Award is not assumed, substituted for an award of equal value, or otherwise continued after a Change in Control, the Award shall automatically vest prior to the Change in Control at a time designated by the Committee. Timing of any payment or delivery of shares of Stock under this provision shall be subject to Section 409A of the Code.

7. **Clawback.** Notwithstanding anything in the Plan or this Agreement to the contrary, in the event that the Participant breaches any nonsolicitation, noncompetition or confidentiality agreement entered into with, or while acting on behalf of, the Company or any Affiliate, the Committee may (a) cancel the Award, in whole or in part, whether or not vested, and/or (b) require such Participant or former Participant to repay to the Company any gain realized or payment or shares received upon the exercise or payment of, or lapse of restrictions with respect to, such Award (with such gain, payment or shares valued as of the date of exercise, payment or lapse of restrictions). Notwithstanding anything in the Plan or any Agreement to the contrary, if any of the Company's financial statements are required to be restated due to errors, omissions, fraud, or misconduct, the Committee may, in its sole discretion but acting in good faith, direct the Company to recover all or a portion of any Award or any past or future compensation from any Participant or former Participant with respect to any fiscal year of the Company for which the financial results are negatively affected by such restatement. Such cancellation or repayment obligation shall be effective as of the date specified by the Committee. Any repayment obligation may be satisfied in shares of Stock or cash or a combination thereof (based upon the Fair Market Value of the shares of Stock on the date of repayment) and the Committee may provide for an offset to any future payments owed by the Company or any Affiliate to the Participant if necessary to satisfy the repayment obligation; provided, however, that if any such offset is prohibited under applicable law, the Committee shall not permit any offsets and may require immediate repayment by the Participant.

8. **Compliance with Law**. Notwithstanding any of the provisions hereof, the Company will not be obligated to issue or deliver any Stock to the Participant hereunder, if the exercise thereof or the issuance or delivery of such Stock shall constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority. Any determination in this connection by the Committee shall be final, binding and conclusive. The Company shall in no event be obliged to register any securities pursuant to the U.S. Securities Act of 1933 (as now in effect or as hereafter amended) or to take any other affirmative action in order to cause the issuance or delivery of Stock pursuant thereto to comply with any law or regulation of any governmental authority.

9. **No Right to Re-election or Continued Service**. Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue in the service of the Company as a non-employee director nor shall the Agreement be deemed to create any obligation of the Board to nominate any of its members for re-election by the Company stockholders nor confer on the Participant the right to remain a member of the Board for any period of time or at any particular rate of compensation. This Agreement shall not interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved. Participant acknowledges and agrees that the continued vesting of the Restricted Stock Units granted hereunder is premised upon his provision of future services as a member of the Board and vesting of such Restricted Stock Units shall not accelerate upon his termination of service for any reason unless specifically provided for herein.

10. **Representations and Warranties of Participant**. The Participant represents and warrants to the Company that:

(a) Agrees to Terms of the Plan. The Participant has received a copy of the Plan and has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Agreement, the Plan shall govern and control. **All capitalized terms not defined herein shall have the meaning ascribed to them as set forth in the Plan.**

(b) Cooperation. The Participant agrees to sign such additional documentation as may reasonably be required from time to time by the Company.

(c) No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying Stock. The Participant should consult with the Participant's own personal tax, legal and financial advisors regarding participation in the Plan before taking any action related to the Plan.

11. **Responsibility for Taxes.** The Participant acknowledges that, regardless of any action taken by the Company, the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("***Tax-Related Items***") is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company. The Participant further acknowledges that the Company (a) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including, but not limited to, the grant, vesting or settlement of the Award, the subsequent sale of shares of Stock acquired pursuant to the Award and the receipt of any dividends or dividend equivalents; and (b) does not commit to and is under no obligation to structure the terms of the Award or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Furthermore, if the Participant has become subject to Tax-Related Items in more than one jurisdiction, the Participant acknowledges that the Company may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, the Participant will pay or make adequate arrangements satisfactory to the Company to satisfy all Tax-Related Items. In this regard, the Participant authorizes the Company, or its agents, at their discretion, to satisfy their withholding obligations with regard to all Tax-Related Items by: (i) requiring a cash payment from the Participant; (ii) withholding from the Participant's cash compensation paid to the Participant by the Company, (iii) withholding from the proceeds of the sale of Stock acquired pursuant to the Award, either through a voluntary sale or through a mandatory sale arranged by the Company (on the Participant's behalf pursuant to this authorization without further consent); and/or (iv) withholding from the shares of Stock subject to the Restricted Stock Units, provided, however, that if the Participant is a Section 16 officer of the Company under the Exchange Act, then the Participant may elect the form of withholding from the alternatives above in advance of any tax withholding event, and in the absence of the Participant's timely election, the Company will withhold in shares of Stock, or the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) may determine that a particular method be used to satisfy any withholding obligations for Tax-Related Items.

The Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case the Participant will receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent in Stock. If the obligation for Tax-Related Items is satisfied by withholding in shares of Stock, the Participant is deemed, for tax purposes, to have been issued the full number of shares of Stock subject to the vested Restricted Stock Units, notwithstanding that a number of the shares of Stock are held back solely for the purpose of paying the Tax-Related Items.

The Company may refuse to issue or deliver the Stock or the proceeds of the sale of Stock if the Participant fails to comply with his or her obligations in connection with the Tax-Related Items.

12. **Rights as Stockholder**. The Participant shall have no rights as a stockholder with respect to any Restricted Stock Unit until the Participant shall have become the holder of record of such Stock, and no adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date upon which Participant shall become the holder of record thereof.

13. **Notice**. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided, that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to Participant's address as recorded in the records of the Company.

14. **Governing Law; Choice of Venue**. This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to its conflict of law principles.

For purposes of litigating any dispute that arises under this grant or the Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Texas, agree that such litigation shall be conducted in the courts of Collin County, Texas, or the federal courts for the United States for the Eastern District of Texas, where this grant is made and/or to be performed.

15. **Electronic Transmission and Participation**. The Company reserves the right to deliver any notice or Award by email in accordance with its policy or practice for electronic transmission and any written Award or notice referred to herein or under the Plan may be given in accordance with such electronic transmission policy or practice. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or any third party designated by the Company.

16. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Restricted Stock Units and on any Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

17. **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

18. **Waiver.** The Participant acknowledges that a waiver by the Company of breach of any provision of the Agreement shall not operate or be construed as a waiver of any other provision of the Agreement, or of any subsequent breach by the Participant or any other Participant.

* * * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ALLIANCE DATA SYSTEMS CORPORATION

By:_________________________

Joseph L. Motes, III
SVP, General Counsel and Secretary

PARTICIPANT

____

[PARTICIPANT NAME]

Exhibit 31.1

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: August 8, 2016

Exhibit 31.2

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
Charles L. Horn
Chief Financial Officer

Date: August 8, 2016

Exhibit 32.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 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: August 8, 2016

Subscribed and sworn to before me
this 8th day of August, 2016.

/S/ JANE BAEDKE
Name: Jane Baedke
Title: Notary Public

My commission expires:
October 23, 2016

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

Exhibit 32.2

CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 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: August 8, 2016

Subscribed and sworn to before me
this 8th day of August, 2016.

/S/ JANE BAEDKE
Name: Jane Baedke
Title: Notary Public

My commission expires:
October 23, 2016

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.