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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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 **(State or other jurisdiction of incorporation or organization)**		**31-1429215** **(I.R.S. Employer Identification No.)**
7500 Dallas Parkway, Suite 700 **Plano, Texas** **(Address of principal executive offices)**		**75024** **(Zip Code)**

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $11.2 billion (based upon the closing price on the New York Stock Exchange on June 30, 2016 of $195.92 per share).

As of February 22, 2017, 55,925,301 shares of common stock were outstanding.

Documents Incorporated By Reference

Certain information called for by Part III is incorporated by reference to certain sections of the Proxy Statement for the 2017 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2016.

ALLIANCE DATA SYSTEMS CORPORATION

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Caution Regarding Forward-Looking Statements

This Form 10-K 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 release, 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;
- increases in net charge-offs in credit card and loan receivables;
- limitations on consumer credit, loyalty or marketing services from new legislative or regulatory actions related to consumer protection or consumer privacy;
- 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;
- inability to access the asset-backed securitization funding market;
- unfavorable fluctuations in foreign currency exchange rates;
- increases in Federal Deposit Insurance Corporation, or 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 discussed in Item 1A of this Form 10-K, elsewhere in this Form 10-K and in the documents incorporated by reference in this Form 10-K.

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-K 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 I

Item 1. Business.

Our Company

We are a leading global provider of data-driven marketing and loyalty solutions serving large, consumer-based businesses in a variety of industries. We offer a comprehensive portfolio of integrated outsourced marketing solutions, including customer loyalty programs, database marketing services, end-to-end marketing services, analytics and creative services, direct marketing services and private label and co-brand retail credit card programs. We focus on facilitating and managing interactions between our clients and their customers through all consumer marketing channels, including in-store, online, email, social media, mobile, direct mail and telephone. We capture and analyze data created during each customer interaction, leveraging the insight derived from that data to enable clients to identify and acquire new customers and to enhance customer loyalty. We believe that our services are more valued as businesses shift marketing resources away from traditional mass marketing toward more targeted marketing programs that provide measurable returns on marketing investments.

Our client base of more than 1,800 companies consists primarily of large consumer-based businesses, including well-known brands such as Bank of Montreal, Sobeys Inc., Shell Canada Products, Hilton, Bank of America, General Motors, FedEx, Walgreens, Kraft, Victoria's Secret, Lane Bryant, Pottery Barn, J. Crew and Ann Taylor. Our client base is diversified across a broad range of end-markets, including financial services, specialty retail, grocery and drugstore chains, petroleum retail, automotive, hospitality and travel, telecommunications, insurance and healthcare. We believe our comprehensive suite of marketing solutions offers us a significant competitive advantage, as many of our competitors offer a more limited range of services. We believe the breadth and quality of our service offerings have enabled us to establish and maintain long-standing client relationships.

Corporate Headquarters. Our corporate headquarters are located at 7500 Dallas Parkway, Suite 700, Plano, Texas 75024, where our telephone number is 214-494-3000.

Our Market Opportunity and Growth Strategy

We intend to continue capitalizing on the shift in traditional advertising and marketing spend to highly targeted marketing programs. We intend to enhance our position as a leading global provider of data-driven marketing and loyalty solutions and to continue our growth in revenue and earnings by pursuing the following strategies:

- *Capitalize on our Leadership in Highly Targeted and Data-Driven Consumer Marketing.* As consumer-based businesses shift their marketing spend to data-driven marketing strategies, we believe we are well-positioned to acquire new clients and sell additional services to existing clients based on our extensive experience in capturing and analyzing our clients' customer transaction data to develop targeted marketing programs. We believe our comprehensive portfolio of high-quality targeted marketing and loyalty solutions provides a competitive advantage over other marketing services firms with more limited service offerings. We seek to extend our leadership position by continuing to improve the breadth and quality of our products and services. We intend to enhance our leadership position in loyalty and marketing solutions by expanding the scope of the Canadian AIR MILES Reward Program, by continuing to develop stand-alone loyalty programs such as the Hilton HHonors® and Citi Thank You® programs as well as short-term loyalty programs, and by increasing our penetration in the retail sector with our integrated marketing and credit services offering.
- *Sell More Fully Integrated End-to-End Marketing Solutions.* In our Epsilon® segment, we have assembled what we believe is the industry's most comprehensive suite of targeted and data-driven marketing services, including marketing strategy consulting, data services, marketing technology services, marketing analytics, creative design and delivery services such as video, mobile and permission-based email communications. We offer an end-to-end solution to clients, providing a significant opportunity to expand our relationships with existing clients, the majority of whom do not currently purchase our full suite of services. In addition, we further intend to integrate our product and service offerings so that we can provide clients with a comprehensive portfolio of targeted marketing solutions, including coalition and individual loyalty programs, private label and co-brand retail credit card programs and other data-driven marketing solutions. By selling integrated solutions across our entire client base, we have a significant opportunity to maximize the value of our long-standing client relationships.

· *Continue to Expand our Global Footprint.* Global reach is increasingly important as our clients grow into new markets, and we are well positioned to cost-effectively increase our global presence. We believe continued international expansion will provide us with strong revenue growth opportunities. In 2014, with our acquisition of our interests in BrandLoyalty Group B.V., or BrandLoyalty, and the acquisition of Conversant Inc., or Conversant, we expanded our presence in Europe, Asia, and Latin America, which provides an opportunity to leverage our core competencies in these markets. In 2015, we acquired Edison International Concept & Agencies B.V., or Edison, and Max Holding B.V., or Merison, two Netherlands-based loyalty marketers, which expands BrandLoyalty's short term loyalty programs into new markets and introduces new brands to existing markets. We also own approximately 37% of CBSM-Companhia Brasileira De Servicos De Marketing, the operator of the dotz coalition loyalty program, or dotz, which continues to expand its presence in Brazil with dotz operating in 13 markets as of December 31, 2016.

· *Optimize our Business Portfolio.* We intend to continue to evaluate our products and services given our strategic direction and demand trends. While we are focused on realizing organic revenue growth and margin expansion, we will consider select acquisitions of complementary businesses that would enhance our product portfolio, market positioning or geographic presence.

Products and Services

Our products and services are reported under three segments—LoyaltyOne®, Epsilon and Card Services, and are listed below. Financial information about our segments and geographic areas appears in Note 22, "Segment Information," of the Notes to Consolidated Financial Statements.

Segment	Products and Services
LoyaltyOne	• AIR MILES Reward Program • Short-term Loyalty Programs • Loyalty Services —Loyalty consulting —Customer analytics —Creative services —Mobile solutions
Epsilon	• Marketing Services —Agency services —Marketing technology services —Data services —Strategy and insights services —Traditional and digital marketing —Affiliate marketing services
Card Services	• Receivables Financing —Underwriting and risk management —Receivables funding • Processing Services —New account processing —Bill processing —Remittance processing —Customer care • Marketing Services

LoyaltyOne

Our LoyaltyOne clients are focused on acquiring and retaining loyal and profitable customers. We use the information gathered through our loyalty programs to help our clients design and implement effective marketing programs. Our clients within this segment include financial services providers, grocers, drug stores, petroleum retailers and specialty retailers. LoyaltyOne operates the AIR MILES Reward Program and BrandLoyalty.

The AIR MILES Reward Program is a full service outsourced loyalty program for our sponsors, who pay us a fee per AIR MILES reward mile issued, in return for which we provide all marketing, customer service, rewards and redemption management. We typically grant participating sponsors exclusivity in their market category, enabling them to realize incremental sales and increase market share as a result of their participation in the AIR MILES Reward Program coalition.

The AIR MILES Reward Program enables consumers, referred to as collectors, to earn AIR MILES reward miles as they shop across a broad range of retailers and other sponsors participating in the AIR MILES Reward Program. These AIR MILES reward miles can be redeemed by our collectors for travel or other rewards. Through our AIR MILES Cash program option, collectors can also instantly redeem their AIR MILES reward miles collected in the AIR MILES Cash program option toward in-store purchases at participating sponsors. Approximately two-thirds of Canadian households actively participate in the AIR MILES Reward Program, and it has been named a “most influential” Canadian brand in Canada’s Ipsos Influence Index.

The three primary parties involved in our AIR MILES Reward Program are: sponsors, collectors and suppliers, each of which is described below.

Sponsors. Approximately 170 brand name sponsors participate in our AIR MILES Reward Program, including Shell Canada Products, Jean Coutu, RONA, Amex Bank of Canada, Sobeys Inc. and Bank of Montreal.

Collectors. Collectors earn AIR MILES reward miles at thousands of retail and service locations, typically including any online presence the sponsor may have. Collectors can also earn AIR MILES reward miles at the many locations where collectors can use certain credit cards issued by Bank of Montreal and Amex Bank of Canada. This enables collectors to rapidly accumulate AIR MILES reward miles across a significant portion of their everyday spend. The AIR MILES Reward Program offers a reward structure that provides a quick, easy and free way for collectors to earn a broad selection of travel, entertainment and other lifestyle rewards through their day-to-day shopping at participating sponsors.

Suppliers. We enter into agreements with airlines, manufacturers of consumer electronics and other providers to supply rewards for the AIR MILES Reward Program. The broad range of rewards that can be redeemed is one of the reasons the AIR MILES Reward Program remains popular with collectors. Over 400 suppliers use the AIR MILES Reward Program as an additional distribution channel for their products. Suppliers include well-recognized companies in diverse industries, including travel, hospitality, electronics and entertainment.

BrandLoyalty designs, implements, conducts and evaluates innovative and tailor-made loyalty programs for grocers worldwide. These loyalty programs are designed to generate immediate changes in consumer behavior and are offered through leading grocers across Europe and Asia, as well as around the world. BrandLoyalty began its expansion into North America in 2015, entering the Canadian market, and in 2016, entering the United States with two initial programs. These short-term loyalty programs are designed to drive traffic by attracting new customers and motivating existing customers to spend more because the reward is instant, topical and newsworthy. These programs are tailored for the specific client and are designed to reward key customer segments based on their spending levels during defined campaign periods. Rewards for these programs are sourced from, and in some cases produced by, key suppliers in advance of the programs being offered based on expected demand. Following the completion of each program, BrandLoyalty analyzes spending data to determine the grocer’s lift in market share and the program’s return on investment.

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, affiliate marketing and a full range of direct and digital agency services. On behalf of our clients, we develop marketing programs for individual consumers with highly targeted offers and personalized communications via our digital media practice, Conversant®, to create better customer experiences. Since these communications are more relevant to the consumer, the consumer is more likely to be responsive to these offers, resulting in a measurable return on our clients' marketing investments. We distribute marketing campaigns and communications through all marketing channels based on the consumer's preference, including direct mail and digital platforms such as email, mobile, display and social media. Epsilon has over 1,400 clients, operating primarily in the financial services, insurance, media and entertainment, automotive, consumer packaged goods, retail, travel and hospitality, pharmaceutical/healthcare and telecommunications industries.

Agency Services. Through our consulting services we analyze our clients' business, brand and/or product strategy to create customer acquisition and retention strategies and tactics designed to further optimize our clients' customer relationships and marketing return on investment. We offer ROI-based targeted marketing services through data-driven creative, digital user experience design technology, customer relationship marketing, consumer promotions marketing, direct and digital shopper marketing, distributed and local area marketing, and services that include brand planning and consumer insights.

Marketing Technology Services. For large consumer-facing brands, we design, build and operate complex consumer marketing databases, including loyalty program management, such as Hilton HHonors®, Walgreens Balance® Rewards and the Citi Thank You® programs. Our solutions are highly customized and support our clients' needs for real-time data integration from a multitude of data sources, including multichannel transactional data.

Data Services. We believe we are one of the leading sources of comprehensive consumer data that is essential to marketers when making informed marketing decisions. Together with our clients, we use this data to create customer profiles and develop highly-targeted, personalized marketing programs that increase response rates and build stronger customer relationships.

Strategy and Insights. We provide behavior-based, demographic and attitudinal customer segmentation, purchase analysis, web analytics, marketing mix modeling, program optimization, predictive modeling and program measurement and analysis. Through our analytical services, we gain a better understanding of consumer behavior that can help our clients as they develop customer relationship strategies.

Traditional and Digital Marketing. We provide strategic communication solutions and our end-to-end suite of products and services includes strategic consulting, creative services, campaign management and delivery optimization. We deploy marketing campaigns and communications through all marketing channels, including direct mail and digital platforms such as email, display, mobile, video and social digital channels. We also operate what we believe to be one of the largest global permission-based email marketing platforms in the industry, sending tens of billions of emails per year on behalf of our clients, and enabling clients to build campaigns using measurable distribution channels. Conversant offers a fully integrated personalization platform and personalized media programs that are fueled by an in-depth understanding of what motivates people to engage, connect and buy. Further, Conversant helps companies grow by creating personalized experiences that deliver higher returns for brands and greater value for consumers.

Affiliate Marketing. We operate CJ Affiliate, one of the world's largest affiliate marketing networks specializing in pay-for-performance programs designed to drive results. Our network helps to create connections amid millions of online consumers daily by facilitating relationships between advertisers and publishers.

Card Services

Our Card Services segment assists some of the best known retailers in extending their brand with a private label and/or co-brand credit card account that can be used by their customers in the store, or through online or catalog purchases. Our partners benefit from customer insights and analytics, with each of our credit card branded programs tailored to our partner's brand and their unique card members.

Receivables Financing. Our Card Services segment provides risk management solutions, account origination and funding services for our more than 160 private label and co-brand credit card programs. Through these credit card programs, as of December 31, 2016, we had $15.8 billion in principal receivables from 42.5 million active accounts, with an average balance for the year ended December 31, 2016 of approximately $627 for accounts with outstanding balances. Ascena Retail Group, Inc. and its retail affiliates and L Brands and its retail affiliates each accounted for approximately 11% of our average credit card and loan receivables for the year ended December 31, 2016. We process millions of credit card applications each year using automated proprietary scoring technology and verification procedures to make risk-based origination decisions when approving new credit card accountholders and establishing their credit limits. We augment these procedures with credit risk scores provided by credit bureaus. This information helps us segment prospects into narrower risk ranges, allowing us to better evaluate individual credit risk.

Our accountholder base consists primarily of middle- to upper-income individuals, in particular women who use our credit cards primarily as brand affinity tools. These accounts generally have lower average balances compared to balances on general purpose credit cards. We focus our sales efforts on prime borrowers and do not target sub-prime borrowers.

We use a securitization program as a principal funding vehicle for our credit card receivables. Securitizations involve the packaging and selling of both current and future receivable balances of credit card accounts to a master trust, which is a variable interest entity, or VIE. Our three master trusts are consolidated in our financial statements.

Processing Services. We perform processing services and provide service and maintenance for private label and co-brand credit card programs. We use automated technology for bill preparation, printing and mailing, and also offer consumers the ability to view, print and pay their bills online. By doing so, we improve the funds availability for both our clients and for those private label and co-brand credit card receivables that we own or securitize. We also provide collection activities on delinquent accounts to support our private label and co-brand credit card programs. Our customer care operations are influenced by our retail heritage and we view every customer touch point as an opportunity to generate or reinforce a sale. Our call centers are equipped to handle a variety of inquiry types, including phone, mail, fax, email, text and web. We provide focused training programs in all areas to achieve the highest possible customer service standards and monitor our performance by conducting surveys with our clients and their customers. In 2015, for the eleventh time since 2003, we were certified as a Center of Excellence for the quality of our operations, the most prestigious ranking attainable, by BenchmarkPortal. Founded by Purdue University in 1995, BenchmarkPortal is a global leader of best practices for call centers.

Marketing Services. Our private label and co-branded credit card programs are designed specifically for retailers and have the flexibility to be customized to accommodate our clients' specific needs. Through our integrated marketing services, we design and implement strategies that assist our clients in acquiring, retaining and managing valuable repeat customers. Our credit card programs capture transaction data that we analyze to better understand consumer behavior and use to increase the effectiveness of our clients' marketing activities. We use multi-channel marketing communication tools, including in-store, web, permission-based email, mobile messaging and direct mail to reach our clients' customers.

Disaster and Contingency Planning

We operate, either internally or through third-party service providers, multiple data processing centers to process and store our customer transaction data. Given the significant amount of data that we or our third-party service providers manage, much of which is real-time data to support our clients' commerce initiatives, we have established redundant capabilities for our data centers. We have a number of safeguards in place that are designed to protect us from data-related risks and in the event of a disaster, to restore our data centers' systems.

Protection of Intellectual Property and Other Proprietary Rights

We rely on a combination of copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions and other similar measures to protect our proprietary information and technology used in each segment of our business. We generally enter into confidentiality or license agreements with our employees, consultants and corporate partners, and generally control access to and distribution of our technology, documentation and other proprietary information. Despite the efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain the use of our products or technology that we consider proprietary and third parties may attempt to develop similar technology independently. We have a number of domestic and foreign patents and pending patent applications. We pursue registration and protection of our trademarks primarily in the United States and Canada, although we also have either registered trademarks or applications pending for certain marks in other countries. No individual patent or license is material to us or our segments other than that we are the exclusive Canadian licensee of the AIR MILES family of trademarks pursuant to a perpetual license agreement with Air Miles International Trading B.V., for which we pay a royalty fee. We believe that the AIR MILES family of trademarks and our other trademarks are important for our branding, corporate identification and marketing of our services in each business segment.

Competition

The markets for our products and services are highly competitive. We compete with marketing services companies, credit card issuers, and data processing companies, as well as with the in-house staffs of our current and potential clients.

LoyaltyOne. As a provider of marketing services, our LoyaltyOne segment generally competes with advertising and other promotional and loyalty programs, both traditional and online, for a portion of a client’s total marketing budget. In addition, we compete against internally developed products and services created by our existing and potential clients. We expect competition to intensify as more competitors enter our market. Competitors may target our sponsors, clients and collectors as well as draw rewards from our rewards suppliers. Our ability to generate significant revenue from clients and loyalty partners will depend on our ability to differentiate ourselves through the products and services we provide and the attractiveness of our loyalty and rewards programs to consumers. The continued attractiveness of our loyalty and rewards programs will also depend on our ability to remain affiliated with sponsors that are desirable to consumers and to offer rewards that are both attainable and attractive to consumers.

Epsilon. Our Epsilon segment generally competes with a variety of niche providers as well as large media/digital agencies. For the niche provider competitors, their focus has primarily been on one or two services within the marketing value chain, rather than the full spectrum of data-driven marketing services used for both traditional and online advertising and promotional marketing programs. For the larger media/digital agencies, most offer the breadth of services but typically do not have the internal integration of offerings to deliver a seamless “one stop shop” solution, from strategy to execution across traditional as well as digital and emerging technologies. In addition, Epsilon competes against internally developed products and services created by our existing clients and others. We expect competition to intensify as more competitors enter our market. For our targeted direct marketing services offerings, our ability to continue to capture detailed customer transaction data is critical in providing effective marketing and loyalty strategies for our clients. Our ability to differentiate the mix of products and services that we offer, together with the effective delivery of those products and services, are also important factors in meeting our clients’ objective to continually improve their return on marketing investment.

Card Services. Our Card Services segment competes primarily with financial institutions whose marketing focus has been on developing credit card programs with large revolving balances. These competitors further drive their businesses by cross-selling their other financial products to their cardholders. Our focus has primarily been on targeting specialty retailers that understand the competitive advantage of developing loyal customers. Typically, these retailers seek customers that make more frequent but smaller transactions at their retail locations. As a result, we are able to analyze card-based transaction data we obtain through managing our credit card programs, including customer specific transaction data and overall consumer spending patterns, to develop and implement successful marketing strategies for our clients. As an issuer of private label retail credit cards and co-branded Visa®, MasterCard® and Discover® credit cards, we also compete with general purpose credit cards issued by other financial institutions, as well as cash, checks and debit cards.

Regulation

Federal and state laws and regulations extensively regulate the operations of our bank subsidiaries, Comenity Bank and Comenity Capital Bank. Many of these laws and regulations are intended to maintain the safety and soundness of Comenity Bank and Comenity Capital Bank, and they impose significant restraints to which other non-regulated companies are not subject. Because Comenity Bank is deemed a credit card bank and Comenity Capital Bank is an industrial bank within the meaning of the Bank Holding Company Act, we are not subject to regulation as a bank holding company. If we were subject to regulation as a bank holding company, we would be constrained in our operations to a limited number of activities that are closely related to banking or financial services in nature. As a state bank, Comenity Bank is subject to overlapping supervision by the FDIC and the State of Delaware; and, as an industrial bank, Comenity Capital Bank is subject to overlapping supervision by the FDIC and the State of Utah. As of October 1, 2016, both Comenity Bank and Comenity Capital Bank are under the supervision of the Consumer Financial Protection Bureau, or CFPB, a federal consumer protection regulator with authority to make further changes to the federal consumer protection laws and regulations, and the CFPB may, from time to time, conduct reviews of their practices.

Comenity Bank and Comenity Capital Bank must maintain minimum amounts of regulatory capital, including maintenance of certain capital ratios, paid-in capital minimums, and an appropriate allowance for loan loss, as well as meeting specific guidelines that involve measures and ratios of their assets, liabilities, regulatory capital and interest rate, among other factors. If Comenity Bank or Comenity Capital Bank does not meet these capital requirements, their respective regulators have broad discretion to institute a number of corrective actions that could have a direct material effect on our financial statements. To pay any dividend, Comenity Bank and Comenity Capital Bank must maintain adequate capital above regulatory guidelines.

We are limited under Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve Board Regulation W in the extent to which we can borrow or otherwise obtain credit from or engage in other “covered transactions” with Comenity Bank or Comenity Capital Bank, which may have the effect of limiting the extent to which Comenity Bank or Comenity Capital Bank can finance or otherwise supply funds to us. “Covered transactions” include loans or extensions of credit, purchases of or investments in securities, purchases of assets, including assets subject to an agreement to repurchase, acceptance of securities as collateral for a loan or extension of credit, or the issuance of a guarantee, acceptance, or letter of credit. Although the applicable rules do not serve as an outright bar on engaging in “covered transactions,” they do require that we engage in “covered transactions” with Comenity Bank or Comenity Capital Bank only on terms and under circumstances that are substantially the same, or at least as favorable to Comenity Bank or Comenity Capital Bank, as those prevailing at the time for comparable transactions with nonaffiliated companies. Furthermore, with certain exceptions, each loan or extension of credit by Comenity Bank or Comenity Capital Bank to us or our other affiliates must be secured by collateral with a market value ranging from 100% to 130% of the amount of the loan or extension of credit, depending on the type of collateral.

We are required to monitor and report unusual or suspicious account activity as well as transactions involving amounts in excess of prescribed limits under the Bank Secrecy Act, Internal Revenue Service, or IRS, rules, and other regulations. Congress, the IRS and the bank regulators have focused their attention on banks’ monitoring and reporting of suspicious activities. Additionally, Congress and the bank regulators have proposed, adopted or passed a number of new laws and regulations that may increase reporting obligations of banks. We are also subject to numerous laws and regulations that are intended to protect consumers, including state laws, the Truth in Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act, as amended by the Credit Card Accountability, Responsibility and Disclosure Act of 2009, or the CARD Act. These laws and regulations mandate various disclosure requirements and regulate the manner in which we may interact with consumers. These and other laws also limit finance charges or other fees or charges earned in our lending activities. We conduct our operations in a manner that we believe excludes us from regulation as a consumer reporting agency under the Fair Credit Reporting Act. If we were deemed a consumer reporting agency, however, we would be subject to a number of additional complex regulatory requirements and restrictions.

A number of privacy laws and regulations have been enacted in the United States, Canada, the European Union, China and other international markets in which we operate. These laws and regulations place many restrictions on our ability to collect and disseminate customer information. In addition, the enactment of new or amended legislation around the world could place additional restrictions on our ability to utilize customer information. For example, Canada has enacted privacy legislation known as the Personal Information Protection and Electronic Documents Act. Among its principles, this act requires organizations to obtain a consumer’s consent to collect, use or disclose personal information. Under this act, which took effect on January 1, 2001, the nature of the required consent depends on the sensitivity of the personal information, and the act permits personal information to be used only for the purposes for which it was collected. Some Canadian provinces have enacted substantially similar privacy legislation. We believe we have taken appropriate steps within LoyaltyOne to comply with these laws.

In the United States under the Gramm-Leach-Bliley Act, we are required to maintain a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information. It also requires us to provide initial and annual privacy notices to customers that describe in general terms our information sharing practices. If we intend to share nonpublic personal information about customers with affiliates and/or nonaffiliated third parties, we must provide our customers with a notice and a reasonable period of time for each customer to "opt out" of any such disclosure. In Canada, the Act to promote the efficiency and adaptability of the Canadian economy by regulating certain activities that discourage reliance on electronic means of carrying out commercial activities, and to amend the Canadian Radio-television and Telecommunications Commission Act, the Competition Act, the Personal Information Protection and Electronic Documents Act and the Telecommunications Act, more generally known as Canada's Anti-Spam Legislation, may restrict our ability to send commercial "electronic messages," defined to include text, sound, voice and image messages to email, or similar accounts, where the primary purpose is advertising or promoting a commercial product or service to our customers and prospective customers. The Act requires that a sender have consent to send a commercial electronic message, and provide the customers with an opportunity to opt out from receiving future commercial electronic email messages from the sender. In the European Union, the Directive 95/46/EC of the European Parliament, or the EU Parliament, and of the Council of 24 October 1995 requires member states to implement and enforce a comprehensive data protection law that is based on principles designed to safeguard personal data, defined as any information relating to an identified or identifiable natural person. The Directive frames certain requirements for transfer outside of the European Economic Area and individual rights such as consent requirements. In January 2012, the European Commission proposed the General Data Protection Regulation, or the GDPR, a new European Union-wide legal framework to govern data sharing and collection and related consumer privacy rights. In December 2015, the EU Parliament and the EU Council reached informal agreement on the text of the GDPR, and in April 2016 both the EU Council and the EU Parliament adopted the GDPR. The new rules go into effect on May 25, 2018. The GDPR will replace the Directive and, because it is a regulation rather than a directive, will directly apply to and bind the 28 EU Member States. Compared to the Directive, GDPR may result in greater compliance obligations, including the implementation of a number of processes and policies around our data collection and use.

In addition to U.S. federal privacy laws with which we must comply, states also have adopted statutes, regulations or other measures governing the collection and distribution of nonpublic personal information about customers. In some cases these state measures are preempted by federal law, but if not, we monitor and seek to comply with individual state privacy laws in the conduct of our business.

We also have systems and processes to comply with the USA PATRIOT ACT of 2001, which is designed to deter and punish terrorist acts in the United States and around the world, to enhance law enforcement investigatory tools, and for other purposes.

On December 5, 2016, the Legislative Assembly of the Province of Ontario, or the Ontario Legislature, passed Bill 47, Protecting Rewards Points Act (Consumer Protection Amendment), 2016, which amended Ontario's Consumer Protection Act, 2002 with respect to rewards points. Changes to the Ontario Consumer Protection Act effected by these amendments include, among other things:

- changing the definition of "consumer agreement" to include agreements under which a supplier agrees to provide rewards points to a consumer;
- changing the definition of "supplier" to include a person who supplies rewards points;
- prohibiting suppliers from entering into or amending consumer agreements to provide for the expiry of rewards points due to the passage of time alone;
- permitting the expiry of rewards points if a consumer agreement under which rewards points are provided is terminated by the supplier or the consumer and the consumer agreement provides for the expiry of the points;
- permitting future regulation regarding rewards points; and
- addressing transitional and other related matters.

These amendments to the Ontario Consumer Protection Act became effective upon receipt of Royal Assent on December 8, 2016, but have retroactive effect in that any rewards points that expired on or after October 1, 2016 must be credited back to the consumer by December 23, 2016, or 15 days following the date on which the amendments became effective. We currently anticipate that similar legislation may be enacted in some or all other Canadian provinces.

On December 31, 2011, LoyaltyOne, Co., a subsidiary of Alliance Data Systems Corporation and operator of the AIR MILES Reward Program, announced a five-year expiry policy applicable to all outstanding and future AIR MILES reward miles issued, assigning a December 31, 2016 expiration date to all AIR MILES reward miles then outstanding. The Ontario Consumer Protection Act, as amended, prohibits LoyaltyOne expiring AIR MILES reward miles in Ontario as contemplated by the expiry policy, but, subject to any future regulatory action to the contrary, will not impact LoyaltyOne's practice of terminating a collector's account and cancelling their AIR MILES reward miles after two years of inactivity.

As a result of the anticipated passage of the then-pending legislative changes in Ontario and the likelihood of changes in similar laws in some or all other Canadian provinces, LoyaltyOne cancelled its five-year expiry policy on December 1, 2016. As a result of the cancellation of the expiry policy, coupled with increased redemption activity in the third and fourth quarter of 2016, we changed our estimate of breakage from 26% to 20%. As a result of this change in estimate, we increased the deferred redemption liability by $284.5 million with a corresponding reduction of redemption revenue. Of that, we estimated $241.7 million was attributable to the cancellation of the expiry policy.

Further, the amendments to the Ontario Consumer Protection Act provide for further regulation, specifically with respect to the transfer of reward points and the termination and inactivity of consumer agreements. LoyaltyOne expects the Ontario Ministry of Government Services to release a draft outline of regulations and announce a consultation process in the first half of 2017.

Employees

As of December 31, 2016, we had over 17,000 employees. We believe our relations with our employees are good. We have no collective bargaining agreements with our employees.

Available Information

We file or furnish annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy, for a fee, any document we file or furnish at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our SEC filings are also available to the public at the SEC's website at *www.sec.gov.* You may also obtain copies of our annual, quarterly and current reports, proxy statements and certain other information filed or furnished with the SEC, as well as amendments thereto, free of charge from our website, *www.AllianceData.com.* No information from this website is incorporated by reference herein. These documents are posted to our website as soon as reasonably practicable after we have filed or furnished these documents with the SEC. We post our audit committee, compensation committee, nominating and corporate governance committee, and executive committee charters, our corporate governance guidelines, and our code of ethics, code of ethics for Senior Financial Officers, and code of ethics for Board Members on our website. These documents are available free of charge to any stockholder upon request.

Item 1A. Risk Factors.

RISK FACTORS

Strategic Business Risk and Competitive Environment

Our 10 largest clients represented 35% and 36%, respectively, of our consolidated revenue for the years ended December 31, 2016 and 2015, and the loss of any of these clients could cause a significant drop in our revenue.

We depend on a limited number of large clients for a significant portion of our consolidated revenue. Our 10 largest clients represented approximately 35% and 36%, respectively, of our consolidated revenue during the years ended December 31, 2016 and 2015, with no single client representing more than 10% of our consolidated revenue during either of these periods. A decrease in revenue from any of our significant clients for any reason, including a decrease in pricing or activity, or a decision either to utilize another service provider or to no longer outsource some or all of the services we provide, could have a material adverse effect on our consolidated revenue.

LoyaltyOne. LoyaltyOne represents 19% and 21%, respectively, of our consolidated revenue for the years ended December 31, 2016 and 2015. Our 10 largest clients in this segment represented approximately 54% and 60%, respectively, of our LoyaltyOne revenue for the years ended December 31, 2016 and 2015. Bank of Montreal represented approximately 17% and 22%, respectively, of this segment's revenue for the years ended December 31, 2016 and 2015. Sobeys Inc. and its retail affiliates represented approximately 13% of this segment's revenue for each of the years ended December 31, 2016 and 2015. Our contract with Bank of Montreal expires in 2018, subject to automatic renewals at five-year intervals. Our contract with Sobeys Inc. and its retail affiliates expires in 2024.

Epsilon. Epsilon represents 30% and 33%, respectively, of our consolidated revenue for the years ended December 31, 2016 and 2015. Our 10 largest clients in this segment represented approximately 30% and 28%, respectively, of our Epsilon revenue for the years ended December 31, 2016 and 2015, with no single client representing more than 10% of Epsilon's revenue during either of these periods.

Card Services. Card Services represents 51% and 46%, respectively, of our consolidated revenue for the years ended December 31, 2016 and 2015. Our 10 largest clients in this segment represented approximately 59% and 63%, respectively, of our Card Services revenue for the years ended December 31, 2016 and 2015. L Brands and its retail affiliates represented approximately 16% of this segment's revenue for each of the years ended December 31, 2016 and 2015. Ascena Retail Group, Inc. and its retail affiliates represented approximately 13% and 15%, respectively, of this segment's revenue for the years ended December 31, 2016 and 2015. Our contract with L Brands and its retail affiliates expires in 2019 and our contracts with Ascena Retail Group, Inc. and its retail affiliates expire in 2019 and 2021.

If actual redemptions by AIR MILES Reward Program collectors are greater than expected, or if the costs related to redemption of AIR MILES reward miles increase, our profitability could be adversely affected.

A portion of our revenue is based on our estimate of the number of AIR MILES reward miles that will go unused by the collector base. The percentage of AIR MILES reward miles not expected to be redeemed is known as "breakage."

Breakage is based on management's estimate after viewing and analyzing various historical trends including vintage analysis, current run rates and other pertinent factors, such as the impact of macroeconomic factors and changes in the program structure, the introduction of new program options and changes to rewards offered. Any significant change in or failure by management to reasonably estimate breakage, or if actual redemptions are greater than our estimates, our profitability could be adversely affected. During 2016, we reduced the breakage rate from 26% to 20%, in part due to an increase in redemptions ahead of the anticipated year-end expiration date associated with the five-year expiry policy and in part due to the cancellation of the five-year expiry policy due to a then-anticipated change in law, which negatively impacted our profitability.

Our AIR MILES Reward Program also exposes us to risks arising from potentially increasing reward costs. Our profitability could be adversely affected if costs related to redemption of AIR MILES reward miles increase. A 10% increase in the cost of redemptions would have resulted in a decrease in pre-tax income of $52.9 million for the year ended December 31, 2016.

The loss of our most active AIR MILES Reward Program collectors could adversely affect our growth and profitability.

Our most active AIR MILES Reward Program collectors drive a disproportionately large percentage of our AIR MILES Reward Program revenue. The loss of a significant portion of these collectors, for any reason, could impact our ability to generate significant revenue from sponsors. The continued attractiveness of our loyalty and rewards programs will depend in large part on our ability to remain affiliated with sponsors that are desirable to consumers and to offer rewards that are both attainable and attractive.

Airline or travel industry disruptions, such as an airline insolvency, could negatively affect the AIR MILES Reward Program, our revenues and profitability.

Air travel is one of the appeals of the AIR MILES Reward Program to collectors. As a result of airline insolvencies and restructurings, we may experience service disruptions that prevent us from fulfilling collectors' flight redemption requests. If one of our existing airline suppliers sharply reduces its fleet capacity and route network, we may not be able to satisfy our collectors' demands for airline tickets. Tickets from other airlines, if available, could be more expensive than a comparable ticket under our current supply agreements with existing suppliers, and the routes offered by the other airlines may be inadequate, inconvenient or undesirable to the redeeming collectors. As a result, we may experience higher air travel redemption costs, and collector satisfaction with the AIR MILES Reward Program might be adversely affected.

As a result of airline or travel industry disruptions, political instability, terrorist acts or war, some collectors could determine that air travel is too dangerous or burdensome. Consequently, collectors might forego redeeming AIR MILES reward miles for air travel and therefore might not participate in the AIR MILES Reward Program to the extent they previously did, which could adversely affect our revenue from the program.

If we fail to identify suitable acquisition candidates or new business opportunities, or to integrate the businesses we acquire, it could negatively affect our business.

Historically, we have engaged in a significant number of acquisitions, and those acquisitions have contributed to our growth in revenue and profitability. We believe that acquisitions and the identification and pursuit of new business opportunities will be a key component of our continued growth strategy. However, we may not be able to locate and secure future acquisition candidates or to identify and implement new business opportunities on terms and conditions that are acceptable to us. If we are unable to identify attractive acquisition candidates or successful new business opportunities, our growth could be impaired.

In addition, there are numerous risks associated with acquisitions and the implementation of new businesses, including, but not limited to:

- the difficulty and expense that we incur in connection with the acquisition or new business opportunity;
- the potential for adverse consequences when conforming the acquired company's accounting policies to ours;
- the diversion of management's attention from other business concerns;
- the potential loss of customers or key employees of the acquired company;
- the impact on our financial condition due to the timing of the acquisition or new business implementation or the failure of the acquired or new business to meet operating expectations; and
- the assumption of unknown liabilities of the acquired company.

Furthermore, acquisitions that we make may not be successfully integrated into our ongoing operations and we may not achieve expected cost savings or other synergies from an acquisition. If the operations of an acquired or new business do not meet expectations, our profitability may decline and we may seek to restructure the acquired business or impair the value of some or all of the assets of the acquired or new business.

We expect growth in our Card Services segment to result from new and acquired credit card programs whose credit card receivables performance could result in increased portfolio losses and negatively impact our profitability.

We expect an important source of growth in our credit card operations to come from the acquisition of existing credit card programs and initiating credit card programs with retailers and others who do not currently offer a private label or co-branded credit card. Although we believe our pricing and models for determining credit risk are designed to evaluate the credit risk of existing programs and the credit risk we are willing to assume for acquired and start-up programs, we cannot be assured that the loss experience on acquired and start-up programs will be consistent with our more established programs. The failure to successfully underwrite these credit card programs may result in defaults greater than our expectations and could have a material adverse impact on us and our profitability.

Increases in net charge-offs could have a negative impact on our net income and profitability.

The primary risk associated with unsecured consumer lending is the risk of default or bankruptcy of the borrower, resulting in the borrower's balance being charged-off as uncollectible. We rely principally on the customer's creditworthiness for repayment of the loan and therefore have no other recourse for collection. We may not be able to successfully identify and evaluate the creditworthiness of cardholders to minimize delinquencies and losses. An increase in defaults or net charge-offs could result in a reduction in net income. General economic factors, such as the rate of inflation, unemployment levels and interest rates, may result in greater delinquencies that lead to greater credit losses. In addition to being affected by general economic conditions and the success of our collection and recovery efforts, the stability of our delinquency and net charge-off rates are affected by the credit risk of our credit card and loan receivables and the average age of our various credit card account portfolios. Further, our pricing strategy may not offset the negative impact on profitability caused by increases in delinquencies and losses, thus any material increases in delinquencies and losses beyond our current estimates could have a material adverse impact on us. For 2016, our net charge-off rate was 5.1%, compared to 4.5% and 4.2% for 2015 and 2014, respectively. Delinquency rates were 4.8% of principal credit card and loan receivables at December 31, 2016, compared to 4.2% and 4.0% at December 31, 2015 and 2014, respectively.

The markets for the services that we offer may contract or fail to expand which could negatively impact our growth and profitability.

Our growth and continued profitability depend on acceptance of the services that we offer. Our clients may not continue to use the loyalty and targeted marketing strategies and programs that we offer. Changes in technology may enable merchants and retail companies to directly process transactions in a cost-efficient manner without the use of our services. Additionally, downturns in the economy or the performance of retailers may result in a decrease in the demand for our marketing strategies. Any decrease in the demand for our services for the reasons discussed above or any other reasons could have a material adverse effect on our growth, revenue and operating results.

Competition in our industries is intense and we expect it to intensify.

The markets for our products and services are highly competitive and we expect competition to intensify in each of those markets. Some of our current competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than we do. Certain of our segments also compete against in-house staffs of our current clients and others or internally developed products and services by our current clients and others. Our ability to generate significant revenue from clients and partners will depend on our ability to differentiate ourselves through the products and services we provide and the attractiveness of our programs to consumers. We may not be able to continue to compete successfully against our current and potential competitors.

Liquidity, Market and Credit Risk

Interest rate increases on our variable rate debt could materially adversely affect our profitability.

Interest rate risk affects us directly in our borrowing activities. Our interest expense, net was $428.5 million for the year ended December 31, 2016. To manage our risk from market interest rates, we actively monitor the interest rates and the interest sensitive components to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. In 2016, a 1% increase in interest rates would have resulted in an increase to interest expense of approximately $85 million. Conversely, a corresponding decrease in interest rates would have resulted in a decrease to interest expense of approximately $62 million. In addition, we may enter into derivative instruments on related financial instruments or to lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes.

If we are unable to securitize our credit card receivables due to changes in the market, we may not be able to fund new credit card receivables, which would have a negative impact on our operations and profitability.

A number of factors affect our ability to fund our receivables in the securitization market, some of which are beyond our control, including:

- conditions in the securities markets in general and the asset-backed securitization market in particular;
- conformity in the quality of our credit card receivables to rating agency requirements and changes in that quality or those requirements; and
- ability to fund required overcollateralizations or credit enhancements, which are routinely utilized in order to achieve better credit ratings to lower borrowing cost.

In addition, on August 27, 2014, the SEC adopted a number of rules that will change the disclosure, reporting and offering process for publicly registered offerings of asset-backed securities, including those offered under our credit card securitization program. The adopted rules finalize rules that were originally proposed on April 7, 2010 and re-proposed on July 26, 2011. A number of rules proposed by the SEC in 2010 and 2011, such as requiring group-level data for the underlying assets in credit card securitizations, were not adopted in the final rulemaking but may be adopted by the SEC in the future and may be adopted with further modifications. The adoption of further rules affecting disclosure, reporting and the offering process for publicly registered offerings of asset-backed securities may impact our ability or desire to issue asset-backed securities in the future.

The FDIC, the SEC, the Federal Reserve and certain other federal regulators have adopted regulations that would mandate a minimum five percent risk retention requirement for securitizations that are issued on and after December 24, 2016. Such risk retention requirements may limit our liquidity by restricting the amount of asset-backed securities we are able to issue or affecting the timing of future issuances of asset-backed securities.

Early amortization events may occur as a result of certain adverse events specified for each asset-backed securitization transaction, including, among others, deteriorating asset performance or material servicing defaults. In addition, certain series of funding notes issued by our securitization trusts are subject to early amortization based on triggers relating to the bankruptcy of retailers. Deteriorating economic conditions, particularly in the retail sector, may lead to an increase in bankruptcies among retailers who have entered into credit card programs with us, which may in turn cause an early amortization for such funding securities. The occurrence of an early amortization event may significantly limit our ability to securitize additional receivables.

As a result of Basel III, which refers generally to a set of regulatory reforms adopted in the U.S. and internationally that are meant to address issues that arose in the banking sector during the recent financial crisis, banks are becoming subject to more stringent capital, liquidity and leverage requirements. In response to Basel III, investors of our securitization trusts' funding securities have sought and obtained amendments to their respective transaction documents permitting them to delay disbursement of funding increases by up to 35 days. Although funding may be requested from other investors who have not delayed their funding, access to financing could be disrupted if all of the investors implement such delays or if the lending capacities of those who did not do so were insufficient to make up the shortfall. In addition, excess spread may be affected if the issuing entity's borrowing costs increase as a result of Basel III. Such cost increases may result, for example, because the investors are entitled to indemnification for increased costs resulting from such regulatory changes.

The inability to securitize card receivables due to changes in the market, regulatory proposals, the unavailability of credit enhancements, or any other circumstance or event would have a material adverse effect on our operations and profitability.

Our level of indebtedness could materially adversely affect our ability to generate sufficient cash to repay our outstanding debt, our ability to react to changes in our business and our ability to incur additional indebtedness to fund future needs.

We have a high level of indebtedness, which requires a high level of interest and principal payments. Subject to the limits contained in our credit agreement, the indentures governing our senior notes and our other debt instruments, we may be able to incur substantial additional indebtedness from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our level of indebtedness could intensify. Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our higher level of indebtedness, combined with our other financial obligations and contractual commitments, could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations under any of our debt instruments, including restrictive covenants, could result in an event of default under our credit agreement, the indentures governing our senior notes and the agreements governing our other indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, acquisitions and other corporate purposes;
- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions and other corporate purposes;
- reduce or delay investments and capital expenditures;
- cause any refinancing of our indebtedness to be at higher interest rates and require us to comply with more onerous covenants, which could further restrict our business operations; and
- prevent us from raising the funds necessary to repurchase all notes tendered to us upon the occurrence of certain changes of control.

There is no guarantee that we will pay future dividends or repurchase shares at a level anticipated by stockholders, which could reduce returns to our stockholders. Decisions to declare future dividends on, or repurchase, our common stock will be at the discretion of our Board of Directors based upon a review of relevant considerations.

Since October 2016, our Board of Directors has declared quarterly cash dividend payments on our outstanding common stock. Future declarations of quarterly dividends and the establishment of future record and payment dates are subject to approval by our Board of Directors. Since 2001, our Board of Directors has approved various share repurchase programs, including the share repurchase program approved in January 2017 for the repurchase of up to $500 million of our common stock in 2017. The Board's determination to declare dividends on, or repurchase shares of, our common stock will depend upon our profitability and financial condition, contractual restrictions, restrictions imposed by applicable law and other factors that the board deems relevant. Based on an evaluation of these factors, the Board of Directors may determine not to declare future dividends at all, to declare future dividends at a reduced amount, not to repurchase shares or to repurchase shares at reduced levels compared to historical levels, any or all of which could reduce returns to our stockholders.

Our reported financial information will be affected by fluctuations in the exchange rate between the U.S. dollar and certain foreign currencies.

The results of our operations are exposed to foreign exchange rate fluctuations. We are exposed primarily to fluctuations in the exchange rate between the U.S. and Canadian dollars and the exchange rate between the U.S. dollar and the Euro. Upon translation, operating results may differ from our expectations. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased. For the year ended December 31, 2016, foreign currency movements relative to the U.S. dollar negatively impacted our revenue by approximately $27 million and positively impacted earnings before taxes by approximately $3 million.

Regulatory Environment

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

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

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

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

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

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

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

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

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

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

Legislation relating to consumer privacy and security may affect our ability to collect data that we use in providing our loyalty and marketing services, which, among other things, could negatively affect our ability to satisfy our clients' needs.

The evolution of legal standards and regulations around data protection and consumer privacy may affect our business. The enactment of new or amended legislation or industry regulations pertaining to consumer, public or private sector privacy issues could have a material adverse impact on our marketing services, including placing restrictions upon the collection, sharing and use of information that is currently legally available. This, in turn, could materially increase our cost of collecting certain data. These types of legislation or industry regulations could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our clients' requirements and our profitability and cash flow targets. In addition to the United States, Canadian and European Union regulations discussed below, we have expanded our marketing services through the acquisition of companies formed and operating in foreign jurisdictions that may be subject to additional or more stringent legislation and regulations regarding consumer or private sector privacy.

There are also a number of specific laws and regulations governing the collection and use of certain types of consumer data that are relevant to our various business and services. In the United States, federal and state laws such as the federal Gramm-Leach-Bliley Act and the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003, make it more difficult to collect, share and use information that has previously been legally available and may increase our costs of collecting some data. Regulations under these acts give cardholders the ability to "opt out" of having information generated by their credit card purchases shared with other affiliated and unaffiliated parties or the public. Our ability to gather, share and utilize this data will be adversely affected if a significant percentage of the consumers whose purchasing behavior we track elect to "opt out," thereby precluding us and our affiliates from using their data.

In the United States, the federal Do-Not-Call Implementation Act makes it more difficult to telephonically communicate with prospective and existing customers. Similar measures were implemented in Canada beginning September 1, 2008. Regulations in both the United States and Canada give consumers the ability to "opt out," through a national do-not-call registry and state do-not-call registries of having telephone solicitations placed to them by companies that do not have an existing business relationship with the consumer. In addition, regulations require companies to maintain an internal do-not-call list for those who do not want the companies to solicit them through telemarketing. These regulations could limit our ability to provide services and information to our clients. Failure to comply with these regulations could have a negative impact on our reputation and subject us to significant penalties. Further, the Federal Communications Commission has approved interpretations of rules related to the Telephone Consumer Protection Act defining robo-calls broadly, which may affect our ability to contact customers and may increase our litigation exposure.

In the United States, the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 restricts our ability to send commercial electronic mail messages, the primary purpose of which is advertising or promoting a commercial product or service, to our customers and prospective customers. The act requires that a commercial electronic mail message provide the customers with an opportunity to opt-out from receiving future commercial electronic mail messages from the sender. Failure to comply with the terms of this act could have a negative impact on our reputation and subject us to significant penalties.

In Canada, the Personal Information Protection and Electronic Documents Act requires an organization to obtain a consumer's consent to collect, use or disclose personal information. Under this act, consumer personal information may be used only for the purposes for which it was collected. We allow our customers to voluntarily "opt out" from receiving either one or both promotional and marketing mail or promotional and marketing electronic mail. Heightened consumer awareness of, and concern about, privacy may result in customers "opting out" at higher rates than they have historically. This would mean that a reduced number of customers would receive bonus and promotional offers and therefore those customers may collect fewer AIR MILES reward miles.

Canada's Anti-Spam Legislation may restrict our ability to send commercial "electronic messages," defined to include text, sound, voice and image messages to email, or similar accounts, where the primary purpose is advertising or promoting a commercial product or service to our customers and prospective customers. The Act requires, in part, that a sender have consent to send a commercial electronic message, and provide the customers with an opportunity to opt out from receiving future commercial electronic email messages from the sender. Failure to comply with the terms of this Act or any proposed regulations that may be adopted in the future, including a proposed private right of action that may go into effect in July 2017, could have a negative impact on our reputation and subject us to significant monetary penalties.

In the European Union, the Directive 95/46/EC of the EU Parliament and of the Council of 24 October 1995 requires member states to implement and enforce a comprehensive data protection law that is based on principles designed to safeguard personal data, defined as any information relating to an identified or identifiable natural person. The Directive frames certain requirements for transfer outside of the European Economic Area and individual rights such as consent requirements. In January 2012, the European Commission proposed the General Data Protection Regulation, or GDPR, a new European Union-wide legal framework to govern data sharing and collection and related consumer privacy rights. In December 2015, the EU Parliament and the EU Council reached informal agreement on the text of the GDPR, and in April 2016 both the EU Council and the EU Parliament adopted the GDPR. The new rules will go into effect on May 25, 2018. The GDPR will replace the Directive and, because it is a regulation rather than a directive, will directly apply to and bind the 28 EU Member States. Compared to the Directive, GDPR may result in greater compliance obligations, including the implementation of a number of processes and policies around our data collection and use. These and other terms of the GDPR could limit our ability to provide services and information to our customers. In addition, the GDPR includes significant new penalties for non-compliance, with fines up to the higher of €20 million ($21 million as of December 31, 2016) or 4% of total annual worldwide revenue. Further, the European Union has also released a draft of the proposed reforms to the ePrivacy Directive that governs the use of technologies to collect consumer information. In general, GDPR, and other local privacy laws, could also lead to adaptation of our technologies or practices to satisfy local privacy requirements and standards that may be more stringent than in the U.S.

There is also rapid development of new privacy laws and regulations in the Asia Pacific region and elsewhere around the globe, including amendments of existing data protection laws to the scope of such laws and penalties for noncompliance. Failure to comply with these international data protection laws and regulations could have a negative impact on our reputation and subject us to significant penalties.

While 48 states and the District of Columbia have enacted data breach notification laws, there is no such federal law generally applicable to our businesses. Data breach notification legislation has been proposed widely and exists in specific countries and jurisdictions in which we conduct business. If enacted, these legislative measures could impose strict requirements on reporting time frames for providing notice, as well as the contents of such notices.

Legislation relating to consumer protection may affect our ability to provide our loyalty and marketing services, which, among other things, could negatively affect our ability to satisfy our clients' needs.

The enactment of new or amended legislation or industry regulations pertaining to consumer protection could have a material adverse impact on our loyalty and marketing services. On December 5, 2016, the Ontario Legislature passed Bill 47, Protecting Rewards Points Act (Consumer Protection Amendment), 2016, which amended Ontario's Consumer Protection Act, 2002 with respect to rewards points. Changes to the Ontario Consumer Protection Act effected by these amendments include, among other things:

- changing the definition of "consumer agreement" to include agreements under which a supplier agrees to provide rewards points to a consumer;
- changing the definition of "supplier" to include a person who supplies rewards points;
- prohibiting suppliers from entering into or amending consumer agreements to provide for the expiry of rewards points due to the passage of time alone;
- permitting the expiry of rewards points if a consumer agreement under which rewards points are provided is terminated by the supplier or the consumer and the consumer agreement provides for the expiry of the points;
- permitting future regulation regarding rewards points; and
- addressing transitional and other related matters.

These amendments to the Ontario Consumer Protection Act became effective upon receipt of Royal Assent on December 8, 2016, but have retroactive effect in that any rewards points that expired on or after October 1, 2016 must be credited back to the consumer by December 23, 2016, or 15 days following the date on which the amendments became effective. We currently anticipate that similar legislation may be enacted in some or all other Canadian provinces.

On December 31, 2011, LoyaltyOne, Co., a subsidiary of Alliance Data Systems Corporation and operator of the AIR MILES Reward Program, announced a five-year expiry policy applicable to all outstanding and future AIR MILES reward miles issued, assigning a December 31, 2016 expiration date to all AIR MILES reward miles then outstanding. The Ontario Consumer Protection Act, as amended, prohibits LoyaltyOne expiring AIR MILES reward miles in Ontario as contemplated by the expiry policy, but, subject to any future regulatory action to the contrary, will not impact LoyaltyOne's practice of terminating a collector's account and cancelling their AIR MILES reward miles after two years of inactivity.

As a result of the anticipated passage of the then-pending legislative changes in Ontario and the likelihood of changes in similar laws in some or all other Canadian provinces, LoyaltyOne cancelled its five-year expiry policy on December 1, 2016. As a result of the cancellation of the expiry policy, coupled with increased redemption activity in the third and fourth quarter of 2016, we changed our estimate of breakage from 26% to 20%. As a result of this change in estimate, we increased the deferred redemption liability by $284.5 million with a corresponding reduction of redemption revenue. Of that, we estimated $241.7 million was attributable to the cancellation of the expiry policy.

Further, the amendments to the Ontario Consumer Protection Act provide for further regulation, specifically with respect to the transfer of reward points and the termination and inactivity of consumer agreements. LoyaltyOne expects the Ontario Ministry of Government Services to release a draft outline of regulations and announce a consultation process in the first half of 2017.

Failure to comply with these consumer protection laws and regulations could have a negative impact on our reputation, adversely affect our ability to meet our clients' requirements and our profitability and may increase our litigation exposure.

Technologies have been developed that can block the display of ads we serve for clients, which could limit our product offerings and adversely impact our financial results.

Technologies have been developed, and will likely continue to be developed, that can block the display of ads we serve for our clients, particularly advertising displayed on personal computers. Ad blockers, cookie blocking, and tracking protection lists (TPLs) are being offered by browser agents and device manufacturers to prevent ads from being displayed to consumers. We generate revenue from online advertising, including revenue resulting from the display of ads on personal computers. Revenue generated from the display of ads on personal computers has been impacted by these technologies from time to time. If these technologies continue to proliferate, in particular with respect to mobile platforms, our product offerings may be limited and our future financial results may be harmed.

Our bank subsidiaries are subject to extensive federal and state regulation that may require us to make capital contributions to them, and that may restrict the ability of these subsidiaries to make cash available to us.

Federal and state laws and regulations extensively regulate the operations of Comenity Bank, as well as Comenity Capital Bank. Many of these laws and regulations are intended to maintain the safety and soundness of Comenity Bank and Comenity Capital Bank, and they impose significant restraints on them to which other non-regulated entities are not subject. As a state bank, Comenity Bank is subject to overlapping supervision by the State of Delaware and the FDIC. As a Utah industrial bank, Comenity Capital Bank is subject to overlapping supervision by the FDIC and the State of Utah. Comenity Bank and Comenity Capital Bank must maintain minimum amounts of regulatory capital. If Comenity Bank and Comenity Capital Bank do not meet these capital requirements, their respective regulators have broad discretion to institute a number of corrective actions that could have a direct material effect on our financial statements. Comenity Bank and Comenity Capital Bank, as institutions insured by the FDIC, must maintain certain capital ratios, paid-in capital minimums and adequate allowances for loan loss. If either Comenity Bank or Comenity Capital Bank were to fail to meet any of the capital requirements to which it is subject, we may be required to provide them with additional capital, which could impair our ability to service our indebtedness. To pay any dividend, Comenity Bank and Comenity Capital Bank must each maintain adequate capital above regulatory guidelines. Accordingly, neither Comenity Bank nor Comenity Capital Bank may be able to make any of its cash or other assets available to us, including to service our indebtedness.

If our bank subsidiaries fail to meet certain criteria, we may become subject to regulation under the Bank Holding Company Act, which could force us to cease all of our non-banking activities and lead to a drastic reduction in our revenue and profitability.

If either of our depository institution subsidiaries failed to meet the criteria for the exemption from the definition of “bank” in the Bank Holding Company Act under which it operates (which exemptions are described below), and if we did not divest such depository institution upon such an occurrence, we would become subject to regulation under the Bank Holding Company Act. This would require us to cease certain of our activities that are not permissible for companies that are subject to regulation under the Bank Holding Company Act. One of our depository institution subsidiaries, Comenity Bank, is a Delaware State FDIC-insured bank and a limited-purpose credit card bank located in Delaware. Comenity Bank will not be a “bank” as defined under the Bank Holding Company Act so long as it remains in compliance with the following requirements:

- it engages only in credit card operations;
- it does not accept demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties;
- it does not accept any savings or time deposits of less than $100,000, except for deposits pledged as collateral for its extensions of credit;
- it maintains only one office that accepts deposits; and
- it does not engage in the business of making commercial loans (except small business loans).

Our other depository institution subsidiary, Comenity Capital Bank, is a Utah industrial bank that is authorized to do business by the State of Utah and the FDIC. Comenity Capital Bank will not be a “bank” as defined under the Bank Holding Company Act so long as it remains an industrial bank in compliance with the following requirements:

- it is an institution organized under the laws of a state which, on March 5, 1987, had in effect or had under consideration in such state’s legislature a statute which required or would require such institution to obtain insurance under the Federal Deposit Insurance Act; and
- it does not accept demand deposits that the depositor may withdraw by check or similar means for payment to third parties.

Operational and Other Risk

We rely on third party vendors to provide products and services. Our profitability could be adversely impacted if they fail to fulfill their obligations.

The failure of our suppliers to deliver products and services in sufficient quantities and in a timely manner could adversely affect our business. If our significant vendors were unable to renew our existing contracts, we might not be able to replace the related product or service at the same cost which would negatively impact our profitability.

Failure to safeguard our databases and consumer privacy could affect our reputation among our clients and their customers, and may expose us to legal claims.

Although we have extensive physical and cyber security controls and associated procedures, our data has in the past been and in the future may be subject to unauthorized access. In such instances of unauthorized access, the integrity of our data has in the past been and may in the future be affected. Security and privacy concerns may cause consumers to resist providing the personal data necessary to support our loyalty and marketing programs. The use of our loyalty, marketing services or credit card programs could decline if any compromise of physical or cyber security occurred. In addition, any unauthorized release of customer information or any public perception that we released consumer information without authorization, could subject us to legal claims from our clients or their customers, consumers or regulatory enforcement actions, which may adversely affect our client relationships.

Loss of data center capacity, interruption due to cyber attacks, loss of telecommunication links, computer malware or inability to utilize proprietary software of third party vendors could affect our ability to timely meet the needs of our clients and their customers.

Our ability, and that of our third-party service providers, to protect our data centers against damage, loss or inoperability from fire, power loss, cyber attacks, telecommunications failure, computer malware and other disasters is critical. In order to provide many of our services, we must be able to store, retrieve, process and manage large amounts of data as well as periodically expand and upgrade our database capabilities. Any damage to our data centers, or those of our third-party service providers, any failure of our telecommunication links that interrupts our operations or any impairment of our ability to use our software or the proprietary software of third party vendors, including impairments due to cyber attacks, could adversely affect our ability to meet our clients' needs and their confidence in utilizing us for future services.

Our failure to protect our intellectual property rights may harm our competitive position, and litigation to protect our intellectual property rights or defend against third party allegations of infringement may be costly.

Third parties may infringe or misappropriate our trademarks or other intellectual property rights, which could have a material adverse effect on our business, financial condition or operating results. The actions we take to protect our trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. We may not be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information. Any infringement or misappropriation could harm any competitive advantage we currently derive or may derive from our proprietary rights. Third parties may also assert infringement claims against us. Any claims and any resulting litigation could subject us to significant liability for damages. An adverse determination in any litigation of this type could require us to design around a third party's patent or to license alternative technology from another party. In addition, litigation is time consuming and expensive to defend and could result in the diversion of our time and resources. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims.

Our international operations, acquisitions and personnel may require us to comply with complex United States and international laws and regulations in the various foreign jurisdictions where we do business.

Our operations, acquisitions and employment of personnel outside the United States may require us to comply with numerous complex laws and regulations of the United States government and those of the various international jurisdictions where we do business. These laws and regulations may apply to a company, or individual directors, officers, employees or agents of such company, and may restrict our operations, investment decisions or joint venture activities.

Specifically, we may be subject to anti-corruption laws and regulations, including, but not limited to, the United States' Foreign Corrupt Practices Act, or FCPA; the United Kingdom's Bribery Act 2010, or UKBA; and Canada's Corruption of Foreign Public Officials Act, or CFPOA. These anti-corruption laws generally prohibit providing anything of value to foreign officials for the purpose of influencing official decisions, obtaining or retaining business, or obtaining preferential treatment and require us to maintain adequate record-keeping and internal controls to ensure that our books and records accurately reflect transactions. As part of our business, we or our partners may do business with state-owned enterprises, the employees and representatives of which may be considered foreign officials for purposes of the FCPA, UKBA or CFPOA. There can be no assurance that our policies, procedures, training and compliance programs will effectively prevent violation of all United States and international laws and regulations with which we are required to comply, and such a violation may subject us to penalties that could adversely affect our reputation, business, financial condition or results of operations. In addition, some of the international jurisdictions in which we operate may lack a developed legal system, have elevated levels of corruption, maintain strict currency controls, present adverse tax consequences or foreign ownership requirements, require difficult or lengthy regulatory approvals, or lack enforcement for non-compete agreements, among other obstacles.

Future sales of our common stock, or the perception that future sales could occur, may adversely affect our common stock price.

As of February 22, 2017, we had an aggregate of 80,256,197 shares of our common stock authorized but unissued and not reserved for specific purposes. In general, we may issue all of these shares without any action or approval by our stockholders. We have reserved 6,737,638 shares of our common stock for issuance under our employee stock purchase plan and our long-term incentive plans, of which 874,648 shares are issuable upon vesting of restricted stock awards, restricted stock units, and upon exercise of options granted as of February 22, 2017, including options to purchase approximately 12,209 shares exercisable as of February 22, 2016 or that will become exercisable within 60 days after February 22, 2016. We have reserved for issuance 1,500,000 shares of our common stock, 607,142 of which remain issuable, under our 401(k) and Retirement Savings Plan as of December 31, 2016. In addition, we may pursue acquisitions of competitors and related businesses and may issue shares of our common stock in connection with these acquisitions. Sales or issuances of a substantial number of shares of common stock, or the perception that such sales could occur, could adversely affect prevailing market prices of our common stock, and any sale or issuance of our common stock will dilute the ownership interests of existing stockholders.

The market price and trading volume of our common stock may be volatile and our stock price could decline.

The trading price of shares of our common stock has from time to time fluctuated widely and in the future may be subject to similar fluctuations. The trading price of our common stock may be affected by a number of factors, including our operating results, changes in our earnings estimates, additions or departures of key personnel, our financial condition, legislative and regulatory changes, general conditions industries in which we operate, general economic conditions, and general conditions in the securities markets. Other risks described in this report could also materially and adversely affect our share price.

Anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change of control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent or delay change of control transactions or attempts by our stockholders to replace or remove our current management.

Delaware law, as well as provisions of our certificate of incorporation, bylaws and debt instruments, could discourage unsolicited proposals to acquire us, even though such proposals may be beneficial to our stockholders. These include our Board's authority to issue shares of preferred stock without further stockholder approval.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our certificate of incorporation, bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our Board of Directors or initiate actions that are opposed by our then-current Board of Directors, including a merger, tender offer or proxy contest involving us. Any delay or prevention of a change of control transaction or changes in our Board of Directors could cause the market price of our common stock to decline or delay or prevent our stockholders from receiving a premium over the market price of our common stock that they might otherwise receive.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

As of December 31, 2016, we own one general office property and lease approximately 110 general office properties worldwide, comprised of approximately 4.7 million square feet. These facilities are used to carry out our operational, sales and administrative functions. Our principal facilities are as follows:

Location	Segment	Approximate Square Footage	Lease Expiration Date
Plano, Texas	Corporate	108,269	June 30, 2026
Columbus, Ohio	Corporate, Card Services	326,354	September 30, 2032
Toronto, Ontario, Canada	LoyaltyOne	194,018	September 30, 2017
Mississauga, Ontario, Canada	LoyaltyOne	50,908	November 30, 2019
Den Bosch, Netherlands	LoyaltyOne	132,482	December 31, 2028
Maasbree, Netherlands	LoyaltyOne	488,681	September 1, 2028
Wakefield, Massachusetts	Epsilon	184,411	December 31, 2020
Irving, Texas	Epsilon	221,898	June 30, 2026
Earth City, Missouri	Epsilon	116,783	April 30, 2022
West Chicago, Illinois	Epsilon	155,412	October 31, 2025
Bengaluru, India	Epsilon	264,459	November 24, 2026
Columbus, Ohio	Card Services	103,161	January 31, 2019
Westminster, Colorado	Card Services	120,132	June 30, 2028
Couer D’Alene, Idaho	Card Services	114,000	March 31, 2027
Westerville, Ohio	Card Services	100,800	July 31, 2024
Wilmington, Delaware	Card Services	5,198	November 30, 2020
Salt Lake City, Utah	Card Services	6,488	January 18, 2018

We believe our current and proposed facilities are suitable to our businesses and that we will be able to lease, purchase or newly construct additional facilities as needed.

Item 3. 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 effect on our business or financial condition, including claims and lawsuits alleging breaches of our contractual obligations. See Note 14, “Commitments and Contingencies,” of the Notes to Consolidated Financial Statements for additional information.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is listed on the New York Stock Exchange, or NYSE, and trades under the symbol "ADS." The following tables set forth for the periods indicated the high and low composite per share prices as reported by the NYSE.

	High	Low
Year Ended December 31, 2016		
First quarter	$ 275.94	$ 176.63
Second quarter	227.34	185.02
Third quarter	239.72	191.59
Fourth quarter	241.69	197.69
Year Ended December 31, 2015		
First quarter	$ 301.74	$ 268.93
Second quarter	312.00	289.38
Third quarter	307.78	241.91
Fourth quarter	303.75	256.24

Holders

As of February 22, 2017, the closing price of our common stock was $239.87 per share, there were 55,925,301 shares of our common stock outstanding, and there were 103 holders of record of our common stock.

Dividends

On October 20, 2016, our Board of Directors declared a quarterly cash dividend of $0.52 per share on our common stock to stockholders of record at the close of business on November 3, 2016, resulting in a dividend payment of $30.0 million on December 16, 2016.

On January 26, 2017, our Board of Directors declared a quarterly cash dividend of $0.52 per share on our common stock, payable on March 17, 2017 to stockholders of record at the close of business on February 15, 2017.

Payment of future dividends is subject to declaration by our Board of Directors. Factors considered in determining dividends include, but are not limited to, our profitability, expected capital needs, and contractual restrictions. See also "Risk Factors—*There is no guarantee that we will pay future dividends or repurchase shares at a level anticipated by stockholders, which could reduce returns to our stockholders.*" Subject to these qualifications, we presently expect to continue to pay dividends on a quarterly basis.

Issuer Purchases of Equity Securities

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.

On January 1, 2017, our Board of Directors authorized a stock repurchase program to acquire up to $500.0 million of our outstanding common stock from January 1, 2017 through December 31, 2017, subject to any restrictions pursuant to the terms of our credit agreements, indentures, and applicable securities laws or otherwise.

The following table presents information with respect to purchases of our common stock made during the three months ended December 31, 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:						
October 1-31	94,955	$	203.69	90,000	$	288.9
November 1-30	160,957		211.40	158,200		255.5
December 1-31	271,219		228.15	268,231		194.3
Total	527,131	$	218.63	516,431	$	194.3

(1)During the period represented by the table, 10,700 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Saving 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. On January 1, 2017, our Board of Directors authorized a stock repurchase program to acquire up to $500.0 million of our outstanding common stock from January 1, 2017 through December 31, 2017, subject to any restrictions pursuant to the terms of our credit agreements, indentures, and applicable securities laws or otherwise.

Performance Graph

The following graph compares the yearly percentage change in cumulative total stockholder return on our common stock since December 31, 2011, with the cumulative total return over the same period of (1) the S&P 500 Index and (2) a peer group of sixteen companies selected by us.

The companies in the peer group index are CDK Global, Inc., Discover Financial Services, Equifax, Inc., Experian PLC, Fidelity National Information Services, Inc., Fiserv, Inc., Global Payments, Inc., MasterCard Incorporated, Nielsen Holdings plc, Omnicom Group Inc., Synchrony Financial, The Dun & Bradstreet Corporation, The Interpublic Group of Companies, Inc., Total System Services, Inc., Vantiv, Inc. and WPP plc.

Pursuant to rules of the SEC, the comparison assumes $100 was invested on December 31, 2011 in our common stock and in each of the indices and assumes reinvestment of dividends, if any. Also pursuant to SEC rules, the returns of each of the companies in the peer group are weighted according to the respective company's stock market capitalization at the beginning of each period for which a return is indicated. Historical stock prices are not indicative of future stock price performance.

COMPARISON OF CUMULATIVE TOTAL RETURN*
AMONG ALLIANCE DATA SYSTEMS CORPORATION,
S&P 500 INDEX AND A PEER GROUP INDEX

	Alliance Data Systems Corporation	S&P 500	Peer Group Index
December 31, 2011	$ 100.00	$ 100.00	$ 100.00
December 31, 2012	139.41	116.00	129.23
December 31, 2013	253.21	153.58	200.90
December 31, 2014	275.47	174.60	213.43
December 31, 2015	266.34	177.01	236.30
December 31, 2016	220.62	198.18	264.03

Our future filings with the SEC may “incorporate information by reference,” including this Form 10-K. Unless we specifically state otherwise, this Performance Graph shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Item 6. Selected Financial Data.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following table sets forth our summary historical consolidated financial information for the periods ended and as of the dates indicated. You should read the following historical consolidated financial information along with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Form 10-K. The fiscal year financial information included in the table below is derived from our audited consolidated financial statements.

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(In millions, except per share amounts)				
Income statement data					
Total revenue [1]	$ 7,138.1	$ 6,439.7	$ 5,302.9	$ 4,319.1	$ 3,641.4
Cost of operations (exclusive of amortization and depreciation disclosed separately below)	4,276.8	3,814.4	3,218.8	2,549.2	2,106.6
Provision for loan loss	940.5	668.2	425.2	345.8	285.5
General and administrative	143.2	138.5	141.5	109.1	108.0
Regulatory settlement	—	64.6	—	—	—
Earn-out obligation	—	—	105.9	—	—
Depreciation and other amortization	167.1	142.1	109.7	84.3	73.8
Amortization of purchased intangibles	345.0	350.1	203.4	131.8	93.1
Total operating expenses	5,872.6	5,177.9	4,204.5	3,220.2	2,667.0
Operating income	1,265.5	1,261.8	1,098.4	1,098.9	974.4
Interest expense, net	428.5	330.2	260.5	305.5	291.5
Income before income taxes	837.0	931.6	837.9	793.4	682.9
Provision for income taxes	319.4	326.2	321.8	297.2	260.6
Net income	$ 517.6	$ 605.4	$ 516.1	$ 496.2	$ 422.3
Less: Net income attributable to non-controlling interest	1.8	8.9	9.8	—	—
Net income attributable to common stockholders	$ 515.8	$ 596.5	$ 506.3	$ 496.2	$ 422.3
Net income attributable to common stockholders per share:					
Basic	$ 7.37	$ 8.91	$ 8.72	$ 10.09	$ 8.44
Diluted	$ 7.34	$ 8.85	$ 7.87	$ 7.42	$ 6.58
Weighted average shares:					
Basic	58.6	61.9	56.4	49.2	50.0
Diluted	58.9	62.3	62.4	66.9	64.1

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(In millions)				
Adjusted EBITDA and Adjusted EBITDA, net (2)					
Adjusted EBITDA	$ 2,095.8	$ 1,909.9	$ 1,597.2	$ 1,374.2	$ 1,191.7
Adjusted EBITDA, net	$ 1,880.0	$ 1,728.3	$ 1,425.5	$ 1,249.8	$ 1,073.7
Other financial data					
Cash flows from operating activities	$ 2,088.4	$ 1,705.8	$ 1,344.2	$ 1,003.5	$ 1,134.2
Cash flows from investing activities	$ (4,063.0)	$ (3,362.6)	$ (4,737.1)	$ (1,619.4)	$ (2,671.4)
Cash flows from financing activities	$ 2,663.4	$ 1,772.9	$ 3,516.1	$ 704.2	$ 2,209.0
Segment operating data					
Credit card statements generated	279.4	242.3	212.0	192.5	166.1
Credit sales	$ 29,271.3	$ 24,736.1	$ 18,948.2	$ 15,252.3	$ 12,523.6
Average credit card and loan receivables	$ 14,085.8	$ 11,364.6	$ 8,750.1	$ 7,212.7	$ 5,927.6
AIR MILES reward miles issued	5,772.3	5,743.1	5,500.9	5,420.7	5,222.9
AIR MILES reward miles redeemed	7,071.6	4,406.3	4,100.7	4,017.5	4,040.9

	As of December 31,				
	2016	2015	2014	2013	2012
	(In millions)				
Balance sheet data (3)					
Credit card and loan receivables, net	$15,595.9	$ 13,057.9	$ 10,673.7	$ 8,069.7	$ 6,697.7
Redemption settlement assets, restricted	324.4	456.6	520.3	510.3	492.7
Total assets	25,514.1	22,349.9	20,188.2	13,197.8	11,952.0
Deferred revenue	931.5	844.9	1,013.2	1,137.2	1,249.1
Deposits	8,391.9	5,605.9	4,759.4	2,806.8	2,219.6
Non-recourse borrowings of consolidated securitization entities	6,955.4	6,482.7	5,181.1	4,581.5	4,121.6
Long-term and other debt, including current maturities	5,601.4	5,017.4	4,158.4	2,773.7	2,825.0
Total liabilities	23,855.9	20,172.5	17,556.2	12,342.0	11,423.5
Redeemable non-controlling interest	—	167.4	235.6	—	—
Total stockholders' equity	1,658.2	2,010.0	2,396.4	855.8	528.5

(1)Reflects a $284.5 million reduction in revenue associated with the change in breakage rate estimate for the AIR MILES Reward Program from 26% to 20% for the year ended December 31, 2016.

(2)See "Use of Non-GAAP Financial Measures" set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for a discussion of our use of adjusted EBITDA and adjusted EBITDA, net and a reconciliation to net income, the most directly comparable GAAP financial measure.

(3)Adjusted to reflect the retrospective adoption of Accounting Standards Update, or ASU, 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The effect of the adoption of the standard was to reduce other assets and debt by $72.0 million, $75.8 million, $46.5 million and $48.1 million as of December 31, 2015, 2014, 2013 and 2012, respectively. See "Recently Adopted Accounting Standards" under Note 2, "Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements for a discussion of accounting standards adopted prospectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a leading global provider of data-driven marketing and loyalty solutions serving large, consumer-based businesses in a variety of industries. We offer a comprehensive portfolio of integrated outsourced marketing solutions, including customer loyalty programs, database marketing services, end-to-end marketing services, analytics and creative services, direct marketing services and private label and co-brand retail credit card programs. We focus on facilitating and managing interactions between our clients and their customers through all consumer marketing channels, including in-store, online, email, social media, mobile, direct mail and telephone. We capture and analyze data created during each customer interaction, leveraging the insight derived from that data to enable clients to identify and acquire new customers and to enhance customer loyalty. We believe that our services are more valued as businesses shift marketing resources away from traditional mass marketing toward targeted marketing programs that provide measurable returns on marketing investments. We operate in the following reportable segments: LoyaltyOne, Epsilon, and Card Services.

2016 Highlights and Recent Developments

- Total revenue increased 11% to $7.1 billion in 2016 compared to $6.4 billion in 2015.
- Adjusted EBITDA, net increased 9% to $1.9 billion in 2016 compared to $1.7 billion in 2015.
- We repurchased approximately 3.8 million shares for $805.7 million in 2016.
- We acquired 10% ownership interest in BrandLoyalty Group B.V., or BrandLoyalty, for approximately $102.0 million, which brought our ownership interest to 80%, 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%, effective April 1, 2016.
- We purchased five credit card portfolios for total consideration paid of $1.0 billion.
- We sold three private label credit card portfolios for total consideration received of $486.0 million.
- In October 2016, our Board of Directors voted to expand the size of the Board to nine directors and appointed Timothy J. Theriault as a director.
- We paid a quarterly dividend of $30.0 million, or $0.52 per share, in December 2016.
- In December 2016, we cancelled the AIR MILES Reward Program's five-year expiry policy due to the anticipated adoption of a new law in Ontario, Canada.

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 decreased 1% to $1.3 billion and adjusted EBITDA, net increased 14% to $308.9 million for the year ended December 31, 2016, in each case as compared to the prior year. Adjusted EBITDA, net excludes the impact of expiry. Revenue from our coalition loyalty program was impacted by a change in estimate of our breakage rate, discussed further below, offset in part by a 60% increase in the number of AIR MILES reward miles redeemed, as redemption activity accelerated due to the upcoming year-end expiration date. Revenue from our short-term loyalty programs increased 8% in part due to expansion into new markets. Adjusted EBITDA, net was positively impacted by the increases in revenue discussed above and our additional ownership interest in BrandLoyalty from 70% to 80% on January 1, 2016 and further to 100% on April 1, 2016.

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

During the year ended December 31, 2016, we announced an expansion of our relationship with Sobeys to begin issuing AIR MILES reward miles at Needs Convenience and Sobeys *express* convenience store locations in all Atlantic-

Canadian provinces. In addition, we announced the signing of a new multi-year agreement with Morrisons, a U.K. grocer, to provide analytics support and consulting services.

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

AIR MILES reward miles issued during the year ended December 31, 2016 increased 1% as compared to the year ended December 31, 2015. Issuance, in particular during the fourth quarter of 2016, slowed as promotional activity by our sponsors lessened due to the negative media attention surrounding expiry. For 2017, we expect approximately 3% issuance growth. AIR MILES reward miles redeemed increased 60% during the year ended December 31, 2016, as collectors redeemed their AIR MILES reward miles in advance of the expiry policy under which AIR MILES reward miles older than five years were expected to expire effective December 31, 2016. We expect AIR MILES reward miles redeemed to lessen in 2017 and more closely resemble historical trends. AIR MILES reward miles collected in the AIR MILES Cash program option represented approximately 24% of the AIR MILES reward miles issued and 17% of the AIR MILES reward miles redeemed for 2016.

In the fourth quarter of 2016, a Private Member’s Public Bill was initially introduced to the Ontario Legislature that would prohibit the expiry of miles. On December 5, 2016, the Ontario Legislature passed Bill 47, Protecting Rewards Points Act (“Bill 47”), which amended Ontario's Consumer Protection Act, 2002 (the “Ontario Consumer Protection Act”) with respect to rewards points. Changes to the Ontario Consumer Protection Act affected by these amendments include, among other things:

- changing the definition of “consumer agreement” to include agreements under which a supplier agrees to provide rewards points to a consumer;
- changing the definition of “supplier” to include a person who supplies rewards points;
- prohibiting suppliers from entering into or amending consumer agreements to provide for the expiry of rewards points due to the passage of time alone;
- permitting the expiry of rewards points if a consumer agreement under which rewards points are provided is terminated by the supplier or the consumer and the consumer agreement provides for the expiry of the points;
- permitting future regulation regarding rewards points; and
- addressing transitional and other related matters.

These amendments to the Ontario Consumer Protection Act became effective upon receipt of Royal Assent on December 8, 2016. We currently anticipate that similar legislation may be enacted in some or all other Canadian provinces.

On December 1, 2016, with anticipated passage of the then-pending legislative changes in Ontario and the likelihood of changes in similar laws in some or all other Canadian provinces, LoyaltyOne cancelled its five-year expiry policy, which was implemented by our AIR MILES Reward Program on December 31, 2011 and expected to take effect on December 31, 2016. As a result of the cancellation of the expiry policy, coupled with increased redemption activity in the third and fourth quarter of 2016, we changed our estimate of breakage from 26% to 20%. As a result of this change in estimate, we increased the deferred redemption liability by $284.5 million with a corresponding reduction of redemption revenue. Of that, we estimated $241.7 million was attributable to the cancellation of the expiry policy.

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 $2.2 billion and adjusted EBITDA, net decreased 6% to $480.2 million for the year ended December 31, 2016 as compared to the prior year. Digital and technology platforms revenue increased 7%, driven by strength in CRM services and our automotive vertical. These strengths were offset in part by weakness in our agency offerings, specifically in the telecommunications, consumer packaged goods and retail verticals. Adjusted EBITDA was negatively impacted by increased payroll costs for the year ended December 31, 2016. For 2017, we expect revenue and adjusted EBITDA to grow approximately 4%.

During the year ended December 31, 2016, we announced the signing of new multi-year agreements with the following clients:

· Lamps Plus, a national lighting retailer, to provide targeted email marketing services;

· Amica Mutual Insurance Company, a national insurer, to provide targeted email marketing services;

· Shire plc, a global biotechnology company, to build and host a database platform and provide database marketing services;

· Del Monte Foods, a national food producer and distributor, to develop a multi-channel creative campaign and communications plan and provide marketing services; in addition, Epsilon was named the agency of record;

· Brookdale Senior Living, a national provider of senior living communities, to provide strategic creative, account management and analytics services;

· CNO Financial Group, Inc., a national holding company to insurers, to build a database platform and provide database marketing services;

· Red Roof, a leading economy hotel chain in the United States, to provide email services; and

· Gemological Institute of America, an independent nonprofit organization recognized as the world's foremost authority in gemology, to develop an integrated campaign to increase consumer awareness; in addition, Epsilon was named the agency of record.

Further, we announced the signing of a new expanded agreement with Road Scholar, a not-for-profit educational organization, to provide digital advertising services in addition to the consumer database marketing services currently provided.

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 24% to $3.7 billion and adjusted EBITDA, net increased 14% to $1.2 billion for the year ended December 31, 2016 as compared to the prior year. These increases were driven by higher average credit card and loan receivables. Credit sales and average credit card and loan receivables increased 18% and 24%, respectively, for the year ended December 31, 2016 as compared to the prior year as a result of recent client signings and credit card portfolio acquisitions. For 2017, we expect credit card and loan receivables to grow approximately 15%, gross yields to remain stable, and adjusted EBITDA, net to increase 8% to 10%.

Delinquency rates were 4.8% of principal credit card and loan receivables at December 31, 2016 as compared to 4.2% at December 31, 2015. The principal net charge-off rate was 5.1% for the year ended December 31, 2016 as compared to 4.5% for the year ended December 31, 2015. For the year ended December 31, 2017, we expect our charge-off rate to be in the mid-5% range.

During the year ended December 31, 2016, we announced the signing of new multi-year agreements and renewals with the following clients:

· Boscov's Department Store, LLC, a national department store chain, to provide private label credit card services;

- Hot Topic Inc., a mall and web-based specialty retailer of music and pop culture-based licensed and influenced apparel and accessories, to provide private label credit card services;
- Century 21 Department Store, a discount department store chain, to provide private label credit card services;
- Bed Bath & Beyond Inc., a retailer of domestic merchandise and home furnishings, to develop a co-brand credit card program;
- Forever 21, Inc., a fashion retailer, to provide private label and co-brand credit card services;
- Ulta Beauty, a beauty retailer, to provide private label and co-brand credit card services;
- Williams-Sonoma, a home and kitchen furnishings retailer, to provide private label and co-brand credit card services, and we acquired their co-brand credit card portfolio in the third quarter of 2016;
- The Children's Place, a children's apparel retailer, to provide private label credit card services, and we acquired their private label credit card portfolio in the fourth quarter of 2016;
- RH, Restoration Hardware, a luxury home furnishings retailer, to continue providing private label credit card services; and
- J.Jill, a leading omni-channel fashion retailer of women's apparel, accessories and footwear, to continue providing private label credit card services.

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.

In 2016, adjusted EBITDA excluded the impact of the cancellation of the AIR MILES Reward Program's five-year expiry policy on December 1, 2016. In 2015, adjusted EBITDA excluded costs associated with the consent orders with the FDIC, and in 2014, adjusted EBITDA excluded business acquisition costs related to the acquisition of Conversant and the contingent consideration incurred as a result of the earn-out obligation associated with the BrandLoyalty acquisition. These costs, as well as stock compensation expense, were not included in the measurement of segment adjusted EBITDA as the chief operating decision maker did not factor these expenses for purposes of assessing segment performance and decision making with respect to resource allocations.

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 Annual Report on Form 10-K 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.

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(In millions)				
Net income	$ 517.6	$ 605.4	$ 516.1	$ 496.2	$ 422.2
Stock compensation expense	76.5	91.3	72.5	59.2	50.5
Provision for income taxes	319.4	326.2	321.8	297.2	260.6
Interest expense, net	428.5	330.2	260.5	305.5	291.5
Depreciation and other amortization	167.1	142.1	109.7	84.3	73.8
Amortization of purchased intangibles	345.0	350.1	203.4	131.8	93.1
Impact of expiry (1)	241.7	—	—	—	—
Regulatory settlement (2)	—	64.6	—	—	—
Earn-out obligation (3)	—	—	105.9	—	—
Business acquisition costs (4)	—	—	7.3	—	—
Adjusted EBITDA	$ 2,095.8	$ 1,909.9	$ 1,597.2	$ 1,374.2	$ 1,191.7
Less: Securitization funding costs	125.6	97.1	91.1	95.3	92.8
Less: Interest expense on deposits	84.7	53.6	37.5	29.1	25.2
Less: Adjusted EBITDA attributable to non-controlling interest	5.5	30.9	43.1	—	—
Adjusted EBITDA, net	$ 1,880.0	$ 1,728.3	$ 1,425.5	$ 1,249.8	$ 1,073.7

(1) Represents the impact of the cancellation of the AIR MILES Reward Program's five-year expiry policy on December 1, 2016.

(2) Represents costs associated with the consent orders with the FDIC to provide restitution to eligible customers and $2.5 million in civil penalties.

(3) Represents additional contingent consideration as a result of the earn-out obligation associated with the acquisition of our 60 percent ownership interest in BrandLoyalty in 2014.

(4) Represents expenditures directly associated with the acquisition of Conversant in 2014.

Consolidated Results of Operations

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 to 2015	2015 to 2014
	(in millions, except percentages)				
Revenues					
Transaction	$ 278.4	$ 336.8	$ 337.4	(17)%	— %
Redemption	993.6	1,028.4	1,053.2	(3)	(2)
Finance charges, net	3,639.7	2,871.2	2,303.7	27	25
Marketing services	2,019.7	2,006.5	1,438.7	1	39
Other revenue	206.7	196.8	169.9	5	16
Total revenue	7,138.1	6,439.7	5,302.9	11	21
Operating expenses					
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	4,276.8	3,814.4	3,218.8	12	19
Provision for loan loss	940.5	668.2	425.2	41	57
General and administrative	143.2	138.5	141.5	3	(2)
Regulatory settlement	—	64.6	—	(100)	100
Earn-out obligation	—	—	105.9	—	(100)
Depreciation and other amortization	167.1	142.1	109.7	18	30
Amortization of purchased intangibles	345.0	350.1	203.4	(1)	72
Total operating expenses	5,872.6	5,177.9	4,204.5	13	23
Operating income	1,265.5	1,261.8	1,098.4	—	15
Interest expense					
Securitization funding costs	125.6	97.1	91.1	29	7
Interest expense on deposits	84.7	53.6	37.5	58	43
Interest expense on long-term and other debt, net	218.2	179.5	131.9	22	36
Total interest expense, net	428.5	330.2	260.5	30	27
Income before income tax	837.0	931.6	837.9	(10)	11
Provision for income taxes	319.4	326.2	321.8	(2)	1
Net income	$ 517.6	$ 605.4	$ 516.1	(15)%	17 %
Key Operating Metrics:					
Credit card statements generated	279.4	242.3	212.0	15 %	14 %
Credit sales	$ 29,271.3	$ 24,736.1	$ 18,948.2	18 %	31 %
Average credit card and loan receivables	$ 14,085.8	$ 11,364.6	$ 8,750.1	24 %	30 %
AIR MILES reward miles issued	5,772.3	5,743.1	5,500.9	1 %	4 %
AIR MILES reward miles redeemed	7,071.6	4,406.3	4,100.7	60 %	7 %

Year ended December 31, 2016 compared to the year ended December 31, 2015

Revenue. Total revenue increased $698.4 million, or 11%, to $7.1 billion for the year ended December 31, 2016 from $6.4 billion for the year ended December 31, 2015. The net increase was due to the following:

- *Transaction*. Revenue decreased $58.4 million, or 17%, to $278.4 million for the year ended December 31, 2016 primarily due to a reduction in other servicing fees charged to our credit cardholders, which decreased $54.5 million due to changes in program fee structures, as well as a $21.8 million reduction in merchant fees, which are transaction fees charged to the retailer, due to increased royalty payments associated with new clients. These decreases were offset in part by an $8.8 million increase in AIR MILES reward miles issuance fees, for which we provide marketing and administrative services.

- *Redemption*. Revenue decreased $34.8 million, or 3%, to $993.6 million for the year ended December 31, 2016. Revenue from our coalition loyalty program decreased $77.7 million due to the impact of the change in breakage from 26% to 20%, which reduced revenue by $284.5 million. The decrease in redemption revenue was offset in part by a 60% increase in AIR MILES reward miles redeemed. Additionally, redemption revenue for our short-term loyalty programs increased $42.9 million with strong growth from existing and new markets, as North American expansion efforts continue to progress.

- *Finance charges, net*. Revenue increased $768.4 million, or 27%, to $3.6 billion for the year ended December 31, 2016. This increase was driven by an increase in average credit card and loan receivables, which increased revenue $771.3 million through a combination of recent credit card portfolio acquisitions and strong cardholder spending. Our net finance charge yield was comparable year-over-year.

- *Marketing services*. Revenue increased $13.2 million, or 1%, to $2.0 billion for the year ended December 31, 2016 as growth in our CRM services was offset by weakness in our agency offerings.

- *Other revenue*. Revenue increased $9.9 million, or 5%, to $206.7 million for the year ended December 31, 2016 due to additional consulting services provided by Epsilon.

Cost of operations. Cost of operations increased $462.4 million, or 12%, to $4.3 billion for the year ended December 31, 2016 as compared to $3.8 billion for the year ended December 31, 2015. The increase resulted from the following:

- Within the LoyaltyOne segment, cost of operations increased $213.3 million primarily due to an increase in cost of redemptions of $192.2 million associated with the 60% increase in AIR MILES reward miles redeemed and the increase in redemption revenue for our short-term loyalty programs.

- Within the Epsilon segment, cost of operations increased $28.1 million with a $26.5 million increase in payroll and benefit expenses due in part to duplicative cost of our India operations, and severance costs.

- Within the Card Services segment, cost of operations increased by $223.0 million. Payroll and benefit expenses increased $72.4 million due to an increase in the number of associates to support growth, and marketing expenses increased $19.8 million due to growth in credit sales. Other operating expenses increased $130.8 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 $272.3 million, or 41%, to $940.5 million for the year ended December 31, 2016 as compared to $668.2 million for the year ended December 31, 2015. The increase in the provision for loan loss was driven by higher credit card and loan receivables as well as an increase in net losses. The net charge-off rate was 5.1% for the year ended December 31, 2016 as compared to 4.5% for the year ended December 31, 2015. Delinquency rates were 4.8% of principal credit card and loan receivables at December 31, 2016 as compared to 4.2% at December 31, 2015.

General and administrative. General and administrative expenses increased $4.7 million, or 3%, to $143.2 million for the year ended December 31, 2016 as compared to $138.5 million for year ended December 31, 2015. Lower discretionary benefits in 2016 were more than offset by an increase in charitable contributions in the current year period and net foreign currency exchange gains recognized in the prior year period.

Regulatory settlement. For the year ended December 31, 2015, we incurred approximately $64.6 million in expenses primarily associated with consent orders with the FDIC to provide restitution of approximately $61.5 million to eligible customers and $2.5 million in civil money penalties to the FDIC.

Depreciation and other amortization. Depreciation and other amortization increased $25.0 million, or 18%, to $167.1 million for the year ended December 31, 2016, as compared to $142.1 million for the year ended December 31, 2015, due to additional amortization on capitalized software projects as well as assets placed into service from recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles decreased $5.1 million, or 1%, to $345.0 million for the year ended December 31, 2016, as compared to $350.1 million for the year ended December 31, 2015, as the amortization associated with the intangibles for acquired portfolio premiums was offset by certain fully amortized intangible assets.

Interest expense, net. Total interest expense, net increased $98.3 million, or 30%, to $428.5 million for the year ended December 31, 2016 as compared to $330.2 million for the year ended December 31, 2015. The increase was due to the following:

- *Securitization funding costs*. Securitization funding costs increased $28.5 million due to an 18% increase in average borrowings with a 20 basis point increase in average interest rates as compared to the prior year.

- *Interest expense on deposits*. Interest expense on deposits increased $31.1 million due to higher average deposits and higher average interest rates.

- *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net increased $38.7 million as a result of the €300.0 million senior notes due 2023 issued in November 2015, which increased interest expense by $15.3 million, the $500.0 million senior notes due 2021 issued in October 2016, which increased interest expense by $5.2 million, and higher average balances related to the credit facility resulting from the incremental term loan borrowings as well as higher average interest rates due to the increase in the LIBOR rate, which increased interest expense by $18.4 million.

Taxes. Income tax expense decreased $6.8 million, or 2%, to $319.4 million for the year ended December 31, 2016 from $326.2 million for the year ended December 31, 2015 with an increase in the effective tax rate being more than offset by a decline in taxable income. The effective tax rate for the year ended December 31, 2016 increased to 38.2% as compared to 35.0% for the year ended December 31, 2015. Our year-over-year effective tax rate increase resulted primarily from the 2016 mix of earnings between U.S. and foreign jurisdictions, particularly the decrease in lower taxed Canadian earnings related to the change in estimate of our breakage rate.

Year ended December 31, 2015 compared to the year ended December 31, 2014

Revenue. Total revenue increased $1.1 billion, or 21%, to $6.4 billion for the year ended December 31, 2015 from $5.3 billion for the year ended December 31, 2014. The net increase was due to the following:

- *Transaction*. Revenue decreased $0.6 million to $336.8 million for the year ended December 31, 2015 as AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, decreased $12.1 million due to the decline in the Canadian dollar relative to the U.S. dollar. This decrease was offset in part by servicing fees charged to our credit cardholders, which increased $12.7 million due to higher volumes.
- *Redemption*. Revenue decreased $24.8 million, or 2%, to $1.0 billion for the year ended December 31, 2015. Redemption revenue was negatively impacted by the decline in both the Euro and Canadian dollar relative to the U.S. dollar, which resulted in a $184.5 million decrease in revenue. This decrease was offset in part by a greater number of short-term loyalty programs in the market during the year ended December 31, 2015 as compared to the year ended December 31, 2014.
- *Finance charges, net*. Revenue increased $567.6 million, or 25%, to $2.9 billion for the year ended December 31, 2015 due to a 30% increase in average credit card and loan receivables, which increased revenue $688.3 million. This increase was offset in part by an approximate 100 basis point decline in finance charge yield, which decreased revenue by $120.7 million. Our finance charge yield has been negatively impacted by the growth in our co-brand credit card programs.
- *Marketing services*. Revenue increased $567.8 million, or 39%, to $2.0 billion for the year ended December 31, 2015. The Conversant acquisition contributed $506.2 million to the revenue increase. Additionally, revenue increased $68.8 million within our Epsilon segment due to growth in services for existing clients, database builds completed and placed into production for new clients, and strength in the automotive vertical, which offset weakness in our agency offerings.
- *Other revenue*. Revenue increased $26.9 million, or 16%, to $196.8 million for the year ended December 31, 2015 due to the Conversant acquisition.

Cost of operations. Cost of operations increased $0.6 billion, or 19%, to $3.8 billion for the year ended December 31, 2015 as compared to $3.2 billion for the year ended December 31, 2014. The increase resulted from the following:

- Within the LoyaltyOne segment, cost of operations decreased $5.9 million, impacted by the decline in both the Euro and Canadian dollar relative to the U.S. dollar, which resulted in a $185.9 million decrease in cost of operations. In local currency, cost of operations increased due to an increase in cost of redemptions associated with the number of short-term loyalty programs in market during the year ended December 31, 2015 as compared to the year ended December 31, 2014.
- Within the Epsilon segment, cost of operations increased $440.1 million, due primarily to the Conversant acquisition that contributed $374.7 million to the increase. The remaining increase is due to an increase in payroll and benefits expense of $29.6 million associated with the addition of associates to support growth,

including the onboarding of new clients, and an increase of $35.6 million in direct processing expenses associated with the increase in revenue.

· Within the Card Services segment, cost of operations increased by $167.7 million. Payroll and benefits expense increased $47.8 million due to the addition of associates to support growth, and marketing expenses increased $23.3 million to support the growth in credit sales. Other operating expenses increased $96.6 million due to higher credit card processing costs associated with the increase in the number of statements generated and higher data processing expenses.

Provision for loan loss. Provision for loan loss increased $243.0 million, or 57%, to $668.2 million for the year ended December 31, 2015 as compared to $425.2 million for the year ended December 31, 2014. The increase in the provision was driven by growth in our credit card and loan receivables and the increase in our loss rate. The net charge-off rate was 4.5% for the year ended December 31, 2015 as compared to 4.2% for the year ended December 31, 2014. Delinquency rates were 4.2% of principal credit card and loan receivables at December 31, 2015 as compared to 4.0% at December 31, 2014.

General and administrative. General and administrative expenses decreased $3.0 million to $138.5 million for the year ended December 31, 2015 as compared to $141.5 million for the year ended December 31, 2014 due primarily to a decrease in professional services fees related to the Conversant acquisition in 2014, offset in part by an increase in payroll expense.

Regulatory settlement. For the year ended December 31, 2015, we incurred approximately $64.6 million in expenses primarily associated with consent orders with the FDIC to provide restitution of approximately $61.5 million to eligible customers and $2.5 million in civil money penalties to the FDIC.

Earn-out obligation. We acquired a 60% ownership interest in BrandLoyalty in January 2014. The share purchase agreement contained an earn-out provision that resulted in an increase in contingent consideration of $105.9 million, which is included in operating expenses in our consolidated statements of income for the year ended December 31, 2014.

Depreciation and other amortization. Depreciation and other amortization increased $32.4 million, or 30%, to $142.1 million for the year ended December 31, 2015, as compared to $109.7 million for the year ended December 31, 2014, due to additional assets placed in service resulting from both the Conversant acquisition and recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles increased $146.7 million, or 72%, to $350.1 million for the year ended December 31, 2015 as compared to $203.4 million for the year ended December 31, 2014. The increase relates to $157.6 million of additional amortization associated with the intangible assets from the Conversant acquisition, offset in part by a decrease in amortization related to certain fully amortized intangible assets in the Epsilon segment.

Interest expense, net. Total interest expense, net increased $69.7 million, or 27%, to $330.2 million for the year ended December 31, 2015 as compared to $260.5 million for the year ended December 31, 2014. The increase was due to the following:

· *Securitization funding costs*. Securitization funding costs increased $6.0 million, as an increase in average borrowings in 2015 as compared to 2014 was offset in part by a 30 basis point decrease in average interest rates over the same periods.

· *Interest expense on deposits*. Interest on deposits increased $16.1 million due to an increase in average borrowings in 2015 as compared to 2014. Average interest rates remained relatively consistent for both periods.

· *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net increased $47.6 million due primarily to an increase of $33.2 million related to term loans associated with the $1.4 billion incremental term loan borrowed in December 2014 in connection with the Conversant acquisition as well as an increase in interest associated with our revolving line of credit and amortization of debt issuance costs of $7.6 million. Interest associated with our senior notes increased $20.7 million with the $600.0 million senior notes due 2022 issued in July 2014 and the €300.0 million senior notes due 2023 issued in November 2015. These increases were offset by a decrease in interest expense of $17.5 million associated with the convertible senior notes that were repaid at maturity in May 2014.

Taxes. Income tax expense increased $4.4 million to $326.2 million for the year ended December 31, 2015 from $321.8 million for the year ended December 31, 2014 due to an increase in taxable income, offset by a decline in the effective tax rate. The effective tax rate decreased to 35.0% for the year ended December 31, 2015 as compared to 38.4% for the year ended December 31, 2014. In 2015, the effective tax rate was impacted by a favorable tax ruling and a lapse in an applicable statute of limitations whereas the 2014 effective tax rate was negatively impacted by the nondeductible expense related to the earn-out obligation associated with the BrandLoyalty acquisition.

Segment Revenue and Adjusted EBITDA, net

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 to 2015	2015 to 2014
	(in millions, except percentages)				
Revenue:					
LoyaltyOne	$ 1,337.9	$ 1,352.6	$ 1,406.9	(1)%	(4)%
Epsilon	2,155.2	2,140.7	1,522.4	1	41
Card Services	3,675.0	2,974.4	2,395.1	24	24
Corporate/Other	0.3	0.3	0.5	nm *	nm *
Eliminations	(30.3)	(28.3)	(22.0)	nm *	nm *
Total	$ 7,138.1	$ 6,439.7	$ 5,302.9	11 %	21 %
Adjusted EBITDA, net (1):					
LoyaltyOne	$ 308.9	$ 270.6	$ 307.5	14 %	(12)%
Epsilon	480.2	508.4	309.1	(6)	64
Card Services	1,213.3	1,068.7	920.9	14	16
Corporate/Other	(122.4)	(119.4)	(112.0)	3	7
Total	$ 1,880.0	$ 1,728.3	$ 1,425.5	9 %	21 %

(1) Adjusted EBITDA, net is equal to net income, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and amortization, amortization of purchased intangibles, impact of expiry, regulatory settlement, business acquisition costs and the earn-out obligation related to the BrandLoyalty acquisition 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.

* not meaningful

Year ended December 31, 2016 compared to the year ended December 31, 2015

Revenue. Total revenue increased $698.4 million, or 11%, to $7.1 billion for the year ended December 31, 2016 from $6.4 billion for the year ended December 31, 2015. The net increase was due to the following:

- *LoyaltyOne*. Revenue decreased $14.7 million, or 1%, to $1.3 billion for the year ended December 31, 2016 as revenue was negatively impacted $284.5 million due to our change in the breakage rate from 26% to 20% in December 2016, offset in part by an increase in redemption revenue due to the 60% increase in AIR MILES reward miles redeemed, and an 8% increase in revenue from our short-term loyalty programs in part due to expansion into new markets.
- *Epsilon*. Revenue increased $14.5 million, or 1%, to $2.2 billion for the year ended December 31, 2016 due to strength in CRM services as well as strength in our automotive platforms. This increase was offset in part by a decrease in our agency offerings, specifically in the telecommunications, consumer packaged goods and retail verticals.
- *Card Services*. Revenue increased $700.6 million, or 24%, to $3.7 billion for the year ended December 31, 2016, driven by a $768.4 million increase in finance charges, net as a result of an increase in average credit card and loan receivables due to recent portfolio acquisitions and strong cardholder spending. Other servicing fees decreased $54.5 million primarily due to changes in program fee structures.

Adjusted EBITDA, net. Adjusted EBITDA, net increased $151.7 million, or 9%, to $1.9 billion for the year ended December 31, 2016 from $1.7 billion for the year ended December 31, 2015. The net increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA, net increased $38.3 million, or 14%, to $308.9 million for the year ended December 31, 2016 and adjusted EBITDA margins remained relatively consistent between periods. Adjusted EBITDA, net was positively impacted by the increase of our ownership of BrandLoyalty, which increased to 80% effective January 1, 2016 and to 100% effective April 1, 2016. The portion of adjusted EBITDA attributable to the non-controlling interest decreased to $5.5 million for the year ended December 31, 2016, as compared to $30.9 million for the year ended December 31, 2015, resulting in a $25.4 million increase to adjusted EBITDA, net.
- *Epsilon*. Adjusted EBITDA, net decreased $28.2 million, or 6%, to $480.2 million for the year ended December 31, 2016, primarily due to an increase in payroll costs of $41.2 million in the current year, offset in part by the increase in revenue discussed above.
- *Card Services*. Adjusted EBITDA, net increased $144.6 million, or 14%, to $1.2 billion for the year ended December 31, 2016. Adjusted EBITDA, net was positively impacted by an increase in finance charges, net, but offset in part by both an increase in operating expenses due to increased volumes and an increase in the provision for loan loss resulting from an increase in both credit card and loan receivables and net losses.
- *Corporate/Other*. Adjusted EBITDA, net decreased $3.0 million to a loss of $122.4 million for the year ended December 31, 2016, due in part to net foreign currency exchange gains recognized in the prior year related to the settlement of the contingent liability associated with the BrandLoyalty acquisition, offset by lower payroll costs in the current year.

Year ended December 31, 2015 compared to the year ended December 31, 2014

Revenue. Total revenue increased $1.1 billion, or 21%, to $6.4 billion for the year ended December 31, 2015 from $5.3 billion for the year ended December 31, 2014. The net increase was due to the following:

- *LoyaltyOne*. Revenue decreased $54.2 million, or 4%, to $1.4 billion for year ended December 31, 2015. Revenue was negatively impacted by the decline in both the Euro and Canadian dollar relative to the U.S. dollar, which resulted in a $234.7 million decrease in revenue. This decrease was offset in part by a greater number of short-term loyalty programs in the market during the year ended December 31, 2015 as compared to the year ended December 31, 2014.
- *Epsilon*. Revenue increased $618.3 million, or 41%, to $2.1 billion for the year ended December 31, 2015. The Conversant acquisition contributed $537.9 million to the increase in revenue. Excluding the Conversant acquisition, Epsilon's revenue increased $80.4 million due to growth in services for existing clients, database builds completed and placed into production for new clients, and strength in the automotive vertical, which offset weakness in our agency offerings.
- *Card Services*. Revenue increased $579.3 million, or 24%, to $3.0 billion for the year ended December 31, 2015. Finance charges, net increased by $567.6 million, driven by a 30% increase in average credit card and loan receivables due to strong cardholder spending and new client signings. Other servicing fees charged to our credit cardholders increased $12.7 million due to higher volumes.

Adjusted EBITDA, net. Adjusted EBITDA, net increased $0.3 billion, or 21%, to $1.7 billion for the year ended December 31, 2015 from $1.4 billion for the year ended December 31, 2014. The net increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA, net decreased $36.9 million, or 12%, to $270.6 million for the year ended December 31, 2015. Adjusted EBITDA, net was negatively impacted by the decline in both the Euro and Canadian dollar relative to the U.S. dollar, which resulted in a $44.4 million decrease in adjusted EBITDA, net, offset in part by an increase in the number of short-term loyalty programs in the market as compared to the year ended December 31, 2014.
- *Epsilon*. Adjusted EBITDA, net increased $199.3 million, or 64%, to $508.4 million for the year ended December 31, 2015. The Conversant acquisition contributed $184.1 million to the increase in adjusted EBITDA, net. Excluding the Conversant acquisition, adjusted EBITDA, net increased by $15.2 million driven

by growth in services for existing clients and database builds completed and placed in production for new clients.

- *Card Services*. Adjusted EBITDA, net increased $147.8 million, or 16%, to $1.1 billion for the year ended December 31, 2015. Adjusted EBITDA, net was positively impacted by the 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 due to the increase in credit card and loan receivables.

- *Corporate/Other*. Adjusted EBITDA, net decreased $7.4 million to a loss of $119.4 million for the year ended December 31, 2015 due primarily to an increase in payroll and benefits.

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:

	December 31, 2016	% of Total	December 31, 2015	% of Total
	(In millions, except percentages)			
Receivables outstanding - principal	$ 15,754.0	100.0 %	$ 13,196.4	100.0 %
Principal receivables balances contractually delinquent:				
31 to 60 days	249.8	1.6 %	178.5	1.4 %
61 to 90 days	169.3	1.1	124.1	0.9
91 or more days	337.8	2.1	257.0	1.9
Total	$ 756.9	4.8 %	$ 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:

	Year Ended December 31,		
	2016	2015	2014
	(In millions, except percentages)		
Average credit card and loan receivables	$ 14,085.8	$ 11,364.6	$ 8,750.1
Net charge-offs of principal receivables	723.0	512.3	370.7
Net charge-offs as a percentage of average credit card and loan receivables	5.1 %	4.5 %	4.2 %

Liquidity and Capital Resources

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

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

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

We believe that internally generated funds and other sources of liquidity 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 $2.1 billion and $1.7 billion for the years ended December 31, 2016 and 2015, respectively. The increase in operating cash flows of $382.6 million during the year ended December 31, 2016 as compared to the prior year was due to non-cash charges to income, such as the increase in the provision for loan loss and impact of expiry, offset in part by lower net income and an increase in cash used in working capital, due primarily to decreases in deferred revenue and increases in trade receivables during the current year. 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.

Investing Activities. Cash used in investing activities was $4.1 billion and $3.4 billion for the years ended December 31, 2016 and 2015, respectively. Significant components of investing activities are as follows:

- *Redemption settlement assets.* Cash increased $148.7 million for the year ended December 31, 2016 and decreased $22.4 million for the year ended December 31, 2015. The increase in cash in the current year period was due to the increased redemptions in the second half of the year which decreased the balance of the redemption settlement assets.
- *Credit card and loan receivables funding.* Cash decreased $3.5 billion and $2.9 billion for the years ended December 31, 2016 and 2015, respectively, due to growth in our credit card and loan receivables in both years.
- *Purchase of credit card portfolios.* During the year ended December 31, 2016, we paid $1.0 billion to acquire five credit card portfolios. During the year ended December 31, 2015, we paid $243.2 million to acquire one credit card portfolio.

- *Proceeds from sale of credit card portfolios.* During the year ended December 31, 2016, we received $486.0 million from the sale of three credit card portfolios. During the year ended December 31, 2015, we sold one credit card portfolio for cash proceeds of $26.9 million.
- *Capital expenditures.* Cash paid for capital expenditures was $207.0 million and $191.7 million for the years ended December 31, 2016 and 2015, respectively. We anticipate capital expenditures to continue to be approximately 3% of annual revenue.

Financing Activities. Cash provided by financing activities was $2.7 billion and $1.8 billion for the years ended December 31, 2016 and 2015, respectively. Significant components of investing activities are as follows:

- *Debt.* Cash increased $600.9 million in net borrowings for the year ended December 31, 2016, primarily driven by the $500.0 million issuance of senior notes due 2021 and €190.0 million in term loan borrowings under the 2016 BrandLoyalty Credit Agreement. Cash increased $859.1 million in net borrowings for the year ended December 31, 2015, primarily driven by the €300.0 million issuance of senior notes due 2023 in November 2015 and incremental term loan borrowings of $200.0 million in September 2015.
- *Deposits.* Cash increased $2.8 billion and $848.8 million for the years ended December 31, 2016 and 2015, respectively, due to net issuances of deposits to support the growth of credit card receivables.
- *Non-recourse borrowings of consolidated securitization entities.* Cash increased $474.4 million and $1.3 billion for the years ended December 31, 2016 and 2015, respectively, due to net borrowings under the asset-backed term notes and conduit facilities.
- *BrandLoyalty non-controlling interest and contingent liability.* For the year ended December 31, 2016, we paid $360.7 million to acquire the remaining 30% ownership interest in BrandLoyalty. For the year ended December 31, 2015, we paid $205.9 million to settle the BrandLoyalty contingent liability and $87.4 million to acquire an additional 10% ownership interest in BrandLoyalty.
- *Treasury shares.* Cash paid for treasury shares was $798.8 million and $951.6 million for the years ended December 31, 2016 and 2015, respectively.

Debt

Long-term and Other Debt

During the year ended December 31, 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 credit facility.

As of December 31, 2016, we had $235.0 million outstanding under our revolving line of credit and total availability of $1.1 billion. Our total leverage ratio, as defined in our credit agreement, was 2.7 to 1 at December 31, 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 December 31, 2016, the amount outstanding under the revolving lines of credit is €66.9 million ($70.3 million).

In October 2016, we issued $500.0 million aggregate principal amount of 5.875% senior notes due November 1, 2021, or the Senior Notes due 2021. The Senior Notes due 2021 accrue interest on the principal amount at the rate of 5.875% per annum from October 27, 2016, payable semiannually in arrears, on May 1 and November 1 of each year, beginning on May 1, 2017.

As of December 31, 2016, we were in compliance with our debt covenants.

See Note 11, “Debt,” of the Notes to Consolidated Financial Statements for additional information regarding our debt.

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.

Comenity Bank and Comenity Capital Bank offer demand deposit programs through contractual arrangements with securities brokerage firms. As of December 31, 2016, Comenity Bank and Comenity Capital Bank had $2.5 billion in money market deposits outstanding with interest rates ranging from 0.51% to 2.37%. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

Comenity Bank and Comenity Capital Bank issue certificates of deposit in denominations of at least $100,000 and $1,000, respectively, in various maturities ranging between January 2017 and November 2021 and with effective annual interest rates ranging from 0.60% to 2.80%. As of December 31, 2016, we had $5.9 billion of certificates of deposit outstanding. 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 Master Trust III, or collectively, the WFN Trusts, as part of our credit card securitization program, which has been in existence since January 1996. We also sell our credit card receivables originated by Comenity Capital Bank to World Financial Capital Credit Company, LLC, which in turn sells them to World Financial Capital Master Note Trust, or the WFC Trust. These securitization programs are a principal vehicle through which we finance Comenity Bank’s and Comenity Capital Bank’s credit card receivables. Historically, we have used both public and private term asset-backed securitization transactions as well as private conduit facilities as sources of funding for our credit card receivables. Private conduit facilities have been used to accommodate seasonality needs and to bridge to completion of asset-backed securitization transactions.

During the year ended December 31, 2016, Master Trust I issued $1.8 billion of asset-backed term notes with various maturities ranging between August 2018 and June 2021, of which $0.4 billion were retained by us and eliminated from the consolidated balance sheets. Additionally, $1.4 billion of asset-backed term notes matured and were repaid, of which $0.4 billion were retained by us and eliminated from the consolidated balance sheets.

As of December 31, 2016, the WFN Trusts and the WFC Trust had approximately $11.4 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. We have secured and continue to secure the necessary commitments to fund our portfolio of securitized credit card receivables originated by Comenity Bank and Comenity Capital Bank. However, certain of these commitments are short-term in nature and subject to renewal. There is not a guarantee that these funding sources, when they mature, will be renewed on similar terms or at all as they are dependent on the asset-backed securitization markets at the time.

We have access to committed undrawn capacity through three conduit facilities to support the funding of our credit card receivables through Master Trust I, Master Trust III and the WFC Trust. As of December 31, 2016, total capacity under the conduit facilities was $3.0 billion, of which $2.3 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the consolidated balance sheets. Borrowings outstanding under each facility bear interest at a margin above LIBOR or the asset-backed commercial paper costs of each individual conduit provider. The conduits have varying maturities from May 2017 to November 2018 with variable interest rates ranging from 1.86% to 1.96% as of December 31, 2016.

In November 2016, the WFC Trust renewed its 2009-VFN conduit facility, increasing the capacity from $1.05 billion to $1.4 billion and extending the maturity to November 1, 2018.

In December 2016, Master Trust I amended its 2009-VFN conduit facility, extending the maturity to November 30, 2018.

The following table shows the maturities of borrowing commitments as of December 31, 2016 for the WFN Trusts and the WFC Trust by year:

	2017	2018	2019	2020	2021	Thereafter	Total
				(In millions)			
Term notes	$ 950.0	$ 1,341.0	$ 1,174.0	$ 475.0	$ 682.5	$ —	$ 4,622.5
Conduit facilities (1)	900.0	2,100.0	—	—	—	—	3,000.0
Total (2)	$ 1,850.0	$ 3,441.0	$ 1,174.0	$ 475.0	$ 682.5	$ —	$ 7,622.5

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

(2) Total amounts do not include $2.2 billion of debt issued by the credit card securitization trusts, which was retained by us and has been eliminated in the consolidated financial statements.

Early amortization events as defined within each asset-backed securitization transaction are generally driven by asset performance. We do not believe it is reasonably likely that an early amortization event will occur due to asset performance. However, if an early amortization event were declared, the trustee of the particular credit card securitization trust would retain the interest in the receivables along with the excess interest income that would otherwise be paid to our bank subsidiary until the credit card securitization investors were fully repaid. The occurrence of an early amortization event would significantly limit or negate our ability to securitize additional credit card receivables.

See Note 11, “Debt,” of the Notes to Consolidated Financial Statements for additional information regarding our securitized debt.

Stock Repurchase Programs

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. During the year ended December 31, 2016, we repurchased approximately 3.8 million shares of our common stock for an aggregate amount of $805.7 million.

On January 1, 2017, our Board of Directors authorized a stock repurchase program to acquire up to $500.0 million of our outstanding common stock from January 1, 2017 through December 31, 2017, subject to any restrictions pursuant to the terms of our credit agreements, indentures, and applicable securities laws or otherwise.

On January 30, 2017, under the authorization of the existing 2017 repurchase program, we entered into a $350.0 million fixed dollar accelerated share repurchase agreement (“ASR Agreement”), with an investment bank counterparty. Pursuant to the ASR Agreement, we received an initial delivery of 1.4 million shares of our common stock at a price per share of $227.95 on February 6, 2017. The final settlement, and delivery of additional shares if any, is scheduled for April 17, 2017, but can be accelerated by the counterparty. The final settlement is based upon the volume weighted average price of our common stock, purchased by the counterparty during the period, less a specified discount, subject to a collar with a specified forward cap price and forward cap floor.

Dividends

On October 20, 2016, our Board of Directors declared a quarterly cash dividend of $0.52 per share on our common stock to stockholders of record at the close of business on November 3, 2016, resulting in a dividend payment of $30.0 million on December 16, 2016.

On January 26, 2017, our Board of Directors declared a quarterly cash dividend of $0.52 per share on our common stock, payable on March 17, 2017 to stockholders of record at the close of business on February 15, 2017.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments. Our future cash payments associated with our contractual obligations and commitments to make future payments by type and period as of December 31, 2016 are summarized below:

	2017	2018	2019	2020	2021	Thereafter	Total
				(In millions)			
Deposits [(1)]	$ 4,770.6	$ 2,590.0	$ 1,251.4	$ —	$ —	$ —	$ 8,612.0
Non-recourse borrowings of consolidated securitization entities [(1)]	1,759.0	4,298.6	1,185.4	—	—	—	7,243.0
Long-term and other debt [(1)]	1,031.6	413.0	2,720.5	739.7	577.5	965.3	6,447.6
Operating leases	97.4	78.6	70.9	66.6	55.7	320.6	689.8
Capital leases	2.4	2.3	1.5	—	—		6.2
Software licenses	1.0	1.0	0.3	0.3	—	—	2.6
ASC 740 obligations [(2)]	—	—	—	—	—	—	—
Purchase obligations [(3)]	459.8	98.2	85.7	52.7	—	—	696.4
Total	$ 8,121.8	$ 7,481.7	$ 5,315.7	$ 859.3	$ 633.2	$ 1,285.9	$ 23,697.6

(1) The deposits, non-recourse borrowings of consolidated securitization entities and long-term and other debt represent our estimated debt service obligations, including both principal and interest. Interest was based on the interest rates in effect as of December 31, 2016, applied to the contractual repayment period.

(2) ASC 740 obligations do not reflect unrecognized tax benefits of $228.9 million, of which the timing remains uncertain.

(3) Purchase obligations are defined as an agreement to purchase goods or services that is enforceable and legally binding and specifying all significant terms, including the following: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and approximate timing of the transaction. The purchase obligation amounts disclosed above represent estimates of the minimum for which we are obligated and the time period in which cash outflows will occur. Purchase orders and authorizations to purchase that involve no firm commitment from either party are excluded from the above table. Purchase obligations include purchase commitments under our AIR MILES Reward Program, minimum payments under support and maintenance contracts and agreements to purchase other goods and services.

We believe that we will have access to sufficient resources to meet these commitments.

Inflation and Seasonality

Although we cannot precisely determine the impact of inflation on our operations, we do not believe that we have been significantly affected by inflation. For the most part, we have relied on operating efficiencies from scale and technology, as well as decreases in technology and communication costs, to offset increased costs of employee compensation and other operating expenses. Our revenues, earnings and cash flows are affected by increased consumer spending patterns leading up to and including the holiday shopping period in the third and fourth quarter and, to a lesser extent, during the first quarter as credit card and note receivable balances are paid down.

Legislative and Regulatory Matters

Comenity Bank is subject to various regulatory capital requirements administered by the State of Delaware and the FDIC. Comenity Capital Bank is subject to regulatory capital requirements administered by both the FDIC and the State of Utah. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, both Comenity Bank and Comenity Capital Bank must meet specific capital guidelines that involve quantitative measures of its assets and liabilities as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by these regulators about components, risk weightings and other factors. Both Comenity Bank and Comenity Capital Bank are limited in the amounts that they can pay as dividends to us.

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. Under the regulations, a “well capitalized” institution must have a Common Equity Tier 1 capital ratio of at least 6.5%, a Tier 1 capital ratio of at least 8%, a total capital ratio of at least

10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An “adequately capitalized” institution must have a Common Equity Tier 1 capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, but 3% is allowed in some cases. As of December 31, 2016, Comenity Bank’s Common Equity Tier 1 capital ratio was 13.6%, Tier 1 capital ratio was 13.6%, total capital ratio was 14.9% and leverage ratio was 13.0%, and Comenity Bank was not subject to a capital directive order. As of December 31, 2016, Comenity Capital Bank’s Common Equity Tier 1 capital ratio was 13.1%, Tier 1 capital ratio was 13.1%, total capital ratio was 14.4% and leverage ratio was 13.8%, and Comenity Capital Bank was not subject to a capital directive order. Comenity Bank and Comenity Capital Bank are considered well capitalized.

On September 8, 2015, Comenity Bank and Comenity Capital Bank each entered into a consent order with the FDIC in settlement of the FDIC’s review of Comenity Bank and Comenity Capital Bank’s practices regarding the marketing, promotion and sale of certain add-on products. Comenity Bank and Comenity Capital Bank 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, Comenity Bank and Comenity Capital Bank were required to collectively provide restitution of approximately $61.5 million to eligible customers for actions occurring between January 2008 and September 2014. In addition, Comenity Bank and Comenity Capital Bank collectively agreed to pay $2.5 million in civil money penalties to the FDIC. The civil penalties to the FDIC have been paid as of December 31, 2015. As of December 31, 2016, we had satisfied our restitution obligations to the eligible customers under these consent orders. Before the FDIC’s review began, Comenity Bank and Comenity Capital Bank made changes to these add-on products, and they believe their current business practices substantially address the FDIC’s concerns; however, Comenity Bank and Comenity Capital Bank also agreed to make further enhancements to their compliance and other processes related to the marketing, promotion and sale of these add-on products.

In August 2014, the SEC adopted a number of rules that will change the disclosure, reporting and offering process for publicly registered offerings of asset-backed securities, including those offered under our credit card securitization program. The adopted rules finalize rules that were originally proposed on April 7, 2010 and re-proposed on July 26, 2011. A number of rules proposed by the SEC in 2010 and 2011, such as requiring group-level data for the underlying assets in credit card securitizations, were not adopted in the final rulemaking but may be implemented by the SEC in the future. We are still assessing the impact of the new rules, and the possibility of continued rulemaking, on our publicly offered credit card securitization program. The SEC also issued an advance notice of proposed rulemaking relating to the exemptions that our credit card securitization trusts relied on in our credit card securitization program to avoid registration as investment companies. The form that these rules may ultimately take is uncertain at this time, but such rules may impact our ability or desire to issue asset-backed securities in the future.

The FDIC, the SEC, the Federal Reserve and certain other federal regulators have adopted regulations that would mandate a minimum five percent risk retention requirement for securitizations that are issued on and after December 24, 2016. We have not yet determined whether our existing forms of risk retention will satisfy the final regulatory requirements or whether structural changes will be necessary. Such risk retention requirements may impact our ability or desire to issue asset-backed securities in the future.

Discussion of Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting policies that are described in the Notes to Consolidated Financial Statements. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our judgments and estimates in determination of our financial condition and operating results. Estimates are based on information available as of the date of the financial statements and, accordingly, actual results could differ from these estimates, sometimes materially. Critical accounting estimates are defined as those that are both most important to the portrayal of our financial condition and operating results and require management’s most subjective judgments. The primary critical accounting estimates are described below.

Allowance for Loan Loss.

We maintain an allowance for loan loss at a level that is appropriate to absorb probable losses inherent in credit card and loan receivables. The estimate of our allowance for loan loss considers uncollectible principal, interest and fees reflected in the credit card and loan receivables. While our estimation process includes historical data and analysis, there is a significant amount of judgment applied in selecting inputs and analyzing the results to determine the allowance for loan loss. We use a migration analysis to estimate the likelihood that a loan will progress through the various stages of delinquency. The considerations in these analyses include past and current credit card and loan performance, seasoning and growth, account collection strategies, economic conditions, bankruptcy filings, policy changes, payment rates and forecasting uncertainties. Given the same information, others may reach different reasonable estimates.

If we used different assumptions in estimating net losses that could be incurred, the impact to the allowance for loan loss could have a material effect on our consolidated financial condition and results of operations. For example, a 100 basis point change in our estimate of incurred net loan losses could have resulted in a change of approximately $161 million in the allowance for loan loss at December 31, 2016, with a corresponding change in the provision for loan loss.

Revenue Recognition.

We recognize revenue when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) the service has been performed or the product has been delivered.

We also enter into contracts that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Estimates may be utilized in determining the fair value of each element using the selling price hierarchy price, as applicable. Moreover, judgment is used to interpret the terms and determine when all the criteria of revenue recognition have been met in order for revenue recognition to occur in the appropriate accounting period. While changes in the allocation of the estimated sales price between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition.

AIR MILES Reward Program. 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. Under certain of our contracts, a portion of the consideration is paid to us upon the issuance of AIR MILES reward miles and a portion is paid at the time of redemption and therefore, we do not have a redemption obligation related to these contracts.

The adoption of Accounting Standards Update, or ASU, 2009-13, "Multiple-Deliverable Revenue Arrangements," established the use of a three-level hierarchy when establishing the selling price and the relative selling price method when allocating arrangement consideration and eliminated the use of the residual method for new sponsor agreements entered into, or existing sponsor agreements that are materially modified, after January 1, 2011. Effective January 1, 2015, all of our sponsor contracts are accounted for under ASU 2009-13.

Total consideration from the issuance of AIR MILES reward miles is allocated to three elements, the redemption element, the service element, and the brand element, based on the relative selling price method.

The fair value of each element was determined using management’s estimated selling price for that respective element. The objective of using the estimated selling price methodology is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. The best estimate of selling price for the redemption element and the service element are based on cost plus a reasonable margin. The estimated selling price of the brand element is determined using a relief from royalty approach. Accordingly, we determine our best estimate of selling price by considering multiple inputs and methods, including discounted cash flows and available market data in consideration of applicable margins and royalty rates to utilize. In addition, the number of AIR MILES reward miles issued and redeemed are factored into our estimates, as we estimate the selling prices and volumes over the term of the respective agreements in order to determine the allocation of consideration to each of the elements delivered. The redemption element incorporates the expected number of AIR MILES reward miles to be redeemed, and therefore, the amount of redemption revenue recognized is subject to our estimate of breakage, or those AIR MILES reward miles that we estimate will remain unredeemed by the collector base. Additionally, the estimated life of an AIR MILES reward mile impacts the timing of revenue recognition.

Breakage and the life of an AIR MILES reward mile are based on management's estimate after viewing and analyzing various historical trends including vintage analysis, current run rates and other pertinent factors, such as the impact of macroeconomic factors and changes in the program structure.

On December 1, 2016, in advance of the passing of Bill 47 in Ontario, we cancelled the five-year expiry policy, under which the first AIR MILES reward miles older than five years were expected to expire effective December 31, 2016. We believe the expiry policy represented 4% to 5% of our estimate of breakage. With the cancellation of that policy, coupled with heightened redemptions in the third and fourth quarter of 2016, on December 1, 2016, we changed our estimate of breakage from 26% to 20%. Our cumulative redemption rate, which represents program to date redemptions divided by program to date issuance, is 69% as of December 31, 2016. We expect the ultimate redemption rate, without the application of an expiry policy, will approximate 80% based on our historical redemption patterns, statistical regression models, and consideration of enacted program changes, as applicable. As a result of this change in estimate, we increased the deferred redemption liability by $284.5 million with a corresponding reduction of redemption revenue.

There have been no changes to management's estimate of the life of an AIR MILES reward mile in the periods presented in the financial statements. We estimate that a change to the estimated life of an AIR MILES reward mile of one month would impact revenue by approximately $5 million.

Should there be a change in collector behavior, this could result in a change in our estimates of breakage or life of an AIR MILES reward mile.

As of December 31, 2016, we had $931.5 million in deferred revenue related to the AIR MILES Reward Program that will be recognized in the future. Further information is provided in Note 13, "Deferred Revenue," of the Notes to Consolidated Financial Statements.

Goodwill.

We test goodwill for impairment annually, as of July 31, or when events and circumstances change that would indicate the carrying amount may not be recoverable. In evaluating goodwill for impairment, we must estimate the fair value of the reporting units to which the goodwill relates. As of December 31, 2016, we had goodwill of approximately $3.8 billion. The following table presents the December 31, 2016 goodwill by reporting unit as well as the percentage by which fair value of the reporting units exceeded carrying value as of the 2016 annual impairment test:

Reporting Unit	Goodwill	Approximate Excess Fair Value %
	(In millions, except percentages)	
Card Services	$ 261.7	280 - 340%
LoyaltyOne excluding BrandLoyalty	186.2	340 - 370%
BrandLoyalty	467.1	85 - 100%
Epsilon excluding Conversant	1,235.4	20 - 35%
Conversant	1,650.3	10 - 15%
Total	$ 3,800.7	

We estimated the fair value of the reporting units using both an income- and market-based approach. Our income-based approach utilizes a discounted cash flow analysis based on management's estimates of forecasted cash flows, with those cash flows discounted to present value using rates commensurate with the risks associated with those cash flows. The valuation includes assumptions related to revenue growth and profit performance, capital expenditures, the discount rate and other assumptions that are judgmental in nature. Changes in these estimates and assumptions could materially affect the results of our tests for goodwill impairment. The market-based approach involves an analysis of market multiples of revenues and earnings to a group of comparable public companies and recent transactions, if any, involving comparable companies. While the guideline companies in the market-based valuation method have comparability to the reporting units, they may not fully reflect the market share, product portfolio and operations of the reporting units. In addition, we also consult independent valuation experts where needed in applying these valuation techniques.

We generally base our measurement of the fair value of a reporting unit on a blended analysis of the present value of future discounted cash flows and the market-based valuation approach.

As with all assumptions, there is an inherent level of uncertainty and actual results, to the extent they differ from those assumptions, could have a material impact on fair value. For example, a reduction in customer demand would impact our assumed growth rate resulting in a reduced fair value, or multiples for similar type reporting units could deteriorate due to changes in technology or a downturn in economic conditions. Potential events or circumstances could have a negative effect on the estimated fair value. The loss of a major customer or program could have a significant impact on the future cash flows of the reporting unit(s).

We do not currently believe there is a reasonable likelihood that there will be a material change in estimates or assumptions used to test goodwill and other intangible assets for impairment losses. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material.

Income Taxes.

We account for uncertain tax positions in accordance with Accounting Standards Codification, or ASC, 740, “Income Taxes.” The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of, and guidance surrounding, income tax laws and regulations change over time. Changes in our subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of income. See Note 19, “Income Taxes,” of the Notes to Consolidated Financial Statements for additional detail on our uncertain tax positions and further information regarding ASC 740.

Recent Accounting Pronouncements

See “Recently Issued Accounting Standards” under Note 2, “Summary of Significant Accounting Policies,” of the Notes to Consolidated Financial Statements for a discussion of certain accounting standards that we have recently adopted and certain accounting standards that we have not yet been required to adopt and may be applicable to our future financial condition, results of operations or cash flow.

Item 7A. 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.

Interest Rate Risk. Interest rate risk affects us directly in our borrowing activities. Our interest expense, net was $428.5 million for 2016. To manage our risk from market interest rates, we actively monitor interest rates and other interest sensitive components to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. To achieve this objective, we manage our exposure to fluctuations in market interest rates through the use of fixed-rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. In addition, we may enter into derivative instruments such as interest rate swaps and interest rate caps to mitigate our interest rate risk on related financial instruments or to lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes.

The approach we use to quantify interest rate risk is a sensitivity analysis, which we believe best reflects the risk inherent in our business. This approach calculates the impact on pre-tax income from an instantaneous and sustained increase in interest rates of 1%. In 2016, a 1% increase in interest rates would have resulted in an increase to our interest expense of approximately $85 million. Conversely, a corresponding decrease in interest rates would have resulted in a decrease to interest expense of approximately $62 million. Our use of this methodology to quantify the market risk of financial instruments should not be construed as an endorsement of its accuracy or the appropriateness of the related assumptions.

Credit Risk. We are exposed to credit risk relating to the credit card loans we make to our clients' customers. Our credit risk relates to the risk that consumers using the private label or co-brand credit cards that we issue will not repay their revolving credit card loan balances. To minimize our risk of credit card loan write-offs, we have developed automated proprietary scoring technology and verification procedures to make risk-based origination decisions when approving new accountholders, establishing or adjusting their credit limits and applying our risk-based pricing. We also utilize a proprietary collection scoring algorithm to assess accounts for collections efforts if they become delinquent; after exhausting all in-house collection efforts, we may engage collection agencies and outside attorneys to continue those efforts.

Foreign Currency Exchange Rate Risk. We are exposed to fluctuations in the exchange rate between the U.S. and the Canadian dollar and between the U.S. dollar and the Euro. For the year ended December 31, 2016, an additional 10% decrease in the strength of the Canadian dollar versus the U.S. dollar and the Euro versus the U.S. dollar would have resulted in an additional decrease in pre-tax loss and an additional decrease in pre-tax income of approximately $6 million and $5 million, respectively. Conversely, a corresponding increase in the strength of the Canadian dollar or the Euro versus the U.S. dollar would result in a comparable increase to pre-tax income in these periods.

Item 8. Financial Statements and Supplementary Data.

Our consolidated financial statements begin on page F-1 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 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 December 31, 2016, 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.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal controls over financial reporting are designed 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 in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013)*. Based on this evaluation, management, with the participation of the Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of internal control over financial reporting as of December 31, 2016, has been audited by Deloitte & Touche LLP, the independent registered public accounting firm who also audited our consolidated financial statements. Deloitte & Touche's attestation report on the effectiveness of our internal control over financial reporting appears on page F-3.

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to the Proxy Statement for the 2017 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2016.

Item 11. Executive Compensation.

Incorporated by reference to the Proxy Statement for the 2017 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2016.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference to the Proxy Statement for the 2017 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2016.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Incorporated by reference to the Proxy Statement for the 2017 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2016.

Item 14. Principal Accounting Fees and Services.

Incorporated by reference to the Proxy Statement for the 2017 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2016.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

a) The following documents are filed as part of this report:

(1) Financial Statements
(2) Financial Statement Schedule
(3) The following exhibits are filed as part of this Annual Report on Form 10-K or, where indicated, were previously filed and are hereby incorporated by reference.

			Incorporated by Reference		
Exhibit No.	Filer	Description	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)	Alliance Data Systems Corporation Amended and Restated Executive Deferred Compensation Plan effective January 1, 2008.	10-Q	10.1	5/11/09
+10.2	(a)	Alliance Data Systems Corporation 2005 Long-Term Incentive Plan.	DEF 14A	A	4/29/05
+10.3	(a)	Amendment Number One to the Alliance Data Systems Corporation 2005 Long Term Incentive Plan, dated as of September 24, 2009.	10-Q	10.8	11/9/09
+10.4	(a)	Alliance Data Systems Corporation 2010 Omnibus Incentive Plan.	DEF 14A	A	4/20/10
+10.5	(a)	Alliance Data Systems Corporation 2015 Omnibus Incentive Plan.	DEF 14A	B	4/20/15
+10.6	(a)	Form of Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan.	8-K	10.1	2/20/14
+10.7	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2015 grant).	8-K	10.2	2/19/15
+10.8	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2016 grant).	8-K	10.2	2/17/16
+10.9	(a)	Form of Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan.	8-K	10.1	2/17/17
+10.10	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2017 grant EBT).	8-K	10.2	2/17/17
+10.11	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2017 grant rTSR).	8-K	10.3	2/17/17

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
+10.12	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2017 grant EPS).	8-K	10.4	2/17/17
+10.13	(a)	Form of Non-Employee Director Nonqualified Stock Option Agreement.	8-K	10.1	6/13/05
+10.14	(a)	Form of Non-Employee Director Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan.	10-Q	10.10	8/8/08
+10.15	(a)	Form of Non-employee Director Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan.	10-K	10.52	2/28/13
+10.16	(a)	Form of Non-employee Director Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan.	10-Q	10.4	8/8/16
+10.17	(a)	Alliance Data Systems Corporation Non-Employee Director Deferred Compensation Plan.	8-K	10.1	6/9/06
*+10.18	(a)	Form of Alliance Data Systems Associate Confidentiality Agreement.			
+10.19	(a)	Form of Alliance Data Systems Corporation Indemnification Agreement for Officers and Directors.	8-K	10.1	6/5/15
+10.20	(a)	Alliance Data Systems Corporation 2015 Employee Stock Purchase Plan, effective July 1, 2015.	DEF 14A	C	4/20/15
+10.21	(a)	LoyaltyOne, Inc. Registered Retirement Savings Plan, as amended.	10-Q	10.1	5/7/10
+10.22	(a)	LoyaltyOne, Inc. Deferred Profit Sharing Plan, as amended.	10-Q	10.2	5/7/10
+10.23	(a)	LoyaltyOne, Inc. Canadian Supplemental Executive Retirement Plan, effective as of January 1, 2009.	10-Q	10.3	5/7/10
+10.24	(a)	Change in Control Severance Protection Agreement, dated as of December 13, 2016, between Edward Heffernan and ADS Alliance Data Systems, Inc.	8-K	10.1	12/16/16
10.25	(a)	Amended and Restated License to Use the Air Miles Trade Marks in Canada, dated as of July 24, 1998, by and between Air Miles International Holdings N.V. and Loyalty Management Group Canada Inc. (assigned by Air Miles International Holdings N.V. to Air Miles International Trading B.V. by a novation agreement dated as of July 18, 2001).	S-1	10.43	1/13/00
10.26	(a)	Amended and Restated License to Use and Exploit the Air Miles Scheme in Canada, dated July 24, 1998, by and between Air Miles International Trading B.V. and Loyalty Management Group Canada Inc.	S-1	10.44	1/13/00
10.27	(b) (c)	Second Amended and Restated Pooling and Servicing Agreement, dated as of January 17, 1996 as amended and restated as of September 17, 1999 and August 1, 2001, by and among WFN Credit Company, LLC, World Financial Network National Bank, and BNY Midwest Trust Company.	8-K	4.6	8/31/01

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.28	(b) (c)	Omnibus Amendment, dated as of March 31, 2003, among WFN Credit Company, LLC, World Financial Network Credit Card Master Trust, World Financial Network National Bank and BNY Midwest Trust Company.	8-K	4	4/22/03
10.29	(b) (c) (d)	Second Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of May 19, 2004, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company.	8-K	4.1	8/4/04
10.30	(b) (c) (d)	Third Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of March 30, 2005, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company.	8-K	4.1	4/4/05
10.31	(b) (d)	Fourth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of June 13, 2007, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company.	8-K	4.1	6/15/07
10.32	(b) (c) (d)	Fifth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of October 26, 2007, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company.	8-K	4.1	10/31/07
10.33	(b) (d)	Sixth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of May 27, 2008, among World Financial Network National Bank, WFN Credit Company, LLC, and The Bank of New York Trust Company, N.A.	8-K	4.1	5/29/08
10.34	(b) (d)	Seventh Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of June 28, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and The Bank of New York Mellon Trust Company, N.A.	8-K	4.2	6/30/10
10.35	(b) (d)	Supplemental Agreement to Second Amended and Restated Pooling and Servicing Agreement, dated as of August 9, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and The Bank of New York Mellon Trust Company, N.A.	8-K	4.1	8/12/10
10.36	(b) (c) (d)	Eighth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of November 9, 2011, among World Financial Network Bank, WFN Credit Company, LLC, and The Bank of New York Mellon Trust Company, N.A.	8-K	4.1	11/14/11
10.37	(b) (c) (d)	Ninth Amendment to Second Amended and Restated Pooling and Servicing Agreement, dated as of December 1, 2016, among Comenity Bank, WFN Credit Company, LLC, and MUFG Union Bank, N.A.	8-K	4.1	12/2/16
10.38	(b) (c)	Collateral Series Supplement to Second Amended and Restated Pooling and Servicing Agreement, dated as of August 21, 2001, among WFN Credit Company, LLC, World Financial Network National Bank and BNY Midwest Trust Company.	8-K	4.7	8/31/01

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.39	(b) (c)	First Amendment to Collateral Series Supplement, dated as of November 7, 2002, among WFN Credit Company, LLC, World Financial Network National Bank and BNY Midwest Trust Company.	8-K	4.3	11/20/02
10.40	(b) (c) (d)	Second Amendment to Collateral Series Supplement, dated as of July 6, 2016, among WFN Credit Company, LLC, Comenity Bank and MUFG Union Bank, N.A.	8-K	4.1	7/8/16
10.41	(b) (c)	Transfer and Servicing Agreement, dated as of August 1, 2001, between WFN Credit Company, LLC, World Financial Network National Bank, and World Financial Network Credit Card Master Note Trust.	8-K	4.3	8/31/01
10.42	(b) (c)	First Amendment to the Transfer and Servicing Agreement, dated as of November 7, 2002, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust.	8-K	4.2	11/20/02
10.43	(b) (c) (d)	Third Amendment to the Transfer and Servicing Agreement, dated as of May 19, 2004, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust.	8-K	4.2	8/4/04
10.44	(b) (c) (d)	Fourth Amendment to the Transfer and Servicing Agreement, dated as of March 30, 2005, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust.	8-K	4.2	4/4/05
10.45	(b) (d)	Fifth Amendment to the Transfer and Servicing Agreement, dated as of June 13, 2007, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust.	8-K	4.2	6/15/07
10.46	(b) (c) (d)	Sixth Amendment to the Transfer and Servicing Agreement, dated as of October 26, 2007, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust.	8-K	4.2	10/31/07
10.47	(b) (d)	Seventh Amendment to Transfer and Servicing Agreement, dated as of June 28, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust.	8-K	4.4	6/30/10
10.48	(b) (d)	Supplemental Agreement to Transfer and Servicing Agreement, dated as of August 9, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust.	8-K	4.3	8/12/10
10.49	(b) (c) (d)	Eighth Amendment to Transfer and Servicing Agreement, dated as of June 15, 2011, among World Financial Network National Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust.	8-K	4.1	6/15/11
10.50	(b) (c) (d)	Ninth Amendment to Transfer and Servicing Agreement, dated as of November 9, 2011, among World Financial Network Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust.	8-K	4.3	11/14/11

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.51	(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
10.52	(b) (c)	Receivables Purchase Agreement, dated as of August 1, 2001, between World Financial Network National Bank and WFN Credit Company, LLC.	8-K	4.8	8/31/01
10.53	(b) (d)	First Amendment to Receivables Purchase Agreement, dated as of June 28, 2010, between World Financial Network National Bank and WFN Credit Company, LLC.	8-K	4.3	6/30/10
10.54	(b) (d)	Supplemental Agreement to Receivables Purchase Agreement, dated as of August 9, 2010, between World Financial Network National Bank and WFN Credit Company, LLC.	8-K	4.2	8/12/10
10.55	(b) (c) (d)	Second Amendment to Receivables Purchase Agreement, dated as of November 9, 2011, between World Financial Network Bank and WFN Credit Company, LLC.	8-K	4.2	11/14/11
10.56	(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
10.57	(b) (c)	Master Indenture, dated as of August 1, 2001, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company.	8-K	4.1	8/31/01
10.58	(b) (c)	Supplemental Indenture No. 1, dated as of August 13, 2003, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company.	8-K	4.2	8/28/03
10.59	(b) (d)	Supplemental Indenture No. 2, dated as of June 13, 2007, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company.	8-K	4.3	6/15/07
10.60	(b) (d)	Supplemental Indenture No. 3, dated as of May 27, 2008, between World Financial Network Credit Card Master Note Trust and The Bank of New York Trust Company, N.A.	8-K	4.2	5/29/08
10.61	(b) (d)	Supplemental Indenture No. 4, dated as of June 28, 2010, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A..	8-K	4.1	6/30/10
10.62	(b) (c) (d)	Supplemental Indenture No. 5, dated as of February 20, 2013, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.2	2/22/13
10.63	(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

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.64	(b) (c) (d)	Agreement of Resignation, Appointment and Acceptance, dated as of June 26, 2012, by and among World Financial Network Bank, World Financial Network Credit Card Master Note Trust, The Bank of New York Mellon Trust Company, N.A., and Union Bank, N.A.	8-K	4.1	6/26/12
10.65	(b) (c) (d)	Agreement of Resignation, Appointment and Acceptance, dated as of June 26, 2012, by and among WFN Credit Company, LLC, The Bank of New York Mellon Trust Company, N.A., and Union Bank, N.A.	8-K	4.2	6/26/12
10.66	(b) (c) (d)	Series 2012-A Indenture Supplement, dated as of April 12, 2012, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A.	8-K	4.1	4/16/12
10.67	(b) (c) (d)	Series 2012-B Indenture Supplement, dated as of July 19, 2012, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.1	7/23/12
10.68	(b) (c) (d)	Series 2012-C Indenture Supplement, dated as of July 19, 2012, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.2	7/23/12
10.69	(b) (c) (d)	Series 2012-D Indenture Supplement, dated as of October 5, 2012, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.1	10/10/12
10.70	(b) (c) (d)	Series 2013-A Indenture Supplement, dated as of February 20, 2013, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.1	2/22/13
10.71	(b) (c) (d)	Series 2014-C Indenture Supplement, dated as of November 7, 2014, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	11/13/14
10.72	(b) (c) (d)	Series 2015-A Indenture Supplement, dated as of April 17, 2015, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	4/21/15
10.73	(b) (c) (d)	Series 2015-B Indenture Supplement, dated as of August 21, 2015, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	8/25/15
10.74	(b) (c) (d)	Series 2015-C Indenture Supplement, dated as of October 27, 2015, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	10/29/15
10.75	(b) (c) (d)	Series 2016-A Indenture Supplement, dated as of July 27, 2016, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	7/28/16
10.76	(b) (c) (d)	Series 2016-B Indenture Supplement, dated as of September 22, 2016, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	9/23/16

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.77	(b) (c) (d)	Series 2016-C Indenture Supplement, dated as of November 3, 2016, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	11/4/16
10.78	(b) (c)	Amended and Restated Trust Agreement, dated as of August 1, 2001, between WFN Credit Company, LLC and Chase Manhattan Bank USA, National Association.	8-K	4.4	8/31/01
10.79	(b) (c)	Administration Agreement, dated as of August 1, 2001, between World Financial Network Credit Card Master Note Trust and World Financial Network National Bank.	8-K	4.5	8/31/01
10.80	(b) (d)	First Amendment to Administration Agreement, dated as of July 31, 2009, between World Financial Network Credit Card Master Note Trust and World Financial Network National Bank.	8-K	4.1	7/31/09
10.81	(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
10.82	(b) (c) (d)	Asset Representations Review Agreement, dated as of July 6, 2016, among Comenity Bank, WFN Credit Company, LLC, World Financial Network Credit Card Master Note Trust and FTI Consulting, Inc.	8-K	10.1	7/8/16
10.83	(a)	Receivables Purchase Agreement, dated as of September 28, 2001, between World Financial Network National Bank and WFN Credit Company, LLC.	10-Q	10.5	11/7/08
10.84	(a)	First Amendment to Receivables Purchase Agreement, dated as of June 24, 2008, between World Financial Network National Bank and WFN Credit Company, LLC..	10-K	10.94	3/2/09
10.85	(a)	Second Amendment to Receivables Purchase Agreement, dated as of March 30, 2010, between World Financial Network National Bank and WFN Credit Company, LLC..	10-K	10.127	2/28/11
10.86	(a)	Supplemental Agreement to Receivables Purchase Agreement, dated as of August 9, 2010, between World Financial Network National Bank and WFN Credit Company, LLC.	10-K	10.128	2/28/11
10.87	(a)	Third Amendment to Receivables Purchase Agreement, dated as of September 30, 2011, between World Financial Network Bank and WFN Credit Company, LLC.	10-Q	10.4	11/7/11
10.88	(a)	World Financial Network Credit Card Master Trust III Amended and Restated Pooling and Servicing Agreement, dated as of September 28, 2001, among WFN Credit Company, LLC, World Financial Network National Bank, and The Chase Manhattan Bank, USA, National Association.	10-Q	10.6	11/7/08

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.89	(a)	First Amendment to the Amended and Restated Pooling and Servicing Agreement, dated as of April 7, 2004, among WFN Credit Company, LLC, World Financial Network National Bank, and The Chase Manhattan Bank, USA, National Association.	10-Q	10.7	11/7/08
10.90	(a)	Second Amendment to the Amended and Restated Pooling and Servicing Agreement, dated as of March 23, 2005, among WFN Credit Company, LLC, World Financial Network National Bank, and The Chase Manhattan Bank, USA, National Association.	10-Q	10.8	11/7/08
10.91	(a)	Third Amendment to the Amended and Restated Pooling and Servicing Agreement, dated as of October 26, 2007, among WFN Credit Company, LLC, World Financial Network National Bank, and Union Bank of California, N.A. (successor to JPMorgan Chase Bank, N.A.).	10-Q	10.9	11/7/08
10.92	(a)	Fourth Amendment to Amended and Restated Pooling and Servicing Agreement, dated as of March 30, 2010, among WFN Credit Company, LLC, World Financial Network National Bank, and Union Bank, N.A.	10-Q	10.9	5/7/10
10.93	(a)	Fifth Amendment to Amended and Restated Pooling and Servicing Agreement, dated as of September 30, 2011, among WFN Credit Company, LLC, World Financial Network Bank, and Union Bank, N.A.	10-Q	10.3	11/7/11
*10.94	(a)	Sixth Amendment to Amended and Restated Pooling and Servicing Agreement, dated as of December 1, 2016, among WFN Credit Company, LLC, Comenity Bank, and Deutsche Bank Trust Company Americas			
10.95	(a)	Supplemental Agreement to Amended and Restated Pooling and Servicing Agreement, dated as of August 9, 2010, among WFN Credit Company, LLC, World Financial Network National Bank, and Union Bank, N.A.	10-K	10.134	2/28/11
10.96	(a)	Receivables Purchase Agreement, dated as of September 29, 2008, between World Financial Capital Bank and World Financial Capital Credit Company, LLC.	10-Q	10.3	11/7/08
10.97	(a)	Amendment No. 1 to Receivables Purchase Agreement, dated as of June 4, 2010, between World Financial Capital Bank and World Financial Capital Credit Company, LLC.	10-Q	10.11	8/9/10
10.98	(a)	Transfer and Servicing Agreement, dated as of September 29, 2008, among World Financial Capital Credit Company, LLC, World Financial Capital Bank and World Financial Capital Master Note Trust.	10-Q	10.4	11/7/08
10.99	(a)	Amendment No. 1 to Transfer and Servicing Agreement, dated as of June 4, 2010, among World Financial Capital Credit Company, LLC, World Financial Capital Bank and World Financial Capital Master Note Trust.	10-Q	10.12	8/9/10
10.100	(a)	Second Amended and Restated Series 2009-VFC1 Supplement, dated as of September 25, 2013, among WFN Credit Company, LLC, Comenity Bank and Deutsche Bank Trust Company Americas.	10-Q	10.4	11/5/13

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.101	(a)	First Amendment to Second Amended and Restated Series 2009-VFC1 Supplement, dated as of May 1, 2015, among Comenity Bank, WFN Credit Company, LLC, and Deutsche Bank Trust Company Americas.	10-Q	10.5	5/7/15
*10.102	(a)	Fifth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of November 1, 2016, between World Financial Capital Master Note Trust and Deutsche Bank Trust Company Americas.			
10.103	(a)	Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of February 28, 2014, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	10-K	10.129	2/27/15
10.104	(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
10.105	(a)	Credit Agreement, dated as of July 10, 2013, by and among Alliance Data Systems Corporation, as borrower, and certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, N.A., as Administrative Agent, and various other agents and lenders.	8-K	10.1	7/16/13
10.106	(a)	First Amendment to Credit Agreement, dated as of December 8, 2014, by and among Alliance Data Systems Corporation, as borrower, and certain of its subsidiaries as guarantors, Wells Fargo Bank, N.A., as Administrative Agent and Letter of Credit Issuer, and various other lenders.	8-K	10.1	12/10/14
10.107	(a)	Second Amendment to Credit Agreement, dated as of September 25, 2015, by and among Alliance Data Systems Corporation, as borrower, and certain of its subsidiaries as guarantors, Wells Fargo Bank, N.A., as Administrative Agent and Letter of Credit Issuer, and various other lenders.	8-K	10.1	9/29/15
10.108	(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
10.109	(a)	Indenture, dated March 29, 2012, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as Trustee (including the form of the Company's 6.375% Senior Note due April 1, 2020).	8-K	4.1	4/2/12
10.110	(a)	Indenture, dated November 20, 2012, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as Trustee (including the form of the Company's 5.250% Senior Note due December 1, 2017).	8-K	4.1	11/27/12
10.111	(a)	Indenture, dated July 29, 2014, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as trustee (including the form of the Company's 5.375% Senior Note due August 1, 2022).	8-K	4.1	7/30/14

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.112	(a)	Indenture, dated November 19, 2015, among Alliance Data Systems Corporation, certain of its subsidiaries as guarantor, U.S. Bank National Association, as trustee, Elavon Financial Services Limited, UK Branch, as paying agent, and Elavon Financial Services Limited, as registrar and transfer agent (including the form of the Company's 5.25% Senior Note due November 15, 2023).	8-K	4.1	11/20/15
10.113	(a)	Indenture, dated October 27, 2016, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Regions Bank, as trustee (including the form of the Company's 5.875% Senior Note due November 1, 2021).	8-K	4.1	10/28/16
*12.1	(a)	Statement re Computation of Ratios			
*21	(a)	Subsidiaries of the Registrant			
*23.1	(a)	Consent of Deloitte & Touche LLP			
*31.1	(a)	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
*31.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
*32.1	(a)	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.			
*32.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.			
*101.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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ALLIANCE DATA SYSTEMS CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Alliance Data Systems Corporation
Plano, Texas

We have audited the accompanying consolidated balance sheets of Alliance Data Systems Corporation and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Alliance Data Systems Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 27, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Alliance Data Systems Corporation
Plano, Texas

We have audited the internal control over financial reporting of Alliance Data Systems Corporation and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2016 of the Company and our report dated February 27, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 27, 2017

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
	(In millions, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 1,859.2	$ 1,168.0
Trade receivables, less allowance for doubtful accounts ($4.5 and $4.0 at December 31, 2016 and 2015, respectively)	797.2	706.5
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	11,437.1	10,592.4
Other credit card and loan receivables	5,106.8	3,207.1
Total credit card and loan receivables	16,543.9	13,799.5
Allowance for loan loss	(948.0)	(741.6)
Credit card and loan receivables, net	15,595.9	13,057.9
Credit card and loan receivables held for sale	417.3	95.5
Deferred tax asset, net	—	288.1
Inventories, net	271.3	228.0
Other current assets	324.0	249.8
Redemption settlement assets, restricted	324.4	456.6
Total current assets	19,589.3	16,250.4
Property and equipment, net	586.0	576.7
Deferred tax asset, net	20.1	0.6
Intangible assets, net	1,003.3	1,203.7
Goodwill	3,800.7	3,814.1
Other non-current assets	514.7	504.4
Total assets	$ 25,514.1	$ 22,349.9
LIABILITIES AND EQUITY		
Accounts payable	$ 568.3	$ 442.4
Accrued expenses	346.8	566.5
Current portion of deposits	4,673.0	2,980.3
Current portion of non-recourse borrowings of consolidated securitization entities	1,639.0	1,049.3
Current portion of long-term and other debt	814.5	369.4
Other current liabilities	399.8	294.5
Deferred revenue	788.1	699.0
Deferred tax liability, net	—	1.7
Total current liabilities	9,229.5	6,403.1
Deferred revenue	143.4	145.9
Deferred tax liability, net	334.8	631.5
Deposits	3,718.9	2,625.6
Non-recourse borrowings of consolidated securitization entities	5,316.4	5,433.4
Long-term and other debt	4,786.9	4,648.0
Other liabilities	326.0	285.0
Total liabilities	23,855.9	20,172.5
Commitments and contingencies (Note 14)		
Redeemable non-controlling interest	—	167.4
Stockholders' equity:		
Common stock, $0.01 par value; authorized, 200.0 shares; issued, 112.5 shares and 112.1 shares at December 31, 2016 and 2015, respectively	1.1	1.1
Additional paid-in capital	3,046.1	2,981.1
Treasury stock, at cost, 55.1 shares and 51.3 shares at December 31, 2016 and 2015, respectively	(4,733.1)	(3,927.4)
Retained earnings	3,494.8	3,092.5
Accumulated other comprehensive loss	(150.7)	(137.3)
Total stockholders' equity	1,658.2	2,010.0
Total liabilities and equity	$ 25,514.1	$ 22,349.9

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2016	2015	2014
	(In millions, except per share amounts)		
Revenues			
Transaction	$ 278.4	$ 336.8	$ 337.4
Redemption	993.6	1,028.4	1,053.2
Finance charges, net	3,639.7	2,871.2	2,303.7
Marketing services	2,019.7	2,006.5	1,438.7
Other revenue	206.7	196.8	169.9
Total revenue	7,138.1	6,439.7	5,302.9
Operating expenses			
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	4,276.8	3,814.4	3,218.8
Provision for loan loss	940.5	668.2	425.2
General and administrative	143.2	138.5	141.5
Regulatory settlement	—	64.6	—
Earn-out obligation	—	—	105.9
Depreciation and other amortization	167.1	142.1	109.7
Amortization of purchased intangibles	345.0	350.1	203.4
Total operating expenses	5,872.6	5,177.9	4,204.5
Operating income	1,265.5	1,261.8	1,098.4
Interest expense			
Securitization funding costs	125.6	97.1	91.1
Interest expense on deposits	84.7	53.6	37.5
Interest expense on long-term and other debt, net	218.2	179.5	131.9
Total interest expense, net	428.5	330.2	260.5
Income before income taxes	837.0	931.6	837.9
Provision for income taxes	319.4	326.2	321.8
Net income	$ 517.6	$ 605.4	$ 516.1
Less: Net income attributable to non-controlling interest	1.8	8.9	9.8
Net income attributable to common stockholders	$ 515.8	$ 596.5	$ 506.3
Net income attributable to common stockholders per share:			
Basic (Note 2)	$ 7.37	$ 8.91	$ 8.72
Diluted (Note 2)	$ 7.34	$ 8.85	$ 7.87
Weighted average shares:			
Basic (Note 2)	58.6	61.9	56.4
Diluted (Note 2)	58.9	62.3	62.4

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2016	2015	2014
	(In millions)		
Net income	$ 517.6	$ 605.4	$ 516.1
Other comprehensive income (loss):			
Unrealized loss on securities available-for-sale	(1.7)	(2.9)	(0.1)
Tax benefit (expense)	0.2	0.1	(1.3)
Unrealized loss on securities available-for-sale, net of tax	(1.5)	(2.8)	(1.4)
Unrealized gain (loss) on cash flow hedges	(1.3)	(1.4)	3.3
Tax benefit (expense)	0.4	0.4	(1.0)
Unrealized gain (loss) on cash flow hedges, net of tax	(0.9)	(1.0)	2.3
Unrealized gain (loss) on net investment hedge	10.3	(3.8)	—
Tax benefit (expense)	(2.4)	—	—
Unrealized gain (loss) on net investment hedge, net of tax	7.9	(3.8)	—
Foreign currency translation adjustments	(18.9)	(54.2)	(58.2)
Other comprehensive income (loss), net of tax	(13.4)	(61.8)	(57.3)
Total comprehensive income, net of tax	$ 504.2	$ 543.6	$ 458.8
Less: Comprehensive income attributable to non-controlling interest	1.2	9.6	11.7
Comprehensive income attributable to common stockholders	$ 503.0	$ 534.0	$ 447.1

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount					
	(In millions)						
January 1, 2014	98.3	$ 1.0	$ 1,512.8	$(2,689.2)	$ 2,049.4	$ (18.2)	$ 855.8
Net income attributable to common stockholders	—	—	—	—	506.3	—	506.3
Accretion of non-controlling interest	—	—	—	—	(14.7)	—	(14.7)
Other comprehensive loss	—	—	—	—	—	(57.3)	(57.3)
Stock-based compensation	—	—	72.5	—	—	—	72.5
Repurchases of common stock	—	—	—	(286.6)	—	—	(286.6)
Warrant conversions	8.3	0.1	(1.6)	—	—	—	(1.5)
Acquisition of Conversant, Inc.	4.6	—	1,322.7	—	—	—	1,322.7
Other	0.5	—	(0.8)	—	—	—	(0.8)
December 31, 2014	111.7	$ 1.1	$ 2,905.6	$(2,975.8)	$ 2,541.0	$ (75.5)	$ 2,396.4
Net income attributable to common stockholders	—	—	—	—	596.5	—	596.5
Accretion of non-controlling interest	—	—	—	—	(45.0)	—	(45.0)
Other comprehensive loss	—	—	—	—	—	(61.8)	(61.8)
Stock-based compensation	—	—	91.3	—	—	—	91.3
Repurchases of common stock	—	—	—	(951.6)	—	—	(951.6)
Other	0.4	—	(15.8)	—	—	—	(15.8)
December 31, 2015	112.1	$ 1.1	$ 2,981.1	$(3,927.4)	$ 3,092.5	$ (137.3)	$ 2,010.0
Net income attributable to common stockholders	—	—	—	—	515.8	—	515.8
Accretion of non-controlling interest	—	—	—	—	(83.5)	—	(83.5)
Other comprehensive loss	—	—	—	—	—	(13.4)	(13.4)
Stock-based compensation	—	—	76.5	—	—	—	76.5
Repurchases of common stock	—	—	—	(805.7)	—	—	(805.7)
Dividends	—	—	—	—	(30.0)	—	(30.0)
Other	0.4	—	(11.5)	—	—	—	(11.5)
December 31, 2016	112.5	$ 1.1	$ 3,046.1	$(4,733.1)	$ 3,494.8	$ (150.7)	$ 1,658.2

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2016	2015	2014
	(In millions)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 517.6	$ 605.4	$ 516.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	512.1	492.2	313.1
Deferred income taxes	(30.8)	(121.3)	(13.4)
Provision for loan loss	940.5	668.2	425.2
Non-cash stock compensation	76.5	91.3	72.5
Amortization of deferred financing costs	34.7	31.5	24.0
Change in breakage rate estimate	284.5	—	—
Earn-out obligation	—	—	105.9
Change in other operating assets and liabilities, net of acquisitions:			
Change in deferred revenue	(222.7)	(6.3)	(27.8)
Change in trade receivables	(95.6)	8.3	(156.0)
Change in accounts payable and accrued expenses	(35.6)	67.2	125.9
Change in other assets	(171.0)	(113.0)	(128.7)
Change in other liabilities	138.5	37.1	89.9
Change in contingent liability	—	(99.6)	—
Originations of credit card and loan receivables held for sale	(7,366.3)	(6,579.9)	(5,271.7)
Sales of credit card and loan receivables held for sale	7,362.8	6,567.1	5,284.9
Other	143.2	57.6	(15.7)
Net cash provided by operating activities	2,088.4	1,705.8	1,344.2
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in redemption settlement assets	148.7	(22.4)	(59.7)
Change in cash collateral, restricted	7.3	15.8	12.7
Change in credit card and loan receivables	(3,505.4)	(2,872.0)	(2,260.7)
Purchase of credit card portfolios	(1,008.1)	(243.2)	(953.2)
Proceeds from sale of credit card portfolios	486.0	26.9	—
Payments for acquired businesses, net of cash	—	(45.4)	(1,195.8)
Capital expenditures	(207.0)	(191.7)	(158.7)
Purchases of other investments	(18.4)	(38.8)	(125.7)
Maturities/sales of other investments	39.2	11.8	7.2
Other	(5.3)	(3.6)	(3.2)
Net cash used in investing activities	(4,063.0)	(3,362.6)	(4,737.1)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under debt agreements	3,823.7	3,087.4	3,431.1
Repayments of borrowings	(3,222.8)	(2,228.3)	(1,835.2)
Proceeds from convertible note hedge counterparties	—	—	1,519.8
Settlement of convertible note borrowings	—	—	(1,864.8)
Payment of acquisition-related contingent consideration	—	(205.9)	—
Acquisition of non-controlling interest	(360.7)	(87.4)	—
Issuances of deposits	4,866.8	3,252.2	3,820.9
Repayments of deposits	(2,076.9)	(2,403.4)	(1,863.7)
Non-recourse borrowings of consolidated securitization entities	4,404.4	4,675.0	2,670.0
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(3,930.0)	(3,373.8)	(2,070.0)
Payment of deferred financing costs	(33.9)	(29.5)	(55.1)
Excess tax benefits from stock-based compensation	4.1	20.2	34.1
Proceeds from issuance of common stock	18.4	18.0	17.1
Dividends paid	(30.0)	—	—
Purchase of treasury shares	(798.8)	(951.6)	(286.6)
Other	(0.9)	—	(1.5)
Net cash provided by financing activities	2,663.4	1,772.9	3,516.1
Effect of exchange rate changes on cash and cash equivalents	2.4	(25.3)	(15.8)
Change in cash and cash equivalents	691.2	90.8	107.4
Cash and cash equivalents at beginning of year	1,168.0	1,077.2	969.8
Cash and cash equivalents at end of year	$ 1,859.2	$ 1,168.0	$ 1,077.2
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 405.1	$ 311.4	$ 221.2
Income taxes paid, net	$ 466.6	$ 304.2	$ 256.0

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of the Business—Alliance Data Systems Corporation ("ADSC" or, including its consolidated subsidiaries and variable interest entities, the "Company") is a leading global provider of data-driven marketing and loyalty solutions serving large, consumer-based businesses in a variety of industries. The Company offers a comprehensive portfolio of integrated outsourced marketing solutions, including customer loyalty programs, database marketing services, end-to-end marketing services, analytics and creative services, direct marketing services and private label and co-brand retail credit card programs. The Company focuses on facilitating and managing interactions between its clients and their customers through all consumer marketing channels, including in-store, online, email, social media, mobile, direct mail and telephone. The Company captures and analyzes data created during each customer interaction, leveraging the insight derived from that data to enable clients to identify and acquire new customers and enhance customer loyalty.

The Company operates in the following reportable segments: LoyaltyOne®, Epsilon®, and Card Services.

LoyaltyOne provides coalition and short-term loyalty programs through the Canadian AIR MILES® Reward Program and BrandLoyalty Group B.V. ("BrandLoyalty"). Epsilon provides end-to-end, integrated direct marketing solutions that leverage transactional data to help clients more effectively acquire and build stronger relationships with their customers. Card Services encompasses credit card processing, billing and payment processing, customer care and collections services for private label retailers as well as private label and co-brand retail credit card and loan receivables financing, including securitization of the credit card receivables that it underwrites from its private label and co-brand retail credit card programs.

Basis of Presentation—For purposes of comparability, certain prior period amounts have been reclassified to conform to the current year presentation in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These reclassifications are related to the adoption of Accounting Standards Update ("ASU") 2015-03, "Simplifying the Presentation of Debt Issuance Costs," and amounts either separately classified or combined due to significance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of ADSC and all subsidiaries in which the Company has a controlling interest. Controlling interest is determined by a majority ownership interest and the absence of substantive third party participating rights. All intercompany transactions have been eliminated.

The Company also consolidates any variable interest entity ("VIE") for which the Company is the primary beneficiary. In accordance with Accounting Standards Codification ("ASC") 860, "Transfers and Servicing," and ASC 810, "Consolidation," the Company is the primary beneficiary of World Financial Network Credit Card Master Trust ("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 Master Note Trust (the "WFC Trust"). The Company is deemed to be the primary beneficiary for the WFN Trusts and the WFC Trust, as it is the servicer for each of the trusts and is a holder of the residual interest. The Company, through its involvement in the activities of the trusts, has the power to direct the activities that most significantly impact the economic performance of the trust, and the obligation (or right) to absorb losses (or receive benefits) of the trust that could potentially be significant.

For investments in any entities in which the Company owns 50% or less of the outstanding voting stock but in which the Company has significant influence over operating and financial decisions, the Company applies the equity method of accounting. In cases where the Company's equity investment is less than 20% and significant influence does not exist, such investments are carried at cost.

Cash and Cash Equivalents—The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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

Credit Card and Loan Receivables—The Company sells a majority of the credit card receivables originated by Comenity Bank to WFN Credit Company, LLC, which in turn sells them to the WFN Trusts as part of a securitization program. The Company also sells its credit card receivables originated by Comenity Capital Bank to World Financial Capital Credit Company, LLC which in turn sells them to the WFC Trust. The credit card receivables sold to each of the trusts are restricted for securitization investors.

Credit card and loan receivables consist of credit card and loan receivables held for investment. All new originations of credit card and loan receivables are deemed to be held for investment at origination because management has the intent and ability to hold them for the foreseeable future. Management makes judgments about the Company's ability to fund these credit card and loan receivables through means other than securitization, such as money market deposits, certificates of deposit and other borrowings. In determining what constitutes the foreseeable future, management considers the short average life and homogenous nature of the Company's credit card and loan receivables. In assessing whether these credit card and loan receivables continue to be held for investment, management also considers capital levels and scheduled maturities of funding instruments used. Management believes that the assertion regarding its intent and ability to hold credit card and loan receivables for the foreseeable future can be made with a high degree of certainty given the maturity distribution of the Company's money market deposits, certificates of deposit and other funding instruments; the historic ability to replace maturing certificates of deposits and other borrowings with new deposits or borrowings; and historic credit card payment activity. Due to the homogenous nature of the Company's credit card and loan receivables, amounts are classified as held for investment on an individual client portfolio basis.

Credit Card and Loan Receivables Held for Sale—Credit card and loan receivables held for sale are determined on an individual client portfolio basis. The Company carries these assets at the lower of aggregate cost or fair value. The fair value of the credit card and loan receivables held for sale is determined on an aggregate homogeneous portfolio basis. The Company continues to recognize finance fees on these credit card and loan receivables on the accrual basis. Cash flows associated with credit card portfolios that are purchased with the intent to sell are included in cash flows from operating activities. Cash flows associated with credit card and loan receivables originated or purchased for investment are classified as investing cash flows, regardless of a subsequent change in intent.

Transfers of Financial Assets—The Company accounts for transfers of financial assets under ASC 860, "Transfers and Servicing," as either sales or financings. Transfers of financial assets that result in sales accounting are those in which (1) the transfer legally isolates the transferred assets from the transferor, (2) the transferee has the right to pledge or exchange the transferred assets and no condition both constrains the transferee's right to pledge or exchange the assets and provides more than a trivial benefit to the transferor and (3) the transferor does not maintain effective control over the transferred assets. If the transfer of financial assets does not meet these criteria, the transfer is accounted for as a financing. Transfers of financial assets that are treated as sales are removed from the Company's accounts with any realized gain or loss reflected in earnings during the period of sale.

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.

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

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.

Allowance for Doubtful Accounts—The Company analyzes the appropriateness of its allowance for doubtful accounts based on the Company’s assessment of various factors, including historical experience, the age of the accounts receivable balance, customer creditworthiness, current economic trends, and changes in its customer payment terms and collection trends. Account balances are charged-off against the allowance after all reasonable means of collection have been exhausted and the potential for recovery is considered remote.

Redemption Settlement Assets, Restricted—The cash and investments related to the redemption fund for the AIR MILES Reward Program are subject to a security interest which is held in trust for the benefit of funding redemptions by collectors. These assets are restricted to funding rewards for the collectors by certain of the Company’s sponsor contracts. The investments are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive (loss) income as the investments are classified as available-for-sale.

Property and Equipment—Furniture, equipment, computer software and development, buildings and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Land is carried at cost and is not depreciated. Depreciation and amortization for furniture, equipment and buildings, including capital leases, are computed on a straight-line basis, using estimated lives ranging from two to twenty-one years. Software development is capitalized in accordance with ASC 350-40, “Intangibles – Goodwill and Other – Internal–Use Software,” and is amortized on a straight-line basis over the expected benefit period, which ranges from two to seven years. Leasehold improvements are amortized over the remaining lives of the respective leases or the remaining useful lives of the improvements, whichever is shorter. Long-lived assets are tested for impairment when events or conditions indicate that the carrying value of an asset may not be fully recoverable from future cash flows.

Goodwill and Other Intangible Assets—Goodwill and indefinite lived intangible assets are not amortized, but are reviewed at least annually for impairment or more frequently if circumstances indicate that an impairment is probable, using the market comparable and discounted cash flow methods.

Separable intangible assets that have finite useful lives are amortized over those useful lives. The Company also defers costs related to the acquisition or licensing of data for the Company’s proprietary databases which are used in providing data products and services to customers. These costs are amortized over the useful life of the data, which ranges from one to five years.

Derivative Instruments—The Company uses derivatives to manage its exposure to various financial risks. The Company does not enter into derivatives for trading or speculative purposes. Certain derivatives used to manage the Company’s exposure to interest rate and foreign currency exchange rate movements are not designated as hedges and do not qualify for hedge accounting.

Derivatives Designated as Hedging Instruments—The Company assesses both at a hedge’s inception and on an ongoing basis, whether the derivatives that are used in the hedging transaction have been highly effective in offsetting changes in the cash flows or remeasurement of the hedged items and whether the derivatives may be expected to remain highly effective in future periods.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer highly effective in offsetting changes in cash flow of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) it determines that designating the derivative as a hedging instrument is no longer appropriate.

Changes in the fair value of derivative instruments designated as hedging instruments, excluding any ineffective portion, are recorded in other comprehensive income (loss) until the hedged transactions affect net income. The ineffective portion of this hedging instrument is recognized through net income when the ineffectiveness occurs.

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

Derivatives not Designated as Hedging Instruments—Certain interest rate derivative instruments and foreign currency exchange forward contracts are not designated as hedges as they do not meet the specific hedge accounting requirements of ASC 815, “Derivatives and Hedging.” Changes in the fair value of the derivative instruments not designated as hedging instruments are recorded in the consolidated statements of income as they occur.

Redeemable Non-Controlling Interest—Non-controlling interest with redemption features, such as put options, that are not solely within the Company's control are considered redeemable non-controlling interests. Redeemable non-controlling interest is considered to be temporary equity and is therefore reported in the mezzanine section between liabilities and equity in the Company's consolidated balance sheets at the greater of the initial carrying amount, increased or decreased for the non-controlling interest's share of net income (loss), or its redemption value. The Company recognizes changes in the redemption value on a quarterly basis and adjusts the carrying amount of the non-controlling interest to equal the redemption value at each balance sheet date. Under this method, the balance sheet date is viewed as if it were also the redemption date for the non-controlling interest. The Company reflects redemption value adjustments in the earnings per share calculation if redemption value is in excess of the carrying value of the non-controlling interest.

Revenue Recognition—The Company’s policy follows the guidance from ASC 605, “Revenue Recognition,” and Accounting Standards Update (“ASU”) 2009-13, “Multiple-Deliverable Revenue Arrangements,” which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. The Company recognizes revenues when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) the service has been performed or the product has been delivered. Reimbursements related to travel and out-of-pocket expenses are also included in revenues. Taxes assessed on revenue-producing transactions described above are presented on a net basis, and are excluded from revenues.

Transaction —The Company earns transaction fees, which are principally based on the number of transactions processed and includes fee arrangements between the Company and its clients, or transaction fees with its cardholders, which are recognized as such services are performed.

AIR MILES Reward Program —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.

Prior to the adoption of ASU 2009-13, the Company allocated the proceeds received from sponsors for the issuance of AIR MILES reward miles between the redemption element which represents the award ultimately provided to the collector and the service element which consists of direct marketing and support services. For contracts entered into prior to January 1, 2011, revenue related to the service element is determined using the residual method. The adoption of ASU 2009-13 eliminated the use of the residual method for new sponsor agreements entered into, or existing sponsor agreements that are materially modified, after January 1, 2011. Effective January 1, 2015, all of the Company’s sponsor contracts are accounted for under ASU 2009-13.

ASU 2009-13 also established the use of a three-level hierarchy when establishing the selling price and the relative selling price method when allocating arrangement consideration. The fair value of each element was determined using management’s estimated selling price for that respective element. The Company determines its best estimate of selling price by considering multiple inputs and methods, including discounted cash flows, and the number of AIR MILES reward miles issued and expected to be redeemed. The Company estimates the selling prices and volumes over the term of the respective agreements in order to determine the allocation of proceeds to each of the multiple elements delivered.

Proceeds from the issuance of AIR MILES reward miles are allocated to three elements, the redemption element, the service element and the brand element, based on the relative selling price method.

Redemption revenue is recognized as the AIR MILES reward miles are redeemed; service revenue is recognized over the estimated life of an AIR MILES reward mile, or 42 months. The brand element is recognized as AIR MILES reward miles are issued. Revenue associated with both the service and brand element is included in transaction revenue in the Company's consolidated statements of income.

The amount of revenue recognized in a period is subject to the estimate of breakage and the estimated life of an AIR MILES reward mile. Breakage and the life of an AIR MILES reward mile are based on management's estimate after viewing and analyzing various historical trends including vintage analysis, current run rates and other pertinent factors, such as the impact of macroeconomic factors and changes in the program structure. Throughout 2014 and 2015, the Company's estimated breakage rate was 26%. In December 2016, the Company changed its estimate of breakage from 26% to 20%. For additional information on the Company's change in estimate with respect to the breakage rate, see Note 13 "Deferred Revenue."

There have been no changes to the Company's estimate of the life of an AIR MILES reward mile in the periods presented in the financial statements.

Redemption revenue – short-term loyalty programs—Generally, for short-term loyalty programs, revenue is deferred until the consumer has redeemed the product from the retailer.

Finance charges, net—Finance charges, net represents revenue earned on customer accounts serviced by the Company, and is recognized in the period in which it is earned. The Company recognizes earned finance charges, interest income and fees on credit card and loan receivables in accordance with the contractual provisions of the credit arrangements. As discussed in Note 4, "Credit Card and Loan Receivables," interest and fees continue to accrue 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. Charge-offs for unpaid interest and fees as well as any adjustments to the allowance associated with unpaid interest and fees are recorded as a reduction to finance charges, net. Pursuant to ASC 310-20, "Receivables - Nonrefundable Fees and Other Costs," direct loan origination costs on credit card and loan receivables are deferred and amortized on a straight-line basis over a one-year period and recorded as a reduction to finance charges, net. As of December 31, 2016 and 2015, the remaining unamortized deferred costs related to loan origination were $47.0 million and $44.5 million, respectively.

Marketing services—For maintenance and service programs, revenue is recognized as services are provided. Revenue associated with a new database build is deferred until client acceptance. Upon acceptance, it is then recognized over the term of the related agreement as the services are provided. Revenues from the licensing of data are recognized upon delivery of the data to the customer in circumstances where no update or other obligations exist. Revenue from the licensing of data for which the Company is obligated to provide future updates is recognized on a straight-line basis over the license term.

Revenue from agency and creative services are typically billed based on time and materials or at a fixed price. If billed at a fixed price, revenue is recognized either on a proportional performance or completed contract basis as the services specified in the arrangement are performed or completed, respectively. The determination of proportional performance versus completed contract revenue recognition is dependent on the nature of the services specified in the arrangement.

The Company generates revenue from commission fees from transactions occurring on the Company's affiliate marketing networks. Commission fee revenue is recognized on a net basis as the Company acts as an agent.

Taxes assessed on revenue-producing transactions described above are presented on a net basis, and are excluded from revenues.

Earnings Per Share—Basic earnings per share is based only on the weighted average number of common shares outstanding, excluding any dilutive effects of options or other dilutive securities. Diluted earnings per share are based on the weighted average number of common and potentially dilutive common shares (dilutive stock options, unvested restricted stock and other dilutive securities outstanding during the year).

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

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

	Years Ended December 31,		
	2016	2015	2014
	(In millions, except per share amounts)		
Numerator:			
Net income attributable to common stockholders	$ 515.8	$ 596.5	$ 506.3
Less: Accretion of redeemable non-controlling interest	83.5	45.0	14.7
Net income attributable to common stockholders after accretion of redeemable non-controlling interest	$ 432.3	$ 551.5	$ 491.6
Denominator:			
Weighted average shares, basic	58.6	61.9	56.4
Weighted average effect of dilutive securities:			
Shares from assumed conversion of convertible senior notes	—	—	2.1
Shares from assumed exercise of convertible note warrants	—	—	3.4
Net effect of dilutive stock options and unvested restricted stock	0.3	0.4	0.5
Denominator for diluted calculation	58.9	62.3	62.4
Net income attributable to common stockholders per share:			
Basic	$ 7.37	$ 8.91	$ 8.72
Diluted	$ 7.34	$ 8.85	$ 7.87

See Note 15, "Redeemable Non-Controlling Interest," for additional information regarding accretion of the redeemable non-controlling interest.

The Company calculated the effect of its convertible senior notes on diluted net income per share as if they would be settled in cash as the Company had the intent to settle the convertible senior notes for cash. The convertible senior notes were settled with cash upon maturity in May 2014.

For the year ended December 31, 2016, approximately 0.2 million restricted stock units were excluded from the calculation of weighted average dilutive common shares as the effect would have been anti-dilutive. There were no anti-dilutive shares excluded from the calculation of weighted average dilutive common shares for each of the years ended December 31, 2015 and 2014.

Currency Translation—The assets and liabilities of the Company's subsidiaries outside the U.S. are translated into U.S. dollars at the rates of exchange in effect at the balance sheet dates, primarily from Canadian dollars and Euros. Income and expense items are translated at the average exchange rates prevailing during the period. Gains and losses resulting from currency transactions are recognized currently in income and those resulting from translation of financial statements are included in accumulated other comprehensive income (loss). The Company recognized $1.9 million, $6.3 million and $12.0 million in foreign currency transaction gains for the years ended December 31, 2016, 2015 and 2014, respectively.

Leases —Rent expense on operating leases is recorded on a straight-line basis over the term of the lease agreement and includes executory costs.

Advertising Costs—The Company participates in various advertising and marketing programs, including collaborative arrangements with certain clients. The cost of advertising and marketing programs is expensed in the period incurred. The Company has recognized advertising and marketing expenses, including on behalf of its clients, of $277.0 million, $251.0 million and $239.5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Stock Compensation Expense—The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized ratably over the requisite service period.

Management Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued 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. Management is currently in the process of evaluating ASU 2014-09, including the expected impact on the Company’s business processes, systems and controls, and potential differences in the timing and/or method of revenue recognition for the Company’s contracts. Management has reviewed representative samples of contracts and other forms of agreements with the Company’s customers in both U.S. and international locations and is evaluating the provisions contained therein and applied the five-step model specified by the new guidance. That five-step model includes: (1) determination of whether a contract, an agreement between two or more parties that creates legally enforceable rights and obligations, exists; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when (or as) the performance obligation is satisfied. The Company has not yet determined the impact of this standard on its financial statements or whether it will adopt on a prospective or retrospective basis.

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 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.

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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 does not expect the adoption of this new guidance in fiscal 2017 to materially impact its reported provision for income taxes and cash flows from operating activities; however, the impact is dependent upon the underlying vesting or exercise activity and related future stock prices. Further, the Company will continue to estimate forfeitures at each grant date.

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.

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 will make eight targeted changes on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, “Restricted Cash.” ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flow. ASU 2016-18 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company plans to adopt this standard on January 1, 2018, and the standard will result in changes to its consolidated statements of cash flows such that restricted cash amounts will be included in the beginning-of-period and end-of-period cash and cash equivalents totals.

Recently Adopted Accounting Standards

In February 2015, the FASB issued ASU 2015-02, “Amendments to the Consolidation Analysis,” which amended the consolidation requirements in ASC 810, “Consolidation.” ASU 2015-02 makes targeted amendments to the current consolidation guidance for VIEs. 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. The Company adopted this standard as of January 1, 2016. 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. 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.

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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. 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 adjusted.

3. ACQUISITIONS

2015 Acquisitions:

Edison International Concept & Agencies B.V. and Max Holding B.V.

On August 31, 2015, BrandLoyalty acquired all of the stock of Edison International Concept & Agencies B.V. ("Edison") and Max Holding B.V. ("Merison"), two Netherlands-based loyalty marketers, for cash consideration of approximately $45.4 million, net of $2.2 million of cash and cash equivalents acquired. The acquisition expands BrandLoyalty's short-term loyalty programs into new markets and introduces new brands to existing markets. Total net assets acquired were $61.4 million, including $6.7 million of intangible assets and $34.7 million of goodwill, with total liabilities assumed of $16.0 million. The goodwill resulting from the acquisition is not deductible for tax purposes. The results of Edison and Merison have been included since the date of acquisition and are reflected in the Company's LoyaltyOne segment.

2014 Acquisitions:

Brand Loyalty Group B.V.

On January 2, 2014, the Company acquired a 60% ownership interest in BrandLoyalty Group B.V. ("BrandLoyalty"), a Netherlands-based, data-driven loyalty marketer. BrandLoyalty designs, organizes, implements and evaluates innovative and tailor-made loyalty programs for food retailers worldwide. The acquisition expanded the Company's presence across Europe, Asia and Latin America. The initial cash consideration was approximately $259.5 million in addition to the assumption of debt. The goodwill resulting from the acquisition was not deductible for tax purposes. The results of BrandLoyalty have been included since the date of acquisition and are reflected in the Company's LoyaltyOne segment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

The following table summarizes the allocation of consideration and the respective fair values of the assets acquired and liabilities assumed in the BrandLoyalty acquisition as of the date of purchase:

	As of January 2, 2014 (In millions)
Current assets, net of cash acquired	$ 246.8
Deferred tax asset	3.5
Property and equipment	19.7
Other non-current assets	4.0
Intangible assets	423.8
Goodwill	565.0
Total assets acquired	1,262.8
Current liabilities	146.6
Current portion of long-term debt	34.2
Deferred tax liability	105.5
Long-term debt (net of current portion)	126.3
Other non-current liabilities	0.1
Total liabilities assumed	412.7
Redeemable non-controlling interest	341.9
Net assets acquired	$ 508.2

The Company also recorded a liability for the earn-out provisions included in the BrandLoyalty share purchase agreement of €181.9 million ($248.7 million as of January 2, 2014), which was included in the Company's consolidated balance sheet. The liability was measured at fair value on the date of purchase and subsequent changes in the fair value of the liability of €87.6 million ($105.9 million at December 31, 2014) were included in operating expenses in the Company's consolidated statements of income. This earn-out obligation was not deductible for tax purposes.

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

The specified annual earnings target was met for the year ended December 31, 2014 and the Company acquired an additional 10% ownership interest and increased its ownership in BrandLoyalty to 70% effective January 1, 2015. In February 2015, the Company paid €269.9 million to settle the contingent consideration associated with the Company's 60% ownership interest and €77.2 million for the acquisition of the Company's additional 10% ownership interest in BrandLoyalty that was effective on January 1, 2015 ($305.5 million and $87.4 million on February 10, 2015, respectively).

The specified annual earnings target was met for the year ended December 31, 2015 and the Company acquired an additional 10% ownership interest and increased its ownership in BrandLoyalty to 80% effective January 1, 2016. In February 2016, the Company paid €91.1 million for the acquisition of the Company's additional 10% ownership interest in BrandLoyalty that was effective on January 1, 2016 ($102.0 million on February 8, 2016).

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

See Note 15, "Redeemable Non-Controlling Interest," for more information.

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Conversant, Inc.

On December 10, 2014, the Company completed the acquisition of 100% of the common stock of Conversant, Inc. ("Conversant"), a digital marketing services company offering unique end-to-end digital marketing solutions that empower clients to more effectively market to their customers across all channels.

The results of Conversant have been included since the date of acquisition and are reflected in the Company's Epsilon segment. The addition of Conversant provided scale in display, mobile, video, and social digital channels, and added important capabilities to Epsilon's digital messaging platform, Agility Harmony®. The addition of Conversant's Common ID initiative, which is able to recognize individuals across devices (desktop, tablet, mobile), as well as the ability to insource all digital capabilities, enhanced Agility Harmony. Conversant's data also enriched the Company's existing offline and online data set, allowing for more effective targeted marketing programs. The goodwill recognized was attributable to expected synergies and the assembled workforce. The goodwill resulting from the acquisition was not deductible for tax purposes.

The Company paid total consideration of approximately $2.3 billion, with cash consideration of approximately $936.3 million, net of cash acquired and equity consideration of $1.3 billion with the issuance of 4.6 million shares and the exchange of certain restricted stock awards and stock options. The cash and equity consideration paid and issued were determined in accordance with the terms of the merger agreement, with the value based on the volume weighted average price per share of the Company's common stock for the consecutive period of 15 trading days ending on the close of trading on the second trading day immediately preceding the closing of the merger. The following table summarizes the allocation of the consideration and the respective fair values of the assets acquired and liabilities assumed in the Conversant acquisition as of the date of purchase:

	As of December 10, 2014 (In millions)
Current assets, net of cash acquired	$ 180.0
Deferred tax asset	11.9
Property and equipment	25.6
Developed technology	182.5
Other non-current assets	1.7
Intangible assets	755.6
Goodwill	1,650.3
Total assets acquired	2,807.6
Current liabilities	177.6
Deferred tax liability	344.1
Other non-current liabilities	26.9
Total liabilities assumed	548.6
Net assets acquired	$ 2,259.0

The following table presents the Company's unaudited pro forma consolidated revenue and net income for the year ended December 31, 2014. The unaudited pro forma results include the historical consolidated statements of income of the Company and Conversant, giving effect to the Conversant acquisition and related financing transactions as if they had occurred on January 1, 2013.

	Year Ended December 31, 2014 (In millions)
Total revenue	$ 5,853.5
Net income	$ 528.9

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

The unaudited pro forma results are not necessarily indicative of the operating results that would have occurred if the Conversant acquisition had been completed as of the date for which the unaudited pro forma financial information is presented. The unaudited pro forma financial information for the year ended December 31, 2014 includes adjustments that are directly related to the acquisition, factually supportable, and expected to have a continuing impact. These adjustments include, but are not limited to, amortization related to fair value adjustments to intangible assets and interest expense on acquisition-related debt. The unaudited pro forma financial information for the year ended December 31, 2014 was also adjusted to exclude $44.1 million of acquisition costs, which primarily consist of advisory, legal, accounting, valuation and other professional or consulting fees.

4. 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:

	December 31, 2016	December 31, 2015
	(In millions)	
Principal receivables	$ 15,754.0	$ 13,196.4
Billed and accrued finance charges	708.6	537.8
Other	81.3	65.3
Total credit card and loan receivables	16,543.9	13,799.5
Less: Credit card receivables – restricted for securitization investors	11,437.1	10,592.4
Other credit card and loan receivables	$ 5,106.8	$ 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.

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

	Years Ended December 31,		
	2016	2015	2014
		(In millions)	
Balance at beginning of year	$ 741.6	$ 570.2	$ 503.2
Provision for loan loss	940.5	668.2	425.2
Allowance associated with credit card and loan receivables transferred to held for sale	(31.1)	—	—
Change in estimate for uncollectible unpaid interest and fees	20.0	15.5	12.5
Recoveries	255.5	198.3	178.4
Principal charge-offs	(978.5)	(710.6)	(549.1)
Balance at end of year	$ 948.0	$ 741.6	$ 570.2

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.

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The Company records the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. For the years ended December 31, 2016, 2015 and 2014, actual charge-offs for unpaid interest and fees were $511.7 million, $374.3 million and $302.7 million, 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:

	December 31, 2016	% of Total	December 31, 2015	% of Total
	(In millions, except percentages)			
Receivables outstanding - principal	$ 15,754.0	100.0 %	$ 13,196.4	100.0 %
Principal receivables balances contractually delinquent:				
31 to 60 days	249.8	1.6 %	178.5	1.4 %
61 to 90 days	169.3	1.1	124.1	0.9
91 or more days	337.8	2.1	257.0	1.9
Total	$ 756.9	4.8 %	$ 559.6	4.2 %

The practice of re-aging an account may affect credit card loan delinquencies and charge-offs. A re-age is intended to assist delinquent cardholders who have experienced financial difficulties but who demonstrate both an ability and willingness to repay the amounts due. Accounts meeting specific defined criteria are re-aged when the cardholder makes one or more consecutive payments aggregating a certain pre-defined amount of their account balance. With re-aging, the outstanding balance of a delinquent account is returned to a current status. For the years ended December 31, 2016, 2015 and 2014, the Company's re-aged accounts represented 1.4%, 1.3% and 1.2%, respectively, of total credit card and loan receivables for each period and thus do not have a significant impact on the Company's delinquencies or net charge-offs. The Company's re-aging practices comply with regulatory guidelines.

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

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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 $216.5 million and $169.2 million, respectively, as a recorded investment in impaired credit card receivables with an associated allowance for loan loss of $46.4 million and $36.7 million, respectively, as of December 31, 2016 and 2015. These modified credit card receivables represented less than 2% of the Company's total credit card receivables as of both December 31, 2016 and 2015. The average recorded investment in the impaired credit card receivables was $192.3 million and $147.0 million for the years ended December 31, 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 $18.9 million, $14.8 million and $13.2 million for the years ended December 31, 2016, 2015 and 2014, respectively, in interest income associated with modified credit card receivables during the period that such credit card receivables were impaired.

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

	Year Ended December 31, 2016			Year Ended December 31, 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)			(Dollars in millions)		
Troubled debt restructurings – credit card receivables	204,002	$ 246.0	$ 245.7	170,413	$ 186.6	$ 186.5

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:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in millions)		(Dollars in millions)	
Troubled debt restructurings that subsequently defaulted – credit card receivables	102,598	$ 114.7	79,478	$ 82.4

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Age of Credit Card and Loan Receivable Accounts

The following tables set forth, as of December 31, 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:

	December 31, 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	7.3	28.5 %	$ 3,896.9	24.8 %
13-24 Months	4.1	15.8	2,618.2	16.6
25-36 Months	3.0	11.6	2,050.8	13.0
37-48 Months	2.0	8.0	1,436.8	9.1
49-60 Months	1.5	5.9	1,021.7	6.5
Over 60 Months	7.7	30.2	4,729.6	30.0
Total	25.6	100.0 %	$ 15,754.0	100.0 %

	December 31, 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	6.5	28.2 %	$ 3,337.2	25.3 %
13-24 Months	3.7	15.9	2,202.0	16.7
25-36 Months	2.4	10.6	1,501.9	11.4
37-48 Months	1.8	7.7	1,070.3	8.1
49-60 Months	1.3	5.7	803.6	6.1
Over 60 Months	7.4	31.9	4,281.4	32.4
Total	23.1	100.0 %	$ 13,196.4	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 ongoing 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 the composition of the Company's credit card and loan receivables by obligor credit quality as of December 31, 2016 and 2015:

	December 31, 2016		December 31, 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	$ 183.8	1.2 %	$ 164.6	1.2 %
27.1% and higher	1,168.0	7.4	1,248.3	9.5
17.1% - 27.0%	761.1	4.8	795.4	6.0
12.6% - 17.0%	820.9	5.2	1,042.4	7.9
3.7% - 12.5%	5,770.8	36.6	5,942.2	45.0
1.9% - 3.6%	3,444.9	21.9	1,736.1	13.2
Lower than 1.9%	3,604.5	22.9	2,267.4	17.2
Total	$ 15,754.0	100.0 %	$ 13,196.4	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 $67.6 million and $61.5 million at December 31, 2016 and 2015, respectively, and are included in credit card and loan receivables held for sale in the Company's 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 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 years ended December 31, 2016 and 2015, the Company purchased $368.0 and $328.2 million of loan receivables under these agreements, respectively. The outstanding balance of these loan receivables was $282.6 million and $222.6 million as of December 31, 2016 and 2015, respectively, and was included in other credit card and loan receivables in the Company's 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, and were $349.7 million and $34.0 million as of December 31, 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 was the measurement basis until the portfolios were sold in December 2016. The Company recognized a $9.6 million gain on the transaction.

In December 2016, the Company transferred two credit card portfolios totaling approximately $332.8 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 $16.1 million, which approximates the lower of cost or fair value and which will be the measurement basis until the sale of the portfolios.

Additionally, in June 2016, the Company sold one credit card portfolio previously classified as held for sale and recognized a $0.5 million loss on the transaction. In June 2015, the Company sold one credit card portfolio previously classified as held for sale and recognized a de minimis gain.

Portfolio Acquisitions

During the year ended December 31, 2016, the Company acquired five credit card portfolios for cash consideration of $1.0 billion, which consisted of approximately $913.2 million of credit card receivables, $102.3 million of intangible assets and a rewards liability of $7.4 million.

During the year ended December 31, 2015, the Company acquired an existing co-brand credit card portfolio for cash consideration of $243.2 million, which consisted of approximately $223.3 million of credit card receivables and $19.9 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 WFN Trusts and 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 consolidated statements of income for the years ended December 31, 2016, 2015 and 2014.

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.

During the initial phase of a securitization reinvestment period, the Company generally retains principal collections in exchange for the transfer of additional credit card receivables into the securitized pool of assets. During the amortization or accumulation period of a securitization, the investors' share of principal collections (in certain cases, up to a maximum specified amount each month) is either distributed to the investors or held in an account until it accumulates to the total amount due, at which time it is paid to the investors in a lump sum.

The Company is required to maintain minimum interests ranging from 4% to 10% of the securitized credit card receivables. This requirement is met through seller's interest, which is eliminated in the consolidated balance sheets, and is supplemented through excess funding deposits. Excess funding deposits represent cash amounts deposited with the trustee of the securitizations.

Cash collateral, restricted deposits are generally released proportionately as investors are repaid, although some cash collateral, restricted deposits are released only when investors have been paid in full. None of the cash collateral, restricted deposits were required to be used to cover losses on securitized credit card receivables in the years ended December 31, 2016, 2015 and 2014, respectively.

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

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

	December 31, 2016	December 31, 2015
	(In millions)	
Total credit card receivables – restricted for securitization investors	$ 11,437.1	$ 10,592.4
Principal amount of credit card receivables – restricted for securitization investors, 91 days or more past due	$ 236.5	$ 198.8

	Years Ended December 31, 2016	2015	2014
	(In millions)		
Net charge-offs of securitized principal	$ 583.8	$ 407.4	$ 317.9

5. INVENTORIES, NET

Inventories, net of $271.3 million and $228.0 million at December 31, 2016 and 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.

6. OTHER INVESTMENTS

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

	December 31, 2016				December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In millions)							
Marketable securities	$ 124.5	$ 0.2	$ (2.4)	$ 122.3	$ 121.5	$ 0.4	$ (1.7)	$ 120.2
U.S. Treasury bonds	75.0	0.3	—	75.3	100.1	0.2	(0.1)	100.2
Total	$ 199.5	$ 0.5	$ (2.4)	$ 197.6	$ 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 December 31, 2016 and 2015, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	December 31, 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	$ 75.3	$ (2.0)	$ 12.4	$ (0.4)	$ 87.7	$ (2.4)
Total	$ 75.3	$ (2.0)	$ 12.4	$ (0.4)	$ 87.7	$ (2.4)

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

	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 December 31, 2016 by contractual maturity are as follows:

	Amortized Cost	Fair Value
	(In millions)	
Due in one year or less	$ 31.8	$ 31.6
Due after one year through five years	50.0	50.3
Due after five years through ten years	3.6	3.6
Due after ten years	114.1	112.1
Total	$ 199.5	$ 197.6

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 December 31, 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 years ended December 31, 2016, 2015 and 2014.

7. 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:

	December 31, 2016				December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In millions)							
Restricted cash	$ 58.1	$ —	$ —	$ 58.1	$ 270.3	$ —	$ —	$ 270.3
Mutual funds	25.7	—	(0.2)	25.5	25.2	—	(0.3)	24.9
Corporate bonds	241.0	0.4	(0.6)	240.8	160.4	1.1	(0.1)	161.4
Total	$ 324.8	$ 0.4	$ (0.8)	$ 324.4	$ 455.9	$ 1.1	$ (0.4)	$ 456.6

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

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

	December 31, 2016					
	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	$ 25.5	$ (0.2)	$ —	$ —	$ 25.5	$ (0.2)
Corporate bonds	111.2	(0.6)	—	—	111.2	(0.6)
Total	$ 136.7	$ (0.8)	$ —	$ —	$ 136.7	$ (0.8)

	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 December 31, 2016 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$ 96.3	$ 96.3
Due after one year through five years	170.4	170.0
Total	$ 266.7	$ 266.3

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 December 31, 2016, the Company does not consider the investments to be other-than-temporarily impaired.

For the year ended December 31, 2016, the Company recognized a de minimis gain on the sale of investment securities. There were no realized gains or losses from the sale of investment securities for the years ended December 31, 2015 and 2014.

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

8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2016	December 31, 2015
	(In millions)	
Computer software and development	$ 739.8	$ 662.5
Furniture and equipment	342.5	309.3
Land, buildings and leasehold improvements	140.7	107.1
Capital leases	6.8	—
Construction in progress	74.6	80.2
Total	1,304.4	1,159.1
Accumulated depreciation	(718.4)	(582.4)
Property and equipment, net	$ 586.0	$ 576.7

Depreciation expense totaled $97.7 million, $86.1 million and $67.1 million for the years ended December 31, 2016, 2015 and 2014, respectively, and includes purchased software and amortization of capital leases. Amortization expense on capitalized software totaled $104.9 million, $94.6 million and $48.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

As of December 31, 2016 and 2015, the net amount of unamortized capitalized software costs included in the consolidated balance sheets was $243.5 million and $272.8 million, respectively.

9. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	December 31, 2016 Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
	(In millions)			
Finite Lived Assets				
Customer contracts and lists	$ 1,108.6	$ (451.8)	$ 656.8	3-12 years—straight line
Premium on purchased credit card portfolios	357.3	(172.3)	185.0	3-13 years—straight line
Customer database	63.6	(43.7)	19.9	3 years—straight line
Collector database	52.1	(49.7)	2.4	30 years—15% declining balance
Publisher networks	140.2	(56.8)	83.4	5-7 years—straight line
Tradenames	83.5	(49.4)	34.1	3-15 years—straight line
Purchased data lists	11.6	(6.2)	5.4	1-5 years—straight line, accelerated
Favorable lease	6.9	(3.0)	3.9	3-10 years—straight line
	$ 1,823.8	$ (832.9)	$ 990.9	
Indefinite Lived Assets				
Tradenames	12.4	—	12.4	Indefinite life
Total intangible assets	$ 1,836.2	$ (832.9)	$ 1,003.3	

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

	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 databases	210.3	(163.1)	47.2	3-10 years—straight line
Collector database	50.5	(47.7)	2.8	30 years—15% declining balance
Publisher networks	140.2	(29.2)	111.0	5-7 years—straight line
Tradenames	84.8	(44.1)	40.7	2-15 years—straight line
Purchased data lists	11.9	(6.4)	5.5	1-5 years—straight line, accelerated
Favorable lease	6.9	(1.9)	5.0	3-10 years—straight line
Noncompete agreements	1.3	(1.3)	—	3 years—straight line
	$ 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 year ended December 31, 2016, the Company acquired $102.3 million of intangible assets, consisting of $31.3 million of customer relationships being amortized over a weighted average life of 3.0 years and $71.0 million of marketing relationships being amortized over a weighted average life of 9.3 years.

In June 2016, BrandLoyalty acquired a tradename for €8.0 million ($8.4 million on December 31, 2016), with an estimated life of 8.0 years.

With the credit card portfolio acquisition made during the year ended December 31, 2015, the Company acquired $19.9 million of intangible assets, consisting of $13.1 million of customer relationships being amortized over a weighted average life of 3.5 years and $6.8 million of marketing relationships being amortized over a weighted average life of 7.0 years.

With the Edison and Merison acquisition on August 31, 2015, the Company acquired $6.7 million of intangible assets related to customer contracts, which are being amortized over a weighted average life of 3.0 years.

For more information on this business acquisition, see Note 3, “Acquisitions,” and for more information on these portfolio acquisitions, see Note 4, “Credit Card and Loan Receivables.”

Amortization expense related to the intangible assets was approximately $309.5 million, $311.4 million and $197.8 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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)
2017	$ 268.2
2018	228.8
2019	191.1
2020	136.4
2021	70.4
Thereafter	96.0

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2016 and 2015, respectively, are as follows:

	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Total
			(In millions)		
Balance at December 31, 2014	$ 713.5	$ 2,890.3	$ 261.7	$ —	$ 3,865.5
Goodwill acquired during year	34.7	—	—	—	34.7
Effects of foreign currency translation	(84.7)	(1.4)	—	—	(86.1)
Balance at December 31, 2015	663.5	2,888.9	261.7	—	3,814.1
Goodwill acquired during year	—	—	—	—	—
Effects of foreign currency translation	(10.2)	(3.2)	—	—	(13.4)
Balance at December 31, 2016	$ 653.3	$ 2,885.7	$ 261.7	$ —	$ 3,800.7

For the year ended December 31, 2015, $34.7 million of goodwill resulted from the acquisition of Edison and Merison in August 2015. See Note 3, “Acquisitions,” for additional information.

The Company completed annual impairment tests for goodwill on July 31, 2016, 2015 and 2014 and determined at each date that no impairment exists. No further testing of goodwill impairments will be performed until July 31, 2017, unless events occur or circumstances indicate an impairment is probable.

10. ACCRUED EXPENSES

Accrued expenses consist of the following:

	December 31, 2016	December 31, 2015
	(In millions)	
Accrued payroll and benefits	$ 193.6	$ 193.1
Accrued taxes	25.3	102.9
Accrued other liabilities	127.9	270.5
Accrued expenses	$ 346.8	$ 566.5

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

11. DEBT

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

Description	December 31, 2016	December 31, 2015	Maturity	Interest Rate
	(Dollars in millions)			
Long-term and other debt:				
Revolving line of credit	$ 235.0	$ 465.0	July 2018 or December 2019	(1)
Term loans	2,837.3	2,703.8	Various (2)	(1)
BrandLoyalty credit agreement	254.3	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 2021	500.0	—	November 2021	5.875%
Senior notes due 2022	600.0	600.0	August 2022	5.375%
Senior notes due 2023 (€300.0 million)	315.5	325.8	November 2023	5.250%
Capital lease obligations and other debt	6.0	—	Various – January 2019 – November 2019	2.89% to 3.10%
Total long-term and other debt	5,648.1	5,064.3		
Less: Unamortized discount and debt issuance costs	46.7	46.9		
Less: Current portion	814.5	369.4		
Long-term portion	$ 4,786.9	$ 4,648.0		
Deposits:				
Certificates of deposit	$ 5,937.9	$ 4,252.0	Various – January 2017 – November 2021	0.60% to 2.80%
Money market deposits	2,474.3	1,370.3	On demand	(4)
Total deposits	8,412.2	5,622.3		
Less: Unamortized discount and debt issuance costs	20.3	16.4		
Less: Current portion	4,673.0	2,980.3		
Long-term portion	$ 3,718.9	$ 2,625.6		
Non-recourse borrowings of consolidated securitization entities:				
Fixed rate asset-backed term note securities	$ 4,262.5	$ 3,458.2	Various – May 2017 – June 2021	1.26% to 4.55%
Floating rate asset-backed term note securities	360.0	810.0	April 2018	(5)
Conduit asset-backed securities	2,345.0	2,225.0	Various - May 2017 – November 2018	(6)
Total non-recourse borrowings of consolidated securitization entities	6,967.5	6,493.2		
Less: Unamortized discount and debt issuance costs	12.1	10.5		
Less: Current portion	1,639.0	1,049.3		
Long-term portion	$ 5,316.4	$ 5,433.4		

(1) The interest rate is based upon the London Interbank Offered Rate ("LIBOR") plus an applicable margin. At December 31, 2016, the weighted average interest rate was 2.77% for each of the revolving line of credit and 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 December 31, 2016, the weighted average interest rate was 1.18% and 1.85% for the BrandLoyalty revolving line of credit and 2013 term loans.

(4) The interest rates are based on the Federal Funds rate plus an applicable margin. At December 31, 2016, the interest rates ranged from 0.51% to 2.37%.

(5) The interest rates are based upon LIBOR plus an applicable margin. At December 31, 2016, the interest rate was 1.18%.

(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 December 31, 2016, the interest rates ranged from 1.86% to 1.96%.

At December 31, 2016, the Company was in compliance with its financial covenants.

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

Long-term and Other Debt

Credit Agreement

The Company, 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, are parties to a credit agreement with various agents and lenders (the "Credit Agreement"). As of December 31, 2015, the Credit Agreement provided for term loans in the aggregate principal amount of $2.85 billion (the "term loans") and a $1.3 billion revolving line of credit (the "revolving line of credit") with a U.S. $65.0 million sublimit for Canadian dollar borrowings and a $65.0 million sublimit for swing line loans, as well as an uncommitted accordion feature of up to $500.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions. The term loans, as amended, provide for aggregate principal payments of approximately 5% throughout the duration of the term, payable in equal quarterly installments, and bear interest at the same rates and are generally subject to the same terms as the existing term loans under the Credit Agreement.

In April 2016, 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.

As of December 31, 2016, the Credit Agreement provided for $3.1 billion in term loans subject to certain principal repayments and a $1.3 billion revolving line of credit with $1.1 billion total availability.

The Credit Agreement, as amended, is unsecured.

Advances under the Credit Agreement, as amended, are in the form of either U.S. dollar-denominated or Canadian dollar-denominated base rate loans or U.S. dollar-denominated eurodollar loans. The interest rate for base rate loans denominated in U.S. dollars fluctuates and is equal to the highest of (i) Wells Fargo's prime rate (ii) the Federal funds rate plus 0.5% and (iii) LIBOR as defined in the Credit Agreement, as amended, plus 1.0%, in each case plus a margin of 0.25% to 1.0% based upon the Company's total leverage ratio as defined in the Credit Agreement, as amended. The interest rate for base rate loans denominated in Canadian dollars fluctuates and is equal to the higher of (i) Wells Fargo's prime rate for Canadian dollar loans and (ii) the Canadian Dollar Offered Rate plus 1.0%, in each case plus a margin of 0.25% to 1.0% based upon the Company's total leverage ratio as defined in the Credit Agreement, as amended. The interest rate for eurodollar loans fluctuates based on the rate at which deposits of U.S. dollars in the London interbank market are quoted plus a margin of 1.25% to 2.0% based on the Company's total leverage ratio as defined in the Credit Agreement, as amended.

The Credit Agreement, as amended, contains the usual and customary negative covenants for transactions of this type, including, but not limited to, restrictions on the Company's ability and in certain instances, its subsidiaries' ability to consolidate or merge; substantially change the nature of its business; sell, lease, or otherwise transfer any substantial part of its assets; create or incur indebtedness; create liens; pay dividends; and make acquisitions. The negative covenants are subject to certain exceptions as specified in the Credit Agreement as amended. The Credit Agreement, as amended, also requires the Company to satisfy certain financial covenants, including a maximum total leverage ratio as determined in accordance with the Credit Agreement, as amended, and a minimum ratio of consolidated operating EBITDA to consolidated interest expense as determined in accordance with the Credit Agreement, as amended. The Credit Agreement, as amended, also includes customary events of default.

BrandLoyalty Credit Agreement

BrandLoyalty and certain of its subsidiaries, as borrower and guarantors, were parties to a credit agreement that provided for a committed revolving line of credit of €62.5 million and an uncommitted revolving line of credit of €62.5 million, both of which were scheduled to mature in August 2018.

In June 2016, BrandLoyalty amended and restated this existing 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 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 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 credit agreement are denominated in Euros. The interest rate fluctuates and is equal to EURIBOR, as defined in the credit agreement, plus an applicable margin based on BrandLoyalty's senior net leverage ratio. The 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 December 31, 2016, amounts outstanding under the revolving line of credit and the term loans under the credit agreement were €66.9 million, of which €33.1 million was uncommitted, and €175.0 million ($70.3 million and $184.0 million), respectively.

Senior Notes

The senior notes set forth below are each governed by their respective indenture that includes usual and customary negative covenants and events of default for transactions of these types. These senior notes are unsecured and are guaranteed on a senior unsecured basis by certain of the Company's existing and future domestic subsidiaries that guarantee its Credit Agreement, as amended, as described above.

Due 2017

In November 2012, the Company issued and sold $400.0 million aggregate principal amount of 5.250% senior notes due December 1, 2017 (the "Senior Notes due 2017") at an issue price of 98.912% of the aggregate principal amount. The Senior Notes due 2017 accrue interest on the principal amount at the rate of 5.250% per annum from November 20, 2012, payable semiannually in arrears, on June 1 and December 1 of each year, beginning on June 1, 2013. The unamortized discount was $0.9 million and $1.8 million at December 31, 2016 and December 31, 2015, respectively. The discount is being amortized using the effective interest method over the remaining life of the Senior Notes due 2017 which, at December 31, 2016, is a period of 0.9 years at an effective annual interest rate of 5.5%.

Due 2020

In March 2012, the Company issued and sold $500.0 million aggregate principal amount of 6.375% senior notes due April 1, 2020 (the "Senior Notes due 2020"). The Senior Notes due 2020 accrue interest on the principal amount at the rate of 6.375% per annum from March 29, 2012, payable semiannually in arrears, on April 1 and October 1 of each year, beginning on October 1, 2012.

Due 2021

In October 2016, the Company issued and sold $500.0 million aggregate principal amount of 5.875% senior notes due November 1, 2021 (the "Senior Notes due 2021"). The Senior Notes due 2021 accrue interest on the principal amount at the rate of 5.875% per annum from October 27, 2016, payable semiannually in arrears, on May 1 and November 1 of each year, beginning on May 1, 2017.

Due 2022

In July 2014, the Company issued and sold $600.0 million aggregate principal amount of 5.375% senior notes due August 1, 2022 (the "Senior Notes due 2022"). The Senior Notes due 2022 accrue interest on the principal amount at the rate of 5.375% per annum from July 29, 2014, payable semi-annually in arrears, on February 1 and August 1 of each year, beginning on February 1, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Due 2023

In November 2015, the Company issued and sold €300.0 million aggregate principal amount of 5.25% senior notes due November 15, 2023 (the "Senior Notes due 2023"). The Senior Notes due 2023 accrue interest on the principal amount at the rate of 5.25% per annum from November 19, 2015, payable semiannually in arrears, on May 15 and November 15 of each year, beginning on May 15, 2016. The amount outstanding under the Senior Notes due 2023 was €300.0 million ($315.5 million) as of December 31, 2016. The Senior Notes due 2023 were admitted for listing on the Official List of the Irish Stock Exchange and for trading on the Global Exchange Market, effective January 18, 2016.

Deposits

Comenity Bank and Comenity Capital Bank issue certificates of deposit in denominations of at least $100,000 and $1,000, respectively, in various maturities ranging between January 2017 and November 2021 and with effective annual interest rates ranging from 0.60% to 2.80%, with a weighted average interest rate of 1.54%, at December 31, 2016. At December 31, 2015, interest rates ranged from 0.43% to 2.80%, with a weighted average interest rate of 1.54%. Interest is paid monthly and at maturity.

Comenity Bank and Comenity Capital Bank offer demand deposit programs through contractual arrangements with securities brokerage firms. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date. As of December 31, 2016, Comenity Bank and Comenity Capital Bank had $2.5 billion in money market deposits outstanding with annual interest rates ranging from 0.51% to 2.37%, with a weighted average interest rate of 1.05%. As of December 31, 2015, Comenity Bank and Comenity Capital Bank had $1.4 billion in money market deposits outstanding with annual interest rates ranging from 0.22% to 0.66%, with a weighted average interest rate of 0.56%.

Non-Recourse Borrowings of Consolidated Securitization Entities

An asset-backed security is a security whose value and income payments are derived from and collateralized (or "backed") by a specified pool of underlying assets. The sale of the pool of underlying assets to general investors is accomplished through a securitization process. The Company regularly sells its credit card receivables to its credit card securitization trusts, the WFN Trusts and the WFC Trust, which are consolidated on the balance sheets of the Company under ASC 860 and ASC 810. The liabilities of the consolidated VIEs include asset-backed securities for which creditors or beneficial interest holders do not have recourse to the general credit of the Company.

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 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 consolidated balance sheets, matured and were repaid.

In July 2016, Master Trust I issued $866.7 million of Series 2016-A 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 consolidated balance sheets.

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

In October 2016, $126.6 million of Series 2011-B asset-backed term notes, $26.6 million of which were retained by the Company and eliminated from the Company's consolidated balance sheets, matured and were repaid.

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

Conduit Facilities

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

In November 2016, the WFC Trust renewed its 2009-VFN conduit facility, increasing the capacity from $1.05 billion to $1.4 billion and extending the maturity to November 1, 2018.

In December 2016, Master Trust I amended its 2009-VFN conduit facility, extending the maturity to November 30, 2018.

As of December 31, 2016, total capacity under the conduit facilities was $3.0 billion, of which $2.3 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the consolidated balance sheets. Borrowings outstanding under each facility bear interest at a margin above LIBOR or the asset-backed commercial paper costs of each individual conduit provider. The conduits have varying maturities from May 2017 to November 2018 with variable interest rates ranging from 1.86% to 1.96% as of December 31, 2016.

Maturities

The future principal payments for the Company's debt as of December 31, 2016 are as follows:

Year	Long-Term and Other Debt	Deposits	Non-Recourse Borrowings of Consolidated Securitization Entities
		(In millions)	
2017	$ 816.3	$ 4,674.9	$ 1,640.0
2018	226.0	1,460.5	2,996.0
2019	2,541.8	1,046.1	1,174.0
2020	648.5	691.7	475.0
2021	500.0	539.0	682.5
Thereafter	915.5	—	—
Total maturities	5,648.1	8,412.2	6,967.5
Unamortized discount and debt issuance costs	(46.7)	(20.3)	(12.1)
	$ 5,601.4	$ 8,391.9	$ 6,955.4

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12. 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 December 31, 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. The Company generally hedges foreign currency exchange rate risks for periods of 12 months or less. As of December 31, 2016, the maximum term over which the Company is hedging its exposure to the variability of future cash flows associated with certain inventory transactions is eight months.

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 years ended December 31, 2016 and 2015, gains of $7.9 million and losses of $3.8 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 and non-derivative instruments designated as hedges included within the Company's consolidated balance sheets as of December 31, 2016 and 2015:

	December 31, 2016			
	Notional Amount	Fair Value	Balance Sheet Location	Maturity
	(In millions)			
Designated as hedging instruments:				
Foreign currency exchange hedges	$ 34.4	$ 1.2	Other current assets	January 2017 to August 2017
Foreign currency exchange hedges	$ 27.6	$ 0.9	Other current liabilities	January 2017 to August 2017
Net investment hedge	$ 315.5	$ 7.9	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

Derivatives Designated as Hedging Instruments

Losses of $0.9 million and $1.0 million, net of tax, were recognized in other comprehensive income for the years ended December 31, 2016 and 2015, 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 year ended December 31, 2016, losses of $0.6 million, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations), and $0.1 million of ineffectiveness was recorded. For the year ended December 31, 2015, losses of $0.2 million, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations), and $0.1 million of ineffectiveness was recorded. At December 31, 2016, $0.4 million is expected to be reclassified from accumulated other comprehensive income into net income in the coming 12 months.

Derivatives Not Designated as Hedging Instruments

The following table summarizes activity related to and identifies the location of the Company's derivatives not designated as hedging instruments for the years ended December 31, 2016, 2015 and 2014 recognized in the Company's consolidated statements of income:

	Year Ended December 31,					
	2016		2015		2014	
	Income Statement Location	Gain (Loss) on Derivative Instruments	Income Statement Location	Gain (Loss) on Derivative Instruments	Income Statement Location	Gain (Loss) on Derivative Instruments
	(In millions)					
Interest rate derivatives	Interest expense on long-term and other debt, net	$ —	Interest expense on long-term and other debt, net	$ 0.2	Interest expense on long-term and other debt, net	$ 0.3
Foreign currency exchange forward contracts	General and administrative	$ (0.1)	General and administrative	$ (15.0)	General and administrative	$ (17.0)
Foreign currency exchange hedges	Cost of operations	$ —	Cost of operations	$ 0.3	Cost of operations	$ 0.3

Gains and losses on derivatives not designated as hedging instruments are included in other operating activities in the Company's 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 December 31, 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.

13. DEFERRED REVENUE

As further discussed in Note 2, "Summary of Significant Accounting Policies," 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.

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

	Deferred Revenue		
	Service	Redemption	Total
		(In millions)	
Balance at December 31, 2014	$ 332.4	$ 680.8	$ 1,013.2
Cash proceeds	200.2	381.1	581.3
Revenue recognized	(185.8)	(402.5)	(588.3)
Other	—	0.7	0.7
Effects of foreign currency translation	(54.5)	(107.5)	(162.0)
Balance at December 31, 2015	$ 292.3	$ 552.6	$ 844.9
Cash proceeds	190.4	365.5	555.9
Revenue recognized	(194.0)	(585.2)	(779.2)
Change in breakage rate estimate	—	284.5	284.5
Other	—	(1.1)	(1.1)
Effects of foreign currency translation	9.0	17.5	26.5
Balance at December 31, 2016	$ 297.7	$ 633.8	$ 931.5
Amounts recognized in the consolidated balance sheets:			
Current liabilities	$ 154.3	$ 633.8	$ 788.1
Non-current liabilities	$ 143.4	$ —	$ 143.4

In the fourth quarter of 2016, a Private Member’s Public Bill was initially introduced to the Legislative Assembly of the Province of Ontario (the “Ontario Legislature”) that would prohibit the expiry of miles. On December 5, 2016, the Ontario Legislature passed Bill 47, Protecting Rewards Points Act (“Bill 47”), which amended Ontario's Consumer Protection Act, 2002 (the “Ontario Consumer Protection Act”) with respect to rewards points. Changes to the Ontario Consumer Protection Act affected by these amendments include, among other things, prohibiting suppliers from entering into or amending consumer agreements to provide for the expiry of rewards points due to the passage of time alone. These amendments to the Ontario Consumer Protection Act became effective upon receipt of Royal Assent on December 8, 2016. The Company anticipates that similar legislation may be enacted in some or all other Canadian provinces.

On December 1, 2016, with anticipated passage of the then-pending legislative changes in Ontario and the likelihood of changes in similar laws in some or all other Canadian provinces, LoyaltyOne cancelled its five-year expiry policy, which was implemented by the Company’s AIR MILES Reward Program on December 31, 2011 and expected to take effect on December 31, 2016. As a result of the cancellation of the expiry policy, coupled with increased redemption activity in the third and fourth quarter of 2016, the Company changed its estimate of breakage from 26% to 20%. As a result of this change in estimate, we increased the deferred redemption liability by $284.5 million with a corresponding reduction of redemption revenue.

14. COMMITMENTS AND CONTINGENCIES

AIR MILES Reward Program

The Company has entered into contractual arrangements with certain AIR MILES Reward Program sponsors that result in fees being billed to those sponsors upon the redemption of AIR MILES reward miles issued by those sponsors. The Company has obtained letters of credit and other assurances from those sponsors for the Company’s benefit that expire at various dates. These letters of credit and other assurances totaled $152.3 million at December 31, 2016, which exceeds the amount of the Company’s estimate of its obligation to provide travel and other rewards upon the redemption of the AIR MILES reward miles issued by those sponsors.

The Company currently has an obligation to provide AIR MILES Reward Program collectors with travel and other rewards upon the redemption of AIR MILES reward miles. The Company believes that the redemption settlement assets, including the letters of credit and other assurances mentioned above, are sufficient to meet that obligation.

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The Company has entered into certain long-term arrangements to purchase tickets from airlines and other suppliers in connection with redemptions under the AIR MILES Reward Program. These long-term arrangements allow the Company to make purchases at set prices.

Leases

The Company leases certain office facilities and equipment under noncancellable operating leases and is generally responsible for property taxes and insurance related to such facilities. Lease expense was $111.3 million, $105.5 million and $91.8 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Future annual minimum rental payments required under noncancellable operating and capital leases, some of which contain renewal options, as of December 31, 2016, are:

Year	Operating Leases	Capital Leases
	(In millions)	
2017	$ 97.4	$ 2.4
2018	78.6	2.3
2019	70.9	1.5
2020	66.6	—
2021	55.7	—
Thereafter	320.6	—
Total	$ 689.8	6.2
Less amount representing interest		(0.2)
Total present value of minimum lease payments		$ 6.0

Regulatory Matters

Comenity Bank is regulated, supervised and examined by the State of Delaware and the Federal Deposit Insurance Corporation (“FDIC”). Comenity Bank remains subject to regulation by the Board of the Governors of the Federal Reserve System. The Company’s industrial bank, Comenity Capital Bank, is regulated, supervised and examined by the State of Utah and the FDIC. As of October 1, 2016, both Comenity Bank and Comenity Capital Bank are under the supervision of the Consumer Financial Protection Bureau (“CFPB”), a federal consumer protection regulator with authority to make further changes to the federal consumer protection laws and regulations, and the CFPB may, from time to time, conduct reviews of their practices.

Quantitative measures established by regulations to ensure capital adequacy require Comenity Bank and Comenity Capital Bank (collectively, the “Banks”) 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 well as adequate allowances for loan losses. Under the regulations, a “well capitalized” institution must have a Common Equity Tier 1 capital ratio of at least 6.5%, a Tier 1 capital ratio of at least 8%, a total capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An “adequately capitalized” institution must have a Common Equity Tier 1 capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, but 3% is allowed in some cases.

At December 31, 2016, the Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio for Comenity Capital Bank were 13.1%, 13.1%, 14.4% and 13.8%, respectively. At December 31, 2016, the Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio for Comenity Bank were 13.6%, 13.6%, 14.9% and 13.0%, respectively. Based on these guidelines, the Banks are considered well capitalized. At December 31, 2015, the Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio for Comenity Capital Bank were 13.0%, 13.0%, 14.3% and 13.3%, respectively. At December 31, 2015, the Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio for Comenity Bank were 14.4%, 14.4%, 15.7% and 14.8%, respectively.

On September 8, 2015, each of the Banks entered into a consent order with the 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. In 2016, the Company satisfied its restitution obligations to the eligible customers under these consent orders.

Cardholders

The Company's Card Services segment is active in originating private label and co-branded credit cards in the United States. The Company reviews each potential customer's credit application and evaluates the applicant's financial history and ability and perceived willingness to repay. Credit card loans are made primarily on an unsecured basis. Cardholders reside throughout the United States and are not significantly concentrated in any one area.

Holders of credit cards issued by the Company have available lines of credit, which vary by cardholder. These lines of credit represent elements of risk in excess of the amount recognized in the financial statements. The lines of credit are subject to change or cancellation by the Company. At December 31, 2016, the Company had 92.3 million total accounts, including both active and inactive, having unused lines of credit averaging $1,879 per account. Within this total, the Company owns 13.2 million accounts through its agreements with one of its clients as discussed in "Transfer of Financial Assets" in Note 4, "Credit Card and Loan Receivables," with unused lines of credit averaging $2,182 per account. The Company only bears the risk for its participating interest in the loan receivables originated by the Company and subsequently purchased by this client.

Legal Proceedings

From time to time the Company is involved in various claims and lawsuits arising in the ordinary course of business that it believes will not have a material effect on its business, financial condition or cash flows, including claims and lawsuits alleging breaches of the Company's contractual obligations.

15. REDEEMABLE NON-CONTROLLING INTEREST

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

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

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

For the year ended December 31, 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 income attributable to non-controlling interest	(0.7)
Adjustment to redemption value	83.5
Foreign currency translation adjustments	6.8
Redemption of non-controlling interest	(258.8)
Balance at December 31, 2016	$ —

16. STOCKHOLDERS’ EQUITY

Stock Repurchase Programs

In December 2013, the Company's Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of the Company’s outstanding common stock from January 1, 2014 through December 31, 2014. In January 2015, the Company’s Board of Directors authorized a stock repurchase program to acquire up to $600.0 million of the Company’s outstanding common stock from January 1, 2015 through December 31, 2015. In April 2015, the Board of Directors authorized an increase to the stock repurchase program originally approved in January 2015 to acquire an additional $400.0 million of the Company’s outstanding common stock through December 31, 2015, for a total authorization of $1.0 billion.

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.

During the years ended December 31, 2016, 2015 and 2014, the Company repurchased approximately 3.8 million, 3.4 million and 1.1 million shares of its common stock, respectively, for an aggregate amount of $805.7 million, $951.6 million and $286.6 million, respectively.

At December 31, 2016, $194.3 million of the stock repurchase program that was authorized in 2016 expired unused.

On January 1, 2017, 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, 2017 through December 31, 2017. 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.

On January 30, 2017, under the authorization of the existing 2017 repurchase program, the Company entered into a $350.0 million fixed dollar accelerated share repurchase agreement (“ASR Agreement”), with an investment bank counterparty. Pursuant to the ASR Agreement, the Company received an initial delivery of 1.4 million shares of its common stock at a price per share of $227.95 on February 6, 2017. The final settlement, and delivery of additional shares if any, is scheduled for April 17, 2017, but can be accelerated by the counterparty. The final settlement is based upon the volume weighted average price of its common stock, purchased by the counterparty during the period, less a specified discount, subject to a collar with a specified forward cap price and forward cap floor.

Stock Compensation Plans

The Company has adopted equity compensation plans to advance the interests of the Company by rewarding certain employees for their contributions to the financial success of the Company and thereby motivating them to continue to make such contributions in the future.

The 2010 Omnibus Incentive Plan became effective July 1, 2010 and reserved 3,000,000 shares of common stock for grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance share awards, cash incentive awards, deferred stock units, and other stock-based and cash-based awards to selected officers, employees, non-employee directors and consultants who performed services for the Company or its affiliates, with only employees eligible to receive incentive stock options. The 2010 Omnibus Incentive Plan expired on June 30, 2015.

In March 2015, the Company's Board of Directors adopted the 2015 Omnibus Incentive Plan (the "2015 Plan"), which was subsequently approved by the Company's stockholders on June 3, 2015. The 2015 Plan became effective July 1, 2015 and expires on June 30, 2020. The 2015 Plan reserves 5,100,000 shares of common stock for grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance share awards, cash incentive awards, deferred stock units, and other stock-based and cash-based awards to selected officers, employees, non-employee directors and consultants performing services for the Company or its affiliates, with only employees being eligible to receive incentive stock options.

On June 5, 2015, the Company registered 5,100,000 shares of its common stock for issuance in accordance with the 2015 Plan pursuant to a Registration Statement on Form S-8, File No. 333-204758.

Terms of all awards under the 2015 Plan are determined by the Board of Directors or the compensation committee of the Board of Directors or its designee at the time of award.

Stock Compensation Expense

Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized ratably over the requisite service period.

Total stock-based compensation expense recognized in the Company's consolidated statements of income for the years ended December 31, 2016, 2015 and 2014, is as follows:

	Years Ended December 31,		
	2016	2015	2014
		(In millions)	
Cost of operations	$ 56.0	$ 72.5	$ 50.8
General and administrative	20.5	18.8	21.7
Total	$ 76.5	$ 91.3	$ 72.5

As the amount of stock-based compensation expense recognized is based on awards ultimately expected to vest, the amount recognized in the Company's results of operations has been reduced for estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on the Company's historical experience. The Company's forfeiture rate was 5% for the years ended December 31, 2016, 2015 and 2014. As of December 31, 2016, there was approximately $90.4 million of unrecognized expense, adjusted for estimated forfeitures, related to non-vested, stock-based equity awards granted to employees, which is expected to be recognized over a weighted average period of approximately 1.6 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Restricted Stock Unit Awards

During 2016, the Company awarded both service-based and performance-based restricted stock units. Fair value of the restricted stock units is estimated using the Company's closing share price on the date of grant. In accordance with ASC 718, the Company recognizes the estimated stock-based compensation expense, net of estimated forfeitures, over the applicable service period.

Service-based restricted stock unit awards typically vest ratably over a three year period. Performance-based restricted stock unit awards typically vest ratably over a three year period if specified performance measures tied to the Company's financial performance are met.

	Performance-Based	Service-Based	Total	Weighted Average Fair Value
Balance at January 1, 2014	685,004	269,511	954,515	$ 121.86
Shares granted [1]	271,616	246,867	518,483	282.34
Shares vested	(405,655)	(99,037)	(504,692)	116.07
Shares forfeited	(32,898)	(16,074)	(48,972)	177.14
Balance at December 31, 2014	518,067	401,267	919,334	$ 198.85
Shares granted	281,491	82,811	364,302	284.22
Shares vested	(315,330)	(178,691)	(494,021)	174.93
Shares forfeited	(37,862)	(29,849)	(67,711)	239.35
Balance at December 31, 2015	446,366	275,538	721,904	$ 238.37
Shares granted	277,036	175,456	452,492	195.97
Shares vested	(233,604)	(95,829)	(329,433)	230.21
Shares forfeited	(45,479)	(22,787)	(68,266)	246.28
Balance at December 31, 2016	444,319	332,378	776,697	$ 216.89
Outstanding and Expected to Vest			706,151	$ 216.43

(1)During the year ended December 31, 2014, shares granted for service-based restricted stock awards include 181,487 shares exchanged pursuant to the Conversant acquisition.

The total fair value of restricted stock units vested was $75.8 million, $86.4 million and $58.6 million for the years ended December 31, 2016, 2015 and 2014, respectively. The aggregate intrinsic value of restricted stock units outstanding and expected to vest was $161.4 million at December 31, 2016. The weighted-average remaining contractual life for unvested restricted stock units was 1.6 years at December 31, 2016.

Stock Options

Stock option awards are granted with an exercise price equal to the market price of the Company's stock on the date of grant. Options typically vest ratably over three years and expire ten years after the date of grant.

The following table summarizes stock option activity under the Company's equity compensation plans:

	Outstanding		Exercisable	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Balance at January 1, 2014	239,676	$ 46.75	239,676	$ 46.75
Granted [1]	49,117	41.94		
Exercised	(117,260)	48.68		
Forfeited	—	—		
Balance at December 31, 2014	171,533	$ 44.05	165,745	$ 44.62
Granted	—	—		
Exercised	(95,855)	39.89		
Forfeited	(2,318)	32.71		
Balance at December 31, 2015	73,360	$ 49.84	73,053	$ 49.96
Granted	—	—		
Exercised	(54,275)	54.21		
Forfeited	(219)	20.16		
Balance at December 31, 2016	18,866	$ 37.60	18,864	$ 37.60
Vested and Expected to Vest	18,866	$ 37.60		

(1)During the year ended December 31, 2014, stock options granted represent those options exchanged pursuant to the Conversant acquisition.

Based on the market value on their respective exercise dates, the total intrinsic value of stock options exercised was approximately $8.5 million, $24.3 million and $25.9 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The aggregate intrinsic value of each of the outstanding and exerciseable stock options as of December 31, 2016 was approximately $3.6 million. The weighted average remaining contractual life of stock options vested and exercisable as of December 31, 2016 was approximately 2.7 years.

The Company received cash proceeds of approximately $2.9 million from stock options exercised during the year ended December 31, 2016.

Dividends

On October 20, 2016, the Company's Board of Directors declared a quarterly cash dividend of $0.52 per share on the Company's common stock to stockholders of record at the close of business on November 3, 2016, resulting in a dividend payment of $30.0 million on December 16, 2016.

On January 26, 2017, the Company's Board of Directors declared a quarterly cash dividend of $0.52 per share on the Company's common stock, payable on March 17, 2017 to stockholders of record at the close of business on February 15, 2017.

17. EMPLOYEE BENEFIT PLANS

Employee Stock Purchase Plan

In March 2015, the Company's Board of Directors adopted the 2015 Employee Stock Purchase Plan (the "2015 ESPP"), which was subsequently approved by the Company's stockholders on June 3, 2015. The 2015 ESPP became effective July 1, 2015 with no definitive expiration date. The Company's Board of Directors may at any time and for any reason terminate or amend the 2015 ESPP. No employee may purchase more than $25,000 in stock under the 2015 ESPP in any calendar year, and no employee may purchase stock under the 2015 ESPP if such purchase would cause the employee to own more than 5% of the voting power or value of the Company's common stock. The 2015 ESPP provides for six month offering periods, commencing on the first trading day of the first and third calendar quarter of each year and ending on the last trading day of each subsequent calendar quarter. The purchase price of the common stock upon exercise shall be 85% of the fair market value of shares on the applicable purchase date as determined by averaging the high and low trading prices of the last trading day of the six-month period. An employee may elect to pay the purchase price of such common stock through payroll deductions. The 2015 ESPP provides for the issuance of any remaining shares available for issuance under the 2005 ESPP, which were 441,327 shares at June 30, 2015. The 2015 ESPP reserved an additional 1,000,000 shares of the Company's common stock for issuance under the 2015 Plan, bringing the maximum number of shares reserved for issuance under the 2015 ESPP to 1,441,327 shares, subject to adjustment as provided in the 2015 ESPP.

On June 5, 2015, the Company registered 1,441,327 shares of its common stock for issuance in accordance with the 2015 ESPP pursuant to a Registration Statement on Form S-8, File No. 333-204759.

During the year ended December 31, 2016, the Company issued 88,962 shares of common stock under the 2015 ESPP at a weighted-average issue price of $175.67. Since its adoption on July 1, 2015, 149,465 shares of common stock have been issued, with 1,291,862 shares available for issuance under the 2015 ESPP.

2015 Omnibus Incentive Plan

At the June 3, 2015 annual meeting of stockholders, the Company's stockholders approved the 2015 Omnibus Incentive Plan. The 2015 plan authorizes the compensation committee to grant cash-based and other equity-based or equity-related awards, including deferred stock units. The maximum cash amount that may be awarded to any single participant in any one calendar year may not exceed $7.5 million.

401(k) Retirement Savings Plan

The Alliance Data Systems 401(k) and Retirement Savings Plan is a defined contribution plan that is qualified under Section 401(k) of the Internal Revenue Code of 1986. The Company amended its 401(k) and Retirement Savings Plan effective December 10, 2014. The 401(k) and Retirement Savings Plan is an IRS-approved safe harbor plan design that eliminates the need for most discrimination testing. Eligible employees can participate in the 401(k) and Retirement Savings Plan immediately upon joining the Company and after 180 days of employment begin receiving company matching contributions. In addition, "seasonal" or "on-call" employees must complete a year of eligibility service before they may participate in the 401(k) and Retirement Savings Plan. The 401(k) and Retirement Savings Plan permits eligible employees to make Roth elective deferrals, effective November 1, 2012, which are included in the employee's taxable income at the time of contribution, but not when distributed. Regular, or Non-Roth, elective deferrals made by employees, together with contributions by the Company to the 401(k) and Retirement Savings Plan, and income earned on these contributions, are not taxable to employees until withdrawn from the 401(k) and Retirement Savings Plan. The 401(k) and Retirement Savings Plan covers U.S. employees, who are at least 18 years old, of ADS Alliance Data Systems, Inc., one of the Company's wholly-owned subsidiaries, and any other subsidiary or affiliated organization that adopts this 401(k) and Retirement Savings Plan. Employees of the Company, and all of its U.S. subsidiaries, are currently covered under the 401(k) and Retirement Savings Plan.

Effective January 1, 2014, the Company matches an employee's contribution dollar-for-dollar up to five percent of the employee's eligible compensation. All company matching contributions are immediately vested. In addition to the company match, the Company may make an additional annual discretionary contribution based on the Company's profitability. This contribution, subject to Board of Director approval, is based on a percentage of pay and is subject to a separate three-year cliff vesting schedule. The discretionary contribution vests in full upon achieving three years of service for participants with less than three years of service. All of these contributions vest immediately if the participating employee has more than three years of service, attains age 65, becomes disabled, dies or if the 401(k) and Retirement Savings Plan terminates. Company matching and discretionary contributions for the years ended December 31, 2016, 2015 and 2014 were $38.0 million, $41.0 million and $37.4 million, respectively.

The participants in the plan can direct their contributions and the Company's matching contribution to numerous investment options, including the Company's common stock. On July 20, 2001, the Company registered 1,500,000 shares of its common stock for issuance in accordance with its 401(k) and Retirement Savings Plan pursuant to a Registration Statement on Form S-8, File No. 333-65556. As of December 31, 2016, 607,142 of such shares remain available for issuance.

Group Retirement Savings Plan and Deferred Profit Sharing Plan (LoyaltyOne)

The Company provides for its Canadian employees the Group Retirement Savings Plan of the Loyalty Group ("GRSP"), which is a group retirement savings plan registered with the Canada Revenue Agency. Contributions made by Canadian employees on their behalf or on behalf of their spouse to the GRSP, and income earned on these contributions, are not taxable to employees until withdrawn from the GRSP. Employee contributions eligible for company match may not exceed the overall maximum allowed by the Income Tax Act (Canada); the maximum tax-deductible GRSP contribution is set by the Canada Revenue Agency each year. The Deferred Profit Sharing Plan ("DPSP") is a legal trust registered with the Canada Revenue Agency. Eligible full-time employees can participate in the GRSP after three months of employment and eligible part-time employees after six months of employment. Employees become eligible to receive company matching contributions into the DPSP on the first day of the calendar quarter following twelve months of employment. Based on the eligibility guidelines, the Company matches an employee's contribution dollar-for-dollar up to five percent of the employee's eligible compensation. Contributions made to the DPSP reduce an employee's maximum contribution amounts to the GRSP under the Income Tax Act (Canada) for the following year. All company matching contributions into the DPSP vest after receipt of one continuous year of DPSP contributions. LoyaltyOne matching and discretionary contributions were $1.8 million, $2.2 million and $2.1 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Executive Deferred Compensation Plan and the Canadian Supplemental Executive Retirement Plan

The Company also maintains an Executive Deferred Compensation Plan ("EDCP"). The EDCP provides an opportunity for a defined group of management and highly compensated employees to defer on a pre-tax basis a portion of their regular compensation and bonuses payable for services rendered and to receive certain employer contributions.

The Company provides a Canadian Supplemental Executive Retirement Plan for a defined group of management and highly compensated employees of LoyaltyOne, Co., one of the Company's wholly-owned subsidiaries. Similar to the EDCP, participants may defer on a pre-tax basis a portion of their compensation and bonuses payable for services rendered and to receive certain employer contributions.

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18. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Net Unrealized Gains (Losses) on Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments (1)	Accumulated Other Comprehensive Loss
			(In millions)		
Balance as of January 1, 2014	$ 4.1	$ —	$ —	$ (22.3)	$ (18.2)
Changes in other comprehensive income (loss) before reclassifications	(1.4)	2.6	—	(58.2)	(57.0)
Amounts reclassified from other comprehensive income (loss)	—	(0.3)	—	—	(0.3)
Changes in other comprehensive income (loss)	(1.4)	2.3	—	(58.2)	(57.3)
Balance at December 31, 2014	$ 2.7	$ 2.3	$ —	$ (80.5)	$ (75.5)
Changes in other comprehensive income (loss) before reclassifications	(2.8)	(0.8)	(3.8)	(54.2)	(61.6)
Amounts reclassified from other comprehensive income (loss)	—	(0.2)	—	—	(0.2)
Changes in other comprehensive income (loss)	(2.8)	(1.0)	(3.8)	(54.2)	(61.8)
Balance at December 31, 2015	$ (0.1)	$ 1.3	$ (3.8)	$ (134.7)	$ (137.3)
Changes in other comprehensive income (loss) before reclassifications	(2.1)	(0.3)	7.9	(18.9)	(13.4)
Amounts reclassified from other comprehensive income (loss)	0.6	(0.6)	—	—	—
Changes in other comprehensive income (loss)	(1.5)	(0.9)	7.9	(18.9)	(13.4)
Balance at December 31, 2016	$ (1.6)	$ 0.4	$ 4.1	$ (153.6)	$ (150.7)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

19. INCOME TAXES

The Company files a consolidated federal income tax return. The components of income before income taxes and income tax expense are as follows:

	Years Ended December 31, 2016	2015	2014
	(In millions)		
Components of income before income taxes:			
Domestic	$ 864.1	$ 700.1	$ 667.8
Foreign	(27.1)	231.5	170.1
Total	$ 837.0	$ 931.6	$ 837.9
Components of income tax expense:			
Current			
Federal	$ 269.8	$ 322.2	$ 224.6
State	42.2	53.2	31.1
Foreign	38.2	72.1	79.5
Total current	350.2	447.5	335.2
Deferred			
Federal	2.2	(100.2)	(14.3)
State	2.4	(11.0)	(18.9)
Foreign	(35.4)	(10.1)	19.8
Total deferred	(30.8)	(121.3)	(13.4)
Total provision for income taxes	$ 319.4	$ 326.2	$ 321.8

A reconciliation of recorded federal provision for income taxes to the expected amount computed by applying the federal statutory rate of 35% for all periods to income before income taxes is as follows:

	Years Ended December 31, 2016	2015	2014
	(In millions)		
Expected expense at statutory rate	$ 292.9	$ 326.1	$ 293.3
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal benefit	29.0	27.4	7.9
Foreign earnings at other than U.S. rates	(1.3)	(26.9)	(8.1)
Non-deductible expenses (non-taxable income)	1.5	(0.7)	27.3
Other	(2.7)	0.3	1.4
Total	$ 319.4	$ 326.2	$ 321.8

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Deferred tax assets and liabilities consist of the following:

	December 31, 2016	December 31, 2015
	(In millions)	
Deferred tax assets		
Deferred revenue	$ 17.5	$ 0.2
Allowance for doubtful accounts	364.8	285.6
Net operating loss carryforwards and other carryforwards	100.6	130.2
Stock-based compensation and other employee benefits	37.3	41.4
Accrued expenses and other	72.1	80.4
Total deferred tax assets	592.3	537.8
Valuation allowance	(44.7)	(42.2)
Deferred tax assets, net of valuation allowance	547.6	495.6
Deferred tax liabilities		
Deferred income	$ 458.2	$ 357.4
Depreciation	33.1	15.0
Intangible assets	371.0	467.7
Total deferred tax liabilities	862.3	840.1
Net deferred tax liability	$ (314.7)	$ (344.5)
Amounts recognized in the consolidated balance sheets [(1)]:		
Current assets	$ —	$ 288.1
Non-current assets	20.1	0.6
Current liabilities	—	(1.7)
Non-current liabilities	(334.8)	(631.5)
Total – Net deferred tax liability	$ (314.7)	$ (344.5)

(1) Reflects January 1, 2016 adoption of ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." The effect of the prospective adoption was 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 adjusted.

At December 31, 2016, the Company has approximately $25.3 million of U.S. federal net operating loss carryovers ("NOLs"), approximately $6.1 million of capital losses, and approximately $32.7 million of foreign tax credits that expire at various times through the year 2034. Pursuant to Section 382 of the Internal Revenue Code, the Company's utilization of such NOLs is subject to an annual limitation. At December 31, 2016, the Company has state income tax NOLs of approximately $525.9 million, approximately $6.1 million of capital losses, and state credits of approximately $8.6 million available to offset future state taxable income. The state NOLs and credits will expire at various times through the year 2035. The Company believes it is more likely than not that the capital losses and a portion of the state credits will expire before being utilized. Therefore, in accordance with ASC 740-10-30, "Income Taxes—Overall—Initial Measurement," the Company has established a valuation allowance against the capital losses and a portion of the state credits and state NOLs that the Company expects to expire prior to utilization. The Company has $124.5 million of foreign NOLs and $2.2 million of foreign capital losses at December 31, 2016, which have an unlimited carryforward period. The Company does not believe it is more likely than not that these NOLs or capital losses will be utilized and has therefore established a full valuation allowance against them. The Company's valuation allowance increased (decreased) $2.5 million, $29.2 million and $(9.4) million during the years ended December 31, 2016, 2015 and 2014, respectively.

Should certain substantial changes in the Company's ownership occur, there could be an annual limitation on the amount of carryovers and credits that can be utilized. The impact of such a limitation would likely not be significant.

U.S. income tax has not been recognized on the excess of the amount for financial reporting over the tax basis of investments in certain foreign subsidiaries that is indefinitely reinvested outside the United States. The Company intends to permanently reinvest the undistributed earnings of these foreign subsidiaries in its operations outside the United States

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to support its international growth. As of December 31, 2016, the excess is approximately $25.0 million. The determination of taxes associated with the $25.0 million is not practicable.

The income tax expense does not reflect the tax effect of certain items recorded directly to additional paid-in capital and other comprehensive income. The net tax (expense) benefit resulting from the exercise of employee stock options and other employee stock programs that was recorded in additional paid-in capital was approximately $(1.7) million, $20.1 million and $34.2 million for the years ended December 31, 2016, 2015 and 2014, respectively. The net tax expense of the change in the carrying value of the Euro-denominated Senior Notes due 2023 due to foreign exchange fluctuations that was recorded directly to other comprehensive income was approximately $2.4 million for the year ended December 31, 2016.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

Balance at January 1, 2014	$	101.4
Increases related to prior years' tax positions		3.5
Decreases related to prior years' tax positions		(4.2)
Increases related to current year tax positions		18.4
Settlements during the period		(1.8)
Lapses of applicable statutes of limitation		(1.9)
Increases related to acquisitions		22.2
Balance at December 31, 2014	$	137.6
Increases related to prior years' tax positions		2.7
Decreases related to prior years' tax positions		(7.2)
Increases related to current year tax positions		27.5
Settlements during the period		(0.7)
Lapses of applicable statutes of limitation		(3.3)
Balance at December 31, 2015	$	156.6
Increases related to prior years' tax positions		22.5
Decreases related to prior years' tax positions		(12.1)
Increases related to current year tax positions		31.4
Settlements during the period		(3.1)
Lapses of applicable statutes of limitation		(3.3)
Balance at December 31, 2016	$	192.0

Included in the balance at December 31, 2016 are tax positions reclassified from deferred income taxes. Deductibility or taxability is highly certain for these tax positions but there is uncertainty about the timing of such deductibility or taxability. Because of the impact of deferred tax accounting, other than interest and penalties, this timing uncertainty would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company has potential cumulative interest and penalties with respect to unrecognized tax benefits of approximately $39.4 million, $31.9 million and $25.2 million at December 31, 2016, 2015 and 2014, respectively. For the years ended December 31, 2016, 2015 and 2014, the Company recorded approximately $8.1 million, $4.5 million and $1.4 million, respectively, in potential interest and penalties with respect to unrecognized tax benefits.

At December 31, 2016, 2015 and 2014, the Company had unrecognized tax benefits of approximately $121.4 million, $107.9 million and $88.9 million, respectively that, if recognized, would impact the effective tax rate. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits over the next twelve months.

The Company files income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. With some exceptions, the tax returns filed by the Company for years before 2012 are no longer subject to U.S. federal income tax examinations, state and local examinations or foreign income tax examinations.

20. 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:

	December 31,			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Financial assets				
Credit card and loan receivables, net	$ 15,595.9	$ 16,423.2	$ 13,057.9	$ 13,057.9
Credit card and loan receivables held for sale	417.3	428.7	95.5	95.5
Redemption settlement assets, restricted	324.4	324.4	456.6	456.6
Other investments	197.6	197.6	220.4	220.4
Cash collateral, restricted	—	—	7.2	7.2
Derivative instruments	1.2	1.2	2.7	2.7
Financial liabilities				
Derivative instruments	0.9	0.9	1.7	1.7
Deposits	8,391.9	8,432.2	5,605.9	5,654.6
Non-recourse borrowings of consolidated securitization entities	6,955.4	6,973.8	6,482.7	6,502.7
Long-term and other debt	5,601.4	5,641.0	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:

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

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

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

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

	Balance at December 31, 2016	Fair Value Measurements at December 31, 2016 Using		
		Level 1	Level 2	Level 3
		(In millions)		
Mutual funds [1]	$ 25.5	$ 25.5	$ —	$ —
Corporate bonds [1]	240.8	—	240.8	—
Marketable securities [2]	122.3	5.0	117.3	—
U.S. Treasury bonds [2]	75.3	75.3	—	—
Cash collateral, restricted [3]	—	—	—	—
Derivative instruments [4]	1.2	—	1.2	—
Total assets measured at fair value	$ 465.1	$ 105.8	$ 359.3	$ —
Derivative instruments [4]	$ 0.9	$ —	$ 0.9	$ —
Total liabilities measured at fair value	$ 0.9	$ —	$ 0.9	$ —

	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 consolidated balance sheets.

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

(3) Amounts are included in other non-current assets in the consolidated balance sheets.

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

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the years ended December 31, 2016 and 2015.

The table below summarizes the changes in fair value 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 consists of spread deposits and excess funding deposits and is included in other non-current assets in the consolidated balance sheets. Spread deposits are recorded at their fair value based on discounted cash flow models. The fair value is based on the term of the underlying securities and a discount rate. For the years ended December 31, 2016 and 2015, gains included in earnings attributable to cash collateral, restricted were included in securitization funding costs in the Company’s consolidated statements of income. The underlying securities were settled in the fourth quarter of 2016.

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

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.

	Cash Collateral, Restricted Years Ended December 31, 2016	2015	Contingent Consideration Years Ended December 31, 2016	2015
	(In millions)			
Balance at beginning of year	$ 4.9	$ 22.5	$ —	$ 326.0
Total gains (realized or unrealized):				
Included in earnings	0.2	0.4	—	—
Purchases	—	—	—	0.5
Sales	—	—	—	—
Issuances	—	—	—	—
Settlements	(5.1)	(18.0)	—	(305.5)
Foreign currency transaction adjustments	—	—	—	(21.0)
Transfers in or out of Level 3	—	—	—	—
Balance at end of year	$ —	$ 4.9	$ —	$ —
Gains for the period included in earnings related to assets still held at end of year	$ —	$ 0.1	$ —	$ —

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 December 31, 2016 and 2015:

	Fair Value Measurements at December 31, 2016 Total	Level 1	Level 2	Level 3
	(In millions)			
Financial assets:				
Credit card and loan receivables, net	$ 16,423.2	$ —	$ —	$ 16,423.2
Credit card and loan receivables held for sale	428.7	—	—	428.7
Total	$ 16,851.9	$ —	$ —	$ 16,851.9
Financial liabilities:				
Deposits	$ 8,432.2	$ —	$ 8,432.2	$ —
Non-recourse borrowings of consolidated securitization entities	6,973.8	—	6,973.8	—
Long-term and other debt	5,641.0	—	5,641.0	—
Total	$ 21,047.0	$ —	$ 21,047.0	$ —

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

	Fair Value Measurements at December 31, 2015			
	Total	Level 1	Level 2	Level 3
	(In millions)			
Financial assets:				
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	$ 13,153.4	$ —	$ —	$ 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	$ —

21. PARENT-ONLY FINANCIAL STATEMENTS

The following ADSC financial statements are provided in accordance with the rules of the Securities and Exchange Commission, which require such disclosure when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets. Certain of the Company's subsidiaries may be restricted in distributing cash or other assets to ADSC, which could be utilized to service its indebtedness. In connection with the Company's adoption of ASU 2015-03, the December 31, 2015 balance sheet has been retrospectively adjusted for unamortized debt issuance costs. The stand-alone parent-only financial statements are presented below.

Balance Sheets

	December 31,	
	2016	2015
	(In millions)	
Assets:		
Cash and cash equivalents	$ 0.1	$ 104.0
Investment in subsidiaries	7,589.6	7,373.2
Intercompany receivables	51.2	174.8
Other assets	159.4	97.1
Total assets	$ 7,800.3	$ 7,749.1
Liabilities:		
Current debt	$ 745.9	$ 332.3
Long-term debt	4,596.2	4,615.4
Other liabilities	800.0	791.4
Total liabilities	6,142.1	5,739.1
Stockholders' equity	1,658.2	2,010.0
Total liabilities and stockholders' equity	$ 7,800.3	$ 7,749.1

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

Statements of Income

	Years Ended December 31, 2016	2015	2014
	(In millions)		
Interest from loans to subsidiaries	$ 11.8	$ 10.0	$ 10.0
Dividends from subsidiaries	438.4	209.2	194.4
Total revenue	450.2	219.2	204.4
Interest expense, net	214.9	177.2	129.8
Other expenses, net	(1.3)	15.8	17.9
Total expenses	213.6	193.0	147.7
Income before income taxes and equity in undistributed net income of subsidiaries	236.6	26.2	56.7
Benefit for income taxes	75.2	70.2	36.6
Income before equity in undistributed net income of subsidiaries	311.8	96.4	93.3
Equity in undistributed net income of subsidiaries	205.8	509.0	422.8
Net income	$ 517.6	$ 605.4	$ 516.1

Statements of Comprehensive Income

	Years Ended December 31, 2016	2015	2014
	(In millions)		
Net income	$ 517.6	$ 605.4	$ 516.1
Other comprehensive income (loss), net of tax	6.6	(3.8)	—
Total comprehensive income, net of tax	$ 524.2	$ 601.6	$ 516.1

Statements of Cash Flows

	Years Ended December 31, 2016	2015	2014
	(In millions)		
Net cash (used in) provided by operating activities	$ (24.0)	$ 131.7	$ (318.1)
Investing activities:			
Payments for acquired businesses, net of cash acquired	—	—	(1,003.2)
Repayment of loans to subsidiaries	—	—	112.9
Loans to subsidiaries	(102.0)	—	—
Investment in subsidiaries	—	(205.8)	(15.0)
Dividends received	436.4	209.2	194.4
Net cash provided by (used in) investing activities	334.4	3.4	(710.9)
Financing activities:			
Borrowings under debt agreements	3,571.5	2,971.0	3,358.0
Repayments of borrowings	(3,167.9)	(2,083.4)	(1,725.6)
Proceeds from convertible note hedge counterparties	—	—	1,519.8
Settlement of convertible note borrowings	—	—	(1,864.8)
Excess tax benefits from stock-based compensation	4.1	20.2	34.1
Payment of deferred financing costs	(11.6)	(5.8)	(36.3)
Purchase of treasury shares	(798.8)	(951.6)	(286.6)
Dividends paid	(30.0)	—	—
Proceeds from issuance of common stock	18.4	18.0	17.1
Other	—	—	(1.4)
Net cash (used in) provided by financing activities	(414.3)	(31.6)	1,014.3
Change in cash and cash equivalents	(103.9)	103.5	(14.7)
Cash and cash equivalents at beginning of year	104.0	0.5	15.2
Cash and cash equivalents at end of year	$ 0.1	$ 104.0	$ 0.5

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

22. 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 retail 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."

Year Ended December 31, 2016	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
			(In millions)			
Revenues	$ 1,337.9	$ 2,155.2	$ 3,675.0	$ 0.3	$ (30.3)	$ 7,138.1
Income (loss) before income taxes	$ (27.3)	$ 123.2	$ 1,108.0	$ (366.9)	$ —	$ 837.0
Interest expense, net	3.3	—	210.3	214.9	—	428.5
Operating income (loss)	(24.0)	123.2	1,318.3	(152.0)	—	1,265.5
Depreciation and amortization	86.6	325.2	91.2	9.1	—	512.1
Stock compensation expense	10.1	31.8	14.1	20.5	—	76.5
Impact of expiry	241.7	—	—	—	—	241.7
Adjusted EBITDA [(1)]	314.4	480.2	1,423.6	(122.4)	—	2,095.8
Less: Securitization funding costs	—	—	125.6	—	—	125.6
Less: Interest expense on deposits	—	—	84.7	—	—	84.7
Less: Adjusted EBITDA attributable to non-controlling interest	5.5	—	—	—	—	5.5
Adjusted EBITDA, net [(1)]	$ 308.9	$ 480.2	$ 1,213.3	$ (122.4)	$ —	$ 1,880.0
Capital expenditures	$ 31.9	$ 119.8	$ 49.4	$ 5.9	$ —	$ 207.0
Total assets	$ 1,901.7	$ 4,543.1	$ 18,949.7	$ 119.6	$ —	$ 25,514.1

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

Year Ended December 31, 2015	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
			(In millions)			
Revenues	$ 1,352.6	$ 2,140.7	$ 2,974.4	$ 0.3	$ (28.3)	$ 6,439.7
Income (loss) before income taxes	$ 205.7	$ 134.9	$ 915.9	$ (324.9)	$ —	$ 931.6
Interest expense, net	2.5	—	150.7	177.0	—	330.2
Operating income (loss)	208.2	134.9	1,066.6	(147.9)	—	1,261.8
Depreciation and amortization	82.5	327.0	73.0	9.7	—	492.2
Stock compensation expense	10.8	46.5	15.2	18.8	—	91.3
Regulatory settlement	—	—	64.6	—	—	64.6
Adjusted EBITDA (1)	301.5	508.4	1,219.4	(119.4)	—	1,909.9
Less: Securitization funding costs	—	—	97.1	—	—	97.1
Less: Interest expense on deposits	—	—	53.6	—	—	53.6
Less: Adjusted EBITDA attributable to non-controlling interest	30.9	—	—	—	—	30.9
Adjusted EBITDA, net (1)	$ 270.6	$ 508.4	$ 1,068.7	$ (119.4)	$ —	$ 1,728.3
Capital expenditures	$ 35.7	$ 106.4	$ 35.7	$ 13.9	$ —	$ 191.7
Total assets (2)	$ 1,988.5	$ 4,737.7	$ 15,394.3	$ 229.4	$ —	$ 22,349.9

Year Ended December 31, 2014	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
			(In millions)			
Revenues	$ 1,406.9	$ 1,522.4	$ 2,395.1	$ 0.5	$ (22.0)	$ 5,302.9
Income (loss) before income taxes	$ 244.4	$ 126.5	$ 851.8	$ (384.8)	$ —	$ 837.9
Interest expense, net	5.9	(0.1)	124.9	129.8	—	260.5
Operating income (loss)	250.3	126.4	976.7	(255.0)	—	1,098.4
Depreciation and amortization	88.7	157.4	58.9	8.1	—	313.1
Stock compensation expense	11.6	25.3	13.9	21.7	—	72.5
Earn-out obligation	—	—	—	105.9		105.9
Business acquisition costs	—	—	—	7.3		7.3
Adjusted EBITDA (1)	350.6	309.1	1,049.5	(112.0)	—	1,597.2
Less: Securitization funding costs	—	—	91.1	—	—	91.1
Less: Interest expense on deposits	—	—	37.5	—	—	37.5
Less: Adjusted EBITDA attributable to non-controlling interest	43.1	—	—	—	—	43.1
Adjusted EBITDA, net (1)	$ 307.5	$ 309.1	$ 920.9	$ (112.0)	$ —	$ 1,425.5
Capital expenditures	$ 31.8	$ 85.9	$ 29.9	$ 11.1	$ —	$ 158.7
Total assets (2)	$ 2,362.7	$ 5,014.9	$ 12,620.2	$ 190.4	$ —	$ 20,188.2

(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. In 2016, adjusted EBITDA excluded the impact of the cancellation of the AIR MILES Reward Program's five-year expiry policy on December 1, 2016. In 2015, adjusted EBITDA excluded costs associated with the consent orders with the FDIC, and in 2014, adjusted EBITDA excluded business acquisition costs related to the Conversant acquisition and the contingent consideration incurred as a result of the earn-out obligation associated with the BrandLoyalty acquisition. 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 metric utilized to assess performance of the segments.

(2) Adjusted to reflect the adoption of ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The effect of the adoption of the standard was to reduce other assets and debt by $72.0 million and $75.8 million as of December 31, 2015 and 2014, respectively.

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

With respect to information concerning principal geographic areas, revenues are attributed to respective countries based on the location of the subsidiary, which generally correlates with the location of the customer. Information concerning principal geographic areas is as follows:

	United States	Canada	Europe, Middle East and Africa	Asia Pacific	Other	Total
			(In millions)			
Revenues						
Year Ended December 31, 2016	$ 5,730.3	$ 706.5	$ 537.4	$ 154.5	$ 9.4	$ 7,138.1
Year Ended December 31, 2015	$ 5,020.2	$ 761.2	$ 536.7	$ 113.7	$ 7.9	$ 6,439.7
Year Ended December 31, 2014	$ 3,867.0	$ 851.6	$ 463.3	$ 101.3	$ 19.7	$ 5,302.9
Long Lived Assets						
December 31, 2016	$ 4,953.0	$ 256.1	$ 701.8	$ 12.4	$ 1.5	$ 5,924.8
December 31, 2015 [(1)]	$ 5,086.0	$ 235.5	$ 767.5	$ 10.4	$ 0.1	$ 6,099.5

(1)Adjusted to reflect the adoption of ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The effect of the adoption of the standard was to reduce other assets and debt by $72.0 million as of December 31, 2015.

23. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Unaudited quarterly results of operations for the years ended December 31, 2016 and 2015 are presented below.

	Quarter Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
	(In millions, except per share amounts)			
Revenues [(1)]	$ 1,676.1	$ 1,748.8	$ 1,885.6	$ 1,827.6
Operating expenses	1,331.8	1,428.2	1,464.6	1,648.0
Operating income	344.3	320.6	421.0	179.6
Interest expense, net	98.8	103.7	108.3	117.7
Income before income taxes	245.5	216.9	312.7	61.9
Provision for income taxes	86.6	76.2	105.2	51.4
Net income	158.9	140.7	207.5	10.5
Less: Net income attributable to non-controlling interest	1.8	—	—	—
Net income attributable to common stockholders	$ 157.1	$ 140.7	$ 207.5	$ 10.5
Net income attributable to common stockholders per share:				
Basic	$ 2.36	$ 1.24	$ 3.56	$ 0.18
Diluted	$ 2.35	$ 1.24	$ 3.55	$ 0.18

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

	Quarter Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
	(In millions, except per share amounts)			
Revenues	$ 1,601.2	$ 1,500.6	$ 1,589.1	$ 1,748.8
Operating expenses [(2)]	1,276.6	1,214.9	1,301.6	1,384.8
Operating income	324.6	285.7	287.5	364.0
Interest expense, net	78.0	80.7	82.1	89.4
Income before income taxes	246.6	205.0	205.4	274.6
Provision for income taxes	81.7	75.0	75.0	94.5
Net income	164.9	130.0	130.4	180.1
Less: Net income (loss) attributable to non-controlling interest	2.3	(1.3)	2.0	5.9
Net income attributable to common stockholders	$ 162.6	$ 131.3	$ 128.4	$ 174.2
Net income attributable to common stockholders per share:				
Basic	$ 2.34	$ 2.12	$ 2.09	$ 2.36
Diluted	$ 2.32	$ 2.11	$ 2.08	$ 2.35

(1) Reflects a $284.5 million reduction in revenue associated with the change in breakage rate estimate for the AIR MILES Reward Program from 26% to 20% for the quarter ended December 31, 2016.

(2) Included in operating expenses in the quarter ended September 30, 2015 is $64.6 million in costs associated with the consent orders with the FDIC to provided restitution to eligible customers as well as civil penalties.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Alliance Data Systems Corporation has duly caused this annual report on Form 10-K 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: February 27, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Alliance Data Systems Corporation and in the capacities and on the dates indicated.

Name	Title	Date
/S/ EDWARD J. HEFFERNAN **Edward J. Heffernan**	President, Chief Executive Officer and Director	February 27, 2017
/S/ CHARLES L. HORN **Charles L. Horn**	Executive Vice President and Chief Financial Officer	February 27, 2017
/S/ LAURA SANTILLAN **Laura Santillan**	Senior Vice President and Chief Accounting Officer	February 27, 2017
/S/ BRUCE K. ANDERSON **Bruce K. Anderson**	Director	February 27, 2017
/S/ ROGER H. BALLOU **Roger H. Ballou**	Director	February 27, 2017
/S/ D. KEITH COBB **D. Keith Cobb**	Director	February 27, 2017
/S/ E. LINN DRAPER, JR., PH.D. **E. Linn Draper, Jr., Ph.D.**	Director	February 27, 2017
/S/ KENNETH R. JENSEN **Kenneth R. Jensen**	Director	February 27, 2017
/S/ ROBERT A. MINICUCCI **Robert A. Minicucci**	Chairman of the Board, Director	February 27, 2017
/S/ TIMOTHY J. THERIAULT **Timothy J. Theriault**	Director	February 27, 2017
/S/ LAURIE A. TUCKER **Laurie A. Tucker**	Director	February 27, 2017

SCHEDULE II

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Write-Offs Net of Recoveries[1]	Balance at End of Year
			(In millions)		
Allowance for Doubtful Accounts —Trade receivables:					
Year Ended December 31, 2016	$ 4.0	$ 2.4	$ 0.8	$ (2.7)	$ 4.5
Year Ended December 31, 2015	$ 3.8	$ 2.5	$ 2.1	$ (4.4)	$ 4.0
Year Ended December 31, 2014	$ 2.3	$ 2.9	$ 0.1	$ (1.5)	$ 3.8

(1) Accounts written off during the year, net of recoveries and foreign exchange impact.

Exhibit 10.102

WORLD FINANCIAL CAPITAL MASTER NOTE TRUST

Issuer

And

DEUTSCHE BANK TRUST COMPANY AMERICAS

Indenture Trustee

FIFTH AMENDED AND RESTATED SERIES 2009-VFN INDENTURE SUPPLEMENT

Dated as of November 1, 2016

FIFTH AMENDED AND RESTATED SERIES 2009-VFN INDENTURE SUPPLEMENT, dated as of November 1, 2016 (the "Indenture Supplement"), between WORLD FINANCIAL CAPITAL MASTER NOTE TRUST, a trust organized and existing under the laws of the State of Delaware (herein, the "Issuer" or the "Trust"), and DEUTSCHE BANK TRUST COMPANY AMERICAS, a New York banking corporation, not in its individual capacity, but solely as indenture trustee (herein, together with its successors in the trusts thereunder as provided in the Indenture referred to below, the "Indenture Trustee") under the Master Indenture, dated as of September 29, 2008 (the "Indenture"), between the Issuer and the Indenture Trustee (the Indenture, together with this Indenture Supplement, the "Agreement").

WHEREAS, the parties hereto are party to the Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of December 1, 2015 (the "Existing Indenture Supplement").

NOW, THEREFORE, in consideration of the mutual agreements contained herein, the Existing Indenture Supplement is hereby amended and restated in its entirety as follows and each party agrees as follows for the benefit of the other party and the Series 2009-VFN Noteholders:

The Principal Terms of this Series, issued pursuant to Section 2.11 of the Indenture, are set forth in this Indenture Supplement to the Indenture.

ARTICLE I.

Creation of the Series 2009-VFN Notes

Section 1.1 Designation.

(a) Pursuant to the Indenture and the Existing Indenture Supplement a Series of Notes was issued known as "World Financial Capital Master Note Trust, Series 2009-VFN" or the "Series 2009-VFN Notes." The Series 2009-VFN Notes were issued in four Classes, known as the "Class A Series 2009-VFN Floating Rate Asset Backed Notes," the "Class M Series 2009-VFN Asset Backed Notes," the "Class B Series 2009-VFN Asset Backed Notes" and the "Class C Series 2009-VFN Asset Backed Notes." The Series 2009-VFN Notes shall be Variable Interests.

(b) The Class A Notes may from time to time be divided into separate ownership tranches (each a "Class A Ownership Tranche") which shall be identical in all respects, except for their respective Class A Maximum Principal Balances, Class A Principal Balances and certain matters relating to the rate and payment of interest. The initial allocation of Class A Notes among Class A Ownership Tranches shall be made, and reallocations among such Class A Ownership Tranches or new Class A Ownership Tranches may be made, as provided in Section 4.1 of this Indenture Supplement and the Class A Note Purchase Agreement.

(c) Series 2009-VFN shall be included in Group One and shall be a Principal Sharing Series. Series 2009-VFN shall be an Excess Allocation Series with respect to Group One only. Series 2009-VFN shall not be subordinated to any other Series.

ARTICLE II.

Definitions

Section 2.1 Definitions.

(a) Whenever used in this Indenture Supplement, the following words and phrases shall have the following meanings, and the definitions of such terms are applicable to the singular as well as the plural forms of such terms and the masculine as well as the feminine and neuter genders of such terms.

"Aggregate Investor Default Amount" means, as to any Monthly Period, the sum of the Investor Default Amounts in respect of such Monthly Period.

"Allocation Percentage" means, with respect to any Monthly Period, the percentage equivalent of a fraction:

(a) the numerator of which shall be equal to:

(i) for Principal Collections during the Revolving Period and for Finance Charge Collections and Default Amounts at any time, the Collateral Amount at the end of the last day of the prior Monthly Period (or, in the case of the Monthly Period in which the Closing Date occurs, on the Closing Date), less any reductions to be made to the Collateral Amount on account of principal payments to be made on the Distribution Date falling in the Monthly Period for which the Allocation Percentage is being calculated; provided, however, that with respect to any Monthly Period in which a Reset Date occurs as a result of a Class A Incremental Funding, Class M Incremental Funding, Class B Incremental Funding, Class C Incremental Funding or the issuance of a new Series, the numerator determined pursuant to this clause (i) shall be (A) the Collateral Amount as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, in each case less any reductions to be made to the Collateral Amount on account of principal payments to be made on the Distribution Date falling in the Monthly Period for which the Allocation Percentage is being calculated (to the extent not already subtracted in determining the Collateral Amount), for the period from and including the first day of the current Monthly Period or the preceding Reset Date, as applicable, to but excluding such Reset Date and (B) the Collateral Amount as of the close of business on such Reset Date, less any reductions to be made to the Collateral Amount on account of principal payments to be made on the Distribution Date falling in the Monthly Period for which the Allocation Percentage is being calculated (to the extent not already subtracted in determining the Collateral Amount), for the period from and including such Reset Date to the earlier of the last day of such Monthly Period (in which case such period shall include such day) or the next succeeding Reset Date (in which case such period shall not include such succeeding Reset Date); or

(ii) for Principal Collections during the Early Amortization Period and the Controlled Amortization Period, the Collateral Amount at the end of the last day of the Revolving Period, provided, however, that the Transferor may, by written notice to the Indenture Trustee, the Servicer and the Rating Agencies, reduce the numerator used for purposes of allocating Principal Collections to Series 2009-VFN at any time if (x) the Rating Agency Condition shall have been satisfied with respect to such reduction and (y) the Transferor shall have delivered to the Indenture Trustee an Officer's Certificate to the effect, based on the facts known to such officer at that time, in the reasonable belief of the Transferor, such designation will not cause a Series 2009-VFN Early Amortization Event or an event that, after the giving of notice or the lapse of time, would cause a Series 2009-VFN Early Amortization Event to occur with respect to Series 2009-VFN; and

(b) the denominator of which shall be the greater of (x) the Aggregate Principal Receivables determined as of the close of business on the last day of the prior Monthly Period and (y) the sum of the numerators used to calculate the allocation percentages for allocations with respect to Finance Charge Collections, Principal Collections or Default Amounts, as applicable, for all outstanding Series on such date of determination provided, that if one or more Reset Dates occur in a Monthly Period, the Allocation Percentage for the portion of the Monthly Period falling on and after such Reset Date and prior to any subsequent Reset Date will be recalculated for such period as of the close of business on the subject Reset Date.

"Amendment Date" means November 1, 2016.

"Available Cash Collateral Amount" means with respect to any Transfer Date, an amount equal to the lesser of (a) the amount on deposit in the Cash Collateral Account (before giving effect to any deposit to, or withdrawal from, the Cash Collateral Account made or to be made with respect to such date) and (b) the Required Cash Collateral Amount for such Transfer Date.

"Available Finance Charge Collections" means, for any Monthly Period, an amount equal to the sum of (a) the Investor Finance Charge Collections for such Monthly Period, plus (b) the Excess Finance Charge Collections allocated to Series 2009-VFN for such Monthly Period, plus (c) interest and earnings on funds on deposit in the Cash Collateral Account which will be deposited into the Finance Charge Account on the related Transfer Date to be treated as Available Finance Charge Collections pursuant to subsection 5.10(b).

"Available Principal Collections" means, for any Monthly Period, an amount equal to the sum of (a) the Investor Principal Collections for such Monthly Period, minus (b) the amount of Reallocated Principal Collections with respect to such Monthly Period which pursuant to Section 5.6 are required to be applied on the related Distribution Date, plus (c) any Shared Principal Collections with respect to other Principal Sharing Series (including any amounts on deposit in the Excess Funding Account that are allocated to Series 2009-VFN for application as Shared Principal Collections), plus (d) the aggregate amount to be treated as Available Principal Collections pursuant to clauses 5.4(a)(viii) and (ix) for the related Distribution Date.

"Bankrupt Merchant" means any Merchant which fails generally to, or admits in writing its inability to, pay its debts as they become due; or any Merchant for which a proceeding shall have been instituted in a court having jurisdiction in the premises seeking a decree or order for relief in respect of such Merchant in an involuntary case under any Debtor Relief Law, or for the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator, conservator or other similar official for any substantial part of its property, or for the winding-up or liquidation of its affairs, and such proceedings shall continue undismissed or unstayed and in effect for a period of 60 consecutive days or any of the actions sought in such proceeding shall occur; or any Merchant that commences a voluntary case under any Debtor Relief Law, or such Merchant's consent to the entry of an order for relief in an involuntary case under any Debtor Relief Law, or consent to the appointment of a taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator, conservator or other similar official for any substantial part of its property, or any general assignment for the benefit of creditors; or any Merchant or any Affiliate of such Merchant shall have taken any corporate action in furtherance of any of the foregoing actions with respect to such Merchant; provided, however, that a Merchant for which a Chapter 11 Plan is confirmed under a Debtor Relief Law shall no longer be a Bankrupt Merchant upon the occurrence of the Effective Date of such Chapter 11 Plan. For purposes of this definition, a Chapter 11 Plan shall exclude a Chapter 11 Plan under which the Bankrupt Merchant liquidates all of its assets and discontinues operations.

"Base Rate" means, as to any Monthly Period, the annualized percentage equivalent of a fraction, the numerator of which is equal to the sum of the Monthly Interest, any Class A Non-Use Fees payable pursuant to clause 5.4(a)(ii) and any Class A Additional Amounts payable pursuant to clauses 5.4(a)(i) through (vii) each for the related Distribution Period, any Class M Additional Interest, any Class B Additional Interest, any Class C Additional Interest and the Noteholder Servicing Fee with respect to such Monthly Period, and the denominator of which is the Weighted Average Collateral Amount during such Monthly Period.

"Cash Collateral Account" is defined in subsection 5.10(a).

"Change in Control" means the failure of Holding to own, directly or indirectly, 100% of the outstanding shares of common stock (excluding directors' qualifying shares) of Comenity Capital Bank.

"Chapter 11 Plan" means a plan proposed by a Bankrupt Merchant under and in conformance with the provisions of Chapter 11 of Title 11 of the United States Code for restructuring or reorganizing the business of the Bankrupt Merchant.

"Class A Additional Amounts" means Additional Amounts (as defined in the Class A Note Purchase Agreement) payable to the Class A Noteholders pursuant to the Class A Note Purchase Agreement.

"Class A Administrative Agents" means the "Administrative Agents" as defined in the Class A Note Purchase Agreement.

"Class A Breakage Payment" is defined in subsection 5.2(e).

"Class A Funding Tranche" is defined in subsection 5.2(a).

"Class A Incremental Funding" means any increase in the Class A Principal Balance during the Revolving Period made pursuant to the Class A Note Purchase Agreement and Section 4.1(a) hereof.

"Class A Incremental Principal Balance" means the amount of the increase in the Class A Principal Balance occurring as a result of any Class A Incremental Funding, which amount shall equal the aggregate amount of the purchase prices paid by the Class A Noteholders pursuant to the Class A Note Purchase Agreement with respect to such Class A Incremental Funding.

"Class A Maximum Principal Balance" means the "Maximum Class A Principal Balance" (as defined in the Class A Note Purchase Agreement), as such amount may be increased or decreased from time to time pursuant to the Class A Note Purchase Agreement. As applied to any particular Class A Note, the "Class A Maximum Principal Balance" means the portion of the overall Class A Maximum Principal Balance represented by that Class A Note.

"Class A Monthly Interest" is defined in subsection 5.2(a).

"Class A Monthly Principal" is defined in subsection 5.3(a).

"Class A Non-Use Fee" means the Class A Non-Use Fee defined in the Class A Note Purchase Agreement.

"Class A Note Purchase Agreement" means the Sixth Amended and Restated Note Purchase Agreement, dated as of November 1, 2016, among Transferor, the Issuer, the Servicer and the initial Class A Noteholders, as supplemented by the various Fee Letters referred to (and defined) therein, and as the same may be amended or otherwise modified from time to time. The Class A Note Purchase Agreement is hereby designated a "Transaction Document" for all purposes of the Agreement and this Indenture Supplement.

"Class A Noteholder" means the Person in whose name a Class A Note is registered in the Note Register.

"Class A Notes" means any one of the Notes executed by the Issuer and authenticated by or on behalf of the Indenture Trustee, substantially in the form of Exhibit A-1.

"Class A Ownership Group" means the "Ownership Group" defined in the Class A Note Purchase Agreement.

"Class A Ownership Group Percentage" means the "Ownership Group Percentage" defined in the Class A Note Purchase Agreement.

"Class A Ownership Tranche" is defined in subsection 1.1(b).

"Class A Principal Balance" means, on any Business Day, an amount equal to the result of (a) $1,000,000,000.00, plus (b) the aggregate amount of all Class A Incremental Principal Balances for all Class A Incremental Fundings occurring after the Amendment Date and on or prior to that Business Day, minus (c) the aggregate amount of principal payments made to Class A Noteholders after the Amendment Date and on or prior to such Business Day. As applied to any particular Class A Note, the "Class A Principal Balance" means the portion of the overall Class A Principal Balance represented by that Class A Note. The Class A Principal Balance shall be allocated among the Class A Ownership Tranches as provided in the Class A Note Purchase Agreement.

"Class A Pro Rata Percentage" means 74.00%.

"Class A Purchase Limit" means the "Purchase Limit" defined in the Class A Note Purchase Agreement.

"Class A Required Amount" means, for any Distribution Date, an amount equal to the excess of the amounts described in clauses 5.4(a)(i), (ii) and (iii) over the sum of (a) Available Finance Charge Collections applied to pay such amount pursuant to subsection 5.4(a) and (b) any amount withdrawn from the Cash Collateral Account and applied to pay such amount pursuant to subsection 5.10(c).

"Class A Scheduled Final Payment Date" means the Distribution Date falling in the twelfth month following the month in which the Controlled Amortization Period begins.

"Class A Tranche Rate" means, for any Distribution Period, the Class A Note Rate (as defined in the Class A Note Purchase Agreement) for each Class A Ownership Tranche (or any related Class A Funding Tranche).

"Class B Additional Interest" is defined in subsection 5.2(c).

"Class B Deficiency Amount" is defined in subsection 5.2(c).

"Class B Incremental Funding" means any increase in the Class B Principal Balance during the Revolving Period made pursuant to the applicable Class B Note Purchase Agreement.

"Class B Incremental Principal Balance" means the amount of the increase in the Class B Principal Balance occurring as a result of any Class B Incremental Funding, which amount shall equal the aggregate amount of the purchase prices paid by the Class B Noteholders pursuant to the Class B Note Purchase Agreement with respect to such Class B Incremental Funding.

"Class B Maximum Principal Balance" means the "Maximum Class B Principal Balance" (as defined in the Class B Note Purchase Agreement), as such amount may be increased or decreased from time to time pursuant to the Class B Note Purchase Agreement. As applied to any particular

Class B Note, the "Class B Maximum Principal Balance" means the portion of the overall Class B Maximum Principal Balance represented by that Class B Note.

"Class B Monthly Interest" is defined in subsection 5.2(c).

"Class B Monthly Principal" is defined in subsection 5.3(c).

"Class B Note Interest Rate" means 0.0%.

"Class B Note Purchase Agreement" means the Second Amended and Restated Note Purchase Agreement, dated as of May 24, 2013, entered into among Comenity Capital Bank, the Transferor and each party that purchases Class B Notes from the Transferor.

"Class B Noteholder" means the Person in whose name a Class B Note is registered in the Note Register.

"Class B Notes" means any one of the Notes executed by the Issuer and authenticated by or on behalf of the Indenture Trustee, substantially in the form of Exhibit A-3.

"Class B Principal Balance" means, on any Business Day, an amount equal to the result of (a) $135,135,135.14, plus (b) the aggregate amount of all Class B Incremental Principal Balances for all Class B Incremental Fundings occurring after the Amendment Date and on or prior to that Business Day, minus (c) the aggregate amount of principal payments made to Class B Noteholders after the Amendment Date and on or prior to such date. As applied to any particular Class B Note, the "Class B Principal Balance" means the portion of the overall Principal Balance represented by that Class B Note.

"Class B Pro Rata Percentage" means 10.00%.

"Class B Required Amount" means, for any Distribution Date, an amount equal to the excess of the amount described in clause 5.4(a)(vi) over the sum of (a) Available Finance Charge Collections applied to pay such amount pursuant to subsection 5.4(a) and (b) any amount withdrawn from the Cash Collateral Account and applied to pay such amount pursuant to subsection 5.10(c).

"Class C Additional Interest" is defined in subsection 5.2(d).

"Class C Deficiency Amount" is defined in subsection 5.2(d).

"Class C Incremental Funding" means any increase in the Class C Principal Balance during the Revolving Period made pursuant to the Class C Note Purchase Agreement.

"Class C Incremental Principal Balance" means the amount of the increase in the Class C Principal Balance occurring as a result of any Class C Incremental Funding, which amount shall equal the aggregate amount of the purchase prices paid by the Class C Noteholders pursuant to the Class C Note Purchase Agreement with respect to such Class C Incremental Funding.

“Class C Maximum Principal Balance” means the “Maximum Class C Principal Balance” (as defined in the Class C Note Purchase Agreement), as such amount may be increased or decreased from time to time pursuant to the Class C Note Purchase Agreement. As applied to any particular Class C Note, the “Class C Maximum Principal Balance” means the portion of the overall Maximum Principal Balance represented by that Class C Note.

“Class C Monthly Interest” is defined in subsection 5.2(d).

“Class C Monthly Principal” is defined in subsection 5.3(d).

“Class C Note Interest Rate” means 0.0%.

“Class C Note Purchase Agreement” means the Second Amended and Restated Note Purchase Agreement, dated as of May 24, 2013, entered into among Comenity Capital Bank, the Transferor and each party that purchases Class C Notes from the Transferor.

“Class C Noteholder” means the Person in whose name a Class C Note is registered in the Note Register.

“Class C Notes” means any one of the Notes executed by the Issuer and authenticated by or on behalf of the Indenture Trustee, substantially in the form of Exhibit A-4.

“Class C Principal Balance” means, on any Business Day, an amount equal to the result of (a) $121,621,621.62, plus (b) the aggregate amount of all Class C Incremental Principal Balances for all Class C Incremental Fundings occurring after the Amendment Date and on or prior to that Business Day, minus (c) the aggregate amount of principal payments made to Class C Noteholders after the Amendment Date and on or prior to such date. As applied to any particular Class C Note, the “Class C Principal Balance” means the portion of the overall Principal Balance represented by that Class C Note.

“Class C Pro Rata Percentage” means 9.00%.

“Class M Additional Interest” is defined in subsection 5.2(b).

“Class M Deficiency Amount” is defined in subsection 5.2(b).

“Class M Incremental Funding” means any increase in the Class M Principal Balance during the Revolving Period made pursuant to the applicable Class M Note Purchase Agreement.

“Class M Incremental Principal Balance” means the amount of the increase in the Class M Principal Balance occurring as a result of any Class M Incremental Funding, which amount shall equal the aggregate amount of the purchase prices paid by the Class M Noteholders pursuant to the Class M Note Purchase Agreement with respect to such Class M Incremental Funding.

"Class M Maximum Principal Balance" means the "Maximum Class M Principal Balance" (as defined in the Class M Note Purchase Agreement), as such amount may be increased or decreased from time to time pursuant to the Class M Note Purchase Agreement. As applied to any particular Class M Note, the "Class M Maximum Principal Balance" means the portion of the overall Class M Maximum Principal Balance represented by that Class M Note.

"Class M Monthly Interest" is defined in subsection 5.2(b).

"Class M Monthly Principal" is defined in subsection 5.3(b).

"Class M Note Interest Rate" means 0.00%.

"Class M Note Purchase Agreement" means the Note Purchase Agreement, dated as of December 1, 2015 entered into among Comenity Capital Bank, the Transferor and each party that purchases Class M Notes from the Transferor.

"Class M Noteholder" means the Person in whose name a Class M Note is registered in the Note Register.

"Class M Notes" means any one of the Notes executed by the Issuer and authenticated by or on behalf of the Indenture Trustee, substantially in the form of Exhibit A-2.

"Class M Principal Balance" means, on any Business Day, an amount equal to the result of (a) $94,594,594.59, plus (b) the aggregate amount of all Class M Incremental Principal Balances for all Class M Incremental Fundings occurring after the Amendment Date and on or prior to that Business Day, minus (c) the aggregate amount of principal payments made to Class M Noteholders after the Amendment Date and on or prior to such date. As applied to any particular Class M Note, the "Class M Principal Balance" means the portion of the overall Principal Balance represented by that Class M Note.

"Class M Pro Rata Percentage" means 7.00%.

"Class M Required Amount" means, for any Distribution Date, an amount equal to the excess of the amount described in clause 5.4(a)(iv), over the sum of (a) Available Finance Charge Collections applied to pay such amount pursuant to subsection 5.4(a) and (b) any amount withdrawn from the Cash Collateral Account and applied to pay such amount pursuant to subsection 5.10(c).

"Class M Scheduled Final Payment Date" means the Distribution Date falling in the twelfth month following the month in which the Controlled Amortization Period begins.

"Closing Date" means September 28, 2009.

"Collateral Amount" means, as of any date of determination, an amount equal to (a) the Note Principal Balance minus (b) the excess, if any, of the aggregate amount of Investor Charge-Offs and

Reallocated Principal Collections over the reimbursement of such amounts pursuant to clause 5.4(a)(ix) prior to such date.

"Comenity Capital Bank" means Comenity Capital Bank, a Utah industrial bank, formerly known as World Financial Capital Bank.

"Controlled Amortization Amount" means for any Transfer Date with respect to the Controlled Amortization Period prior to the payment in full of the Note Principal Balance, an amount equal to (a) the Note Principal Balance as of the close of business on the last day of the Revolving Period divided by (b) twelve.

"Controlled Amortization Date" means the first day of the first Monthly Period that occurs on or after the Purchase Expiration Date under the Class A Note Purchase Agreement.

"Controlled Amortization Period" means, unless a Series 2009-VFN Early Amortization Event or a Trust Early Amortization Event shall have occurred prior thereto, the period commencing at the opening of business on the first Controlled Amortization Date to occur (without being extended as provided in the applicable Note Purchase Agreement) and ending on the earlier to occur of (a) the commencement of the Early Amortization Period, and (b) the Series Termination Date, provided that Transferor may, by 2 Business Days' prior written notice to the Indenture Trustee and each Series 2009-VFN Noteholder (and so long as the Early Amortization Period has not begun), cause the Controlled Amortization Period to begin on any date earlier than the one otherwise specified above.

"Controlled Amortization Shortfall" initially means zero and thereafter means, with respect to any Monthly Period during the Controlled Amortization Period, the excess, if any, of the Controlled Payment Amount for the previous Monthly Period over the sum of the amount distributed pursuant to subsection 6.2(a) with respect to the Class A Notes for the previous Monthly Period, the amount distributed pursuant to subsection 6.2(b) with respect to the Class M Notes for the previous Monthly Period, the amount distributed pursuant to subsection 6.2(c) with respect to the Class B Notes for the previous Monthly Period and the amount distributed pursuant to subsection 6.2(d) with respect to the Class C Notes for the previous Monthly Period.

"Controlled Payment Amount" means, with respect to any Transfer Date, the sum of (a) the Controlled Amortization Amount for such Transfer Date and (b) any existing Controlled Amortization Shortfall.

"Day Count Fraction" means, as to any Class A Ownership Tranche (or Class A Funding Tranche), any Class M Note, any Class B Note or any Class C Note for any Distribution Period, a fraction (a) the numerator of which is the number of days in that Distribution Period (or, if less, the number of days during that Distribution Period during which that Class A Ownership Tranche, Class A Funding Tranche, Class M Note, Class B Note or Class C Note was outstanding, including the first, but excluding the last, such day) and (b) the denominator of which is the actual number of days in the related calendar year (or, if so specified in the related Note Purchase Agreement, 360).

"Default Amount" means, as to any Defaulted Account, the amount of Principal Receivables (other than Ineligible Receivables, unless there is an Insolvency Event with respect to Comenity Capital Bank or the Transferor) in such Defaulted Account on the day it became a Defaulted Account.

"Defaulted Account" means an Account in which there are Defaulted Receivables.

"Designated LIBOR Page" means Reuters Screen LIBOR01 page or such other page as may replace such page on that service or other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates of U.S. dollar deposits.

"Designated Maturity" means, for any LIBOR Determination Date, one month.

"Dilution" means any downward adjustment made by Servicer in the amount of any Receivable (a) because of a rebate, refund or billing error to an accountholder, (b) because such Receivable was created in respect of merchandise which was refused or returned by an accountholder or (c) for any other reason other than receiving Collections therefor or charging off such amount as uncollectible.

"Distribution Account" is defined in subsection 5.9(a).

"Distribution Date" means November 16, 2009 and the 15th day of each calendar month thereafter, or if such 15th day is not a Business Day, the next succeeding Business Day.

"Distribution Period" means, for any Distribution Date, the period from and including the Distribution Date immediately preceding such Distribution Date (or, in the case of the first Distribution Date, from and including the Closing Date) to but excluding such Distribution Date.

"Early Amortization Period" means the period commencing on the date on which a Trust Early Amortization Event or a Series 2009-VFN Early Amortization Event is deemed to occur and ending on the Series Termination Date.

"Eligible Investments" is defined in Annex A to the Indenture; provided that in no event shall any Eligible Investment be an equity security or cause the Trust to have any voting rights in respect of such Eligible Investment.

"Excess Spread Percentage" means, for any Monthly Period, a percentage equal to the Portfolio Yield for such Monthly Period, minus the Base Rate for such Monthly Period.

"Finance Charge Account" is defined in Section 5.9(a).

"Finance Charge Collections" means Collections of Finance Charge Receivables.

"Finance Charge Shortfall" is defined in Section 5.7.

"Fixed Allocation Period" means either a Controlled Amortization Period or an Early Amortization Period.

"Group One" means Series 2009-VFN and each other Series specified in the related Indenture Supplement to be included in Group One.

"Investor Charge-Offs" is defined in Section 5.5.

"Investor Default Amount" means, with respect to any Defaulted Account, an amount equal to the product of (a) the Default Amount and (b) the Allocation Percentage on the day such Account became a Defaulted Account.

"Investor Finance Charge Collections" means, for any Monthly Period, an amount equal to the aggregate amount of Finance Charge Collections (including Net Recoveries treated as Finance Charge Collections) retained or deposited in the Finance Charge Account for Series 2009-VFN pursuant to clause 5.1(b)(i) for such Monthly Period.

"Investor Principal Collections" means, for any Monthly Period, an amount equal to the aggregate amount of Principal Collections retained or deposited in the Principal Account for Series 2009-VFN pursuant to clause 5.1(b)(ii) for such Monthly Period.

"Investor Uncovered Dilution Amount" means an amount equal to the product of (x) the Series Allocation Percentage for the related Monthly Period (determined on a weighted average basis, if one or more Reset Dates occur during that Monthly Period), times (y) the aggregate Dilutions occurring during that Monthly Period as to which any deposit is required to be made to the Excess Funding Account pursuant to subsection 3.8(a) of the Transfer and Servicing Agreement but has not been made, provided that, to the extent the Transferor Amount is greater than zero at the time the deposit referred to in clause (y) is required to be made, the Investor Uncovered Dilution Amount for such amount to be deposited shall be deemed to be zero.

"LIBOR" means, for any Distribution Period, an interest rate per annum for each Distribution Period determined by the Indenture Trustee in accordance with the provisions of Section 5.12.

"LIBOR Determination Date" means (i) September 26, 2009 for the period from and including the Closing Date through and including November 15, 2009 and (ii) the second London Business Day prior to the commencement of the second and each subsequent Distribution Period.

"London Business Day" means any day on which dealings in deposits in United States dollars are transacted in the London interbank market.

"Mandatory Limited Amortization Amount" means, for any Transfer Date with respect to the Mandatory Limited Amortization Period (beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Mandatory Limited Amortization Period begins) and the

Transfer Date in the Monthly Period in which the Controlled Amortization Period commences (unless the Non-Renewing Purchaser Class A Principal Balance shall have been reduced to zero prior to such date), the lesser of (a) the Non-Renewing Purchaser Class A Principal Balance as of the Mandatory Limited Amortization Date, divided by 12 (with the quotient rounded up to the nearest dollar) and (b) the excess of the Non-Renewing Purchaser Class A Principal Balance over the Mandatory Limited Amortization Target.

"Mandatory Limited Amortization Date" means, the Purchase Expiration Date (without giving effect to a requested extension) but only if all of the following have occurred: (x) the Transferor has requested an extension of such Purchase Expiration Date, (y) there are one or more Non-Renewing Ownership Groups and (z) the Issuer has not repaid the outstanding Non-Renewing Purchaser Class A Principal Balance on or prior to the related Purchase Expiration Date (without giving effect to the requested extension).

"Mandatory Limited Amortization Period" means the period commencing on the first day of the first Monthly Period that commences on or after the Mandatory Limited Amortization Date and ending the earliest to occur of (x) the payment in full of the Non-Renewing Purchaser Class A Principal Balance, (y) the commencement of the Controlled Amortization Period or the Early Amortization Period and (z) the Series Termination Date.

"Mandatory Limited Amortization Shortfall" means, with respect to any Payment Date, the excess, if any, of (a) the Mandatory Limited Payment Amount for the preceding Payment Date over (b) the amounts paid pursuant to Section 5.4(b) with respect to Class A Monthly Principal and Class B Monthly Principal.

"Mandatory Limited Amortization Target" means, with respect to any Transfer Date, (a) the Non-Renewing Purchaser Class A Principal Balance as of the Mandatory Limited Amortization Date less (b) the product (rounded up to the nearest dollar) of (i) a fraction, the numerator of which is the number of full Monthly Periods that have elapsed during the Mandatory Limited Amortization Period as of such Transfer Date (which, for the avoidance of doubt, shall exclude the Monthly Period in which such Transfer Date falls), and the denominator of which is 12 and (ii) the Non-Renewing Purchaser Class A Principal Balance as of the Mandatory Limited Amortization Date.

"Mandatory Limited Payment Amount" means, with respect to any Transfer Date with respect to the Mandatory Limited Amortization Period, beginning with the Payment Date in the Monthly Period immediately following the Monthly Period in which the Mandatory Limited Amortization Period begins, and the Transfer Date in the Monthly Period in which the Controlled Amortization Period commences (unless the Non-Renewing Purchaser Class A Principal Balance shall have been reduced to zero prior to such date), the sum of (a) the Mandatory Limited Amortization Amount for such Payment Date, plus (b) any existing Mandatory Limited Amortization Shortfall.

"Maximum Principal Balance" means the sum of (a) the Class A Maximum Principal Balance, (b) the Class M Maximum Principal Balance, (c) the Class B Maximum Principal Balance and (d) the Class C Maximum Principal Balance.

"Monthly Interest" means, for any Distribution Date, the sum of the Class A Monthly Interest, the Class M Monthly Interest, the Class B Monthly Interest and the Class C Monthly Interest for such Distribution Date.

"Monthly Period" means the period from and including the first day of the calendar month preceding a related Distribution Date to and including the last day of such calendar month; provided that the Monthly Period related to the November 2009 Distribution Date shall mean the period from and including the Closing Date to and including the last day of October 2009.

"Monthly Principal" means, on any Distribution Date, the sum of the Class A Monthly Principal, the Class M Monthly Principal, the Class B Monthly Principal and the Class C Monthly Principal with respect to such date.

"Monthly Principal Reallocation Amount" means, for any Monthly Period, an amount equal to the sum of:

(a) the lesser of (i) the Class A Required Amount and (ii) the greater of (A)(x) the sum of the Class M Principal Balance, the Class B Principal Balance and the Class C Principal Balance minus (y) the sum of (I) the amount of unreimbursed Investor Charge-Offs (after giving effect to Investor Charge-Offs for the related Monthly Period) and (II) unreimbursed Reallocated Principal Collections (as of the previous Distribution Date) and (B) zero; and

(b) the lesser of (i) the Class M Required Amount and (ii) the greater of (A)(x) the sum of the Class B Principal Balance and the Class C Principal Balance minus (y) the sum of (I) the amount of unreimbursed Investor Charge-Offs (after giving effect to Investor Charge-Offs for the related Monthly Period) and (II) unreimbursed Reallocated Principal Collections (as of the previous Distribution Date and as required in clause (a) above for the current Monthly Period) and (B) zero; and

(c) the lesser of (i) the Class B Required Amount and (ii) the greater of (A)(x) the Class C Principal Balance minus (y) the sum of (I) the amount of unreimbursed Investor Charge-Offs (after giving effect to Investor Charge-Offs for the related Monthly Period) and (II) unreimbursed Reallocated Principal Collections (as of the previous Distribution Date and as required in clauses (a) and (b) above for the current Monthly Period) and (B) zero.

"Non-Renewing Ownership Group" means, commencing on the related Mandatory Limited Amortization Date, any Class A Ownership Group that has not consented to the extension of the Purchase Expiration Date when requested as described in the Class A Note Purchase Agreement.

"Non-Renewing Purchaser Class A Principal Balance" means the outstanding principal balance of the Class A Notes allocated to Non-Renewing Ownership Groups.

"Non-Renewing Purchaser Scheduled Distribution Date" means the Distribution Date falling in the twelfth month following the month in which the Mandatory Limited Amortization Period begins.

"Note Principal Balance" means, as of any Business Day, the sum of (a) the Class A Principal Balance, (b) the Class M Principal Balance, (c) the Class B Principal Balance and (d) the Class C Principal Balance.

"Note Purchase Agreements" means the Class A Note Purchase Agreement, the Class M Note Purchase Agreement, the Class B Note Purchase Agreement and the Class C Note Purchase Agreement.

"Noteholder Servicing Fee" is defined in Section 3.1.

"Optional Amortization Amount" is defined in subsection 4.1(b).

"Optional Amortization Date" is defined in subsection 4.1(b).

"Optional Amortization Notice" is defined in subsection 4.1(b).

"Percentage Allocation" is defined in subsection 5.1(b)(ii)(y).

"Portfolio Yield" means, for any Monthly Period, the annualized percentage equivalent of a fraction, (a) the numerator of which is equal to (i) the Available Finance Charge Collections (excluding any Excess Finance Charge Collections), minus (ii) the Aggregate Investor Default Amount and the Investor Uncovered Dilution Amount for such Monthly Period and (b) the denominator of which is the Weighted Average Collateral Amount during such Monthly Period.

"Principal Account" is defined in subsection 5.9(a).

"Principal Collections" means Collections of Principal Receivables.

"Principal Shortfall" is defined in Section 5.8.

"Purchase Expiration Date" has the meaning specified in the Class A Note Purchase Agreement.

"Purchaser" means a "Purchaser" as defined in the Class A Note Purchase Agreement.

"Quarterly Excess Spread Percentage" means (a) with respect to the November 2009 Distribution Date, the Excess Spread Percentage for such Distribution Date, (b) with respect to the December 2009 Distribution Date, the percentage equivalent of a fraction the numerator of which is the sum of (i) the Excess Spread Percentage for the November 2009 Distribution Date and (ii) the Excess Spread Percentage with respect to the December 2009 Distribution Date and the denominator of which is two, (c) with respect to the January 2010 Distribution Date, the percentage equivalent of a fraction the numerator of which is the sum of (i) the Excess Spread Percentage for the November 2009 Distribution Date (ii) the Excess Spread Percentage with respect to the December 2009 Distribution Date and (iii) the Excess Spread Percentage with respect to the January 2010 Distribution Date and the denominator of which is three and (d) with respect to the February 2010 Distribution Date and each Distribution Date thereafter, the percentage equivalent of a fraction the numerator of which is the sum of the Excess Spread Percentages determined with respect to such Distribution Date and the immediately preceding two Distribution Dates and the denominator of which is three.

"Quarterly Payment Rate Percentage" means, with respect to any Distribution Date, the percentage equivalent of a fraction, the numerator of which is the sum of the Payment Rate Percentages determined with respect to such Distribution Date and the immediately preceding two Distribution Dates, and the denominator of which is three. For purposes of the foregoing calculation, the "Payment Rate Percentage" for any Distribution Date shall equal the percentage equivalent of a faction, the numerator which is the aggregate Collections received during the immediately preceding Monthly Period, and the denominator of which is the total Principal Receivables held by the Trust as of the opening of business on the first day of such immediately preceding Monthly Period.

"Rating Agency" means, with respect to the Class A Notes, the Class M Notes and the Class B Notes, Fitch.

"Rating Agency Condition" means, with respect to Series 2009-VFN and any action subject to such condition, (i) if any Class of Series 2009-VFN Notes is rated by a Rating Agency designated for such Class other than Fitch, the notification in writing by each Rating Agency (other than Fitch) to Servicer that such action will not result in the Rating Agency reducing or withdrawing its then existing rating of such Class of Series 2009-VFN Notes, (ii) if Fitch is a Rating Agency for any Class of Series 2009-VFN Notes, 10 days' prior written notice (or, if 10 days' advance notice is impracticable, as much advance notice as is practicable) to Fitch delivered electronically to notifications.abs@fitchratings.com and (iii) if there are no Rating Agencies designated for any Class of Series 2009-VFN Notes, the consent of the holders of Series 2009-VFN Notes holding 66 2/3% of the Note Principal Balance of the Series 2009-VFN Notes which are not rated by a Rating Agency.

"Reallocated Principal Collections" means, for any Transfer Date, Investor Principal Collections applied in accordance with Section 5.6 in an amount not to exceed the Monthly Principal Reallocation Amount for the related Monthly Period.

"Reassignment Amount" means, for any Transfer Date, after giving effect to any deposits and distributions otherwise to be made on the related Distribution Date, the sum of (i) the Note Principal Balance on the related Distribution Date, plus (ii) Monthly Interest for the related Distribution Date and any Monthly Interest previously due but not distributed to the Series 2009-VFN Noteholders, plus (iii) the amount of Class M Additional Interest, if any, for the related Distribution Date and any Class M Additional Interest previously due but not distributed to the Series 2009-VFN Noteholders on a prior Distribution Date, plus (iv) the amount of Class B Additional Interest, if any, for the related Distribution Date and any Class B Additional Interest previously due but not distributed to the Series 2009-VFN Noteholders on a prior Distribution Date, plus (v) the amount of Class C Additional Interest, if any, for the related Distribution Date and any Class C Additional Interest previously due but not distributed to the Series 2009-VFN Noteholders on a prior Distribution Date, plus (vi) the amount of Class A Non-Use Fees, if any, for the related Distribution Date and any Class A Non-Use Fees previously due but not distributed to the Series 2009-VFN Noteholders on a prior Distribution Date, plus (vii) the amount of Class A Additional Amounts, if any, for the related Distribution Date and any Class A Additional Amounts previously due but not distributed to the Series 2009-VFN Noteholders on a prior Distribution Date.

"Record Date" means, for purposes of Series 2009-VFN with respect to any Distribution Date or Optional Amortization Date, the date falling five Business Days prior to such date.

"Reference Banks" means four major banks in the London interbank market selected by the Servicer.

"Refinancing Date" is defined in subsection 4.1(c).

"Required Cash Collateral Amount" means, as of any Determination Date, an amount equal to the excess of (i) the total Principal Receivables outstanding relating to Bankrupt Merchants as of the end of the related Monthly Period over (ii) the product of (A) 20.0% and (B) the total Principal Receivables as of the end of the related Monthly Period.

"Required Cash Collateral Amount Trigger Date" means the date on which the Required Cash Collateral Amount shall first become an amount greater than zero.

"Required Class B Principal Balance" means, as of any date of determination, the product of the Class B Pro Rata Percentage times the Note Principal Balance.

"Required Class C Principal Balance" means, as of any date of determination, the product of the Class C Pro Rata Percentage times the Note Principal Balance.

"Required Class M Principal Balance" means, as of any date of determination, the product of the Class M Pro Rata Percentage times the Note Principal Balance.

"Required Draw Amount" is defined in subsection 5.10(c).

"Required Retained Transferor Percentage" means, for purposes of Series 2009-VFN, 8.0%.

"Reset Date" means:

(a) each Addition Date relating to Supplemental Accounts;

(b) each Removal Date on which, if any Series of Notes has been paid in full, Principal Receivables equal to the initial Collateral Amount or initial principal balance for that Series are removed from the Issuer;

(c) each date on which there is an increase in the outstanding balance of any Variable Interest; and

(d) each date on which a new Series or Class of Notes is issued.

"Revolving Period" means the period from and including the Closing Date to, but not including, the earlier of (a) the day the Controlled Amortization Period commences and (b) the day the Early Amortization Period commences. For the avoidance of doubt, the Revolving Period shall not terminate upon the commencement of a Mandatory Limited Amortization Period; provided that for purposes of Section 8.5 of the Master Indenture, the Mandatory Limited Amortization Period shall be deemed to be an Amortization Period.

"Series 2009-VFN" means the Series of Notes the terms of which are specified in this Indenture Supplement.

"Series 2009-VFN Early Amortization Event" is defined in Section 7.1.

"Series 2009-VFN Note" means a Class A Note, a Class M Note, a Class B Note or a Class C Note.

"Series 2009-VFN Noteholder" means a Class A Noteholder, a Class M Noteholder, a Class B Noteholder or a Class C Noteholder.

"Series Account" means, (a) with respect to Series 2009-VFN, the Finance Charge Account, the Principal Account, the Distribution Account and the Cash Collateral Account, and (b) with respect to any other Series, the "Series Accounts" for such Series as specified in the Indenture and the applicable Indenture Supplement for such Series.

"Series Allocation Percentage" means, with respect to any Monthly Period, the percentage equivalent of a fraction, the numerator of which is the Allocation Percentage for Finance Charge Collections for that Monthly Period and the denominator of which is the sum of the Allocation Percentage for Finance Charge Receivables for all outstanding Series on such date of determination; provided that if one or more Reset Dates occur in a Monthly Period, the Series Allocation Percentages for the portion of the Monthly Period falling on and after each such Reset Date and prior to any subsequent Reset Date will be determined using a denominator which is equal to the sum of the numerators used in determining the Allocation Percentage for Finance Charge Receivables for all outstanding Series as of the close of business on the subject Reset Date.

"Series Servicing Fee Percentage" means 2.0% per annum.

"Series Termination Date" means the earliest to occur of (a) the Distribution Date falling in a Fixed Allocation Period on which the Collateral Amount is paid in full, (b) the termination of the Trust pursuant to the Agreement, (c) the Distribution Date on or closest to the date falling 46 months after the commencement of the Early Amortization Period and (d) the Distribution Date on or closest to the date falling 58 months after the commencement of the Controlled Amortization Period.

"Specified Transferor Amount" means, as of any date of determination, the Minimum Transferor Amount as of such date of determination.

"Target Amount" is defined in clause 5.1(b)(i).

"Transfer" means any sale, transfer, assignment, exchange, participation, pledge, hypothecation, rehypothecation, or other grant of a security interest in or disposition of, a Note.

"Weighted Average Class A Principal Balance" means, as to any Class A Ownership Tranche (or Class A Funding Tranche) for any Distribution Period, the quotient of (a) the summation of the portion of the Class A Principal Balance allocated to that Class A Ownership Tranche (or Class A Funding Tranche) determined as of each day in that Distribution Period, divided by (b) the number of days in that Distribution Period (or, if less, the number of days during that Distribution Period during which that Class A Ownership Tranche or Class A Funding Tranche was outstanding).

"Weighted Average Collateral Amount" means, for any Monthly Period, the quotient of (a) the summation of the Collateral Amount determined as of each day in that Monthly Period, divided by (b) the number of days in that Monthly Period.

(b) Each capitalized term defined herein shall relate to the Series 2009-VFN Notes and no other Series of Notes issued by the Trust, unless the context otherwise requires. All capitalized terms used herein and not otherwise defined herein have the meanings ascribed to them in Annex A to the Indenture, or, if not defined therein, in the Class A Note Purchase Agreement.

(c) The interpretive rules specified in Section 1.2 of the Indenture also apply to this Indenture Supplement. If any term or provision contained herein shall conflict with or be inconsistent with any term or provision contained in the Indenture, the terms and provisions of this Indenture Supplement shall be controlling.

ARTICLE III.

Noteholder Servicing Fee

Section 3.1 Servicing Compensation. The share of the Servicing Fee allocable to Series 2009-VFN for any Transfer Date (the "Noteholder Servicing Fee") shall be equal to one-twelfth of the product of (a) the Series Servicing Fee Percentage and (b) the Weighted Average Collateral Amount for the preceding Monthly Period; provided, however, that with respect to the first Transfer Date, the Noteholder Servicing Fee shall instead equal 33/360 of such product. The remainder of the Servicing Fee shall be paid by the holders of the Transferor Interest or the noteholders of other Series (as provided in the related Indenture Supplements), and in no event shall the Trust, the Indenture Trustee or the Series 2009-VFN Noteholders be liable for the share of the Servicing Fee to be paid by the holders of the Transferor Interest or the noteholders of any other Series.

ARTICLE IV.

Variable Funding Mechanics

Section 4.1 Variable Funding Mechanics

(a) Class A Incremental Fundings. From time to time during the Revolving Period and prior to the Purchase Expiration Date, Transferor and Servicer may notify one or more Class A Administrative Agents that a Class A Incremental Funding will occur, subject to the conditions of the Class A Note Purchase Agreement, with respect to the related Class A Ownership Group(s) on the next or any subsequent Business Day by delivering a Notice of Incremental Funding (as defined in the Class A Note Purchase Agreement) executed by Transferor and Servicer to the Class A Administrative Agent for each such Class A Ownership Group, specifying the amount of such Class A Incremental Funding and the Business Day upon which such Class A Incremental Funding is to occur, provided that a Class A Incremental Funding shall not be requested from a Class A Administrative Agent for an Ownership Group that is a Non-Renewing Ownership Group if the Incremental Funding would occur on or after the Purchase Expiration Date (without giving effect to any requested extension of the Purchase Expiration to which the related Non-Renewing Ownership Group did not consent). The amount of Class A Incremental Funding allocated to each Class A Ownership Group shall be a minimum amount of $1,000,000 or a higher integral multiple thereof for each Class A Ownership Group, except that a Class A Incremental Funding may be requested in the entire remaining Class A Purchase Limit of the related Class A Ownership Group. Upon any Class A Incremental Funding, the Class A Principal Balance, the Collateral Amount, the Note Principal Balance and the Allocation Percentage shall increase as provided herein. For each Class A Incremental Funding, the Class A Principal Balance shall increase in an amount equal to the Class A Incremental Principal Balance. The increase in the Class A Principal Balance shall be allocated to the Class A Notes held by the Class A Noteholders from which purchase prices were received in connection with the Class A Incremental Funding in proportion to the amount of such purchase prices received.

(b) Optional Amortization. On any Business Day in the Revolving Period or the Controlled Amortization Period, Transferor may cause Servicer to provide notice to the Indenture Trustee, the Class M Noteholders, the Class B Noteholders, the Class C Noteholders and the Class A Administrative Agents for affected Class A Ownership Groups (an "Optional Amortization Notice") at least two Business Days prior to any Business Day (the "Optional Amortization Date") stating its intention to cause a full or partial amortization of the Class A Notes, the Class M Notes, the Class B Notes and the Class C Notes with Available Principal Collections on the Optional Amortization Date, in full or in part, in an amount (the "Optional Amortization Amount"), which shall be allocated among the Class A Notes, the Class M Notes, the Class B Notes and the Class C Notes, based on the Class A Pro Rata Percentage, the Class M Pro Rata Percentage, the Class B Pro Rata Percentage and the Class C Pro Rata Percentage, respectively; provided that if as a result of the payment of a Mandatory Limited Payment Amount, the Class B Principal Balance exceeds the Required Class B Principal Balance or the Class C Principal Balance exceeds the Required Class C Principal Balance, the Optional Amortization Amount may be allocated on a non-pro rata basis among the Classes of Series 2009-VFN Notes in order to reduce the Class B Principal Balance to an amount not less than the Required Class B Principal Balance and to reduce the Class C Principal Balance to an amount not less than the Required Class C Principal Balance. The portion of the Optional Amortization Amount allocated to any Class A Ownership Group shall be in an aggregate amount not less than $1,000,000 or a higher integral multiple thereof, except that the Optional Amortization Amount allocated to any Class A Ownership Group may equal the entire Principal Balance of the related Class A Note for such Class A Ownership Group. The Optional Amortization Notice shall state the Optional Amortization Date, the Optional Amortization Amount and the allocation of such Optional Amortization Amount among the various Classes and Class A Ownership Groups. The Optional Amortization Amount shall be paid from Shared Principal Collections pursuant to Section 8.5 of the Master Indenture and Section 5.8. Accrued interest and any Class A Additional Amounts, payable to each affected Class A Ownership Group shall be payable on the first Distribution Date on or after the related Optional Amortization Date. On the Business Day prior to each Optional Amortization Date, Servicer shall instruct the Indenture Trustee in writing (which writing shall be substantially in the form of Exhibit B) to withdraw from the Collection Account and deposit in the Distribution Account, to the extent of the available funds held therein as Shared Principal Collections pursuant to Section 5.8, an amount sufficient to pay the Optional Amortization Amount on that Optional Amortization Date, and the Indenture Trustee, acting in accordance with such instructions, shall on such Business Day make such withdrawal and deposit.

(c) Refinanced Optional Amortization. On any Business Day in the Revolving Period or the Controlled Amortization Period, Transferor may, with the consent of each affected Series 2009-VFN Noteholder, cause Servicer to provide notice to the Indenture Trustee and all of the Series 2009-VFN Noteholders at least five Business Days prior to any Business Day (the "Refinancing Date") stating its intention to cause the Series 2009-VFN Notes to be prepaid in full or in part on the Refinancing Date by causing all or a portion of the Collateral Amount to be conveyed to one or more Persons (who may be the Noteholders of a new Series issued substantially contemporaneously with such prepayment) for a cash purchase price in an amount equal to the sum of (i) the Collateral Amount (or the portion thereof that is being conveyed), plus (ii) accrued and unpaid interest on the Collateral Amount (or the portion thereof that is being conveyed) through the Refinancing Date, plus (iii) any accrued and unpaid Class A Non-Use Fees and Class A Additional Amounts in respect of the Collateral Amount (or portion thereof that is being conveyed) through the Refinancing Date. In the case of any such conveyance, the purchase price shall be deposited in the Collection Account and shall be distributed to the applicable Series 2009-VFN Noteholders on a *pro rata* basis in accordance with the Class A Pro Rata Percentage, Class M Pro Rata Percentage, Class B Pro Rata Percentage and Class C Pro Rata Percentage and, with respect to the Class A Notes, based on the Class A Ownership Group Percentage for each Class A Ownership Group, on the Refinancing Date in accordance with the terms of this Indenture Supplement and the Indenture; provided that after giving effect to such conveyance and application of the purchase price (i) the Class M Principal Balance shall not be less than the Required Class M Principal Balance, (ii) the Class B Principal Balance shall not be less than the Required Class B Principal Balance, and (iii) the Class C Principal Balance shall not be less than the Required Class C Principal Balance.

(d) Class M Incremental Fundings. From time to time during the Revolving Period, Transferor and Servicer may, to the extent permitted by the applicable Class M Note Purchase Agreement, notify the Class M Noteholders that a Class M Incremental Funding will occur, subject to the conditions, if any, of the applicable Class M Note Purchase Agreements, on any Business Day by delivering a Notice of Class M Incremental Funding (as defined in the applicable Class M Note Purchase Agreement) executed by Transferor and Servicer to the Class M Noteholder, specifying the amount of such Class M Incremental Funding and the Business Day upon which such Incremental Funding is to occur (which shall fall at least three Business Days after the date of such Notice). Upon any Class M Incremental Funding, the Class M Principal Balance, the Collateral Amount, the Note Principal Balance and the Allocation Percentage shall increase as provided herein.

(e) Class B Incremental Fundings. From time to time during the Revolving Period, Transferor and Servicer may, to the extent permitted by the applicable Class B Note Purchase Agreement, notify the Class B Noteholders that a Class B Incremental Funding will occur, subject to the conditions, if any, of the applicable Class B Note Purchase Agreements, on any Business Day by delivering a Notice of Class B Incremental Funding (as defined in the applicable Class B Note Purchase Agreement) executed by Transferor and Servicer to the Class B Noteholder, specifying the amount of such Class B Incremental Funding and the Business Day upon which such Incremental Funding is to occur (which shall fall at least three Business Days after the date of such Notice). Upon any Class B Incremental Funding, the Class B Principal Balance, the Collateral Amount, the Note Principal Balance and the Allocation Percentage shall increase as provided herein.

(f) Class C Incremental Fundings. From time to time during the Revolving Period, Transferor and Servicer may, to the extent permitted by the Class C Note Purchase Agreement, notify the Class C Noteholders that a Class C Incremental Funding will occur, subject to the conditions, if any, of the Class C Note Purchase Agreement, on any Business Day by delivering a Notice of Class C Incremental Funding (as defined in the Class C Note Purchase Agreement) executed by Transferor and Servicer to the Class C Noteholder, specifying the amount of such Class C Incremental Funding and the Business Day upon which such Class C Incremental Funding is to occur (which shall fall at least three Business Days after the date of such notice). Upon any Class C Incremental Funding, the Class C Principal Balance, the Collateral Amount, the Note Principal Balance and the Allocation Percentage shall increase as provided herein.

ARTICLE V.

Rights of Series 2009-VFN Noteholders and Allocation and Application of Collections

Section 5.1 Collections and Allocations

(a) Allocations. Finance Charge Collections, Principal Collections and Defaulted Receivables allocated to Series 2009-VFN pursuant to Article VIII of the Indenture shall be allocated and distributed as set forth in this Article.

(b) Allocations to the Series 2009-VFN Noteholders. The Servicer shall on the Date of Processing, allocate to the Series 2009-VFN Noteholders the following amounts as set forth below:

(i) Allocations of Finance Charge Collections. The Servicer shall allocate to the Series 2009-VFN Noteholders an amount equal to the product of (A) the Allocation Percentage and (B) the aggregate Finance Charge Collections processed on such Date of Processing and shall deposit such amount into the Finance Charge Account, provided that, with respect to each Monthly Period falling in the Revolving Period (and with respect to that portion of each Monthly Period in the Controlled Amortization Period falling on or after the day on which Collections of Principal Receivables equal to the Controlled Amortization Amount have been allocated pursuant to clause 5.1(b)(ii)), so long as the Available Cash Collateral Amount is not less than the Required Cash Collateral Amount on such Date of Processing, Collections of Finance Charge Receivables shall be transferred into the Finance Charge Account only until such time as the aggregate amount so deposited equals the product of (x) 1.5 and (y) the sum (the "Target Amount") of (A) the Monthly Interest for the related Distribution Date, (B) the Class A Non-Use Fee, if any, (C) the Class A Additional Amounts, if any, (D) if Comenity Capital Bank is not the Servicer, the Noteholder Servicing Fee (and if Comenity Capital Bank is the Servicer, then amounts that otherwise would have been transferred into the Finance Charge Account pursuant to this clause (D) shall instead by returned to Comenity Capital Bank as payment of the Noteholder Servicing Fee), (E) any amount required to be deposited in the Cash Collateral Account on the related Transfer Date and (F) the sum of the Investor Default Amounts for the prior Monthly Period and any Investor Uncovered Dilution Amount for the prior Monthly Period; provided further, that, notwithstanding the preceding proviso, if on any Business Day the Servicer determines that the Target Amount for a Monthly Period exceeds the Target Amount for that Monthly Period as previously calculated by Servicer, then (x) Servicer shall (on the same Business Day) inform Transferor of such determination, and (y) within two Business Days of receiving such notice Transferor shall deposit into the Finance Charge Account funds in an amount equal to the amount of Collections of Finance Charge Receivables allocated to the Noteholders for that Monthly Period but not deposited into the Finance Charge Account due to the operation of the preceding proviso (but not in excess of the amount required so that the aggregate amount deposited for the subject Monthly Period equals the Target Amount); and provided, further, if on any Transfer Date the Transferor Amount is less than zero after giving effect to all transfers and deposits on that Transfer Date, Transferor shall, on that Transfer Date, deposit into the Principal Account funds in an amount equal to the amounts of Available Finance Charge Collections that are required to be treated as Available Principal Collections pursuant to clause 5.4(a)(viii) and (ix) but are not available from funds in the Finance Charge Account as a result of the operation of second preceding proviso.

With respect to any Monthly Period when deposits of Collections of Finance Charge Receivables into the Finance Charge Account are limited to deposits up to 1.5 times the Target Amount in accordance with clause (i) above, notwithstanding such limitation and notwithstanding the provisions of Section 8.4(a) of the Indenture: (1) Reallocated Principal Collections for the related Transfer Date shall be calculated as if the full amount of Finance Charge Collections allocated to the Noteholders during that Monthly Period had been deposited in the Finance Charge Account and applied on such Transfer Date in accordance with subsection 5.4(a); and (2) Collections of Finance Charge Receivables released to Transferor pursuant to such Section 5.1(b)(i) shall be deemed, for purposes of all calculations under this Indenture Supplement, to have been retained in the Finance Charge Account and applied to the items specified in subsections 5.4(a) to which such amounts would have been applied (and in the priority in which they would have been applied) had such amounts been available in the Finance Charge Account on such Transfer Date. To avoid doubt, the calculations referred to in the preceding clause (2) include the calculations required by clause (b) of the definition of Collateral Amount and by the definition of Portfolio Yield.

(ii) Allocations of Principal Collections. The Servicer shall allocate to the Series 2009-VFN Noteholders the following amounts as set forth below:

(x) Allocations During the Revolving Period.

(1) During the Revolving Period an amount equal to the product of the Allocation Percentage and the aggregate amount of Principal Collections processed on such Date of Processing, shall be allocated to the Series 2009-VFN Noteholders and *first*, retained in the Principal Account to the extent necessary, to pay the Mandatory Limited Payment Amount on the related Distribution Date, *second*, if any other Principal Sharing Series is outstanding and in its accumulation period or amortization period, retained in the Principal Account for application, to the extent necessary, as Shared Principal Collections for other Principal Sharing Series on the related Distribution Date, *third*, retained in the Principal Account, to the extent necessary, to pay any Optional Amortization Amount on the related Optional Amortization Date, *fourth*, deposited in the Excess Funding Account to the extent necessary so that the Transferor Amount is not less than the Minimum Transferor Amount and *fifth*, paid to the holders of the Transferor Interest.

(2) With respect to each Monthly Period falling in the Revolving Period, to the extent that Collections of Principal Receivables allocated to the Series 2009-VFN Noteholders pursuant to this clause 5.1(b)(ii) are paid to Transferor, Transferor shall make an amount equal to the Reallocated Principal Collections for the related Transfer Date available on that Transfer Date for application in accordance with Section 5.6.

(y) Allocations During the Controlled Amortization Period. During the Controlled Amortization Period an amount equal to the product of the Allocation Percentage and the aggregate amount of Principal Collections processed on such Date of Processing (the product for any such date is hereinafter referred to as a "Percentage Allocation") shall be allocated to the Series 2009-VFN Noteholders and transferred to the Principal Account until applied as provided herein; provided, however, that if the sum of such Percentage Allocation and all preceding Percentage Allocations with respect to the same Monthly Period exceeds the Controlled Payment Amount during the Controlled Amortization Period for the related Distribution Date, then such excess shall not be treated as a Percentage Allocation and shall be *first*, if any other Principal Sharing Series is outstanding and in its accumulation period or amortization period, retained in the Principal Account for application, to the extent necessary, as Shared Principal Collections to other Principal Sharing Series on the related Distribution Date, *second*, retained in the Principal Account to pay any Optional Amortization Amount on the related Optional Amortization Date, *third*, deposited in the Excess Funding Account to the extent necessary so that the Transferor Amount is not less than the Minimum Transferor Amount and *fourth*, paid to the holders of the Transferor Interest.

(z) Allocations During the Early Amortization Period. During the Early Amortization Period, an amount equal to the product of the Allocation Percentage and the aggregate amount of Principal Collections processed on such Date of Processing shall be allocated to the 2009-VFN Noteholders and transferred to the Principal Account until applied as provided herein; provided, however, that after the date on which an amount of such Principal Collections equal to the Note Principal Balance has been deposited into the Principal Account such amount shall be first, if any other Principal Sharing Series is outstanding and in its accumulation period or amortization period, retained in the Principal Account for application, to the extent necessary, as Shared Principal Collections to other Principal Sharing Series on the related Distribution Date, second deposited in the Excess Funding Account to the extent necessary so that the Transferor Amount is not less than the Minimum Transferor Amount and third paid to the holders of the Transferor Interest.

(c) During any period when Servicer is permitted by Section 8.4 of the Indenture to make a single monthly deposit to the Collection Account, amounts allocated to the Noteholders pursuant to Sections 5.1(a) and (b) with respect to any Monthly Period need not be deposited into the Collection Account or any Series Account prior to the related Transfer Date, and, when so deposited, (x) may be deposited net of any amounts required to be distributed to Transferor and, if Comenity Capital Bank is Servicer, to Servicer, and (y) shall be deposited into the Finance Charge Account (in the case of Collections of Finance Charge Receivables) and the Principal Account (in the case of Collections of Principal Receivables (not including any Shared Principal Collections allocated to Series 2009-VFN pursuant to Section 8.5 of the Indenture)).

(d) On any date, Servicer may direct the Indenture Trustee to withdraw from the Collection Account or any Series Account any amounts inadvertently deposited in such account that should have not been so deposited.

Section 5.2 Determination of Monthly Interest.

(a) Pursuant to the Class A Note Purchase Agreement, certain Class A Ownership Tranches may from time to time be divided into one or more subdivisions (each, as further specified in the Class A Note Purchase Agreement, a "Class A Funding Tranche") which will accrue interest on different bases. The amount of monthly interest ("Class A Monthly Interest") distributable from the Distribution Account with respect to the Class A Notes on any Distribution Date shall be an amount equal to the aggregate amount of interest that accrued over that Distribution Period on each Class A Funding Tranche (plus the aggregate amount of interest that accrued over any prior

Distribution Period on any Class A Funding Tranche and has not yet been paid, plus additional interest (to the extent permitted by law) on such overdue amounts at the weighted average interest rate applicable to the related Class A Ownership Tranche during that Distribution Period, and minus any overpayment of interest on the prior Distribution Date as a result of the estimation referred to below), all as determined by Servicer on the related Determination Date. For purposes of such determination, Servicer shall rely upon information provided by the various Class A Administrative Agents pursuant to the Class A Note Purchase Agreement including estimates of the interest to accrue on any Class A Funding Tranche through the related Distribution Date. The interest accrued on any Class A Ownership Tranche (or related Class A Funding Tranche) for any Distribution Period shall be determined using the applicable Class A Tranche Rate and shall equal the product of (x) the Weighted Average Class A Principal Balance for that Class A Ownership Tranche (or Class A Funding Tranche), (y) the applicable Class A Tranche Rate and (z) the applicable Day Count Fraction.

(b) The amount of monthly interest ("Class M Monthly Interest") distributable from the Distribution Account with respect to the Class M Notes on any Distribution Date shall be an amount equal to the product of (i) (A) a fraction, the numerator of which is the actual number of days in the related Distribution Period and the denominator of which is 360, times (B) the Class M Note Interest Rate in effect with respect to the related Distribution Period and (ii) the average Class M Principal Balance outstanding during the preceding Monthly Period.

On the Determination Date preceding each Distribution Date, the Servicer shall determine the excess, if any (the "Class M Deficiency Amount"), of (x) the aggregate amount accrued pursuant to this subsection 5.2(b) as of the prior Distribution Date over (y) the amount of funds actually transferred from the Distribution Account for payment of such amount. If the Class M Deficiency Amount for any Distribution Date is greater than zero, on each subsequent Distribution Date until such Class M Deficiency Amount is fully paid, an additional amount ("Class M Additional Interest") equal to the product of (i) (A) a fraction, the numerator of which is the actual number of days in the related Distribution Period and the denominator of which is 360, times (B) the Class M Note Interest Rate in effect with respect to the related Distribution Period and (ii) such Class M Deficiency Amount (or the portion thereof which has not been paid to the Class M Noteholders) shall be payable as provided herein with respect to the Class M Notes. Notwithstanding anything to the contrary herein, Class M Additional Interest shall be payable or distributed to the Class M Noteholders only to the extent permitted by applicable law.

(c) The amount of monthly interest ("Class B Monthly Interest") distributable from the Distribution Account with respect to the Class B Notes on any Distribution Date shall be an amount equal to the product of (i) (A) a fraction, the numerator of which is the actual number of days in the related Distribution Period and the denominator of which is 360, times (B) the Class B Note Interest Rate in effect with respect to the related Distribution Period and (ii) the average Class B Principal Balance outstanding during the preceding Monthly Period.

On the Determination Date preceding each Distribution Date, the Servicer shall determine the excess, if any (the "Class B Deficiency Amount"), of (x) the aggregate amount accrued pursuant to this subsection 5.2(c) as of the prior Distribution Date over (y) the amount of funds actually transferred from the Distribution Account for payment of such amount. If the Class B Deficiency Amount for any Distribution Date is greater than zero, on each subsequent Distribution Date until such Class B Deficiency Amount is fully paid, an additional amount ("Class B Additional Interest") equal to the product of (i) (A) a fraction, the numerator of which is the actual number of days in the related Distribution Period and the denominator of which is 360, times (B) the Class B Note Interest Rate in effect with respect to the related Distribution Period and (ii) such Class B Deficiency Amount (or the portion thereof which has not been paid to the Class B Noteholders) shall be payable as provided herein with respect to the Class B Notes. Notwithstanding anything to the contrary herein, Class B Additional Interest shall be payable or distributed to the Class B Noteholders only to the extent permitted by applicable law.

(d) The amount of monthly interest ("Class C Monthly Interest") distributable from the Distribution Account with respect to the Class C Notes on any Distribution Date shall be an amount equal to the product of (i) (A) a fraction, the numerator of which is the actual number of days in the related Distribution Period and the denominator of which is 360, times (B) the Class C Note Interest Rate in effect with respect to the related Distribution Period and (ii) the average Class C Principal Balance outstanding during the preceding Monthly Period.

On the Determination Date preceding each Distribution Date, the Servicer shall determine the excess, if any (the "Class C Deficiency Amount"), of (x) the aggregate amount accrued pursuant to this subsection 5.2(d) as of the prior Distribution Date over (y) the amount of funds actually transferred from the Distribution Account for payment of such amount. If the Class C Deficiency Amount for any Distribution Date is greater than zero, on each subsequent Distribution Date until such Class C Deficiency Amount is fully paid, an additional amount ("Class C Additional Interest") equal to the product of (i) (A) a fraction, the numerator of which is the actual number of days in the related Distribution Period and the denominator of which is 360, times (B) the Class C Note Interest Rate in effect with respect to the related Distribution Period and (ii) such Class C Deficiency Amount (or the portion thereof which has not been paid to the Class C Noteholders) shall be payable as provided herein with respect to the Class C Notes. Notwithstanding anything to the contrary herein, Class C Additional Interest shall be payable or distributed to the Class C Noteholders only to the extent permitted by applicable law.

(e) If any distribution of principal is made with respect to any Class A Funding Tranche funded through the issuance of commercial paper notes or accruing interest based on LIBOR other than on (i) the day on which the related funding source, to the extent subject to a contracted maturity date, matures or (ii) a Distribution Date, or if the Class A Principal Balance of any Class A Ownership Tranche is reduced by an Optional Amortization Amount in an amount greater than the amount (if any) specified in the Class A Note Purchase Agreement with respect to that Class A Ownership Tranche without the applicable number (as specified in the Class A Note Purchase Agreement) of Business Days' prior notice to the affected Series 2009-VFN Noteholder, and in either case (i) the interest paid by the Class A Noteholder holding that Class A Funding Tranche to providers of funds to it to fund that Class A Funding Tranche exceeds (ii) returns earned by that Class A Noteholder through the related Distribution Date (or, if earlier, the maturity date for the related funding source) by redeployment of such funds in highly rated short-term money market instruments, then, upon written notice (which notice shall be signed by an officer of that Class A

Noteholder with knowledge of and responsibility for such matters and shall set forth in reasonable detail the basis for requesting the amounts) from such Class A Noteholder to Servicer, such Class A Noteholder shall be entitled to receive additional amounts in the amount of such excess (each, a "Class A Breakage Payment") on the Distribution Date on or after the date such distribution of principal is made with respect to that Class A Funding Tranche, so long as such written notice is received not later than noon, New York City time, on the Transfer Date related to such Distribution Date. For purposes of calculations under this paragraph, any payment received by a Class A Noteholder later than noon, New York City time, on any day shall be deemed to have been received on the next day.

Section 5.3 Determination of Class A Monthly Principal, Class M Monthly Principal, Class B Monthly Principal and Class C Monthly Principal.

(a) The amount of monthly principal (the "Class A Monthly Principal") to be transferred from the Principal Account with respect to the Class A Notes (i) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to the end of the Monthly Period immediately preceding such Transfer Date), shall be equal to the least of (w) the Class A Pro Rata Percentage of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (x) the Class A Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6), and (z) the Class A Principal Balance, (ii) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Early Amortization Period begins, shall be equal to the least of (x) the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6), and (z) the Class A Principal Balance and (iii) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Mandatory Limited Amortization Period begins and ending on the Transfer Date in the Monthly Period in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to the end of the Monthly Period immediately preceding such Transfer Date), shall be equal to the least of (x) the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (y) prior to the Non-Renewing Purchaser Scheduled Distribution Date, the Mandatory Limited Payment Amount for such Transfer Date, and (z) the Non-Renewing Purchaser Class A Principal Balance.

(b) The amount of monthly principal (the "Class M Monthly Principal") to be transferred from the Principal Account with respect to the Class M Notes (i) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to the end of the Monthly Period immediately preceding such Transfer Date), shall be equal to the least of (w) the Class M Pro Rata Percentage of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (x) the Class M Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6 and the payment of Class A Monthly Principal), and (z) the Class M Principal Balance, and (ii) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Early Amortization Period begins, shall be equal to the least of (x) the excess of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date over the portion of such Available Principal Collections applied to Class A Monthly Principal on such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6 and the payment of the Class A Monthly Principal), and (z) the Class M Principal Balance.

(c) The amount of monthly principal (the "Class B Monthly Principal") to be transferred from the Principal Account with respect to the Class B Notes (i) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to the end of the Monthly Period immediately preceding such Transfer Date), shall be equal to the least of (w) the Class B Pro Rata Percentage of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (x) the Class B Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6 and the payment of Class A Monthly Principal and Class M Monthly Principal), and (z) the Class B Principal Balance, and (ii) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Early Amortization Period begins, shall be equal to the least of (x) the excess of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date over the portion of such Available Principal Collections applied to Class A Monthly Principal and Class M Monthly Principal on such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6 and the payment of Class A Monthly Principal and Class M Monthly Principal), and (z) the Class B Principal Balance.

(d) The amount of monthly principal (the "Class C Monthly Principal") to be transferred from the Principal Account with respect to the Class C Notes (i) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to the end of the Monthly Period immediately preceding such Transfer Date) shall be equal to the least of (w) the Class C Pro Rata Percentage of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (x) the Class C Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6 and the payment of Class A Monthly Principal, Class M Monthly Principal and Class B Monthly Principal), and (z) the Class C Principal Balance, and (ii) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Early Amortization Period begins, shall be equal to the least of (x) the excess of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer

Date over the portion of such Available Principal Collections applied to Class A Monthly Principal, Class M Monthly Principal and Class B Monthly Principal, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6 and the payment of Class A Monthly Principal, Class M Monthly Principal and Class B Monthly Principal), and (z) the Class C Principal Balance.

Section 5.4 Application of Available Finance Charge Collections and Available Principal Collections. On or before each Transfer Date, the Servicer shall instruct the Indenture Trustee in writing (which writing shall be substantially in the form of Exhibit B) to withdraw and the Indenture Trustee, acting in accordance with such instructions, shall withdraw on such Transfer Date or related Distribution Date, as applicable, to the extent of available funds, the amount required to be withdrawn from the Finance Charge Account, the Principal Account, the Principal Funding Account and the Distribution Account as follows:

(a) On each Transfer Date, an amount equal to the Available Finance Charge Collections with respect to the related Distribution Date will be distributed or deposited in the following priority:

(i) an amount equal to the unpaid Class A Monthly Interest for such Distribution Date shall be deposited by Servicer or the Indenture Trustee into the Distribution Account for distribution to the Class A Noteholders in accordance with Section 6.2;

(ii) an amount equal to the unpaid Class A Non-Use Fee, if any, not paid by the Transferor pursuant to the Class A Note Purchase Agreement for the related Distribution Period plus any Class A Non-Use Fee due but not paid to the Class A Noteholders on any prior Distribution Date and an amount equal to the Class A Additional Amounts, if any, for the related Distribution Period plus any Class A Additional Amounts due but not paid to the Class A Noteholders on any prior Distribution Date shall be deposited by Servicer or the Indenture Trustee into the Distribution Account for distribution to the Class A Noteholders in accordance with Section 6.2; provided, that the amounts distributed pursuant to this clause 5.4(a)(ii) shall not exceed 0.50% of the Weighted Average Collateral Amount over the Distribution Period;

(iii) an amount equal to the Noteholder Servicing Fee for such Transfer Date, plus the amount of any Noteholder Servicing Fee previously due but not distributed to the Servicer on a prior Transfer Date, shall be distributed to the Servicer;

(iv) an amount equal to the unpaid Class M Monthly Interest for such Distribution Date, plus any Class M Deficiency Amount, plus the amount of any Class M Additional Interest for such Distribution Date, plus the amount of any Class M Additional Interest previously due but not distributed to Class M Noteholders on a prior Distribution Date shall be deposited by the Servicer or Indenture Trustee into the Distribution Account;

(v) [Reserved];

(vi) an amount equal to Class B Monthly Interest for such Distribution Date, plus any Class B Deficiency Amount, plus the amount of any Class B Additional Interest for such Distribution Date, plus the amount of any Class B Additional Interest previously due but not distributed to Class B Noteholders on a prior Distribution Date shall be deposited by the Servicer or Indenture Trustee into the Distribution Account;

(vii) an amount equal to Class C Monthly Interest for such Distribution Date, plus any Class C Deficiency Amount, plus the amount of any Class C Additional Interest for such Distribution Date, plus the amount of any Class C Additional Interest previously due but not distributed to Class C Noteholders on a prior Distribution Date shall be deposited by the Servicer or Indenture Trustee into the Distribution Account;

(viii) an amount equal to the Aggregate Investor Default Amount and any Investor Uncovered Dilution Amount for such Distribution Date shall be treated as a portion of Available Principal Collections for such Distribution Date and, during the Controlled Amortization Period or the Early Amortization Period, deposited into the Principal Account on the related Transfer Date to the extent needed to pay Monthly Principal on the related Distribution Date;

(ix) an amount equal to the sum of the aggregate amount of Investor Charge-Offs and the amount of Reallocated Principal Collections which have not been previously reimbursed pursuant to this clause (ix) shall be treated as a portion of Available Principal Collections for such Distribution Date and, during the Controlled Amortization Period or the Early Amortization Period, deposited into the Principal Account on the related Transfer Date to the extent needed to pay Monthly Principal on the related Distribution Date;

(x) an amount equal to the excess, if any, of the Required Cash Collateral Amount over the Available Cash Collateral Amount shall be deposited into the Cash Collateral Account;

(xi) any amounts not distributed pursuant to clause 5.4(a)(ii) because of the proviso in such clause shall be withdrawn from the Finance Charge Account and deposited into the Distribution Account for distribution to the Class A Noteholders; and

(xii) the balance, if any, will constitute a portion of Excess Finance Charge Collections for such Distribution Date.

(b) During the Revolving Period, an amount equal to the Available Principal Collections for the related Monthly Period will be treated as Shared Principal Collections and applied in accordance with Section 8.5 of the Indenture; provided, however, during any Mandatory Limited Amortization Period and on the Non-Renewing Purchaser Scheduled Distribution Date, an amount equal to the Available Principal Collections for the related Monthly Period shall be distributed or deposited in the following order of priority:

(i) an amount equal to the Class A Monthly Principal shall be deposited into the Distribution Account on such Transfer Date for payment to the Class A Noteholders in each Class A Ownership Group that is a Non-Renewing Ownership Group, on a pro rata basis, until the Non-Renewing Purchaser Class A Principal Balance has been reduced to zero; and

(ii) the balance shall be treated as Shared Principal Collections and applied in accordance with Section 8.5 of the Indenture.

(c) On each Transfer Date following any Monthly Period during the Controlled Amortization Period or the Early Amortization Period, an amount equal to the Available Principal Collections for the related Monthly Period shall be distributed or deposited in the following order of priority:

(i) an amount equal to the Class A Monthly Principal for such Transfer Date shall be deposited into the Distribution Account on such Transfer Date and on each subsequent Transfer Date for payment to the Class A Noteholders on the related Distribution Date until the Class A Principal Balance has been paid in full;

(ii) an amount equal to the Class M Monthly Principal for such Transfer Date shall be deposited into the Distribution Account on such Transfer Date and on each subsequent Transfer Date for payment to the Class M Noteholders on the related Distribution Date until the Class M Principal Balance has been paid in full;

(iii) an amount equal to the Class B Monthly Principal for such Transfer Date shall be deposited into the Distribution Account on such Transfer Date and on each subsequent Transfer Date for payment to the Class B Noteholders on the related Distribution Date until the Class B Principal Balance has been paid in full;

(iv) an amount equal to the Class C Monthly Principal, if any, shall be deposited into the Distribution Account on such Transfer Date and on each subsequent Transfer Date for payment to the Class C Noteholders on the related Distribution Date until the Class C Principal Balance has been paid in full; and

(v) the balance shall be treated as Shared Principal Collections and applied in accordance with Section 8.5 of the Indenture.

(d) On each Distribution Date, the Indenture Trustee shall pay in accordance with Section 6.2 to the Class A Noteholders from the Distribution Account, the amount deposited into the Distribution Account pursuant to clauses 5.4(a)(i), (ii) and (xi) on the preceding Transfer Date, to the Class M Noteholders from the Distribution Account, the amount deposited into the Distribution Account pursuant to clause 5.4(a)(iv) on the preceding Transfer Date, to the Class B Noteholders from the Distribution Account, the amount deposited into the Distribution Account pursuant to clauses 5.4(a)(vi) on the preceding Transfer Date and to the Class C Noteholders from the Distribution Account, the amount deposited into the Distribution Account pursuant to clause 5.4(a)(vii).

Section 5.5 Investor Charge-Offs. On each Determination Date, the Servicer shall calculate the Aggregate Investor Default Amount and any Investor Uncovered Dilution Amount for the related Distribution Date. If, on any Distribution Date, the sum of the Aggregate Investor Default Amount and any Investor Uncovered Dilution Amount for such Distribution Date exceeds the sum of the amount of Available Finance Charge Collections and the amount withdrawn from the Cash Collateral Account allocated with respect thereto pursuant to 5.10(c) with respect to such Distribution Date, the Collateral Amount will be reduced (but not below zero) by the amount of such excess (such reduction, an "Investor Charge-Off").

Section 5.6 Reallocated Principal Collections. On each Transfer Date, the Servicer shall apply, or shall instruct the Indenture Trustee in writing to apply, Investor Principal Collections with respect to that Transfer Date, to fund any deficiency pursuant to and in the priority set forth in clauses 5.4(a)(i) through (vi) after giving effect to any withdrawal from the Cash Collateral Account to cover such payments. On each Transfer Date, the Collateral Amount shall be reduced by the amount of Reallocated Principal Collections for such Transfer Date.

Section 5.7 Excess Finance Charge Collections. Series 2009-VFN shall be an Excess Allocation Series with respect to Group One only. Subject to Section 8.6 of the Indenture, Excess Finance Charge Collections with respect to the Excess Allocation Series in Group One for any Transfer Date will be allocated to Series 2009-VFN in an amount equal to the product of (x) the aggregate amount of Excess Finance Charge Collections with respect to all the Excess Allocation Series in Group One for such Distribution Date and (y) a fraction, the numerator of which is the Finance Charge Shortfall for Series 2009-VFN for such Distribution Date and the denominator of which is the aggregate amount of Finance Charge Shortfalls for all the Excess Allocation Series in Group One for such Distribution Date. The "Finance Charge Shortfall" for Series 2009-VFN for any Distribution Date will be equal to the excess, if any, of (a) the full amount required to be paid, without duplication, pursuant to clauses 5.4(a)(i) through (xi) on such Distribution Date over (b) the Available Finance Charge Collections with respect to such Distribution Date (excluding any portion thereof attributable to Excess Finance Charge Collections).

Section 5.8 Shared Principal Collections. Subject to Section 8.5 of the Indenture, Shared Principal Collections allocable to Series 2009-VFN on any Transfer Date shall equal the product of (i) the aggregate amount of Shared Principal Collections with respect to all Principal Sharing Series for such Transfer Date and (ii) a fraction, the numerator of which is the Principal Shortfall for Series 2009-VFN for such Transfer Date and the denominator of which is the aggregate amount of Principal Shortfalls for all the Series which are Principal Sharing Series for such Transfer Date. The "Principal Shortfall" for Series 2009-VFN for any Transfer Date shall equal, the excess, if any, of the sum, without duplication, of any Mandatory Limited Payment Amount, Optional Amortization Amounts, Class A Monthly Principal, Class M Monthly Principal, Class B Monthly Principal and Class C Monthly Principal with respect to such Transfer Date over the amount of Available Principal Collections for such Transfer Date (excluding any portion thereof attributable to Shared Principal Collections).

Section 5.9 Certain Series Accounts.

(a) The Indenture Trustee shall establish and maintain with an Eligible Institution, which may be the Indenture Trustee in the name of the Trust, on behalf of the Trust, for the benefit of the Noteholders, three segregated trust accounts with such Eligible Institution (the "Finance Charge Account", the "Principal Account" and the "Distribution Account"), bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Series 2009-VFN Noteholders. The Indenture Trustee shall possess all right, title and interest in all funds on deposit from time to time in the Finance Charge Account, the Principal Account and the Distribution Account and in all proceeds thereof. The Finance Charge Account, the Principal Account and the Distribution Account shall be under the sole dominion and control of the Indenture Trustee for the benefit of the Series 2009-VFN Noteholders. If at any time the institution holding the Finance Charge Account, the Principal Account and the Distribution Account ceases to be an Eligible Institution, the Transferor shall notify the Indenture Trustee in writing, and the Indenture Trustee upon being notified (or the Servicer on its behalf) shall, within ten (10) Business Days, establish a new Finance Charge Account, a new Principal Account and a new Distribution Account meeting the conditions specified above with an Eligible Institution, and shall transfer any cash or any investments to such new Finance Charge Account, new Principal Account and new Distribution Account. The Indenture Trustee, at the written direction of the Servicer, shall make withdrawals from the Finance Charge Account, the Principal Account and the Distribution Account from time to time, in the amounts and for the purposes set forth in this Indenture Supplement. Indenture Trustee at all times shall maintain accurate records reflecting each transaction in the Finance Charge Account, the Principal Account and the Distribution Account.

(b) Funds on deposit in the Finance Charge Account, the Principal Account and the Distribution Account, from time to time shall be invested and reinvested at the direction of the Servicer by the Indenture Trustee in Eligible Investments that will mature so that such funds will be available for withdrawal on or prior to the following Transfer Date. The Servicer shall give a written standing instruction for such investments, and amounts in such accounts will not be invested if the Servicer fails to give such instructions to the Indenture Trustee.

(c) Section 6.14 of the Indenture shall apply to the Series Accounts.

Section 5.10 Cash Collateral Account.

(a) The Indenture Trustee shall establish and maintain with an Eligible Institution, which may be the Indenture Trustee in the name of the Trust, on behalf of the Trust, for the benefit of the Series 2009-VFN Noteholders, a segregated trust account (the "Cash Collateral Account"), bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Series 2009-VFN Noteholders. The Indenture Trustee shall possess all right, title and interest in all funds on deposit from time to time in the Cash Collateral Account and in all proceeds thereof. The Cash Collateral Account shall be under the sole dominion and control of the Indenture Trustee for the benefit of the Series 2009-VFN Noteholders. If at any time the institution holding the Cash Collateral Account ceases to be an Eligible Institution, the Transferor shall notify the Indenture

Trustee, and the Indenture Trustee upon being notified (or the Servicer on its behalf) shall, within ten (10) Business Days, establish a new Cash Collateral Account meeting the conditions specified above with an Eligible Institution, and shall transfer any cash or any investments to such new Cash Collateral Account.

(b) Funds on deposit in the Cash Collateral Account shall be invested at the written direction of the Servicer by the Indenture Trustee in Eligible Investments. The Servicer shall give a written standing instruction for such investments, and amounts in such account will not be invested if the Servicer fails to give such instructions to the Indenture Trustee. Funds on deposit in the Cash Collateral Account on any Transfer Date, after giving effect to any withdrawals from the Cash Collateral Account on such Transfer Date, shall be invested in such investments that will mature so that such funds will be available for withdrawal on or prior to the following Transfer Date.

On each Transfer Date, all interest and earnings (net of losses and investment expenses) accrued since the preceding Transfer Date on funds on deposit in the Cash Collateral Account shall be retained in the Cash Collateral Account (to the extent that the Available Cash Collateral Account Amount is less than the Required Cash Collateral Account Amount) and the balance, if any, shall be deposited into the Finance Charge Account and included in Available Finance Charge Collections for such Transfer Date. For purposes of determining the availability of funds or the balance in the Cash Collateral Account for any reason under this Indenture Supplement, except as otherwise provided in the preceding sentence, interest and earnings on such funds shall be deemed not to be available or on deposit.

(c) On each Determination Date, Servicer shall calculate the amount (the "Required Draw Amount") by which the sum of the amounts required to be distributed pursuant to clauses 5.4(a)(i) through (viii) with respect to the related Transfer Date exceeds the amount of Available Finance Charge Collections with respect to the related Monthly Period. If the Required Draw Amount for any Transfer Date is greater than zero, Servicer shall give written notice to the Indenture Trustee of such positive Required Draw Amount on the related Determination Date. On the related Transfer Date, the Required Draw Amount, if any, up to the Available Cash Collateral Amount, the Servicer shall direct the Indenture Trustee in writing to withdraw from the Cash Collateral Account and distributed to fund any deficiency pursuant to clauses 5.4(a)(i) through (viii) (in the order of priority set forth in subsection 5.4(a)).

(d) If, after giving effect to all deposits to and withdrawals from the Cash Collateral Account with respect to any Transfer Date, the amount on deposit in the Cash Collateral Account exceeds the Required Cash Collateral Amount, the Indenture Trustee acting in accordance with the instructions of the Servicer, shall withdraw an amount equal to such excess from the Cash Collateral Account and distribute such amounts remaining after application pursuant to subsection 5.10(c) to the Transferor.

Section 5.11 Investment Instructions. Any investment instructions required to be given to the Indenture Trustee pursuant to the terms hereof must be given in the form of a written standing instruction to the Indenture Trustee no later than 11:00 a.m., New York City time, on the date such investment is to be made. In the event the Indenture Trustee receives such investment instruction later than such time, the Indenture Trustee may, but shall have no obligation to, make such investment. In the event the Indenture Trustee is unable to make an investment required in an investment instruction received by the Indenture Trustee after 11:00 a.m., New York City time, on such day, such investment shall be made by the Indenture Trustee on the next succeeding Business Day. In no event shall the Indenture Trustee be liable for any investment not made pursuant to investment instructions received after 11:00 a.m., New York City time, on the day such investment is requested to be made. If investment instructions are not given with respect to funds in any Accounts, such funds shall remain uninvested until instructions are delivered to the Indenture Trustee in accordance with the terms hereof.

Section 5.12 Determination of LIBOR.

(a) On each LIBOR Determination Date in respect of a Distribution Period, the Indenture Trustee shall determine LIBOR on the basis of the rate for deposits in United States dollars for a period of the Designated Maturity which appears on the Designated LIBOR Page as of 11:00 a.m., London time, on such date. If such rate does not appear on the Designated LIBOR Page, the rate for that Distribution Period Determination Date shall be determined on the basis of the rates at which deposits in United States dollars are offered by the Reference Banks at approximately 11:00 a.m., London time, on that day to prime banks in the London interbank market for a period of the Designated Maturity. The Indenture Trustee shall request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two (2) such quotations are provided, the rate for that Distribution Period shall be the arithmetic mean of the quotations. If fewer than two (2) quotations are provided as requested, the rate for that Distribution Period will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Servicer, at approximately 11:00 a.m., New York City time, on that day for loans in United States dollars to leading European banks for a period of the Designated Maturity. LIBOR for the first Distribution Period will be determined by straight-line interpolation, based on the actual number of days in such Distribution Period from the date of the initial Class A Incremental Funding to but excluding November 16, 2009, between two rates determined in accordance with the preceding paragraph, one of which will be determined for a maturity of one month and one of which will be determined for a maturity of two months. If the calculation of LIBOR results in a rate determined by reference to LIBOR being less than zero (0), LIBOR shall be deemed to be zero (0).

(b) LIBOR that may be applicable to the then current and the immediately preceding Distribution Periods may be obtained by telephoning the Indenture Trustee at its corporate trust office at (800) 934-6802 or such other telephone number as shall be designated by the Indenture Trustee for such purpose by prior written notice by the Indenture Trustee to each Series 2009-VFN Noteholder from time to time.

(c) On each LIBOR Determination Date, the Indenture Trustee shall send to the Servicer by facsimile transmission or electronic mail, notification of LIBOR for the following Distribution Period.

ARTICLE VI.

Delivery of Series 2009-VFN Notes; Distributions; Reports to Series 2009-VFN Noteholders

Section 6.1 Delivery and Payment for the Series 2009-VFN Notes. The Issuer shall execute and issue, and the Indenture Trustee shall authenticate, the Series 2009-VFN Notes in accordance with Section 2.3 of the Indenture. The Indenture Trustee shall deliver the Series 2009-VFN Notes to or upon the written order of the Trust when so authenticated.

Section 6.2 Distributions.

(a) On each Distribution Date, the Indenture Trustee shall distribute to each Class A Noteholder of record on the related Record Date (other than as provided in Section 11.2 of the Indenture) such Class A Noteholder's portion (determined in accordance with Article V) of the amounts on deposit in the Distribution Account that are allocated and available on such Distribution Date and as are payable to the Class A Noteholders pursuant to this Indenture Supplement.

(b) On each Distribution Date, the Indenture Trustee shall distribute to each Class M Noteholder of record on the related Record Date (other than as provided in Section 11.2 of the Indenture) such Class M Noteholder's pro rata share of the amounts on deposit in the Distribution Account that are allocated and available on such Distribution Date and as are payable to the Class M Noteholders pursuant to this Indenture Supplement.

(c) On each Distribution Date, the Indenture Trustee shall distribute to each Class B Noteholder of record on the related Record Date (other than as provided in Section 11.2 of the Indenture) such Class B Noteholder's pro rata share of the amounts on deposit in the Distribution Account that are allocated and available on such Distribution Date and as are payable to the Class B Noteholders pursuant to this Indenture Supplement.

(d) On each Distribution Date, the Indenture Trustee shall distribute to each Class C Noteholder of record on the related Record Date (other than as provided in Section 11.2 of the Indenture) such Class C Noteholder's pro rata share of the amounts on deposit in the Distribution Account that are allocated and available on such Distribution Date and as are payable to the Class C Noteholders pursuant to this Indenture Supplement.

(e) On each Distribution Date, if a shortfall in the amount of Available Finance Charge Collections available for distribution in accordance with any payment priority in clauses 5.4(a)(i), (ii) and (xi) exists, the Available Finance Charge Collections for such payment priority shall be allocated (a) ratably to each Class A Ownership Group based on its respective Class A Ownership Group Percentage and (b) any Available Finance Charge Collections allocated pursuant to clause (a) to any Class A Ownership Group in excess of the amount owed to such Class A Ownership Group for the related payment priority shall be reallocated to each Class A Ownership Group that has a remaining shortfall in the Available Finance Charge Collections allocated to it pursuant to clause (a) in order to cover the amount owed to such Class A Ownership Group for the related payment priority, which reallocation shall be made ratably in accordance with the portion of the Note Principal Balances of all remaining Class A Ownership Groups represented by the Note Principal Balance of each such remaining Class A Ownership Group.

(f) The distributions to be made pursuant to this Section 6.2 are subject to the provisions of Sections 2.6, 6.1 and 7.1 of the Transfer and Servicing Agreement, Section 11.2 of the Indenture and Section 7.1 of this Indenture Supplement.

(g) All payments set forth herein shall be made by wire transfer of immediately available funds, provided that the Paying Agent, not less than five Business Days prior to the Record Date relating to the first distribution to such Series 2009-VFN Noteholder, has been furnished with appropriate wiring instructions in writing.

Section 6.3 Reports, Statements and Opinions to Series 2009-VFN Noteholders.

(a) On each Distribution Date, the Indenture Trustee shall make available to each Series 2009-VFN Noteholder via its website (http://tss.sfs.db.com/investpublic) a statement substantially in the form of Exhibit C prepared by the Servicer.

(b) Not later than the second Business Day preceding each Distribution Date, the Servicer shall deliver to the Owner Trustee and the Indenture Trustee (i) a statement substantially in the form of Exhibit B prepared by the Servicer and (ii) a certificate of an Authorized Officer substantially in the form of Exhibit D; provided that the Servicer may amend the form of Exhibit B from time to time, with the prior written consent of the Indenture Trustee.

(c) A copy of each statement or certificate provided pursuant to paragraph (a) or (b) may be obtained by any Series 2009-VFN Noteholder by a request in writing to the Servicer.

(d) On or before January 31 of each calendar year, beginning with January 31, 2010, the Indenture Trustee shall furnish or cause to be furnished to each Person who at any time during the preceding calendar year was a Series 2009-VFN Noteholder, a statement prepared by the Servicer containing the information which is required to be contained in the statement to Series 2009-VFN Noteholders, as set forth in paragraph (a) above, aggregated for such calendar year or the applicable portion thereof during which such Person was a Series 2009-VFN Noteholder, together with other information as is required to be provided by an issuer of indebtedness under the Code.

(e) On or before March 31 in each calendar year, beginning in 2017, the Issuer shall furnish to the Indenture Trustee and each Class A Administrative Agent an Opinion of Counsel either stating that, in the opinion of such counsel, such action has been taken to perfect the lien and security interest of the Indenture, including with respect to the recording, filing, re-recording and refiling of the Indenture, any indentures supplemental thereto and any other requisite documents and with respect to the execution and filing of any financing statements and continuation statements as is so necessary and reciting the details of such action or stating that in the opinion of such counsel no such action is necessary to maintain the perfection of such lien and security interest. Such Opinion of Counsel shall also describe the recording, filing, re-recording and refiling of the Indenture, any indentures supplemental thereto and any other requisite documents and the execution and filing of any financing statements and continuation statements that will, in the opinion of such counsel, be required to maintain the perfection of the lien and security interest of this Indenture until March 31 in the following calendar year.

ARTICLE VII.

Series 2009-VFN Early Amortization Events

Section 7.1 Series 2009-VFN Early Amortization Events. If any one of the following events shall occur with respect to the Series 2009-VFN Notes:

(a) failure on the part of Transferor or the Issuer (i) to make any payment or deposit required to be made by it by the terms of the Transfer and Servicing Agreement, the Class A Note Purchase Agreement, the Indenture or this Indenture Supplement on or before the date occurring five (5) Business Days after the date such payment or deposit is required to be made therein or herein or (ii) duly to observe or perform in any material respect any other of its covenants or agreements set forth in the Transfer and Servicing Agreement, the Class A Note Purchase Agreement, the Indenture or this Indenture Supplement, which failure has a material adverse effect on the Series 2009-VFN Noteholders and which continues unremedied for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Transferor by the Indenture Trustee, or to the Transferor and the Indenture Trustee by any Holder of the Series 2009-VFN Notes;

(b) any representation or warranty made by Transferor or the Issuer, in the Transfer and Servicing Agreement, the Class A Note Purchase Agreement, the Indenture or the Indenture Supplement or any information contained in a computer file or microfiche list required to be delivered by it pursuant to Section 2.1 or subsection 2.6(c) of the Transfer and Servicing Agreement shall prove to have been incorrect in any material respect when made or when delivered, which continues to be incorrect in any material respect for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Transferor by the Indenture Trustee, or to the Transferor and the Indenture Trustee by any Holder of the Series 2009-VFN Notes and as a result of which the interests of the Series 2009-VFN Noteholders are materially and adversely affected for such period; provided, however, that a Series 2009-VFN Early Amortization Event pursuant to this subsection 7.1(b) shall not be deemed to have occurred hereunder if the Transferor has accepted reassignment of the related Receivable, or all of such Receivables, if applicable, during such period in accordance with the provisions of the Transfer and Servicing Agreement;

(c) as of any date of determination, the Quarterly Excess Spread Percentage is less than 2%;

(d) a failure by Transferor to convey Receivables in Additional Accounts or Participations to the Receivables Trust within five (5) Business Days after the day on which it is required to convey such Receivables pursuant to subsection 2.6(b) of the Transfer and Servicing

Agreement, provided that such failure shall not give rise to an Early Amortization Event if, prior to the date on which such conveyance was required to be completed, Transferor causes a reduction in the principal balance of any Variable Interest to occur, so that, after giving effect to that reduction (i) the Transferor Amount is not less than the Minimum Transferor Amount and (ii) the sum of the aggregate amount of Principal Receivables plus amounts on deposit in the Excess Funding Account is not less than the Required Principal Balance;

(e) any Servicer Default shall occur which would have a material adverse effect on the Series 2009-VFN Holders (which determination shall be made without reference to whether any funds are available under the Cash Collateral Account);

(f) the Class A Note Principal Balance shall not be paid in full on the Class A Scheduled Final Payment Date or the Non-Renewing Purchaser Class A Principal Balance shall not be paid in full on the Non-Renewing Purchaser Scheduled Distribution Date;

(g) [reserved];

(h) at any time that the Required Cash Collateral Amount has been greater than zero for three or more consecutive Monthly Periods immediately following the Monthly Period in which a Required Cash Collateral Amount Trigger Date occurs, the Available Cash Collateral Amount shall be less than the Required Cash Collateral Amount;

(i) as of any date of determination, the Quarterly Payment Rate Percentage shall be less than 8.0%;

(j) a Change in Control has occurred;

(k) as on any Determination Date, the percentage equivalent of a fraction (A) the numerator of which is the sum of (1) the aggregate Principal Receivables outstanding that have remained unpaid more than 60 days after their contractual due date as of the end of the related Monthly Period plus (2) the aggregate of the Default Amounts for all Accounts that became Defaulted Accounts during the related Monthly Period and (B) the denominator of which is the total Principal Receivables as of the end of the related Monthly Period is greater than 8.0%;

(l) the Pension Benefit Guaranty Corporation shall file notice of a lien pursuant to Section 4068 of the Employee Retirement Income Security Act of 1974, with regard to any of the assets of Comenity Capital Bank, which lien shall secure a liability in excess of $10,000,000 and shall not have been released within 40 days; or

(m) a default shall have occurred and be continuing under any instrument or agreement evidencing or securing indebtedness for borrowed money of Comenity Capital Bank in excess of $10,000,000 which default (i) is a default in payment of any principal or interest on such indebtedness when due or within any applicable grace period or (ii) shall have resulted in acceleration of the maturity of such indebtedness; or

(n) without limiting the foregoing, the occurrence of an Event of Default with respect to Series 2009-VFN and acceleration of the maturity of the Series 2009-VFN Notes pursuant to Section 5.3 of the Indenture;

then, in the case of any event described in subsections 7.1(a), (b), (e), (k), (l) or (m) of this Indenture Supplement, after the applicable grace period set forth in such Sections, two or more Holders of Outstanding Series 2009-VFN Notes evidencing undivided interests aggregating more than 50% of the Class A Purchase Limit of this Series 2009-VFN by notice then given in writing to Transferor and Servicer (and to the Indenture Trustee if given by the Holders) may, and the Indenture Trustee at the direction of such Holders shall, declare that an early amortization event (a "Series 2009-VFN Early Amortization Event") has occurred as of the date of such notice, and in the case of any event described in subsections 7.1(c), (d), (f), (h), (i), (j) or (n) of this Indenture Supplement, a Series 2009-VFN Early Amortization Event shall occur without any notice or other action on the part of Indenture Trustee or the Series 2009-VFN Noteholders immediately upon the occurrence of such event.

In addition to the other consequences of a Series 2009-VFN Early Amortization Event specified herein or a Trust Early Amortization Event, from and after the occurrence of any Series 2009-VFN Early Amortization Event or a Trust Early Amortization Event (until the same shall have been waived by all of the Series 2009-VFN Noteholders), with respect to any Account included in the Approved Portfolios, Transferor shall no longer permit or require Merchant Adjustment Payments or In-Store Payments to be netted against amounts owed to Transferor by the applicable Merchant but shall instead exercise its rights to require each Merchant to transfer to Servicer, not later than the third Business Day following receipt by such Merchant of any In-Store Payments or the occurrence of any event giving rise to Merchant Adjustment Payments, an amount equal to the sum of such In-Store Payments and Merchant Adjustment Payments. In addition, if any bankruptcy or other insolvency proceeding has been commenced against a Merchant, Servicer shall require that Merchant to (i) stop accepting In-Store Payments and (ii) inform Obligors who wish to make In-Store Payments that payment should instead be sent to Servicer, provided that Servicer shall not be required to take such action if (x) Servicer or Trustee has been provided a letter of credit, surety bond or other similar instrument covering collection risk with respect to In-Store Payments and (y) each of the Series 2009-VFN Noteholders consents to such arrangement.

ARTICLE VIII.

Redemption of Series 2009-VFN Notes; Series Termination

Section 8.1 Optional Redemption of Series 2009-VFN Notes; Final Distributions.

(a) On any Business Day occurring on or after the date on which the outstanding principal balance of the Series 2009-VFN Notes is reduced to 10% or less of the greatest ever Note Principal Balance, the Servicer shall have the option to redeem the Series 2009-VFN Notes, at a purchase price equal to (i) if such day is a Distribution Date, the Reassignment Amount for such Distribution Date or (ii) if such day is not a Distribution Date, the Reassignment Amount for the Distribution Date following such day.

(b) Servicer shall give the Indenture Trustee at least thirty (30) days prior written notice of the date on which Servicer intends to exercise such optional redemption. Not later than 12:00 noon, New York City time, on such day Servicer shall deposit into the Collection Account in immediately available funds the excess of the Reassignment Amount over the amount, if any, on deposit in the Principal Account. Such redemption option is subject to payment in full of the Reassignment Amount. Following such deposit into the Collection Account in accordance with the foregoing, the Collateral Amount for Series 2009-VFN shall be reduced to zero, and the Series 2009-VFN Noteholders shall have no further security interest in the Receivables. The Reassignment Amount shall be distributed as set forth in subsection 8.1(d).

(c) (i) The amount to be paid by the Transferor with respect to Series 2009-VFN in connection with a reassignment of Receivables to the Transferor pursuant to subsection 2.4(e) of the Transfer and Servicing Agreement shall equal the Reassignment Amount for the first Distribution Date following the Monthly Period in which the reassignment obligation arises under the Transfer and Servicing Agreement.

(ii) The amount to be paid by the Transferor with respect to Series 2009-VFN in connection with a repurchase of the Notes pursuant to Section 7.1 of the Transfer and Servicing Agreement shall equal the Reassignment Amount for the Distribution Date of such repurchase.

(d) With respect to (a) the Reassignment Amount deposited into the Distribution Account pursuant to Section 8.1 or (b) the proceeds of any sale of Receivables pursuant to clause 5.5(a)(iii) of the Indenture with respect to Series 2009-VFN, the Indenture Trustee shall, in accordance with the written direction of the Servicer, not later than 12:00 noon, New York City time, on the related Distribution Date, make distributions of the following amounts (in the priority set forth below and, in each case, after giving effect to any deposits and distributions otherwise to be made on such date) in immediately available funds: (i) (x) the Class A Principal Balance on such Distribution Date will be distributed to the Class A Noteholders and (y) an amount equal to the sum of (A) Class A Monthly Interest for such Distribution Date, (B) any Class A Monthly Interest previously due but not distributed to the Class A Noteholders on any prior Distribution Date, will be distributed to the Class A Noteholders, (C) Class A Non-Use Fees, if any, due and payable to the Class A Noteholders on such Distribution Date or any prior Distribution Date and (D) Class A Additional Amounts, if any, due and payable on such Distribution Date or any prior Distribution Date will be distributed to the Class A Noteholders, (ii) (x) the Class M Principal Balance on such Distribution Date will be distributed to the Class M Noteholders and (y) an amount equal to the sum of (A) Class M Monthly Interest for such Distribution Date, (B) any Class M Deficiency Amount for such Distribution Date and (C) the amount of Class M Additional Interest, if any, for such Distribution Date and any Class M Additional Interest previously due but not distributed to the Class M Noteholders on any prior Distribution Date will be distributed to the Class M Noteholders on such Distribution Date, (iii) (x) the Class B Principal Balance on such Distribution Date will be distributed to the Class B Noteholders and (y) an amount equal to the sum of (A) Class B Monthly Interest for such Distribution Date, (B) any Class B Deficiency Amount for such Distribution Date and (C) the amount of Class B Additional Interest, if any, for such Distribution Date and any Class B Additional

Interest previously due but not distributed to the Class B Noteholders on any prior Distribution Date, will be distributed to the Class B Noteholders on such Distribution Date, (iv) (x) the Class C Principal Balance on such Distribution Date will be distributed to the Class C Noteholders and (y) an amount equal to the sum of (A) Class C Monthly Interest for such Distribution Date, (B) any Class C Deficiency Amount for such Distribution Date and (C) the amount of Class C Additional Interest, if any, for such Distribution Date and any Class C Additional Interest previously due but not distributed to the Class C Noteholders on any prior Distribution Date will be distributed to the Class C Noteholders, and (v) any excess shall be released to the Issuer.

Section 8.2 Series Termination. The right of the Series 2009-VFN Noteholders to receive payments from the Trust will terminate on the first Business Day following the Series Termination Date.

ARTICLE IX.

Miscellaneous Provisions

Section 9.1 Ratification of Indenture; Amendments. As supplemented by this Indenture Supplement, the Indenture is in all respects ratified and confirmed and the Indenture as so supplemented by this Indenture Supplement shall be read, taken and construed as one and the same instrument. This Indenture Supplement may be amended only by a Supplemental Indenture entered in accordance with the terms of Section 10.1 or 10.2 of the Indenture. For purposes of the application of Section 10.2 to any amendment of this Indenture Supplement, the Series 2009-VFN Noteholders shall be the only Noteholders whose vote shall be required.

Section 9.2 Counterparts. This Indenture Supplement may be executed in two or more counterparts, and by different parties on separate counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

Section 9.3 Notices. Any required notice shall be made to the addresses specified in the applicable Note Purchase Agreement with respect to the Series 2009-VFN Noteholders.

Section 9.4 Form of Delivery of the Series 2009-VFN Notes. The Class A Notes, the Class M Notes, the Class B Notes and the Class C Notes shall be Definitive Notes and initially shall be registered in the Note Register in the name of the initial purchasers of such Notes identified in the Note Purchase Agreements.

Section 9.5 GOVERNING LAW. THIS INDENTURE SUPPLEMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW), AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

Section 9.6 Limitation of Liability. Notwithstanding any other provision herein or elsewhere, this Agreement has been executed and delivered by BNY Mellon Trust of Delaware, not in its individual capacity, but solely in its capacity as Owner Trustee of the Trust. Nothing herein contained shall be construed as creating any liability on BNY Mellon Trust of Delaware, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any person claiming by, through or under the parties hereto, and in no event shall BNY Mellon Trust of Delaware in its individual capacity have any liability in respect of the representations, warranties, or obligations of the Trust hereunder or under any other document, as to all of which recourse shall be had solely to the assets of the Trust, and for all purposes of this Agreement and each other document, the Owner Trustee (as such or in its individual capacity) shall be subject to, and entitled to the benefits of, the terms and provisions of the Trust Agreement.

Section 9.7 Rights of the Indenture Trustee. The Indenture Trustee shall have herein the same rights, protections, indemnities and immunities as specified in the Indenture.

Section 9.8 Additional Provisions. Notwithstanding anything to the contrary in any Transaction Document, until the Series Termination Date:

(a) the Indenture Trustee shall not agree to any extension of the 60 day periods referred to in Section 2.4 or 3.3 of the Transfer and Servicing Agreement;

(b) if the percentage equivalent of a fraction (A) the numerator of which is the total Principal Receivables relating to any one Merchant (other than Home Shopping Network, Virgin America, BJ's Wholesale (consumer) or any Merchant affiliated with any of the foregoing) as of the end of any related Monthly Period and (B) the denominator of which is the aggregate total Principal Receivables as of the end of such related Monthly Period exceeds 13.5%, the Transferor shall suspend the addition of the Automatic Additional Accounts relating to such Merchant program until such time as such percentage is less than 13.5%;

(c) if the percentage equivalent of a fraction (A) the numerator of which is the total Principal Receivables relating to Home Shopping Network as of the end of the related Monthly Period and (B) the denominator of which is the aggregate total Principal Receivables as of the end of such related Monthly Period exceeds 50.0%, the Transferor shall suspend the addition of the Automatic Additional Accounts relating to Home Shopping Network until such time as such percentage is less than 50.0%;

(d) if the percentage equivalent of a fraction (A) the numerator of which is the total Principal Receivables relating to BJ's Wholesale (consumer) as of the end of the related Monthly Period and (B) the denominator of which is the aggregate total Principal Receivables as of the end of such related Monthly Period exceeds 50.0%, the Transferor shall suspend the addition of the Automatic Additional Accounts relating to BJ's Wholesale (consumer) until such time as such percentage is less than 50.0%;

(e) if the percentage equivalent of a fraction (A) the numerator of which is the total Principal Receivables relating to Virgin America as of the end of the related Monthly Period and (B) the denominator of which is the aggregate total Principal Receivables as of the end of such related Monthly Period exceeds 50.0%, the Transferor shall suspend the addition of the Automatic Additional Accounts relating to Virgin America until such time as such percentage is less than 50.0%;

(f) if the percentage equivalent of a fraction (A) the numerator of which is the total Principal Receivables relating to BJ's Wholesale (commercial) as of the end of the related Monthly Period and (B) the denominator of which is the aggregate total Principal Receivables as of the end of such related Monthly Period exceeds 5.0%, the Transferor shall suspend the addition of the Automatic Additional Accounts relating to BJ's Wholesale (commercial) until such time as such percentage is less than 5.0%; and

(g) without the consent of each Class A Noteholder, Class M Noteholder and Class B Noteholder (which consent shall not be unreasonably withheld or delayed), Transferor shall not (i) engage in any transaction described in Section 4.2 of the Transfer and Servicing Agreement, (ii) designate additional or substitute Transferors or Credit Card Originators as permitted by Section 2.9 or 2.10 of the Transfer and Servicing Agreement or (iii) increase the percentage of Principal Receivables referred to in the proviso to clause (f) of the definition of "Eligible Account".

Section 9.9 No Petition. The Issuer and the Indenture Trustee, by entering into this Indenture Supplement, and each Series 2009-VFN Noteholder, by accepting a Series 2009-VFN Note, hereby covenant and agree that they will not at any time institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy proceedings under any United States federal or state bankruptcy or similar law in connection with any obligations relating to the Series 2009-VFN Noteholders, the Indenture or this Indenture Supplement; provided, however, that nothing herein shall prohibit the Indenture Trustee from filing proofs of claim or otherwise participating in such proceedings instituted by any other person. The provisions of this Section 9.9 shall survive the termination of this Indenture Supplement.

Section 9.10 Additional Requirements for Registration of and Limitations on Transfer and Exchange of Notes. All Transfers will be subject to the transfer restrictions set forth on the Notes.

No Transfer (or purported Transfer) of a Class B Note or Class C Note (or economic interest therein) shall be made by Comenity Capital Bank, the Transferor or any person which is considered the same person as Comenity Capital Bank or the Transferor for U.S. Federal income tax purposes (except to a person which is considered the same person as Comenity Capital Bank for such purposes) and any such Transfer (or purported Transfer) of such Notes shall be void ab initio unless an Opinion of Counsel is first delivered to the Indenture Trustee to the effect that such Notes will constitute debt for U.S. federal income tax purposes.

Section 9.11 Amendments to the Indenture. The phrase "including all Initial Accounts and all Additional Accounts" shall be added to the end of the first sentence in the definition of "Account" contained in Annex A to the Indenture. Unless the Class A Administrative Agents shall otherwise consent, no commercial account, other than accounts arising in the BJ's Wholesale program, shall be an Eligible Account and the definition of "Eligible Account" in Annex A to the Indenture shall be modified by adding the following words at the end of clause (a) of such definition: "and, other than with respect to accounts arising in the BJ's Wholesale program, is not a commercial account".

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned have caused this Indenture Supplement to be duly executed and delivered by their respective duly authorized officers on the day and year first above written.

WORLD FINANCIAL CAPITAL MASTER NOTE TRUST, as Issuer

By: BNY Mellon Trust of Delaware, not in its
individual capacity, but solely as Owner Trustee

By: /s/ Kristine K. Gullo
Name: Kristine K. Gullo
Title: Vice President

DEUTSCHE BANK TRUST COMPANY AMERICAS, as Indenture Trustee

By: /s/ Ellen Jean-Baptiste
Name: Ellen Jean-Baptiste
Title: Associate

By: /s/ Robin Durant
Name: Robin Durant
Title: Associate

Acknowledged and Accepted:
COMENITY CAPITAL BANK,
as Servicer

By: /s/ Andrea Moss
Name: Andrea Moss
Title: President

WORLD FINANCIAL CAPITAL CREDIT COMPANY, LLC
as Transferor

By: /s/ Jeff Coon
Name: Jeff Coon
Title: Chief Financial Officer and Treasurer

SENIOR VICE PRESIDENT AND ABOVE

ASSOCIATE CONFIDENTIALITY AGREEMENT

WHEREAS ADS Alliance Data Systems, Inc. and its Affiliates ("Alliance Data") provide loyalty and marketing services to their clients, including, but is not limited to, the underwriting on consumer credit card loans, portfolio management and risk management, development and management of one to one and coalition loyalty programs, both online and offline, CRM consulting and strategic planning, database building and management; analytics and modeling; campaign management; and direct marketing (collectively, "Alliance Data's Business"); and

WHEREAS Alliance Data has hired Associate as an Associate to work in Alliance Data's Business, and Associate will need to examine and make himself/herself aware of Alliance Data's and its Affiliates' business, which involves the use of Confidential Information to carry out his/her duties as assigned by Alliance Data from time to time; and

WHEREAS Alliance Data possesses certain Confidential Information it intends to disclose to Associate solely for the purpose of enabling the Associate to perform Associate's duties and functions as an Associate of Alliance Data and for no other purpose; and

WHEREAS in connection with the "at will" employment of the Associate by Alliance Data and in consideration of immediate training to Associate, including additional disclosure of Alliance Data Confidential Information under the terms herein, the Associate has agreed, among other things, to preserve Confidential Information, to refrain from soliciting Associates or customers of Alliance Data and its Affiliates and to not compete with Alliance Data or its Affiliates under the conditions specified herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Alliance Data and Associate hereby agree as follows:

1. Interpretation.
In this agreement, the phrase "Confidential Information" means all information in any form (tangible or intangible) and compilations of information, including all documents and other tangible items which record information, whether on paper or in electronic or other storage form, in computer readable format or otherwise, relating to Alliance Data, its Affiliates, its customers, Alliance Data's Business and/or to the business of any of its Affiliates or customers, that Alliance Data has not made public or authorized public disclosure of, and that is not readily available to persons outside of Alliance Data through proper means who are not obligated to keep the information confidential. Confidential Information includes, but is not limited to: Alliance Data's business plans; ways of doing business; business results or prospects; financial books, data and plans; pricing; supplier information and agreements; investor or lender data and information; business processes (whether or not the subject of a patent), computer software and specifications therefore; leases; and any and all agreements entered into by Alliance Data or its Affiliates and any information contained therein; database mining and marketing; customer relationship management programs; any technical, operating, design, economic, client, customer, consultant, consumer or collector related data and information, marketing strategies or initiatives and plans which at the time or times concerned is either capable of protection as a trade secret or is considered by Alliance Data or its Affiliates or customers to be of a confidential nature that Associate is provided access to or supplied, or that Associate obtains, in the course of employment with Alliance Data, whether in the form of specifications, written or electronic data, drawings, or disclosed orally or otherwise. "Affiliate(s)" means any entity directly or indirectly controlling, controlled by, or under direct or indirect common control with Alliance Data.

2. Associate's Obligations.

Subject to the limitations of Section 3(d), Associate shall, regardless of when the Confidential Information was or is received by Associate:

(a) hold in confidence all Confidential Information and not reveal any Confidential Information to any other person without the prior written approval of a senior officer of Alliance Data;

(b) use the Confidential Information only to perform Associate's duties and functions as an Associate of Alliance Data as directed by Alliance Data, and not use such Confidential Information for any other purpose;

(c) keep all Confidential Information secret and confidential and diligently protect all Confidential Information against loss, and prevent unauthorized use or reproduction thereof; and

(d) if requested by Alliance Data, or immediately upon termination of employment, return to Alliance Data all Confidential Information, all copies (including backup copies), reproductions, reprints and translations thereof, whether written, electronic or otherwise, in the possession of, or under the control of, the Associate.

3. Exceptions.

The provisions of Section 2 shall not apply to:

(a) Information which is or becomes readily available to the public in the same form and through proper and legal means; or

(b) Information which was available to Associate on a non-confidential basis prior to employment with Alliance Data from a person other than Alliance Data or its Affiliates or customers who was not otherwise bound by confidentiality obligations to Alliance Data or its Affiliates or customers and was not otherwise prohibited from disclosing the information to Associate; or

(c) If Associate is not in a supervisor or management role, information about the terms and conditions of employment of Alliance Data associates that was not entrusted to and acquired by Associate as part of confidential job duties, and is being used for mutual aid and protection of Alliance Data associates within the scope and purposes of the National Labor Relations Act; or

(d) A disclosure of information that is compelled by law (such as by subpoena or court order), or that is a protected disclosure under the Defend Trade Secrets Act (DTSA) as part of reporting or investigating a suspected violation of the law.

Associate is hereby provided notice that under the DTSA, (1) no individual will be held criminally or civilly liable under Federal or State trade secret law for the disclosure of a trade secret (as defined in the Economic Espionage Act) that: (a) is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and made solely for the purpose of reporting or investigating a suspected violation of law; or, (b) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal so that it is not made public; and, (2) an individual who pursues a lawsuit for retaliation by an employer for reporting a suspected violation of the law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal, and does not disclose the trade secret, except as permitted by court order. In the event that Associate receives a legal notification that he or she believes compels the disclosure of Confidential Information, Associate will (to the extent allowed by law) provide Alliance Data with notice of such obligation immediately to allow Alliance Data to seek such intervention as it may deem appropriate to protect the Confidential Information including and not limited to initiating legal or administrative proceedings prior to disclosure.

4. Alliance Data Intellectual Property.

(a)Associate acknowledges and agrees that Alliance Data or its Affiliates are the sole owner of the Confidential Information (except Confidential Information owned by customers).

(b) Associate acknowledges and agrees that all inventions, formulas, techniques, processes, concepts, systems, programs, customer lists, compilations, and other intellectual property (whether or not patentable, patented, copyrighted, or subject to or susceptible of formal intellectual property protection under the laws of any jurisdiction and whether or not made during working hours) made or conceived by Associate solely or jointly with other person(s) during the term of Associate's employment with Alliance Data that relate to activities or proposed activities of Alliance Data or its Affiliates or that result from work performed by Associate for Alliance Data or its Affiliates (collectively "Alliance Data Intellectual Property") shall be the property of Alliance Data.

(c) Associate agrees to promptly disclose in writing to Alliance Data all Alliance Data Intellectual Property and hereby assigns all right, title, and interest in Alliance Data Intellectual Property in any and all countries to Alliance Data or its nominee. Associate further agrees, when requested, to carry out the intent and purpose of the assignment by: (i) executing oaths, declarations, assignments, powers of attorney and other papers; (ii) communicating to Alliance Data all facts known to Associate relating to Alliance Data Intellectual Property, and the history thereof; and (iii) complying with requests of Alliance Data for perfecting title to Alliance Data Intellectual Property in Alliance Data, and for securing, maintaining and enforcing protection for Alliance Data Intellectual Property.

(d) Associate shall not be entitled to use Alliance Data Intellectual Property for Associate's benefit or the benefit of anyone except Alliance Data without written permission from Alliance Data and then only subject to the terms of such permission. Associate acknowledges that nothing herein is intended to give Associate any rights to, ownership interest in, or license with respect to, any of the Confidential Information, any Alliance Data Intellectual Property, or any patent, trademark or copyright. Associate waives any moral rights which Associate may have in and to such work.

5. Non-Competition.

(a) Associate acknowledges the confidential and sensitive nature of Confidential Information, and that the use or disclosure of, or even the appearance of the use or disclosure of, the Confidential Information in certain circumstances may cause irreparable damage to the business and reputation of Alliance Data or its Affiliates. Accordingly, and in consideration of the immediate training which Alliance Data agrees to provide to Associate and Alliance Data's disclosure of additional Confidential Information, including Alliance Data trade secrets, Associate shall not, within the Designated Geographical Area (defined below), until the expiration of twenty four (24) calendar months after the date on which Associate's employment with Alliance Data terminates (regardless of the circumstances in which the employment has ended), engage, directly or indirectly, in any business, enterprise, employment, project, consultation, or other activity that is competitive with those aspects of Alliance Data's Business (defined above) in which Associate was involved or about which Associate received Confidential Information (hereinafter the "Non-Competition Covenant"). Alliance Data and Associate agree that this Non-Competition Covenant is fair and reasonable.

Designated Geographical Area" shall mean and include any area of any state or foreign jurisdiction, including but not limited to Canada, (i) in which Alliance Data or its Affiliates has conducted business or is conducting business at the time Associate ceases to be employed by Alliance Data, and in which the Associate has worked or has responsibilities, or involvement while working for Alliance Data, or (ii) with respect to which Alliance Data or its Affiliates made plans, with Associate's knowledge while he was employed by Alliance Data, to conduct business at any time within twenty four (24) calendar months of the date Associate's employment with Alliance Data terminates.

Although Alliance Data and Associate have, in good faith, used their best efforts to make the limitations and scope of the Non-Competition Covenant reasonable, and it is not anticipated or intended by either party to this Agreement that any court of competent jurisdiction would find the Non-Competition Covenant unreasonable, in the event that a court should conclude that the Non-Competition Covenant is unreasonable, Associate and Alliance Data agree that the provisions should be reformed to restrict Associate's competition with Alliance Data to the maximum extent enforceable to adequately protect Confidential Information and Alliance Data's interests, including Alliance Data trade secrets.

6. Actions Contrary to Interests of Alliance Data.

During the term of Associate's employment with Alliance Data and for a period of twenty four (24) months immediately following the effective date of termination of the Associate's employment with Alliance Data, regardless of the circumstances in which the employment has ended, Associate shall not, directly or indirectly, alone or in conjunction with another person in any manner, whether verbally or in writing and whether in print, audio, video or any other digital, analog or other electronic format:

(a) solicit or encourage any officer or Associate of Alliance Data or its Affiliates to leave the employment of Alliance Data or its Affiliates or to otherwise harm their relationship with or commitment to Alliance Data or its Affiliates;

(b) hire any officer or Associate who has left the employment of Alliance Data or its Affiliates within six (6) months of the termination of such officer's or Associate's employment with Alliance Data or its Affiliates;

(c) solicit or encourage any independent contractors, suppliers or referral sources performing services for Alliance Data or its Affiliates to cease or modify such performances or to otherwise harm their relationships with or commitment to Alliance Data or its Affiliates; or

(d) solicit, do business with or service any Alliance customer with whom Associate had material involvement or about whom Associate received Confidential Information during the last twenty four (24) months of Associate's employment with Alliance with respect to any services or products similar to or competitive with those offered by Alliance or its affiliates; or

(e) solicit, do business with, or service any prospective Alliance customer with whom Associate had material involvement in proposing to or about whom Associate received Confidential Information during the last six (6) months of Associate's employment with Alliance with respect to any services or products similar to or competitive with those offered by Alliance or its affiliates.

7. Alliance Data Property.

(a) All memoranda, notes, lists, records, e-mails, computer files and other documents and information (and all copies, versions, and translations thereof) made or compiled by the Associate or made available to the Associate concerning Alliance Data's Business or Alliance Data or its Affiliates shall be the property of Alliance Data and shall be delivered to Alliance Data at any time upon request. All such property shall be delivered to Alliance Data immediately upon the cessation of the Associate's employment.

(b) Associate agrees to return to Alliance Data all documents, materials, computer hardware and software, PDAs, supplies, calling or credit cards, keys, passes, cell phones, pagers and any other property or data that is the property of Alliance Data or its Affiliates or was used in the course of Associate's employment with Alliance Data at any time upon request by Alliance Data. The return of such items shall be made at or before the time of termination of employment or, if that is not possible, as soon thereafter as is possible.

8. Injunctive Relief.

Each party acknowledges that the provisions of this Agreement are only such as are reasonably necessary for the protection of Alliance Data's and its Affiliates' rights in respect of the Confidential Information and Alliance Data Intellectual Property. Associate agrees that damages alone would not be an adequate remedy for the irreparable harm to Alliance Data, its affiliates and Alliance Data's Business that would result from violation of any of the provisions hereof, that Alliance Data shall be entitled to specific performance and/or similar equitable remedy in respect of by any such violation or any threatened violation of such provisions (and Associate hereby consents to the granting of such relief to enforce the provisions hereof) and that Alliance Data may enforce its rights under this Agreement by bringing suit for injunctive relief or specific performance without payment of bond or security in connection therewith. In the event that any restriction on Associate herein is found to be unenforceable as written due to overbreadth, the restriction shall nonetheless be enforced to such lesser extent as the Court deems reasonable and enforceable to effect the intent of the parties and the protection of Alliance Data to the maximum extent allowed by law. In the event Associate violates a post-employment restriction provided for in this Agreement that is limited by time, the time applicable to such restriction shall be extended by one day for each day Associate is found to have been in violation of such restriction up to a maximum extension that is equal in length to the length of restraint originally provided for.

9. Conflicting Obligations.

Associate has listed below all obligations associate has with others pertaining to the subject matter of this Agreement, or which would restrict Associate's acceptance of duty assignments by Alliance Data.

10. General.

(a) <u>Independent Legal Advice</u>. Associate acknowledges that Associate has been advised by Alliance Data to obtain independent legal advice, and has had an opportunity to obtain such advice, with respect to the Agreement.

(b) <u>Entire Agreement</u>. This is the entire agreement and supercedes all prior agreements and understandings, whether oral or written, between the parties with respect to the subject matter hereof. This Agreement may not be amended except by the written agreement of the parties hereto. Associate expressly warrants that no promise or agreement that is not herein expressed has been made to Associate in executing this Agreement and that Associate is not relying upon any statement or representation of Alliance Data or its Affiliates not expressly contained in this Agreement.

(c) No Waiver. Any failure by any party to exercise its rights or remedies hereunder or any delay by such party in the exercise of any of its rights and remedies hereunder shall not, to the extent permitted by law, operate as a waiver or variation of such or any other right or remedy hereunder.

(d) Severability. Each covenant by Associate contained herein shall be independent and severable from the others, and in the event that any provision of this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected thereby. The presence of a claim or cause of action by Associate against Alliance Data shall not constitute a defense to the enforcement of Associate's obligations under this Agreement. Should any provision of this Agreement be held invalid, illegal or unenforceable in any respect, the parties agree to negotiate in good faith a valid, legal and enforceable provision effectuating the original intent of the parties.

(e) Assignment. Associate may not assign this Agreement or any of Associate's rights or obligations hereunder. Associate consents to the assignment of this Agreement by Alliance Data to any successor or other assignee of Alliance Data.

(f) Inurement. This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors, permitted assigns, heirs, and personal representatives. This Agreement will automatically inure to the benefit of, and be enforceable by, any successor of Alliance Data whether such succession is by reorganization, merger, consolidation, assignment, stock sale, asset sale, or otherwise.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas (without regard to such state's choice of law rules) and the parties agree to the non-exclusive jurisdiction of the courts of the State of Texas to resolve any dispute which may arise between them concerning this Agreement and the subject matter hereof, without prejudice to Alliance Data's right to commence any action against Associate in any other applicable jurisdiction.

(h) Employment at Will. Associate agrees and acknowledges that Associate's employment may be terminated at any time, with or without cause. Nothing in this Agreement or in any policy statement or manual shall be construed to limit Alliance Data's right to terminate this employment relationship at any time.

(i) Limitations of Agreement. Nothing in this Agreement prohibits Associate from reporting an event that Associate reasonably and in good faith believes is a violation of law to the relevant law-enforcement agency (such as the Securities and Exchange Commission), prohibits cooperating in an investigation conducted by such a government agency, requires advance notice or approval from Alliance Data before engaging in conduct of the foregoing nature, or otherwise prohibits conduct that is protected by law.

THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK

IN WITNESS WHEREOF, Alliance Data and Associate have executed this agreement as of the date first above written.

ADS ALLIANCE DATA SYSTEMS, INC.

____
Authorized Signature

____
Printed Name

____
Title

____
Date

ASSOCIATE

____
Associate's Signature

____
Printed Name

____
Date

LIST OF CONFLICTING OBLIGATIONS, IF ANY:

SIXTH AMENDMENT TO
AMENDED AND RESTATED POOLING AND SERVICING AGREEMENT

This SIXTH AMENDMENT TO AMENDED AND RESTATED POOLING AND SERVICING AGREEMENT, dated as of December 1, 2016 (this "*Amendment*") is made among Comenity Bank (formerly known as World Financial Network Bank), a Delaware state chartered bank, as Servicer (the "*Servicer*"), WFN Credit Company, LLC, a Delaware limited liability company, as Transferor (the "*Transferor*"), and Deutsche Bank Trust Company Americas (successor to Union Bank, N.A., formerly known as Union Bank of California, N.A., successor to JPMorgan Chase Bank, N.A.), a New York banking corporation, as Trustee (the "*Trustee*") of World Financial Network Credit Card Master Trust III, to the Amended and Restated Pooling and Servicing Agreement, dated as of January 30, 1998, among the Servicer, the Transferor and the Trustee (as amended and restated as of September 28, 2001, as further amended as of April 7, 2004, March 23, 2005, October 26, 2007, March 30, 2010 and September 30, 2011 and as modified by a Trust Combination Agreement, dated as of April 26, 2005, as amended, the "*Pooling Agreement*"). Capitalized terms used and not otherwise defined in this Amendment are used as defined in the Pooling Agreement.

WHEREAS, the parties hereto are party to the Pooling Agreement and desire to amend the Pooling Agreement in certain respects as set forth herein;

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

SECTION 1. Amendment. The last sentence of Section 4.2 of the Pooling Agreement is hereby amended and restated in its entirety to read as follows:

> "On any Transfer Date on which one or more Series is in an Amortization Period, Servicer shall determine the aggregate amounts of Principal Shortfalls, if any, with respect to each such Series that is a Principal Sharing Series (after giving effect to the allocation and payment provisions in the Supplement with respect to each such Series), and Servicer shall instruct Trustee to withdraw such amount from the Excess Funding Account on such Transfer Date up to an amount equal to the amount on deposit in the Excess Funding Account after application of the preceding sentence on that day and allocate such amount among each such Series as specified in each related Supplement."

SECTION 2. Conditions to Effectiveness. This Amendment shall become effective on the date (the "Effective Date") upon which (i) each of the parties hereto receive counterparts of this Amendment, duly executed and delivered by each of the parties hereto and (ii) each of the conditions precedent described in Section 13.1(b) of the Pooling Agreement are satisfied.

SECTION 3. Effect of Amendment; Ratification. On and after the Effective Date, this Amendment shall be a part of the Pooling Agreement and each reference in the Pooling

Agreement to “this Agreement” or “hereof,” “hereunder” or words of like import, and each reference in any other Transaction Document to the Pooling Agreement shall mean and be a reference to the Pooling Agreement as amended hereby.

(b) Except as expressly amended hereby, the Pooling Agreement shall remain in full force and effect and is hereby ratified and confirmed by the parties hereto.

SECTION 4. Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAWS PROVISIONS.

SECTION 5. Section Headings.Headings used herein are for convenience of reference only and shall not affect the meaning of this Amendment.

SECTION 6. Counterparts.This Amendment may be executed in any number of counterparts, and by the parties hereto on separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same agreement. Counterparts of this Amendment may be delivered by facsimile or electronic transmission.

SECTION 7. Trustee Disclaimer. Trustee shall not be responsible for the validity or sufficiency of this amendment, nor for the recitals contained herein.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

WFN CREDIT COMPANY, LLC

By: /s/ Michael Blackham
Name: Michael Blackham
Title: Treasurer

Deutsche Bank National Trust Company for
DEUTSCHE BANK TRUST COMPANY
AMERICAS, as Trustee

By: /s/ Ellen Jean-Baptiste
Name: Ellen Jean-Baptiste
Title: Associate

By: /s/ Susan Barstock
Name: Susan Barstock
Title: Vice President

COMENITY BANK

By: /s/ Randy J. Redcay
Name: Randy J. Redcay
Title: Chief Financial Officer

Exhibit 12.1

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratios of earnings to fixed charges for the periods indicated. Earnings consist of income before provisions for income taxes plus fixed charges. Fixed charges include interest expense, amortization of debt issuance costs and the portion of rental expense we believe is representative of the interest component of rent expense.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(In millions, except per share amounts)				
Income before income taxes	$ 837.0	$ 931.6	$ 837.9	$ 793.4	$ 682.9
Plus					
Fixed charges	473.0	369.6	294.8	335.6	318.1
Total	$ 1,310.0	$ 1,301.2	$ 1,132.7	$ 1,129.0	$ 1,001.0
Earnings to fixed charges ratio	2.8	3.5	3.8	3.4	3.2
Fixed charges:					
Interest expense, including the amortization of debt issuance costs	$ 439.3	$ 336.4	$ 265.4	$ 309.6	$ 295.2
Estimate of interest component of rent expense [1]	33.7	33.2	29.4	26.0	22.9
Total fixed charges	$ 473.0	$ 369.6	$ 294.8	$ 335.6	$ 318.1

(1) Estimated at 1/3 of total rent expense.

Exhibit 21

Subsidiaries of
Alliance Data Systems Corporation
A Delaware Corporation
(as of December 31, 2016)

Subsidiary	Jurisdiction of Organization	Other Business Names
Abacus Direct Europe BV	Netherlands	None
Acorn Direct Marketing Limited	Ireland	None
ADI, LLC	Delaware	None
ADS Alliance Data Systems, Inc.	Delaware	None
ADS Apollo Holdings B.V.	Netherlands	None
ADS Foreign Holdings, Inc.	Delaware	None
ADS Reinsurance Ltd.	Bermuda	None
ADS Sky Oak LLC	Delaware	None
Alliance Data FHC, Inc.	Delaware	Epsilon International
Alliance Data Foreign Holdings, Inc.	Delaware	None
Alliance Data Lux Financing S.àr.l.	Luxembourg	None
Alliance Data Lux Holdings S.àr.l.	Luxembourg	None
Alliance Data Pte. Ltd.	Singapore	None
Aspen Marketing Services, LLC	Delaware	None
Bach Acquisition Corp	Delaware	None
BeFree Germany GmbH	Germany	None
BeFree International, Inc.	Delaware	None
BeFree France SAS	France	None
BeFree UK, Ltd	England	None
Brand Loyalty Americas BV	Netherlands	None
Brand Loyalty Asia BV	Netherlands	None
Brand Loyalty Australia Pty. Ltd.	Australia	None
Brand Loyalty Brasil Marketing de Promocoes LTDA	Brazil	None
Brand Loyalty BV	Netherlands	Brand Loyalty Ventures Brand Loyalty Benelux Brand Loyalty Spain Brand Loyalty Hungary Brand Loyalty Austria Brand Loyalty France Brand Loyalty Poland Brand Loyalty Turkey Brand Loyalty EMEA
Brand Loyalty Canada Corp.	Nova Scotia, Canada	BrandLoyalty
Brand Loyalty Canada Holding B.V.	Netherlands	None
Brand Loyalty Europe BV	Netherlands	None
Brand Loyalty France Sarl	France	None
Brand Loyalty Germany GmbH	Germany	None
Brand Loyalty Group B.V.	Netherlands	None
Brand Loyalty Holding BV	Netherlands	None
Brand Loyalty International BV	Netherlands	None
Brand Loyalty Italia S.p.A	Italy	None
Brand Loyalty Japan KK	Japan	None
Brand Loyalty Korea Co. Ltd.	South Korea	None
Brand Loyalty Limited (HK)	Hong Kong	None
Brand Loyalty OOO	Russia	None
Brand Loyalty Russia BV	Netherlands	None
Brand Loyalty Sourcing Americas Holding B.V.	Netherlands	None
Brand Loyalty Sourcing Asia Ltd	Hong Kong	None
Brand Loyalty Sourcing BV	Netherlands	Brand Loyalty Sourcing
Brand Loyalty Sourcing USA Inc.	Delaware	None

Brand Loyalty Special Promotions BV	Netherlands	None
Brand Loyalty Switzerland GmbH	Switzerland	None
Brand Loyalty Trading (Shanghai) Co. Ltd	China	None
Brand Loyalty UK Ltd	England	None
Brand Loyalty USA Holding BV	Netherlands	None
Brand Loyalty USA Inc.	Delaware	None
Brand Loyalty Worldwide GmbH	Switzerland	None
Bright Commerce Ltd	United Kingdom	None
Calwood B.V.	Netherlands	None
Catapult Integrated Services, LLC	Delaware	None
CJ Sweden Affiliate AB	Sweden	None
ClickGreener Inc.	Ontario, Canada	None
Comenity LLC	Delaware	None
Comenity Bank	Delaware	None
Comenity Canada L.P.	Ontario, Canada	Comenity Canada
Comenity Capital Bank	Utah	None
Comenity Operating Co., LLC	Delaware	None
Comenity Servicing LLC	Texas	None
Commission Junction Holding BV	Netherlands	None
Commission Junction France SARL	France	None
Commission Junction LLC	Texas	None
Conversant Asia Pacific Limited	Hong Kong	None
Conversant Deutschland GmbH	Germany	None
Conversant ESPANA, S.L.U.	Spain	None
Conversant Europe Limited	England	None
Conversant International Limited	Ireland	None
Conversant LLC	Delaware	None
Conversant Media Systems, Inc.	Delaware	None
Conversant SARL	France	None
Conversant Software Development and Campaign Management Services LLP	India	None
Conversant South Africa (Pty) Ltd.	South Africa	None
Coupons, LLC	Delaware	None
D. L. Ryan Companies, LLC	Delaware	Catapult eCommerce Nsight Connect
DNCE LLC	Delaware	None
Dotomi, Ltd	Israel	None
Edison International Concepts & Agencies BV	Netherlands	None
Eindia, LLC	Delaware	None
Epsilon Communication Solutions, S.L.	Spain	None
Epsilon Data Management, LLC	Delaware	None
Epsilon Email Marketing India Private Limited	India	None
Epsilon Interactive CA, ULC	Nova Scotia, Canada	Aspen of West Chicago Marketing Services Aspen Marketing Services
Epsilon International, LLC	Delaware	None
Epsilon International Consulting Services Private Limited	India	None
Epsilon International UK Ltd.	England	None
Epsilon Software Technology Consulting (Shanghai) Co., Ltd.	Shanghai, People’s Republic of China	None
Hyper Marketing Inc International Holdings Limited	Ireland	None
IceMobile Agency BV	Netherlands	IceMobile
ICOM Ltd.	Ontario, Canada	None
ICOM Information & Communications L.P.	Ontario, Canada	Shopper’s Voice
IM Digital Group BV	Netherlands	None
Interact Connect LLC	Delaware	None
LoyaltyOne, Co.	Nova Scotia, Canada	AIR MILES airmilesshops.ca AIR MILES Corporate Incentives AIR MILES For Business AIR MILES Incentives

		AIR MILES My Planet AIR MILES Reward Program Alliance Data Direct Antidote Colloquy GIFTED by AIR MILES Loyalty And Marketing Services LoyaltyOne LoyaltyOne Canada Loyalty Services My Planet Squareknot
LoyaltyOne B.V.	Netherlands	None
LoyaltyOne Participacoes Ltda	Brazil	None
LoyaltyOne Rewards Private Limited	India	None
LoyaltyOne (Shanghai) Marketing Limited	Shanghai, People's Republic of China	
LoyaltyOne Travel Services Co.	Nova Scotia, Canada	AIR MILES Travel Services
LoyaltyOne US, Inc.	Delaware	Colloquy LoyaltyOne Consulting Precima
Lux Fourstar S.àr.l.	Luxembourg	None
Max Holding B.V.	Netherlands	None
Mediaplex Deutschland GmbH	Germany	None
Mediaplex Shanghai Advertising Co. Ltd.	China	None
Mediaplex Systems, Inc.	Kentucky	None
Merison Groep B.V.	Netherlands	None
Merison PTY Ltd	Australia	None
Merison Retail B.V.	Netherlands	Merison
Merison Retail HK Ltd.	Hong Kong	None
Merison UK Ltd	United Kingdom	None
Muse Agency BV	Netherlands	Muse Muse Amsterdam
Rhombus Investments L.P.	Bermuda	None
Ryan Partnership, LLC	Delaware	None
Shopping net, Ltd.	England	None
SolutionSet, LLC	California	None
TriVida Corporation	California	None
Triangle Investments L.P.	Bermuda	None
ValueClick Brasil Ltda	Brazil	None
WFC Card Services Holdings Inc.	Ontario, Canada	None
WFN Credit Company, LLC	Delaware	None
World Financial Capital Credit Company, LLC	Delaware	None
World Licenses BV	Netherlands	None
Z Media, Inc.	Delaware	None

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-204759, 333-204758, 333-167525, 333-125770 and 333-65556 on Form S-8 of our reports dated February 27, 2017, relating to the consolidated financial statements and financial statement schedule of Alliance Data Systems Corporation and subsidiaries and the effectiveness of Alliance Data Systems Corporation and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Alliance Data Systems Corporation for the year ended December 31, 2016.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 27, 2017

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 annual report on Form 10-K 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: February 27, 2017

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 annual report on Form 10-K 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: February 27, 2017

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 annual report on Form 10-K for the year ended December 31, 2016 (the "Form 10-K") of Alliance Data Systems Corporation (the "Registrant").

I, Edward J. Heffernan, certify that to the best of my knowledge:

(i) the Form 10-K 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-K 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: February 27, 2017

Subscribed and sworn to before me
this 27th day of February, 2017.

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

My commission expires:
October 23, 2020

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

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 annual report on Form 10-K for the year ended December 31, 2016 (the “Form 10-K”) of Alliance Data Systems Corporation (the “Registrant”).

I, Charles L. Horn, certify that to the best of my knowledge:

(i) the Form 10-K 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-K 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: February 27, 2017

Subscribed and sworn to before me
this 27th day of February, 2017.

/s/ Jane Baedke
Name: Jane Baedke
Title: Notary Public

My commission expires:
October 23, 2020

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