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

# FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended March 31, 2019**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission File Number: 001-15749**

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

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

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

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

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

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

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

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

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

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

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

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

As of April 24, 2019, 52,383,506 shares of common stock were outstanding.

# ALLIANCE DATA SYSTEMS CORPORATION

## INDEX

PART I

**Item 1. Financial Statements.**

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

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | (in millions, except per share amounts) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 3,685.0 | $ 3,817.4 |
| Accounts receivable, net, less allowance for doubtful accounts ($0.3 and $0.4 at March 31, 2019 and December 31, 2018, respectively) | 354.2 | 404.0 |
| Credit card and loan receivables: | | |
| Credit card receivables – restricted for securitization investors | 12,550.5 | 13,418.3 |
| Other credit card and loan receivables | 4,300.0 | 4,436.7 |
| Total credit card and loan receivables | 16,850.5 | 17,855.0 |
| Allowance for loan loss | (1,021.1) | (1,038.3) |
| Credit card and loan receivables, net | 15,829.4 | 16,816.7 |
| Credit card receivables held for sale | 1,848.9 | 1,951.6 |
| Inventories, net | 242.3 | 248.0 |
| Other current assets | 275.3 | 293.2 |
| Redemption settlement assets, restricted | 576.1 | 558.6 |
| Current assets of discontinued operations | 4,224.7 | 622.2 |
| Total current assets | 27,035.9 | 24,711.7 |
| Property and equipment, net | 289.8 | 288.2 |
| Right of use assets - operating | 271.2 | — |
| Deferred tax asset, net | 45.5 | 44.0 |
| Intangible assets, net | 189.6 | 217.4 |
| Goodwill | 950.0 | 954.8 |
| Other non-current assets | 651.1 | 636.4 |
| Long-term assets of discontinued operations | — | 3,535.2 |
| Total assets | $ 29,433.1 | $ 30,387.7 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Accounts payable | $ 548.4 | $ 486.2 |
| Accrued expenses | 333.9 | 279.3 |
| Current operating lease liabilities | 21.4 | — |
| Current portion of deposits | 5,922.6 | 6,537.7 |
| Current portion of non-recourse borrowings of consolidated securitization entities | 2,185.6 | 2,717.6 |
| Current portion of long-term and other debt | 161.5 | 138.9 |
| Other current liabilities | 262.4 | 291.8 |
| Deferred revenue | 768.8 | 766.1 |
| Current liabilities of discontinued operations | 392.1 | 266.4 |
| Total current liabilities | 10,596.7 | 11,484.0 |
| Deferred revenue | 108.5 | 109.2 |
| Deferred tax liability, net | 230.5 | 256.5 |
| Long-term operating lease liabilities | 299.8 | — |
| Deposits | 5,369.4 | 5,256.0 |
| Non-recourse borrowings of consolidated securitization entities | 4,589.9 | 4,934.1 |
| Long-term and other debt | 5,720.0 | 5,586.5 |
| Other liabilities | 278.8 | 390.0 |
| Long-term liabilities of discontinued operations | — | 39.3 |
| Total liabilities | 27,193.6 | 28,055.6 |
| Common stock, $0.01 par value; authorized, 200.0 shares; issued, 113.2 shares and 113.0 shares at March 31, 2019 and December 31, 2018, respectively | 1.1 | 1.1 |
| Additional paid-in capital | 3,177.0 | 3,172.4 |
| Treasury stock, at cost, 60.9 shares and 59.6 shares at March 31, 2019 and December 31, 2018, respectively | (5,938.5) | (5,715.7) |
| Retained earnings | 5,127.8 | 5,012.4 |
| Accumulated other comprehensive loss | (127.9) | (138.1) |
| Total stockholders' equity | 2,239.5 | 2,332.1 |
| Total liabilities and stockholders' equity | $ 29,433.1 | $ 30,387.7 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| | (in millions, except per share amounts) | |
| Revenues | | |
| Services | $ 73.3 | $ 92.6 |
| Redemption, net | 111.9 | 131.9 |
| Finance charges, net | 1,149.0 | 1,157.2 |
| Total revenue | 1,334.2 | 1,381.7 |
| Operating expenses | | |
| Cost of operations (exclusive of depreciation and amortization disclosed separately below) | 640.5 | 591.7 |
| Provision for loan loss | 252.1 | 337.7 |
| General and administrative | 38.3 | 31.3 |
| Depreciation and other amortization | 20.6 | 19.3 |
| Amortization of purchased intangibles | 25.8 | 29.4 |
| Total operating expenses | 977.3 | 1,009.4 |
| Operating income | 356.9 | 372.3 |
| Interest expense | | |
| Securitization funding costs | 57.3 | 52.1 |
| Interest expense on deposits | 48.7 | 35.5 |
| Interest expense on long-term and other debt, net | 43.5 | 44.2 |
| Total interest expense, net | 149.5 | 131.8 |
| Income from continuing operations before income taxes | 207.4 | 240.5 |
| Provision for income taxes | 33.1 | 64.0 |
| Income from continuing operations | $ 174.3 | $ 176.5 |
| Loss from discontinued operations, net of taxes | (25.2) | (12.6) |
| Net income | $ 149.1 | $ 163.9 |
| | | |
| Basic income (loss) per share (Note 3): | | |
| Income from continuing operations | $ 3.29 | $ 3.19 |
| Loss from discontinued operations | $ (0.48) | $ (0.23) |
| Net income per share | $ 2.81 | $ 2.96 |
| | | |
| Diluted income (loss) per share (Note 3): | | |
| Income from continuing operations | $ 3.28 | $ 3.17 |
| Loss from discontinued operations | $ (0.48) | $ (0.22) |
| Net income per share | $ 2.80 | $ 2.95 |
| | | |
| Weighted average shares (Note 3): | | |
| Basic | 53.0 | 55.4 |
| Diluted | 53.2 | 55.7 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| | (in millions) | |
| Net income | $ 149.1 | $ 163.9 |
| Other comprehensive income (loss): | | |
| Unrealized gain (loss) on securities available-for-sale | 10.0 | (3.0) |
| Tax (expense) benefit | (1.0) | 1.0 |
| Unrealized gain (loss) on securities available-for-sale, net of tax | 9.0 | (2.0) |
| Unrealized loss on cash flow hedges | (0.1) | (0.1) |
| Tax benefit (expense) | — | — |
| Unrealized loss on cash flow hedges, net of tax | (0.1) | (0.1) |
| Unrealized gain (loss) on net investment hedges | 16.1 | (15.4) |
| Tax (expense) benefit | (3.9) | 3.7 |
| Unrealized gain (loss) on net investment hedges, net of tax | 12.2 | (11.7) |
| Foreign currency translation adjustments | (10.9) | 17.5 |
| Other comprehensive income, net of tax | 10.2 | 3.7 |
| Total comprehensive income, net of tax | $ 159.3 | $ 167.6 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| Three Months Ended March 31, 2019 | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | | | | (in millions) | | | |
| **Balance at December 31, 2018** | 113.0 | $ 1.1 | $ 3,172.4 | $ (5,715.7) | $ 5,012.4 | $ (138.1) | $ 2,332.1 |
| Net income | — | — | — | — | 149.1 | — | 149.1 |
| Other comprehensive income | — | — | — | — | — | 10.2 | 10.2 |
| Stock-based compensation | — | — | 20.1 | — | — | — | 20.1 |
| Repurchases of common stock | — | — | — | (222.8) | — | — | (222.8) |
| Dividends and dividend equivalent rights declared ($0.63 per share) | — | — | — | — | (33.7) | — | (33.7) |
| Other | 0.2 | — | (15.5) | — | — | — | (15.5) |
| **Balance at March 31, 2019** | 113.2 | $ 1.1 | $ 3,177.0 | $ (5,938.5) | $ 5,127.8 | $ (127.9) | $ 2,239.5 |

| Three Months Ended March 31, 2018 | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | | | | (in millions) | | | |
| **Balance at December 31, 2017** | 112.8 | $ 1.1 | $ 3,099.8 | $ (5,272.5) | $ 4,167.1 | $ (140.2) | $ 1,855.3 |
| Net income | — | — | — | — | 163.9 | — | 163.9 |
| Other comprehensive income | — | — | — | — | — | 3.7 | 3.7 |
| Stock-based compensation | — | — | 24.5 | — | — | — | 24.5 |
| Dividends and dividend equivalent rights declared ($0.57 per share) | — | — | — | — | (31.5) | — | (31.5) |
| Cumulative effect adjustment to retained earnings in accordance with ASC 606 | — | — | — | — | 9.6 | — | 9.6 |
| Cumulative effect adjustment to retained earnings in accordance with ASU 2016-01 | — | — | — | — | (1.5) | — | (1.5) |
| Other | 0.1 | — | (22.6) | — | — | — | (22.6) |
| **Balance at March 31, 2018** | 112.9 | $ 1.1 | $ 3,101.7 | $ (5,272.5) | $ 4,307.6 | $ (136.5) | $ 2,001.4 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| | (in millions) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 149.1 | $ 163.9 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 118.9 | 121.7 |
| Deferred income taxes | (35.0) | (16.2) |
| Provision for loan loss | 252.1 | 337.7 |
| Non-cash stock compensation | 21.1 | 25.5 |
| Amortization of deferred financing costs | 11.0 | 11.4 |
| Change in other operating assets and liabilities | 8.7 | (108.0) |
| Originations of credit card and loan receivables held for sale | — | (2,271.7) |
| Sales of credit card and loan receivables held for sale | — | 2,312.8 |
| Other | 84.9 | 72.8 |
| Net cash provided by operating activities | 610.8 | 649.9 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Change in redemption settlement assets | (0.1) | (14.5) |
| Change in credit card and loan receivables | 758.2 | 470.5 |
| Payments for acquired businesses, net of cash | (6.7) | — |
| Capital expenditures | (38.7) | (44.7) |
| Purchases of other investments | (5.0) | (25.0) |
| Maturities/sales of other investments | 6.4 | 6.0 |
| Other | 3.4 | 0.6 |
| Net cash provided by investing activities | 717.5 | 392.9 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Borrowings under debt agreements | 1,045.1 | 685.0 |
| Repayments of borrowings | (870.9) | (706.5) |
| Non-recourse borrowings of consolidated securitization entities | 1,122.2 | 905.0 |
| Repayments/maturities of non-recourse borrowings of consolidated securitization entities | (1,997.5) | (1,590.0) |
| Net decrease in deposits | (502.6) | (448.4) |
| Payment of deferred financing costs | (5.4) | (3.5) |
| Dividends paid | (33.9) | (31.7) |
| Purchase of treasury shares | (222.8) | — |
| Other | (17.2) | (23.7) |
| Net cash used in financing activities | (1,483.0) | (1,213.8) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 3.0 | (1.7) |
| Change in cash, cash equivalents and restricted cash | (151.7) | (172.7) |
| Cash, cash equivalents and restricted cash at beginning of year | 3,967.7 | 4,314.7 |
| Cash, cash equivalents and restricted cash at end of year | $ 3,816.0 | $ 4,142.0 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | |
| Interest paid | $ 206.7 | $ 159.2 |
| Income taxes paid, net | $ 20.4 | $ 56.7 |

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

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation***

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation ("ADSC" or, including its consolidated subsidiaries and variable interest entities ("VIEs"), the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 26, 2019.

The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting of normal, recurring adjustments) which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (1) the reported amounts of assets; (2) liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (3) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

For purposes of comparability, certain prior period amounts have been reclassified to conform to the current year presentation in accordance with GAAP. The Company's unaudited condensed consolidated financial statements have been presented with its Epsilon® segment as a discontinued operation. See Note 5, "Discontinued Operations," for more information.

***Recently Issued Accounting Standards***

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 to establish an allowance based on expected losses over the life of the exposure rather than a model based on an incurred loss approach. 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 has formed a cross-functional implementation team and is finalizing the development of loss forecasting models, technological solutions and processes to satisfy the requirements of ASU 2016-13. Management is assessing key accounting interpretations and continues to evaluate the impact of the new standard on its consolidated financial statements. Any adjustments to the change in the allowance for loan loss at adoption would be recorded through a cumulative-effect adjustment to retained earnings. The extent of the impact upon adoption will depend on the asset quality of the Company's credit card and loan receivables portfolio, and economic conditions and forecasts at adoption.

In August 2018, the FASB issued ASU 2018-13, "Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 modifies the disclosure requirements on fair value measurements from Accounting Standards Codification ("ASC") 820, "Fair Value Measurement." ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the impact that adoption of ASU 2018-13 will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." ASU 2018-15 requires customers in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40, "Intangibles—

Goodwill and Other—Internal-Use Software," to determine which implementation costs may be capitalized. ASU 2018-15 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The amendments in ASU 2018-15 can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is evaluating the impact that adoption of ASU 2018-15 will have on its consolidated financial statements.

***Recently Adopted Accounting Standards***

In February 2016, the FASB issued ASU 2016-02, "Leases," ASC 842, that replaced previous lease guidance and required lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. Companies continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statements of income. Companies were permitted to adopt ASC 842 using a modified retrospective approach or transition relief provided by ASU 2018-11, "Leases (Topic 842): Targeted Improvements," that removed certain comparative period requirements and required a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted the standard on January 1, 2019 using the transition relief provided by ASU 2018-11.

During 2018, the Company completed its evaluation of ASC 842, including the impact on its policies, processes, systems and controls. As a result, the Company identified changes to and modified certain of its accounting policies and practices, including the implementation of new lease accounting software. Although there were no significant changes to the Company's accounting systems or controls upon adoption of ASC 842, the Company modified certain of its existing controls and added new controls to incorporate the revisions made to its accounting policies and practices.

The Company elected the transition practical expedients permitted under ASC 842-10-65-1 under which it was not required to reassess (i) whether expired or existing contracts were or contained leases as defined by ASC 842, (ii) the classification of such leases, and (iii) whether previously capitalized initial direct costs qualified for capitalization under ASC 842. The Company also elected the practical expedient to use hindsight in determining the lease term. Additionally, the Company made the accounting policy election to account for lease and nonlease components as a single lease component for its identified asset classes.

The cumulative effect of the changes made to the consolidated January 1, 2019 balance sheet for the adoption of ASC 842 established operating lease liabilities of approximately $324.5 million and corresponding right-of-use assets of approximately $269.9 million, based upon the operating lease liabilities adjusted for deferred rent and lease incentives, which resulted in the reclassification of approximately $54.6 million in liabilities to the right-of-use asset. There was no cumulative-effect adjustment to retained earnings as a result of the adoption of ASC 842.

Additionally, the cumulative effect of the changes made to the consolidated January 1, 2019 balance sheet for the adoption of ASC 842 for the Epsilon segment, presented as a discontinued operation for the periods presented, established operating lease liabilities of approximately $208.7 million and corresponding right-of-use assets of approximately $181.1 million, based upon the operating lease liabilities adjusted for prepaid and deferred rent, unamortized initial direct costs, and lease incentives, which resulted in the reclassification of approximately $30.5 million in liabilities and $2.9 million in assets to the right-of-use asset. As part of the adoption of ASC 842, capital leases were recognized as finance leases at their existing carrying amounts effective January 1, 2019, and the accounting remained substantially unchanged, with capital lease assets totaling $13.0 million and capital lease liabilities totaling $12.6 million.

The Company's adoption of ASC 842 had no significant impact to our consolidated statements of income or consolidated statements of cash flows. Based on the evaluation of ASC 842, the Company does not expect it to have a material impact on its results of operations or cash flows in the periods after adoption.

ASC 842 also requires expanded qualitative and quantitative disclosure regarding the Company's leasing activities. See Note 10, "Leases," for the Company's ASC 842 disclosures.

In August 2017, the FASB issued ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 expanded and refined the hedge accounting model for both financial and non-financial risk components, aligned the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements, and made certain targeted improvements to simplify the application of hedge accounting guidance related to the assessment of hedge effectiveness. The Company's adoption of this standard on January 1, 2019 did not have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 allowed for reclassification of stranded tax effects on items resulting from the change in the corporate tax rate as a result of H.R. 1, originally known as the Tax Cuts and Jobs Act of 2017, from accumulated other comprehensive income to retained earnings. Tax effects unrelated to H.R. 1 were permitted to be released from accumulated other comprehensive income using either the specific identification approach or the portfolio approach, based on the nature of the underlying item. The Company adopted this standard on January 1, 2019 using the portfolio approach and did not reclassify the stranded tax effects to retained earnings as these amounts did not have a material impact on its consolidated financial statements.

## 2. REVENUE

As discussed in Note 5, "Discontinued Operations," in the first quarter of 2019, the Company's Epsilon segment has been classified as a discontinued operation. As such, beginning with the first quarter of 2019, the Company's products and services are reported under two segments—LoyaltyOne® and Card Services, as shown below.

The following tables present revenue disaggregated by major source:

| Three Months Ended March 31, 2019 | LoyaltyOne | Card Services | Corporate/ Other | Total |
|---|---|---|---|---|
| | | (in millions) | | |
| **Disaggregation of Revenue by Major Source:** | | | | |
| Coalition loyalty program | $ 71.4 | $ — | $ — | $ 71.4 |
| Short-term loyalty programs | 109.6 | — | — | 109.6 |
| Servicing fees, net | — | (18.6) | — | (18.6) |
| Other | 19.8 | — | — | 19.8 |
| Revenue from contracts with customers | $ 200.8 | $ (18.6) | $ — | $ 182.2 |
| Finance charges, net | — | 1,149.0 | — | 1,149.0 |
| Investment income | 3.0 | — | — | 3.0 |
| Total | $ 203.8 | $ 1,130.4 | $ — | $ 1,334.2 |

| Three Months Ended March 31, 2018 | LoyaltyOne | Card Services | Corporate/ Other | Total |
|---|---|---|---|---|
| | | (in millions) | | |
| **Disaggregation of Revenue by Major Source:** | | | | |
| Coalition loyalty program | $ 89.9 | $ — | $ — | $ 89.9 |
| Short-term loyalty programs | 114.2 | — | — | 114.2 |
| Servicing fees, net | — | (2.0) | — | (2.0) |
| Other | 19.5 | — | 0.2 | 19.7 |
| Revenue from contracts with customers | $ 223.6 | $ (2.0) | $ 0.2 | $ 221.8 |
| Finance charges, net | — | 1,157.2 | — | 1,157.2 |
| Investment income | 2.7 | — | — | 2.7 |
| Total | $ 226.3 | $ 1,155.2 | $ 0.2 | $ 1,381.7 |

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

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

| Three Months Ended March 31, 2019 | LoyaltyOne | Card Services | Corporate/ Other | Total |
|---|---|---|---|---|
| | | (in millions) | | |
| **Disaggregation of Revenue by Geographic Region:** | | | | |
| United States | $ 6.4 | $ 1,130.4 | $ — | $ 1,136.8 |
| Canada | 89.0 | — | — | 89.0 |
| Europe, Middle East and Africa | 81.4 | — | — | 81.4 |
| Asia Pacific | 17.5 | — | — | 17.5 |
| Other | 9.5 | — | — | 9.5 |
| Total | $ 203.8 | $ 1,130.4 | $ — | $ 1,334.2 |

| Three Months Ended March 31, 2018 | LoyaltyOne | Card Services | Corporate/ Other | Total |
|---|---|---|---|---|
| | | (in millions) | | |
| **Disaggregation of Revenue by Geographic Region:** | | | | |
| United States | $ 5.7 | $ 1,155.2 | $ 0.2 | $ 1,161.1 |
| Canada | 105.6 | — | — | 105.6 |
| Europe, Middle East and Africa | 97.0 | — | — | 97.0 |
| Asia Pacific | 16.6 | — | — | 16.6 |
| Other | 1.4 | — | — | 1.4 |
| Total | $ 226.3 | $ 1,155.2 | $ 0.2 | $ 1,381.7 |

**Contract Liabilities**

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

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

| | Deferred Revenue | | |
|---|---|---|---|
| | Service | Redemption | Total |
| | | (in millions) | |
| **Balance at January 1, 2019** | $ 248.0 | $ 627.3 | $ 875.3 |
| Cash proceeds | 41.7 | 67.5 | 109.2 |
| Revenue recognized (1) | (48.9) | (77.8) | (126.7) |
| Other | — | 0.4 | 0.4 |
| Effects of foreign currency translation | 5.4 | 13.7 | 19.1 |
| **Balance at March 31, 2019** | $ 246.2 | $ 631.1 | $ 877.3 |
| Amounts recognized in the consolidated balance sheets: | | | |
| Deferred revenue (current) | $ 137.7 | $ 631.1 | $ 768.8 |
| Deferred revenue (non-current) | $ 108.5 | $ — | $ 108.5 |

(1) Reported on a gross basis herein.

The deferred redemption obligation associated with the AIR MILES Reward Program is effectively due on demand from the collector base, thus the timing of revenue recognition is based on the redemption by the collector. Service revenue is amortized over the expected life of a mile, with the deferred revenue balance expected to be recognized into revenue in the amount of $111.7 million in 2019, $87.5 million in 2020, $42.7 million in 2021, and $4.3 million in 2022.

Additionally, contract liabilities for the Company's short-term loyalty programs are recognized in other current liabilities in the Company's unaudited condensed consolidated balance sheets. The beginning balance as of January 1,

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

2019 was $110.2 million and the closing balance as of March 31, 2019 was $96.7 million, with the change due to revenue recognized of approximately $102.9 million during the three months ended March 31, 2019, offset in part by cash payments received in advance of program performance.

### 3. EARNINGS PER SHARE

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

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| | (in millions, except per share amounts) | |
| **Numerator:** | | |
| Income from continuing operations | $ 174.3 | $ 176.5 |
| Loss from discontinued operations | (25.2) | (12.6) |
| Net income | $ 149.1 | $ 163.9 |
| **Denominator:** | | |
| Weighted average shares, basic | 53.0 | 55.4 |
| Weighted average effect of dilutive securities: | | |
| Net effect of dilutive stock options and unvested restricted stock | 0.2 | 0.3 |
| Denominator for diluted calculation | 53.2 | 55.7 |
| **Basic income per share:** | | |
| Income from continuing operations | $ 3.29 | $ 3.19 |
| Loss from discontinued operations | $ (0.48) | $ (0.23) |
| Net income per share | $ 2.81 | $ 2.96 |
| **Diluted income per share:** | | |
| Income from continuing operations | $ 3.28 | $ 3.17 |
| Loss from discontinued operations | $ (0.48) | $ (0.22) |
| Net income per share | $ 2.80 | $ 2.95 |

For the three months ended March 31, 2019 and 2018, 0.3 million and a de minimis amount of restricted stock units, respectively, were excluded from the calculation of weighted average dilutive common shares as the effect would have been anti-dilutive.

### 4. ACQUISITION

On February 7, 2019, the Company acquired certain assets as well as the assembled workforce and related office lease agreements of blispay inc. (“Blispay”), a financial technology company, for cash consideration of $6.7 million, and a $1.0 million limited guarantee was issued by the Company as part of the transaction. The acquisition was determined to constitute a business combination under ASC 805, “Business Combinations.” Total assets acquired were $7.3 million, including $5.0 million of capitalized software and $2.3 million of goodwill, with the fair value of the guarantee determined to be approximately $0.6 million on the acquisition date.

### 5. DISCONTINUED OPERATIONS

In November 2018, the Company announced the exploration of strategic alternatives for Epsilon, including a potential sale of the business. In the first quarter of 2019, Epsilon met the criteria set forth in ASC 205-20, “Presentation of Financial Statements — Discontinued Operations,” and has been presented as a discontinued operation for all periods presented.

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

Effective April 12, 2019, the Company entered into a definitive agreement to sell its Epsilon business to Publicis Groupe, S.A. for $4.4 billion in cash, subject to certain adjustments specified therein. The transaction is expected to close in the third quarter of 2019, subject to satisfaction of customary closing conditions and receipt of regulatory approvals.

At March 31, 2019, the assets and liabilities of discontinued operations are classified as current in the unaudited condensed consolidated balance sheets, as it is probable that the sale will occur and proceeds will be collected within one year. The following table presents a reconciliation of the assets and liabilities of discontinued operations to the unaudited condensed consolidated balance sheets for the periods presented:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | (in millions) | |
| **Assets:** | | |
| Cash and cash equivalents | $ 40.1 | $ 45.7 |
| Accounts receivable, net | 466.5 | 519.9 |
| Other current assets | 56.2 | 56.6 |
| Property and equipment, net | 292.4 | 306.9 |
| Right of use assets - operating | 178.4 | — |
| Intangible assets, net | 285.6 | 322.3 |
| Goodwill | 2,886.6 | 2,886.2 |
| Other assets | 18.9 | 19.8 |
| Total assets of discontinued operations | $ 4,224.7 | $ 4,157.4 |
| **Liabilities:** | | |
| Accounts payable | $ 50.9 | $ 72.2 |
| Accrued expenses | 76.0 | 141.7 |
| Current operating lease liabilities | 38.7 | — |
| Other current liabilities | 46.6 | 52.5 |
| Long-term operating lease liabilities | 164.3 | — |
| Other liabilities | 15.6 | 39.3 |
| Total liabilities of discontinued operations | $ 392.1 | $ 305.7 |

The following table summarizes the operating results of discontinued operations:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (in millions) | |
| Revenue | $ 507.8 | $ 509.4 |
| Cost of operations (exclusive of depreciation and amortization disclosed separately below) | 443.4 | 430.8 |
| Depreciation and other amortization | 29.0 | 28.4 |
| Amortization of purchased intangibles | 43.5 | 44.6 |
| Interest expense [(1)] | 26.5 | 27.4 |
| Loss before benefit from income taxes | (34.6) | (21.8) |
| Benefit from income taxes | (9.4) | (9.2) |
| Loss from discontinued operations, net of taxes | $ (25.2) | $ (12.6) |

(1) Interest expense has been allocated to discontinued operations on the basis of the corporate debt, $1.9 billion in senior notes, expected to be repaid as a result of the disposal transaction.

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

Depreciation and amortization and capital expenditures from discontinued operations for the periods presented are as follows:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| | (in millions) | |
| Depreciation and amortization | $ 72.5 | $ 73.0 |
| Capital expenditures | $ 6.8 | $ 11.1 |

## 6. CREDIT CARD AND LOAN RECEIVABLES

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

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | (in millions) | |
| Principal receivables | $ 15,938.7 | $ 16,869.9 |
| Billed and accrued finance charges | 836.8 | 898.3 |
| Other | 75.0 | 86.8 |
| Total credit card and loan receivables | 16,850.5 | 17,855.0 |
| Less: Credit card receivables – restricted for securitization investors | 12,550.5 | 13,418.3 |
| Other credit card and loan receivables | $ 4,300.0 | $ 4,436.7 |

### *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 estimate of the allowance for loan loss covers uncollectible principal as well as unpaid interest and fees. The allowance for loan loss is evaluated monthly for appropriateness.

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

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (in millions) | |
| Balance at beginning of period | $ 1,038.3 | $ 1,119.3 |
| Provision for loan loss | 252.1 | 337.7 |
| Allowance associated with credit card receivables transferred to held for sale | — | (6.6) |
| Change in estimate for uncollectible unpaid interest and fees | — | 15.0 |
| Recoveries | 59.8 | 31.3 |
| Principal charge-offs | (329.1) | (327.4) |
| Balance at end of period | $ 1,021.1 | $ 1,169.3 |

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

The Company records the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. Actual charge-offs for unpaid interest and fees were $218.8 million and $199.5 million for the three months ended March 31, 2019 and 2018, 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.

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

The following table presents the delinquency trends of the Company’s credit card and loan receivables portfolio:

| | March 31, 2019 | % of Total | December 31, 2018 | % of Total |
|---|---|---|---|---|
| | (in millions, except percentages) | | | |
| Receivables outstanding - principal | $ 15,938.7 | 100.0 % | $ 16,869.9 | 100.0 % |
| Principal receivables balances contractually delinquent: | | | | |
| 31 to 60 days | 244.3 | 1.5 % | 303.2 | 1.8 % |
| 61 to 90 days | 185.0 | 1.2 | 207.9 | 1.3 |
| 91 or more days | 407.4 | 2.5 | 443.4 | 2.6 |
| Total | $ 836.7 | 5.2 % | $ 954.5 | 5.7 % |

***Modified Credit Card Receivables***

The Company holds certain credit card receivables for which the terms have been modified. The Company’s modified credit card receivables include credit card receivables for which temporary hardship concessions have been granted and credit card receivables in permanent workout programs. These modified credit card receivables include concessions consisting primarily of a reduced minimum payment and an interest rate reduction. The temporary programs’ concessions remain in place for a period no longer than twelve months, while the permanent programs remain in place through the payoff of the credit card receivables if the credit cardholder complies with the terms of the program. These concessions do not include the forgiveness of unpaid principal, but may involve the reversal of certain unpaid interest or fee assessments. In the case of the temporary programs, at the end of the concession period, credit card receivable terms revert to standard rates. These arrangements are automatically terminated if the customer fails to make payments in accordance with the terms of the program, at which time their account reverts back to its original terms.

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

The Company had $298.2 million and $292.4 million, respectively, as a recorded investment in impaired credit card receivables with an associated allowance for loan loss of $104.3 million and $101.3 million, respectively, as of March 31, 2019 and December 31, 2018. These modified credit card receivables represented less than 2% of the Company’s total credit card receivables as of both March 31, 2019 and December 31, 2018.

The average recorded investment in impaired credit card receivables was $297.7 million and $296.3 million for the three months ended March 31, 2019 and 2018, 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 $5.7 million and $6.0 million for the three months ended March 31, 2019 and 2018, respectively, in interest income associated with modified credit card receivables during the period that such credit card receivables were impaired.

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

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

| | Three Months Ended March 31, 2019 | | | Three Months Ended March 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Number of Restructurings | Pre-modification Outstanding Balance | Post-modification Outstanding Balance | Number of Restructurings | Pre-modification Outstanding Balance | Post-modification Outstanding Balance |
| | (Dollars in millions) | | | | | |
| Troubled debt restructurings – credit card receivables | 70,294 | $ 104.3 | $ 104.1 | 280,072 | $ 312.5 | $ 312.2 |

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

| | Three Months Ended March 31, 2019 | | Three Months Ended March 31, 2018 | |
|---|---|---|---|---|
| | Number of Restructurings | Outstanding Balance | Number of Restructurings | Outstanding Balance |
| | (Dollars in millions) | | | |
| Troubled debt restructurings that subsequently defaulted – credit card receivables | 50,456 | $ 65.4 | 28,760 | $ 35.0 |

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

The following tables set forth, as of March 31, 2019 and December 31, 2018, 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:

| | March 31, 2019 | | | |
|---|---|---|---|---|
| Age of Accounts Since Origination | Number of Active Accounts with Balances | Percentage of Active Accounts with Balances | Principal Receivables Outstanding | Percentage of Principal Receivables Outstanding |
| | (in millions, except percentages) | | | |
| 0-12 Months | 5.5 | 26.1 % | $ 3,812.1 | 23.9 % |
| 13-24 Months | 3.7 | 17.4 | 2,685.1 | 16.9 |
| 25-36 Months | 2.9 | 13.6 | 2,362.1 | 14.8 |
| 37-48 Months | 2.0 | 9.3 | 1,695.0 | 10.6 |
| 49-60 Months | 1.6 | 7.3 | 1,364.4 | 8.6 |
| Over 60 Months | 5.6 | 26.3 | 4,020.0 | 25.2 |
| Total | 21.3 | 100.0 % | $ 15,938.7 | 100.0 % |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| 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 | 26.7 % | $ 4,099.9 | 24.3 % |
| 13-24 Months | 4.2 | 17.1 | 2,887.8 | 17.1 |
| 25-36 Months | 3.1 | 13.0 | 2,428.9 | 14.4 |
| 37-48 Months | 2.2 | 9.1 | 1,795.0 | 10.7 |
| 49-60 Months | 1.7 | 7.1 | 1,367.2 | 8.1 |
| Over 60 Months | 6.5 | 27.0 | 4,291.1 | 25.4 |
| Total | 24.2 | 100.0 % | $ 16,869.9 | 100.0 % |

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

***Credit Quality***

The Company uses proprietary scoring models developed specifically for the purpose of monitoring the Company's obligor credit quality. The proprietary scoring models are used as a tool in the underwriting process and for making credit decisions. The proprietary scoring models are based on historical data and require various assumptions about future performance, which the Company updates periodically. 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 March 31, 2019 and December 31, 2018:

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| 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 | $ 204.7 | 1.3 % | $ 249.0 | 1.5 % |
| 27.1% and higher | 1,368.9 | 8.6 | 1,394.0 | 8.2 |
| 17.1% - 27.0% | 962.5 | 6.0 | 770.1 | 4.6 |
| 12.6% - 17.0% | 1,001.1 | 6.3 | 1,047.6 | 6.2 |
| 3.7% - 12.5% | 6,947.8 | 43.6 | 6,877.6 | 40.8 |
| 1.9% - 3.6% | 2,718.2 | 17.0 | 3,060.7 | 18.1 |
| Lower than 1.9% | 2,735.5 | 17.2 | 3,470.9 | 20.6 |
| Total | $ 15,938.7 | 100.0 % | $ 16,869.9 | 100.0 % |

***Transfer of Financial Assets***

The Company originated loan receivables under one previous client agreement, and after origination, these loan receivables were sold to the client at par value plus accrued interest. These transfers qualified for sale treatment as they met the conditions established in ASC 860-10, "Transfers and Servicing." Following the sale, the client owned the loan receivables, assumed the risk of loss in the event of loan defaults and was responsible for all servicing functions related to the loan receivables. Effective July 2, 2018, the Company no longer originates loan receivables for this client. Originations and sales of these loan receivables held for sale were reflected as operating activities in the Company's unaudited condensed consolidated statements of cash flows.

***Portfolios Held for Sale***

The Company has certain credit card portfolios held for sale, which are carried at the lower of cost or fair value, of $1,848.9 million and $1,951.6 million as of March 31, 2019 and December 31, 2018, respectively. For the three months ended March 31, 2019 and 2018, the Company recorded valuation adjustments, which are reflected in cost of operations expense, of $59.9 million and $21.7 million, respectively, to reduce the value of certain portfolios within credit card receivables held for sale.

In April 2019, the Company sold one portfolio at par for an estimated purchase price of $361.5 million, subject to certain conditions as defined in the purchase and sale agreement.

***Securitized Credit Card Receivables***

The Company regularly securitizes its credit card receivables through its credit card securitization trusts, consisting of World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust ("Master Trust I") and World Financial Network Credit Card Master Trust III ("Master Trust III") (collectively, the "WFN Trusts"), and World Financial Capital Credit Card Master Note Trust (the "WFC Trust"). The Company continues to own and service the accounts that generate credit card receivables held by the WFN Trusts and the WFC Trust. In its capacity as a servicer, each of the respective banks earns a fee from the WFN Trusts and the WFC Trust to service and administer the credit card receivables, collect payments and charge-off uncollectible receivables. These fees are eliminated and therefore not reflected in the Company's unaudited condensed consolidated statements of income for the three months ended March 31, 2019 and 2018.

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

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

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | (in millions) | |
| Total credit card receivables – restricted for securitization investors | $ 12,550.5 | $ 13,418.3 |
| Principal amount of credit card receivables – restricted for securitization investors, 91 days or more past due | $ 280.1 | $ 301.6 |

| | Three Months Ended March 31, 2019 | 2018 |
|---|---|---|
| | (in millions) | |
| Net charge-offs of securitized principal | $ 239.5 | $ 245.0 |

## 7. INVENTORIES, NET

Inventories, net of $242.3 million and $248.0 million at March 31, 2019 and December 31, 2018, respectively, primarily consist of finished goods to be utilized as rewards in the Company's loyalty programs. Inventories, net are stated at the lower of cost and net realizable value and valued primarily on a first-in-first-out basis. The Company records valuation adjustments to its inventories if the cost of inventory exceeds the amount it expects to realize from the ultimate sale or disposal of the inventory. These estimates are based on management's judgment regarding future market conditions and an analysis of historical experience.

## 8. OTHER INVESTMENTS

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

| | March 31, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| | (in millions) | | | | | | | |
| Marketable securities | $ 271.4 | $ 0.7 | $ (3.1) | $ 269.0 | $ 272.8 | $ 0.1 | $ (6.5) | $ 266.4 |
| U.S. Treasury bonds | 25.0 | — | (0.1) | 24.9 | 25.0 | — | (0.1) | 24.9 |
| Total | $ 296.4 | $ 0.7 | $ (3.2) | $ 293.9 | $ 297.8 | $ 0.1 | $ (6.6) | $ 291.3 |

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of March 31, 2019 and December 31, 2018, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

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

| | March 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 Months or Greater | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in millions) | | | | | |
| Marketable securities | $ — | $ — | $ 173.7 | $ (3.1) | $ 173.7 | $ (3.1) |
| U.S. Treasury bonds | — | — | 24.9 | (0.1) | 24.9 | (0.1) |
| Total | $ — | $ — | $ 198.6 | $ (3.2) | $ 198.6 | $ (3.2) |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 57.3 | $ (0.5) | $ 164.0 | $ (6.0) | $ 221.3 | $ (6.5) |
| U.S. Treasury bonds | — | — | 24.9 | (0.1) | 24.9 | (0.1) |
| Total | $ 57.3 | $ (0.5) | $ 188.9 | $ (6.1) | $ 246.2 | $ (6.6) |

The amortized cost and estimated fair value of the marketable securities and U.S. Treasury bonds at March 31, 2019 by contractual maturity are as follows:

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| | (in millions) | |
| Due in one year or less | $ 55.0 | $ 55.0 |
| Due after one year through five years | 1.9 | 1.9 |
| Due after five years through ten years | — | — |
| Due after ten years | 239.5 | 237.0 |
| Total | $ 296.4 | $ 293.9 |

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 March 31, 2019, the Company does not consider the investments to be other-than-temporarily impaired.

There were no realized gains or losses from the sale of investment securities for the three months ended March 31, 2019 and 2018.

### 9. REDEMPTION SETTLEMENT ASSETS

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

| | March 31, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| | (in millions) | | | | | | | |
| Restricted cash | $ 43.4 | $ — | $ — | $ 43.4 | $ 43.9 | $ — | $ — | $ 43.9 |
| Mutual funds | 24.2 | — | — | 24.2 | 23.2 | — | — | 23.2 |
| Corporate bonds | 508.5 | 2.3 | (2.3) | 508.5 | 497.5 | 0.1 | (6.1) | 491.5 |
| Total | $ 576.1 | $ 2.3 | $ (2.3) | $ 576.1 | $ 564.6 | $ 0.1 | $ (6.1) | $ 558.6 |

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of March 31, 2019 and December 31, 2018, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

| | March 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 Months or Greater | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in millions) | | | | | |
| Corporate bonds | $ — | $ — | $ 323.3 | $ (2.3) | $ 323.3 | $ (2.3) |
| Total | $ — | $ — | $ 323.3 | $ (2.3) | $ 323.3 | $ (2.3) |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 Months or Greater | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in millions) | | | | | |
| Corporate bonds | $ 31.2 | $ (0.1) | $ 414.4 | $ (6.0) | $ 445.6 | $ (6.1) |
| Total | $ 31.2 | $ (0.1) | $ 414.4 | $ (6.0) | $ 445.6 | $ (6.1) |

The amortized cost and estimated fair value of the securities at March 31, 2019 by contractual maturity are as follows:

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| | (in millions) | |
| Due in one year or less | $ 134.2 | $ 133.9 |
| Due after one year through five years | 398.5 | 398.8 |
| Total | $ 532.7 | $ 532.7 |

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 March 31, 2019, the Company does not consider the investments to be other-than-temporarily impaired.

Realized gains and losses from the sale of investment securities for the three months ended March 31, 2019 and 2018 were de minimis.

### 10. LEASES

The Company has operating leases for general office properties, warehouses, data centers, call centers, automobiles and certain equipment. As of March 31, 2019, the Company's leases have remaining lease terms of less than 1 year to 19 years, some of which may include renewal options. For leases in which the implicit rate is not readily determinable, the Company uses its incremental borrowing rate as of the lease commencement date to determine the present value of the lease payments.

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

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

The components of lease expense were as follows:

| | Three Months Ended March 31, 2019 (in millions) |
|---|---|
| Operating lease cost | $ 10.3 |
| Short-term lease cost | 0.6 |
| Variable lease cost | 1.9 |
| Total | $ 12.8 |

Other information related to leases was as follows:

| | March 31, 2019 |
|---|---|
| Weighted-average remaining lease term (in years): | |
| Operating leases | 11.9 |
| Weighted-average discount rate: | |
| Operating leases | 5.3% |

Supplemental cash flow information related to leases was as follows:

| | Three Months Ended March 31, 2019 (in millions) |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | $ 15.3 |
| Right-of-use assets obtained in exchange for lease obligations: | |
| Operating leases | $ 8.6 |

Maturities of the lease liabilities as of March 31, 2019 were as follows:

| Year | Operating Leases |
|---|---|
| | (in millions) |
| 2019 (excluding the three months ended March 31, 2019) | $ 27.4 |
| 2020 | 40.8 |
| 2021 | 38.6 |
| 2022 | 37.8 |
| 2023 | 36.7 |
| Thereafter | 260.2 |
| Total undiscounted lease liabilities | 441.5 |
| Less: Amount representing interest | (120.3) |
| Total present value of minimum lease payments | $ 321.2 |
| | |
| Amounts recognized in the March 31, 2019 consolidated balance sheet: | |
| Current operating lease liabilities | $ 21.4 |
| Long-term operating lease liabilities | 299.8 |
| Total | $ 321.2 |

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

## 11. INTANGIBLE ASSETS AND GOODWILL

### *Intangible Assets*

Intangible assets consist of the following:

| | March 31, 2019 | | | |
|---|---|---|---|---|
| | Gross Assets | Accumulated Amortization | Net | Amortization Life and Method |
| | (in millions) | | | |
| *Finite Lived Assets* | | | | |
| Customer contracts and lists | $ 325.3 | $ (244.0) | $ 81.3 | 7 years—straight line |
| Premium on purchased credit card portfolios | 286.0 | (186.5) | 99.5 | 3-13 years—straight line |
| Collector database | 52.5 | (51.1) | 1.4 | 5 years—straight line |
| Tradenames | 31.8 | (25.6) | 6.2 | 8-15 years—straight line |
| | $ 695.6 | $ (507.2) | $ 188.4 | |
| *Indefinite Lived Assets* | | | | |
| Tradename | 1.2 | — | 1.2 | Indefinite life |
| Total intangible assets | $ 696.8 | $ (507.2) | $ 189.6 | |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Gross Assets | Accumulated Amortization | Net | Amortization Life and Method |
| | (in millions) | | | |
| *Finite Lived Assets* | | | | |
| Customer contracts and lists | $ 339.5 | $ (244.4) | $ 95.1 | 3-7 years—straight line |
| Premium on purchased credit card portfolios | 286.0 | (172.9) | 113.1 | 3-13 years—straight line |
| Collector database | 51.3 | (49.9) | 1.4 | 5 years—straight line |
| Tradenames | 32.5 | (25.9) | 6.6 | 8-15 years—straight line |
| | $ 709.3 | $ (493.1) | $ 216.2 | |
| *Indefinite Lived Assets* | | | | |
| Tradename | 1.2 | — | 1.2 | Indefinite life |
| Total intangible assets | $ 710.5 | $ (493.1) | $ 217.4 | |

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

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) |
|---|---|
| 2019 (excluding the three months ended March 31, 2019) | $ 84.0 |
| 2020 | 57.4 |
| 2021 | 13.7 |
| 2022 | 11.3 |
| 2023 | 10.3 |
| Thereafter | 11.7 |

***Goodwill***

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

| | LoyaltyOne | Card Services | Corporate/ Other | Total |
|---|---|---|---|---|
| | | (in millions) | | |
| **Balance at December 31, 2018** | $ 693.1 | $ 261.7 | $ — | $ 954.8 |
| Goodwill acquired during the year | — | 2.3 | — | 2.3 |
| Effects of foreign currency translation | (7.1) | — | — | (7.1) |
| **Balance at March 31, 2019** | $ 686.0 | $ 264.0 | $ — | $ 950.0 |

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

## 12. DEBT

Debt consists of the following:

| Description | March 31, 2019 | December 31, 2018 | Maturity | Interest Rate |
|---|---|---|---|---|
| | (Dollars in millions) | | | |
| *Long-term and other debt:* | | | | |
| 2017 revolving line of credit | $ 945.0 | $ 740.0 | June 2022 | (1) |
| 2017 term loans | 2,919.0 | 2,938.1 | June 2022 | (1) |
| BrandLoyalty credit agreement | 168.2 | 183.7 | June 2020 | (2) |
| Senior notes due 2021 | 500.0 | 500.0 | November 2021 | 5.875% |
| Senior notes due 2022 | 600.0 | 600.0 | August 2022 | 5.375% |
| Senior notes due 2022 (€400.0 million) | 448.7 | 458.8 | March 2022 | 4.500% |
| Senior notes due 2023 (€300.0 million) | 336.5 | 344.1 | November 2023 | 5.250% |
| Total long-term and other debt | 5,917.4 | 5,764.7 | | |
| Less: Unamortized debt issuance costs | 35.9 | 39.3 | | |
| Less: Current portion | 161.5 | 138.9 | | |
| Long-term portion | $ 5,720.0 | $ 5,586.5 | | |
| *Deposits:* | | | | |
| Certificates of deposit | $ 8,278.5 | $ 8,395.1 | Various – Apr 2019 – Mar 2024 | 1.28% to 4.00% |
| Money market deposits | 3,038.4 | 3,424.3 | Non-maturity | (3) |
| Total deposits | 11,316.9 | 11,819.4 | | |
| Less: Unamortized debt issuance costs | 24.9 | 25.7 | | |
| Less: Current portion | 5,922.6 | 6,537.7 | | |
| Long-term portion | $ 5,369.4 | $ 5,256.0 | | |
| *Non-recourse borrowings of consolidated securitization entities:* | | | | |
| Fixed rate asset-backed term note securities | $ 5,018.0 | $ 4,893.3 | Various – June 2019 – Feb 2022 | 1.72% to 3.95% |
| Conduit asset-backed securities | 1,770.0 | 2,770.0 | Various – Nov 2019 – Sept 2020 | (4) |
| Total non-recourse borrowings of consolidated securitization entities | 6,788.0 | 7,663.3 | | |
| Less: Unamortized debt issuance costs | 12.5 | 11.6 | | |
| Less: Current portion | 2,185.6 | 2,717.6 | | |
| Long-term portion | $ 4,589.9 | $ 4,934.1 | | |

(1) The interest rate is based upon the London Interbank Offered Rate (“LIBOR”) plus an applicable margin. At March 31, 2019, the weighted average interest rate was 4.26% and 4.25% for the revolving line of credit and term loans, respectively.

(2) The interest rate is based upon the Euro Interbank Offered Rate plus an applicable margin. At March 31, 2019, the weighted average interest rate was 1.20% and 1.65% for the BrandLoyalty revolving line of credit and term loans, respectively.

(3) The interest rates are based on the Federal Funds rate plus an applicable margin. At March 31, 2019, the interest rates ranged from 1.90% to 3.50%.

(4) The interest rate is based upon LIBOR or the asset-backed commercial paper costs of each individual conduit provider plus an applicable margin. At March 31, 2019, the interest rates ranged from 3.54% to 3.68%.

At March 31, 2019, the Company was in compliance with its financial covenants.

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

*Credit Agreement*

As of March 31, 2019, the Company's credit agreement, as amended, provided for $3,052.6 million in term loans subject to certain principal repayments and a $1,572.4 million revolving line of credit, with $627.4 million total availability. In February 2019, Alliance Data International LLC became an additional guarantor under the credit agreement.

On April 30, 2019, the Company amended its credit agreement to provide that, upon consummation of the sale of Epsilon, the maturity date of the credit agreement will be reduced by one year from June 14, 2022 to June 14, 2021, a mandatory payment of $500 million of the revolving credit facility will be required, the aggregate revolving credit commitments will be reduced in the same amount (to $1,072.4 million), all of the Company's outstanding senior notes will be required to be redeemed, net proceeds from future asset sales in excess of $50 million must be applied to repayment of the credit agreement and certain other minor amendments.

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

*Asset-Backed Term Notes*

In February 2019, Master Trust I issued $562.5 million of Series 2019-A asset-backed term notes, which mature in February 2022. The offering consisted of $500.0 million of Class A notes with a fixed interest rate of 3.14% per year, $37.2 million of Class M notes with a fixed interest rate of 3.61% per year and $25.3 million of notes that were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets.

In March 2019, $550.0 million of Series 2012-A asset-backed term notes, $137.5 million of which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets, matured and were repaid.

*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.

As of March 31, 2019, total capacity under the conduit facilities was $4.5 billion, of which $1.8 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the unaudited condensed consolidated balance sheets.

**13. DERIVATIVE INSTRUMENTS**

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

The Company limits its exposure on derivatives by entering into contracts with institutions that are established dealers who maintain certain minimum credit criteria established by the Company. At March 31, 2019, the Company does not maintain any derivative instruments subject to master agreements that would require the Company to post collateral or that contain any credit-risk related contingent features.

The Company enters into foreign currency derivatives to reduce the volatility of the Company's cash flows resulting from changes in foreign currency exchange rates associated with certain inventory transactions, some of which are designated as cash flow hedges. The Company generally hedges foreign currency exchange rate risks for periods of 12 months or less. As of March 31, 2019, the maximum term over which the Company is hedging its exposure to the variability of future cash flows associated with certain inventory transactions is 11 months.

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

The following tables present the fair values of the derivative instruments included within the Company's unaudited condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018:

| | March 31, 2019 | | | |
|---|---|---|---|---|
| | Notional Amount | Fair Value | Balance Sheet Location | Maturity |
| | (in millions) | | | |
| *Designated as hedging instruments:* | | | | |
| Foreign currency exchange hedges | $ 19.2 | $ 0.2 | Other current assets | April 2019 to February 2020 |
| Foreign currency exchange hedges | $ 19.6 | $ 0.7 | Other current liabilities | April 2019 to November 2019 |
| *Not designated as hedging instruments:* | | | | |
| Foreign currency exchange forward contract | $ 62.1 | $ 0.7 | Other current assets | July 2019 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Notional Amount | Fair Value | Balance Sheet Location | Maturity |
| | (in millions) | | | |
| *Designated as hedging instruments:* | | | | |
| Foreign currency exchange hedges | $ 5.2 | $ 0.3 | Other current assets | January 2019 to April 2019 |
| Foreign currency exchange hedges | $ 20.3 | $ 0.3 | Other current liabilities | March 2019 to November 2019 |
| *Not designated as hedging instruments:* | | | | |
| Foreign currency exchange forward contract | $ 61.6 | $ 3.5 | Other current assets | January 2019 to February 2019 |

***Derivatives Designated as Hedging Instruments***

Losses of $0.1 million, net of tax, were recognized in other comprehensive income for each of the three months ended March 31, 2019 and March 31, 2018, 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 until the hedged transactions affect net income. The ineffective portion of these cash flow hedges impacts net income when ineffectiveness occurs. Reclassifications from accumulated other comprehensive loss into net income (cost of operations) for each of the periods presented were not material. At March 31, 2019, $0.3 million is expected to be reclassified from accumulated other comprehensive loss into net income in the coming 12 months.

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

For the three months ended March 31, 2019 and March 31, 2018, losses of $1.2 million and gains of $7.1 million, respectively, related to foreign currency exchange forward contracts not designated as hedging instruments were recognized in general and administrative expense in the Company's unaudited condensed consolidated statements of income.

***Net Investment Hedges***

The Company designated its Euro-denominated 5.250% senior notes due 2023 (€300.0 million) and €340.0 million of its Euro-denominated 4.500% senior notes due 2022 (€400.0 million) as a net investment hedge of its investment in BrandLoyalty on an after-tax basis. The net investment hedge is intended 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 net investment hedges due to remeasurement of the effective portion is recorded in other comprehensive income. The ineffective portion of this hedging instrument impacts net income when the ineffectiveness occurs. For the three months ended March 31, 2019 and March 31, 2018, gains of $12.2 million and losses of $11.7 million, net of tax, respectively, were recognized in other comprehensive income and no ineffectiveness was recorded on the net investment hedges.

## 14. STOCKHOLDERS' EQUITY

### *Stock Repurchase Program*

The Company had an authorized stock repurchase program to acquire up to $500.0 million of the Company's outstanding common stock from August 1, 2018 through July 31, 2019. At December 31, 2018 the Company had $222.8 million remaining under the stock repurchase program.

For the three months ended March 31, 2019, the Company acquired a total of 1.3 million shares of its common stock for $222.8 million under its respective stock repurchase programs. As of March 31, 2019, the Company did not have any amounts remaining under its authorized stock repurchase program.

### *Stock Compensation Expense*

Stock-based compensation expense recognized in the Company's unaudited condensed consolidated statements of income for the three months ended March 31, 2019 and 2018 is as follows:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| | (in millions) | |
| Cost of operations | $ 6.7 | $ 8.0 |
| General and administrative | 4.6 | 5.6 |
| Total | $ 11.3 | $ 13.6 |

Stock-based compensation expense included in loss from discontinued operations totaled $9.8 million and $11.9 million for the three months ended March 31, 2019 and 2018, respectively.

During the three months ended March 31, 2019, the Company awarded 122,420 service-based restricted stock units with a weighted average grant date fair value per share of $173.13 as determined on the date of grant. Service-based restricted stock units typically vest ratably over three years provided that the participant is employed by the Company on each such vesting date.

During the three months ended March 31, 2019, the Company awarded 420,239 performance-based restricted stock units with a weighted average grant date fair value per share of $173.21 as determined on the date of grant with pre-defined vesting criteria that permit a range from 0% to 150% to be earned. If the performance targets are met, the restrictions will lapse with respect to 33% of the award on February 15, 2020, an additional 33% of the award on February 15, 2021 and the final 34% of the award on February 18, 2022, provided that the participant is employed by the Company on each such vesting date.

During the three months ended March 31, 2019, the Company also awarded 37,878 restricted stock units with a market-based condition subject to pre-defined vesting criteria that permit a range from 0% to 175% to be earned. The fair market value of these awards is $129.15 and was estimated utilizing Monte Carlo simulations of the Company's stock price correlation, expected volatility and risk-free rate over two-year time horizons matching the performance period. Upon determination of the market condition, the restrictions will lapse with respect to the entire award on February 15, 2021, provided that the participant is employed by the Company on such vesting date.

### *Dividends*

On February 7, 2019, the Company's Board of Directors declared a quarterly cash dividend of $0.63 per share on the Company's common stock to stockholders of record at the close of business on February 21, 2019, resulting in a dividend payment of $33.4 million on March 19, 2019. Additionally, the Company paid $0.5 million in cash related to dividend equivalent rights for the three months ended March 31, 2019.

On April 25, 2019, the Company's Board of Directors declared a quarterly cash dividend of $0.63 per share on the Company's common stock and $6.30 per share on the Company's Series A Non-Voting Convertible Preferred Stock, each to stockholders of record at the close of business on May 14, 2019 and payable on June 18, 2019.

***Preferred Stock***

In April 2019, the Company's Board of Directors designated 300,000 shares of its authorized and unissued preferred stock as Series A Non-Voting Convertible Preferred Stock and the Company filed with the Delaware Secretary of State a Certificate of Designations of Series A Non-Voting Convertible Preferred Stock to create the new Series A Non-Voting Convertible Preferred Stock, authorized 300,000 shares and designated the preferences, rights and limitations of the Series A Non-Voting Convertible Preferred Stock. Each share of Series A Non-Voting Convertible Preferred Stock will initially be convertible into ten shares of common stock (subject to adjustment and the other terms described in the Certificate of Designations) at the holder's election or upon the Company's written request, provided that upon such conversion the holder, together with its affiliates, will not own or control in the aggregate more than 9.9% of the Company's outstanding common stock (or any class of the Company's voting securities). Shares of Series A Non-Voting Convertible Preferred Stock will also be subject to automatic conversion if a holder transfers such shares pursuant to a transfer (a) to the Company, (b) in a widespread public distribution of common stock or Series A Non-Voting Convertible Preferred Stock, (c) in which no one transferee (or group of associated transferees) would receive 2% or more of any class of the Company's voting securities then outstanding (including pursuant to a related series of such transfers), or (d) to a transferee that would control more than 50% of the Company voting securities (not including voting securities such person is acquiring from the transferor). Upon such a transaction, the transferred shares of Series A Non-Voting Convertible Preferred Stock will automatically be converted into shares of common stock on a ten-for-one basis (subject to adjustment as described in the Certificate of Designations).

The shares of Series A Non-Voting Convertible Preferred Stock have no voting rights, except as otherwise required by the General Corporation Law of the State of Delaware. The Series A Non-Voting Convertible Preferred Stock will, with respect to rights upon liquidation, winding up and dissolution, rank (i) subordinate and junior in right of payment to all other securities of the Company that, by their respective terms, are senior to the Series A Non-Voting Convertible Preferred Stock, and (ii) pari passu with the common stock.

On April 25, 2019, the Company entered into an exchange agreement with ValueAct Holdings, L.P. pursuant to which ValueAct exchanged an aggregate of 1,500,000 shares of the Company's common stock for an aggregate of 150,000 shares of Series A Non-Voting Convertible Preferred Stock. The issuance to ValueAct of the shares of Series A Non-Voting Convertible Preferred Stock was, and the issuance of the shares of common stock issuable upon conversion of the Series A Non-Voting Convertible Preferred Stock will be, made in reliance upon the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended.

## 15. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| Three Months Ended March 31, 2019 | Net Unrealized Gains (Losses) on Securities | Unrealized Gains (Losses) on Cash Flow Hedges | Unrealized Gains (Losses) on Net Investment Hedges | Foreign Currency Translation Adjustments [(1)] | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **Balance at December 31, 2018** | $ (10.7) | $ (0.2) | $ (12.4) | $ (114.8) | $ (138.1) |
| Changes in other comprehensive income (loss) | 9.0 | (0.1) | 12.2 | (10.9) | 10.2 |
| **Balance at March 31, 2019** | $ (1.7) | $ (0.3) | $ (0.2) | $ (125.7) | $ (127.9) |

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

| Three Months Ended March 31, 2018 | Net Unrealized Gains (Losses) on Securities | Unrealized Gains (Losses) on Cash Flow Hedges | Unrealized Gains (Losses) on Net Investment Hedges | Foreign Currency Translation Adjustments [(1)] | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **Balance at December 31, 2017** | $ (8.7) | $ (0.1) | $ (42.0) | $ (89.4) | $ (140.2) |
| Changes in other comprehensive income (loss) | (2.0) | (0.1) | (11.7) | 17.5 | 3.7 |
| **Balance at March 31, 2018** | $ (10.7) | $ (0.2) | $ (53.7) | $ (71.9) | $ (136.5) |

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

Reclassifications from accumulated other comprehensive loss into net income for each of the periods presented were not material. Additionally, as of January 1, 2018, a cumulative-effect adjustment of $1.5 million was reclassified from accumulated other comprehensive loss to retained earnings related to the adoption of ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.”

## 16. 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:

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in millions) | | | |
| **Financial assets** | | | | |
| Credit card and loan receivables, net | $ 15,829.4 | $ 16,390.2 | $ 16,816.7 | $ 17,472.7 |
| Credit card receivables held for sale | 1,848.9 | 1,902.5 | 1,951.6 | 1,995.5 |
| Redemption settlement assets, restricted | 576.1 | 576.1 | 558.6 | 558.6 |
| Other investments | 293.9 | 293.9 | 291.3 | 291.3 |
| Derivative instruments | 0.9 | 0.9 | 3.8 | 3.8 |
| **Financial liabilities** | | | | |
| Derivative instruments | 0.7 | 0.7 | 0.3 | 0.3 |
| Deposits | 11,292.0 | 11,326.5 | 11,793.7 | 11,768.7 |
| Non-recourse borrowings of consolidated securitization entities | 6,775.5 | 6,784.5 | 7,651.7 | 7,626.9 |
| Long-term and other debt | 5,881.5 | 5,961.6 | 5,725.4 | 5,755.3 |

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

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

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

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

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

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

*Deposits* — 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 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. The fair value of the foreign currency forward contracts 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.

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

The following tables provide information for the assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2019 and December 31, 2018:

| | Balance at March 31, 2019 | Fair Value Measurements at March 31, 2019 Using | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | (in millions) | | | |
| Mutual funds [1] | $ 24.2 | $ 24.2 | $ — | $ — |
| Corporate bonds [1] | 508.5 | — | 508.5 | — |
| Marketable securities [2] | 269.0 | 25.5 | 243.5 | — |
| U.S. Treasury bonds [2] | 24.9 | 24.9 | — | — |
| Derivative instruments [3] | 0.9 | — | 0.9 | — |
| Total assets measured at fair value | $ 827.5 | $ 74.6 | $ 752.9 | $ — |
| | | | | |
| Derivative instruments [3] | $ 0.7 | $ — | $ 0.7 | $ — |
| Total liabilities measured at fair value | $ 0.7 | $ — | $ 0.7 | $ — |

| | Balance at December 31, 2018 | Fair Value Measurements at December 31, 2018 Using | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | (in millions) | | | |
| Mutual funds [1] | $ 23.2 | $ 23.2 | $ — | $ — |
| Corporate bonds [1] | 491.5 | — | 491.5 | — |
| Marketable securities [2] | 266.4 | 25.0 | 241.4 | — |
| U.S. Treasury bonds [2] | 24.9 | 24.9 | — | — |
| Derivative instruments [3] | 3.8 | — | 3.8 | — |
| Total assets measured at fair value | $ 809.8 | $ 73.1 | $ 736.7 | $ — |
| | | | | |
| Derivative instruments [3] | $ 0.3 | $ — | $ 0.3 | $ — |
| Total liabilities measured at fair value | $ 0.3 | $ — | $ 0.3 | $ — |

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

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

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

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the three months ended March 31, 2019 and 2018.

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

*Financial Instruments Disclosed but Not Carried at Fair Value*

The following tables provide assets and liabilities disclosed but not carried at fair value as of March 31, 2019 and December 31, 2018:

| | Fair Value Measurements at March 31, 2019 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| | (in millions) | | | |
| **Financial assets:** | | | | |
| Credit card and loan receivables, net | $ 16,390.2 | $ — | $ — | $ 16,390.2 |
| Credit card receivables held for sale | 1,902.5 | — | — | 1,902.5 |
| Total | $ 18,292.7 | $ — | $ — | $ 18,292.7 |
| **Financial liabilities:** | | | | |
| Deposits | $ 11,326.5 | $ — | $ 11,326.5 | $ — |
| Non-recourse borrowings of consolidated securitization entities | 6,784.5 | — | 6,784.5 | — |
| Long-term and other debt | 5,961.6 | — | 5,961.6 | — |
| Total | $ 24,072.6 | $ — | $ 24,072.6 | $ — |

| | Fair Value Measurements at December 31, 2018 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| | (in millions) | | | |
| **Financial assets:** | | | | |
| Credit card and loan receivables, net | $ 17,472.7 | $ — | $ — | $ 17,472.7 |
| Credit card receivables held for sale | 1,995.5 | — | — | 1,995.5 |
| Total | $ 19,468.2 | $ — | $ — | $ 19,468.2 |
| **Financial liabilities:** | | | | |
| Deposits | $ 11,768.7 | $ — | $ 11,768.7 | $ — |
| Non-recourse borrowings of consolidated securitization entities | 7,626.9 | — | 7,626.9 | — |
| Long-term and other debt | 5,755.3 | — | 5,755.3 | — |
| Total | $ 25,150.9 | $ — | $ 25,150.9 | $ — |

## 17. INCOME TAXES

For the three months ended March 31, 2019 and March 31, 2018, the Company utilized an effective tax rate of 16.0% and 26.6%, respectively, to calculate its provision for income taxes. The decrease in the effective tax rate for the three months ended March 31, 2019 was primarily related to a decrease in tax reserves resulting from a change in accounting method for tax purposes.

## 18. SEGMENT INFORMATION

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

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

As discussed in Note 5, “Discontinued Operations,” in the first quarter of 2019, the Company’s Epsilon segment has been classified as a discontinued operation. As such, beginning with the first quarter of 2019, the Company operates in the LoyaltyOne and Card Services reportable segments, which consist of the following:

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

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

| Three Months Ended March 31, 2019 | LoyaltyOne | Card Services | Corporate/ Other | Total |
|---|---|---|---|---|
| | | (in millions) | | |
| Revenues | $ 203.8 | $ 1,130.4 | $ — | $ 1,334.2 |
| Income (loss) before income taxes | $ 23.0 | $ 266.9 | $ (82.5) | $ 207.4 |
| Interest expense, net | 1.1 | 106.0 | 42.4 | 149.5 |
| Operating income (loss) | 24.1 | 372.9 | (40.1) | 356.9 |
| Depreciation and amortization | 20.1 | 24.3 | 2.0 | 46.4 |
| Stock compensation expense | 3.0 | 3.7 | 4.6 | 11.3 |
| Restructuring charges | 7.9 | — | — | 7.9 |
| Adjusted EBITDA (1) | 55.1 | 400.9 | (33.5) | 422.5 |
| Less: Securitization funding costs | — | 57.3 | — | 57.3 |
| Less: Interest expense on deposits | — | 48.7 | — | 48.7 |
| Adjusted EBITDA, net (1) | $ 55.1 | $ 294.9 | $ (33.5) | $ 316.5 |

| Three Months Ended March 31, 2018 | LoyaltyOne | Card Services | Corporate/ Other | Total |
|---|---|---|---|---|
| | | (in millions) | | |
| Revenues | $ 226.3 | $ 1,155.2 | $ 0.2 | $ 1,381.7 |
| Income (loss) before income taxes | $ 27.1 | $ 289.4 | $ (76.0) | $ 240.5 |
| Interest expense, net | 1.2 | 87.6 | 43.0 | 131.8 |
| Operating income (loss) | 28.3 | 377.0 | (33.0) | 372.3 |
| Depreciation and amortization | 22.0 | 24.8 | 1.9 | 48.7 |
| Stock compensation expense | 3.6 | 4.4 | 5.6 | 13.6 |
| Adjusted EBITDA (1) | 53.9 | 406.2 | (25.5) | 434.6 |
| Less: Securitization funding costs | — | 52.1 | — | 52.1 |
| Less: Interest expense on deposits | — | 35.5 | — | 35.5 |
| Adjusted EBITDA, net (1) | $ 53.9 | $ 318.6 | $ (25.5) | $ 347.0 |

(1) Adjusted EBITDA is a non-GAAP financial measure equal to income from continuing operations, the most directly comparable financial measure based on GAAP plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization and amortization of purchased intangibles. In 2019, adjusted EBITDA excluded costs associated with the wind-down of Merison, a retail marketing division within BrandLoyalty.

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

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

## 19. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| | (in millions) | |
| Cash and cash equivalents | $ 3,725.1 | $ 3,549.5 |
| Restricted cash included within other current assets [(1)] | 47.6 | 528.1 |
| Restricted cash included within redemption settlement assets, restricted [(2)] | 43.3 | 64.4 |
| Total cash, cash equivalents and restricted cash | $ 3,816.0 | $ 4,142.0 |

(1) Includes cash restricted for interest repayments of non-recourse borrowings of consolidated securitized debt and other restricted cash within other current assets. At March 31, 2018, restricted cash included $489.2 million in principal accumulation for the repayment of non-recourse borrowings of consolidated securitized debt that matured in April 2018.

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

**Caution Regarding Forward-Looking Statements**

This Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give our expectations or forecasts of future events and can generally be identified by the use of words such as “believe,” “expect,” “anticipate,” “estimate,” “intend,” “project,” “plan,” “likely,” “may,” “should” or other words or phrases of similar import. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. We believe that our expectations are based on reasonable assumptions. Forward-looking statements, however, are subject to a number of risks and uncertainties that could cause actual results to differ materially from the projections, anticipated results or other expectations expressed in this report, and no assurances can be given that our expectations will prove to have been correct. These risks and uncertainties include, but are not limited to, the following:

- loss of, or reduction in demand for services from, significant clients;
- increases in net charge-offs in credit card and loan receivables;
- failure to identify or successfully integrate or disaggregate business acquisitions or divestitures;
- increases in the cost of doing business, including market interest rates;
- inability to access the asset-backed securitization funding market;
- loss of active AIR MILES Reward Program collectors;
- disruptions in the airline or travel industries;
- increased redemptions by AIR MILES Reward Program collectors;
- unfavorable fluctuations in foreign currency exchange rates;
- limitations on consumer credit, loyalty or marketing services from new legislative or regulatory actions related to consumer protection and consumer privacy;
- increases in FDIC, Delaware or Utah regulatory capital requirements for banks;
- failure to maintain exemption from regulation under the Bank Holding Company Act;
- loss or disruption, due to cyber attack or other service failures, of data center operations or capacity;
- loss of consumer information due to compromised physical or cyber security; and
- those factors set forth in the Risk Factors section in our Annual Report on Form 10-K for the most recently ended fiscal year as well as those factors discussed in Item 1A of Form 10-Q, elsewhere in this Form 10-Q and in the documents incorporated by reference in this Form 10-Q.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Further risks and uncertainties include, but are not limited to, the pending transaction involving Epsilon and whether such transaction will be completed in a timely manner or at all, the possibility that closing conditions may not be satisfied or waived, the impact of our continuing strategic evaluations and any potential transaction on us or our business, and whether the benefits of such transaction and further relationships can be achieved.

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

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes thereto presented in this quarterly report and the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission, or SEC, on February 26, 2019.

### 2019 Recent Developments

- For the three months ended March 31, 2019, as compared to the three months ended March 31, 2018:
  - Revenue decreased 3% to $1.3 billion.
  - Net income decreased 9% to $149.1 million.
  - Earnings per share decreased 5% to $2.80.
  - Adjusted EBITDA, net decreased 9% to $316.5 million.
- We repurchased approximately 1.3 million shares of our common stock for $222.8 million for the three months ended March 31, 2019.
- We paid dividends of $33.9 million for the three months ended March 31, 2019.
- We incurred $7.9 million in restructuring charges associated with the wind-down of Merison, a retail marketing division within BrandLoyalty. These costs are not expected to continue into the second quarter.

In November 2018, we announced the exploration of strategic alternatives for Epsilon, including a potential sale of the business. In the first quarter of 2019, Epsilon met the criteria set forth in ASC 205-20, "Presentation of Financial Statements — Discontinued Operations," and has been presented as a discontinued operation for all periods presented.

Effective April 12, 2019, we entered into a definitive agreement to sell our Epsilon business to Publicis Groupe, S.A. for $4.4 billion in cash, subject to certain adjustments specified therein. Net cash proceeds, after tax obligations and fees associated with the transaction, are expected to be used for the repayment of corporate debt and to repurchase shares of our common stock. The transaction is expected to close in the third quarter of 2019, subject to satisfaction of customary closing conditions and receipt of regulatory approvals.

**Consolidated Results of Operations**

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2019 | 2018 | % Change |
| | (in millions, except percentages) | | |
| Revenues | | | |
| Services | $ 73.3 | $ 92.6 | (21)% |
| Redemption, net | 111.9 | 131.9 | (15) |
| Finance charges, net | 1,149.0 | 1,157.2 | (1) |
| Total revenue | 1,334.2 | 1,381.7 | (3) |
| Operating expenses | | | |
| Cost of operations (exclusive of depreciation and amortization disclosed separately below) | 640.5 | 591.7 | 8 |
| Provision for loan loss | 252.1 | 337.7 | (25) |
| General and administrative | 38.3 | 31.3 | 22 |
| Depreciation and other amortization | 20.6 | 19.3 | 7 |
| Amortization of purchased intangibles | 25.8 | 29.4 | (12) |
| Total operating expenses | 977.3 | 1,009.4 | (3) |
| Operating income | 356.9 | 372.3 | (4) |
| Interest expense | | | |
| Securitization funding costs | 57.3 | 52.1 | 10 |
| Interest expense on deposits | 48.7 | 35.5 | 37 |
| Interest expense on long-term and other debt, net | 43.5 | 44.2 | (2) |
| Total interest expense, net | 149.5 | 131.8 | 13 |
| Income from continuing operations before income taxes | 207.4 | 240.5 | (14) |
| Provision for income taxes | 33.1 | 64.0 | (48) |
| Income from continuing operations | 174.3 | 176.5 | (1) |
| Loss from discontinued operations, net of taxes | (25.2) | (12.6) | 101 |
| Net income | $ 149.1 | $ 163.9 | (9)% |
| | | | |
| Key Operating Metrics: | | | |
| Credit card statements generated | 72.7 | 77.8 | (7)% |
| Credit sales | $ 6,315.4 | $ 6,805.6 | (7)% |
| Average credit card and loan receivables | $ 16,850.2 | $ 17,722.4 | (5)% |
| AIR MILES reward miles issued | 1,258.1 | 1,226.2 | 3 % |
| AIR MILES reward miles redeemed | 1,088.5 | 1,178.2 | (8)% |

***Three months ended March 31, 2019 compared to the three months ended March 31, 2018***

*Revenue*. Total revenue decreased $47.5 million, or 3%, to $1,334.2 million for the three months ended March 31, 2019 from $1,381.7 million for the three months ended March 31, 2018. The decrease was due to the following:

- *Services*. Revenue decreased $19.3 million, or 21%, to $73.3 million for the three months ended March 31, 2019 as a result of a $19.0 million decrease in merchant fee revenue due to increased royalty payments to our retailers associated with new clients.

- *Redemption, net*. Revenue decreased $20.0 million, or 15%, to $111.9 million for the three months ended March 31, 2019. Redemption revenue was negatively impacted by the decline in both the Euro and the Canadian dollar relative to the U.S. dollar, which resulted in a $9.0 million decrease in revenue. Redemption revenue was also negatively impacted $8.8 million by the outsourcing of additional rewards inventory during the three months ended March 31, 2019. As we did not control these goods prior to transfer to the collector, the revenue is recorded on a net basis. Additionally, redemption revenue was negatively impacted by an 8% decrease in AIR MILES reward miles redeemed.

- *Finance charges, net*. Revenue decreased $8.2 million, or 1%, to $1,149.0 million for the three months ended March 31, 2019. This decrease was primarily driven by an approximate 40 basis point decrease in finance charge yield due to a decline in late fees.

*Cost of operations*. Cost of operations increased $48.8 million, or 8%, to $640.5 million for the three months ended March 31, 2019 as compared to $591.7 million for the three months ended March 31, 2018. The net increase was due to the following:

- Within the LoyaltyOne segment, cost of operations decreased $16.5 million, impacted by the decline in both the Euro and Canadian dollar relative to the U.S. dollar, which resulted in an $11.6 million decrease in cost of operations. Additionally, cost of operations decreased $8.8 million due to additional product outsourcing discussed above. These decreases were offset in part by approximately $7.9 million of restructuring costs incurred with the wind-down of Merison during the three months ended March 31, 2019, as BrandLoyalty implemented certain initiatives to lower its fixed operating costs.

- Within the Card Services segment, cost of operations increased $65.3 million due to a $38.2 million increase in valuation adjustments to certain portfolios within credit card receivables held for sale, as well as a $22.4 million increase in credit card processing costs.

*Provision for loan loss*. Provision for loan loss decreased $85.6 million, or 25%, to $252.1 million for the three months ended March 31, 2019 as compared to $337.7 million for the three months ended March 31, 2018, due primarily to a decrease in net charge-offs as well as a decrease in the change in credit card and loan receivables in the current quarter as compared to the prior year quarter.

*General and administrative*. General and administrative expenses increased $7.0 million, or 22%, to $38.3 million for the three months ended March 31, 2019 as compared to $31.3 million for the three months ended March 31, 2018, primarily due to higher medical costs.

*Depreciation and other amortization*. Depreciation and other amortization increased $1.3 million, or 7%, to $20.6 million for the three months ended March 31, 2019 as compared to $19.3 million for the three months ended March 31, 2018, due to additional assets placed into service from recent capital expenditures.

*Amortization of purchased intangibles*. Amortization of purchased intangibles decreased $3.6 million, or 12%, to $25.8 million for the three months ended March 31, 2019, as compared to $29.4 million for the three months ended March 31, 2018, primarily due to certain fully amortized intangible assets, including portfolio premiums and customer contracts.

*Interest expense, net*. Total interest expense, net increased $17.7 million, or 13%, to $149.5 million for the three months ended March 31, 2019 as compared to $131.8 million for the three months ended March 31, 2018. The net increase was due to the following:

- *Securitization funding costs*. Securitization funding costs increased $5.2 million due to higher average interest rates, which increased funding costs by approximately $10.9 million, offset in part by lower average borrowings, which decreased funding costs by approximately $5.7 million.
- *Interest expense on deposits*. Interest expense on deposits increased $13.2 million due to higher average interest rates, which increased interest expense by approximately $11.5 million, and higher average borrowings, which increased interest expense by approximately $1.7 million.
- *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net decreased $0.7 million primarily due to an $8.0 million decrease in interest expense on senior notes primarily due to the repayment of senior notes in April 2018 and a $0.6 million decrease in amortization of debt issuance costs. These decreases were offset in part by a $4.2 million increase in interest expense on the revolving line of credit and a $4.1 million increase in interest expense on term debt due to both higher average borrowings and higher average interest rates due to increases in the LIBOR rate.

*Taxes.* Income tax expense related to continuing operations decreased $30.9 million to $33.1 million for the three months ended March 31, 2019 from $64.0 million for the three months ended March 31, 2018, primarily related to a decrease in tax reserves resulting from a change in accounting method for tax purposes. The effective tax rate for the current quarter was 16.0% as compared to 26.6% for the prior year quarter.

*Loss from discontinued operations, net of taxes.* Loss from discontinued operations, net of taxes increased $12.6 million to $25.2 million for the three months ended March 31, 2019 as compared to $12.6 million for the three months ended March 31, 2018. Loss from discontinued operations, net of taxes represents Epsilon net income (loss) as well as certain direct costs identifiable to the Epsilon segment and allocations of interest expense on corporate debt. The $12.6 million increase was primarily due to $5.0 million in strategic transaction costs incurred during the current year quarter in connection with the Epsilon transaction as well as increases in Epsilon’s operating costs.

**Use of Non-GAAP Financial Measures**

Adjusted EBITDA is a non-GAAP financial measure equal to income from continuing operations, the most directly comparable financial measure based on accounting principles generally accepted in the United States of America, or GAAP, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization, and the amortization of purchased intangibles. In the first quarter of 2019, adjusted EBITDA also excluded the restructuring charges associated with the wind-down of Merison, a retail marketing division within BrandLoyalty.

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

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (in millions) | |
| Income from continuing operations | $ 174.3 | $ 176.5 |
| Stock compensation expense | 11.3 | 13.6 |
| Provision for income taxes | 33.1 | 64.0 |
| Interest expense, net | 149.5 | 131.8 |
| Depreciation and other amortization | 20.6 | 19.3 |
| Amortization of purchased intangibles | 25.8 | 29.4 |
| Restructuring charges (1) | 7.9 | — |
| Adjusted EBITDA | 422.5 | 434.6 |
| Less: Securitization funding costs | 57.3 | 52.1 |
| Less: Interest expense on deposits | 48.7 | 35.5 |
| Adjusted EBITDA, net | $ 316.5 | $ 347.0 |

(1) Represents costs associated with the wind-down of Merison, a retail marketing division within BrandLoyalty.

## Segment Revenue and Adjusted EBITDA, net

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2019 | 2018 | % Change |
| | (in millions, except percentages) | | |
| **Revenue:** | | | |
| LoyaltyOne | $ 203.8 | $ 226.3 | (10)% |
| Card Services | 1,130.4 | 1,155.2 | (2) |
| Corporate/Other | — | 0.2 | nm * |
| Total | $ 1,334.2 | $ 1,381.7 | (3)% |
| **Adjusted EBITDA, net:** | | | |
| LoyaltyOne | $ 55.1 | $ 53.9 | 2 % |
| Card Services | 294.9 | 318.6 | (7) |
| Corporate/Other | (33.5) | (25.5) | (30) |
| Total | $ 316.5 | $ 347.0 | (9)% |

* not meaningful

***Three months ended March 31, 2019 compared to the three months ended March 31, 2018***

*Revenue*. Total revenue decreased $47.5 million, or 3%, to $1,334.2 million for the three months ended March 31, 2019 from $1,381.7 million for the three months ended March 31, 2018. The decrease was due to the following:

- *LoyaltyOne*. Revenue decreased $22.5 million, or 10%, to $203.8 million for the three months ended March 31, 2019, impacted by the decline in both the Euro and the Canadian dollar relative to the U.S. dollar, which resulted in a $13.9 million decrease in revenue, as well as the 8% decline in AIR MILES reward miles redeemed. In local currency, revenue from our short-term loyalty programs increased 3% due to an increase in the number of active programs in market.

- *Card Services*. Revenue decreased $24.8 million, or 2%, to $1,130.4 million for the three months ended March 31, 2019, driven by a $19.0 million decrease in merchant fees as a result of increased payments associated with new clients, and an $8.2 million decrease in finance charges, net as a result of an approximate 40 basis point decrease in finance charge yield due to a decline in late fees.

*Adjusted EBITDA, net*. Adjusted EBITDA, net decreased $30.5 million, or 9%, to $316.5 million for the three months ended March 31, 2019 from $347.0 million for the three months ended March 31, 2018. The net decrease was due to the following:

- *LoyaltyOne*. Adjusted EBITDA, net increased $1.2 million, or 2%, to $55.1 million for the three months ended March 31, 2019, resulting from a favorable revenue mix and lower operating costs. BrandLoyalty restructuring costs of $7.9 million during the three months ended March 31, 2019 were excluded from adjusted EBITDA, net.

- *Card Services*. Adjusted EBITDA, net decreased $23.7 million, or 7%, to $294.9 million for the three months ended March 31, 2019. Adjusted EBITDA, net was negatively impacted by an increase in funding costs, a decrease in finance charges, net and a decrease in gross yields.

- *Corporate/Other*. Adjusted EBITDA, net decreased $8.0 million to a loss of $33.5 million for the three months ended March 31, 2019 due to higher payroll and benefit costs.

## 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:

| | March 31, 2019 | % of Total | December 31, 2018 | % of Total |
|---|---|---|---|---|
| | (in millions, except percentages) | | | |
| Receivables outstanding - principal | $ 15,938.7 | 100.0 % | $ 16,869.9 | 100.0 % |
| Principal receivables balances contractually delinquent: | | | | |
| 31 to 60 days | 244.2 | 1.5 % | 303.2 | 1.8 % |
| 61 to 90 days | 185.1 | 1.2 | 207.9 | 1.3 |
| 91 or more days | 407.4 | 2.5 | 443.4 | 2.6 |
| Total | $ 836.7 | 5.2 % | $ 954.5 | 5.7 % |

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

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

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| | (in millions, except percentages) | |
| Average credit card and loan receivables | $ 16,850.2 | $ 17,722.4 |
| Net charge-offs of principal receivables | 269.3 | 296.1 |
| Net charge-offs as a percentage of average credit card and loan receivables | 6.4 % | 6.7 % |

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

## Liquidity and Capital Resources

Our primary sources of liquidity include cash generated from operating activities, our credit agreements and issuances of debt or equity securities, our credit card securitization program and deposits issued by Comenity Bank and Comenity Capital Bank. In addition to our efforts to renew and expand our current liquidity sources, we continue to seek new funding sources. In April 2019, Comenity Capital Bank launched a consumer retail deposit platform, Comenity Direct™, to the public.

Quantitative measures established by regulations to ensure capital adequacy require Comenity Bank and Comenity Capital Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Tier 1 and total capital to risk weighted assets and of Tier 1 capital to average assets. Comenity Bank and Comenity Capital Bank are considered well capitalized. The actual capital ratios and minimum ratios as of March 31, 2019 are as follows:

| | Actual Ratio | Minimum Ratio for Capital Adequacy Purposes | Minimum Ratio to be Well Capitalized under Prompt Corrective Action Provisions |
|---|---|---|---|
| **Comenity Bank** | | | |
| Tier 1 capital to average assets | 13.2 % | 4.0 % | 5.0 % |
| Common Equity Tier 1 capital to risk-weighted assets | 16.3 | 4.5 | 6.5 |
| Tier 1 capital to risk-weighted assets | 16.3 | 6.0 | 8.0 |
| Total capital to risk-weighted assets | 17.6 | 8.0 | 10.0 |
| | | | |
| **Comenity Capital Bank** | | | |
| Tier 1 capital to average assets | 13.4 % | 4.0 % | 5.0 % |
| Common Equity Tier 1 capital to risk-weighted assets | 15.6 | 4.5 | 6.5 |
| Tier 1 capital to risk-weighted assets | 15.6 | 6.0 | 8.0 |
| Total capital to risk-weighted assets | 16.9 | 8.0 | 10.0 |

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

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

We believe that internally generated funds and other sources of liquidity discussed below will be sufficient to meet working capital needs, capital expenditures, and other business requirements for at least the next 12 months.

Effective April 12, 2019, the Company entered into a definitive agreement to sell its Epsilon business to Publicis Groupe, S.A. for $4.4 billion in cash, subject to certain adjustments specified therein. Net cash proceeds are expected to be used for the repayment of corporate debt and to repurchase shares of our common stock. The transaction is expected to close in the third quarter of 2019, subject to satisfaction of customary closing conditions and receipt of regulatory approvals.

***Cash Flow Activity***

*Operating Activities.* We generated cash flow from operating activities of $610.8 million and $649.9 million for the three months ended March 31, 2019 and 2018, respectively. The year-over-year decrease in operating cash flows of $39.1 million was primarily due to a decrease in profitability, offset in part by an increase in cash provided by working capital.

*Investing Activities*. Cash provided by investing activities was $717.5 million and $392.9 million for the three months ended March 31, 2019 and 2018, respectively. Significant components of investing activities are as follows:

- *Credit card and loan receivables.* Cash increased $758.2 million and $470.5 million for the three months ended March 31, 2019 and 2018, respectively, due to seasonal paydown of credit card and loan receivables.
- *Capital expenditures.* Cash paid for capital expenditures was $38.7 million and $44.7 million for the three months ended March 31, 2019 and 2018, respectively.

*Financing Activities*. Cash used in financing activities was $1,483.0 million and $1,213.8 million for the three months ended March 31, 2019, and 2018, respectively. Significant components of financing activities are as follows:

- *Debt.* Cash increased $174.2 million in net borrowings for the three months ended March 31, 2019, primarily due to the net borrowings under the revolving line of credit. Cash decreased $21.5 million for the three months ended March 31, 2018, primarily due to net repayments under the revolving line of credit.
- *Non-recourse borrowings of consolidated securitization entities.* Cash decreased $875.3 million and $685.0 million for the three months ended March 31, 2019 and 2018, respectively, due to net repayments and maturities under the asset-backed term notes and conduit facilities.
- *Deposits.* Cash decreased $502.6 million and $448.4 million for the three months ended March 31, 2019 and 2018, respectively, as a result of net repayments of deposits due to timing of maturities.
- *Dividends.* Cash paid for quarterly dividends and dividend equivalents was $33.9 million and $31.7 million for the three months ended March 31, 2019 and 2018, respectively.
- *Treasury shares.* Cash paid for treasury shares was $222.8 million for the three months ended March 31, 2019. During the three months ended March 31, 2018, we did not repurchase any shares of our common stock.

***Debt***

*Long-term and Other Debt*

As of March 31, 2019, we had $945.0 million outstanding under our revolving line of credit and total availability of $627.4 million. Our total leverage ratio, as defined in our credit agreement, was 2.4 to 1 at March 31, 2019, as compared to the maximum covenant ratio of 3.5 to 1.

As of March 31, 2019, we were in compliance with our debt covenants.

On April 30, 2019, we amended our credit agreement to provide that, upon consummation of the sale of Epsilon, the maturity date of the credit agreement will be reduced by one year from June 14, 2022 to June 14, 2021, a mandatory payment of $500 million of the revolving credit facility will be required, the aggregate revolving credit commitments will be reduced in the same amount (to $1,072.4 million), all of our outstanding senior notes will be required to be redeemed, net proceeds from future asset sales in excess of $50 million must be applied to repayment of the credit agreement and certain other minor amendments.

*Deposits*

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

As of March 31, 2019, we had $3.0 billion in money market deposits outstanding with interest rates ranging from 1.90% to 3.50%. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

As of March 31, 2019, we had $8.3 billion in certificates of deposit outstanding with interest rates ranging from 1.28% to 4.00% and maturities ranging from April 2019 to March 2024. 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, World Financial Network Credit Card Master Note Trust, or Master Trust I, and World Financial Network Credit Card Master Trust III, or Master Trust III, or collectively, the WFN Trusts, as part of our credit card securitization program, which has been in existence since January 1996. We also sell our credit card receivables originated by Comenity Capital Bank to World Financial Capital Credit Company, LLC, which in turn sells them to World Financial Capital Master Note Trust, or the WFC Trust. These securitization programs are a principal vehicle through which we finance Comenity Bank's and Comenity Capital Bank's credit card receivables.

In February 2019, Master Trust I issued $562.5 million of Series 2019-A asset-backed term notes, which mature in February 2022. The offering consisted of $500.0 million of Class A notes with a fixed interest rate of 3.14% per year, $37.2 million of Class M notes with a fixed interest rate of 3.61% per year and $25.3 million of notes that were retained by us and eliminated from the unaudited condensed consolidated balance sheets.

In March 2019, $550.0 million of Series 2012-A asset-backed term notes, $137.5 million of which were retained by us and eliminated from the unaudited condensed consolidated balance sheets, matured and were repaid.

As of March 31, 2019, the WFN Trusts and the WFC Trust had approximately $12.6 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits, additional receivables and subordinated classes. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and the WFC Trust and by the performance of the credit card receivables in these credit card securitization trusts.

At March 31, 2019, we had $6.8 billion of non-recourse borrowings of consolidated securitization entities, of which $2.2 billion is due within the next 12 months. As of March 31, 2019, total capacity under the conduit facilities was $4.5 billion, of which $1.8 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the unaudited condensed consolidated balance sheets.

The following table shows the maturities of borrowing commitments as of March 31, 2019 for the WFN Trusts and the WFC Trust by year:

| | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Term notes | $ 1,161.5 | $ 1,467.2 | $ 1,852.1 | $ 537.2 | $ — | $ 5,018.0 |
| Conduit facilities (1) | 1,975.0 | 2,480.0 | — | — | — | 4,455.0 |
| Total (2) | $ 3,136.5 | $ 3,947.2 | $ 1,852.1 | $ 537.2 | $ — | $ 9,473.0 |

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

(2) Total amounts do not include $1.3 billion of debt issued by the credit card securitization trusts that was retained by us and eliminated in the unaudited condensed consolidated financial statements.

See Note 12, “Debt,” of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding our debt.

***Stock Repurchase Programs***

We had an authorized stock repurchase program to acquire up to $500.0 million of our outstanding common stock from August 1, 2018 through July 31, 2019. At December 31, 2018 we had $222.8 million remaining under the stock repurchase program. For the three months ended March 31, 2019, we acquired a total of 1.3 million shares of our common stock for $222.8 million. At March 31, 2019, we did not have any amounts remaining under our authorization.

***Dividends***

On February 7, 2019, our Board of Directors declared a quarterly cash dividend of $0.63 per share on our common stock to stockholders of record at the close of business on February 21, 2019, resulting in a dividend payment of $33.4 million on March 19, 2019. Additionally, we paid $0.5 million in cash related to dividend equivalent rights for the three months ended March 31, 2019.

On April 25, 2019, our Board of Directors declared a quarterly cash dividend of $0.63 per share on our common stock and $6.30 per share on our Series A Non-Voting Convertible Preferred Stock, each to stockholders of record at the close of business on May 14, 2019 and payable on June 18, 2019.

### Critical Accounting Policies and Estimates

With the exception of the adoption of ASC 842, there have been no significant changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Annual Report filed on Form 10-K for the fiscal year ended December 31, 2018. See "Recently Adopted Accounting Standards" under Note 1, "Summary of Significant Accounting Policies," of the Notes to Unaudited Condensed Consolidated Financial Statements for information regarding the adoption of ASC 842 on January 1, 2019.

### Recently Issued Pronouncements

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

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

### Market Risk

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

There has been no material change from our Annual Report on Form 10-K for the year ended December 31, 2018 related to our exposure to market risk from interest rate risk, credit risk, and foreign currency exchange rate risk.

## Item 4. Controls and Procedures.

### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of March 31, 2019, 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 March 31, 2019 (the end of our first fiscal quarter), our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our first quarter 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II

## Item 1. Legal Proceedings.

From time to time we are involved in various claims and lawsuits arising in the ordinary course of our business that we believe will not have a material adverse effect on our business or financial condition, including claims and lawsuits alleging breaches of our contractual obligations.

## Item 1A. Risk Factors.

There have been no material changes to the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

The following table presents information with respect to purchases of our common stock made during the three months ended March 31, 2019:

| 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 2019: | | | | |
| January 1-31 | 274,083 | $ 176.22 | 267,856 | $ 175.5 |
| February 1-28 | 708,657 | 172.68 | 702,893 | 54.1 |
| March 1-31 | 322,710 | 170.04 | 318,415 | — |
| Total | 1,305,450 | $ 172.77 | 1,289,164 | $ — |

(1) During the period represented by the table, 16,286 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Savings Plan for the benefit of the employees who participated in that portion of the plan.

(2) In 2018, our Board of Directors authorized a stock repurchase program to acquire up to $500.0 million of our outstanding common stock from August 1, 2018 through July 31, 2019. At December 31, 2018 we had $222.8 million remaining under the stock repurchase program. At March 31, 2019 we did not have any amounts remaining under our authorization. Our authorization is subject to any restrictions pursuant to the terms of our credit agreements, senior note indentures, and applicable securities laws or otherwise.

On April 25, 2019, we entered into an exchange agreement with ValueAct Holdings, L.P. pursuant to which ValueAct exchanged an aggregate of 1,500,000 shares of our common stock for an aggregate of 150,000 shares of Series A Non-Voting Convertible Preferred Stock. The issuance to ValueAct of the shares of Series A Non-Voting Convertible Preferred Stock was, and the issuance of the shares of common stock issuable upon conversion of the Series A Non-Voting Convertible Preferred Stock will be, made in reliance upon the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended.

## Item 3. Defaults Upon Senior Securities.

None

## Item 4. Mine Safety Disclosures.

Not applicable.

## Item 5. Other Information.

(a) In April 2019, the Board of Directors designated 300,000 shares of our authorized and unissued preferred stock as Series A Non-Voting Convertible Preferred Stock and we filed with the Delaware Secretary of State a Certificate of Designations of Series A Non-Voting Convertible Preferred Stock to create the new Series A Non-Voting Convertible Preferred Stock, authorized 300,000 shares and designated the preferences, rights and limitations of the Series A Non-Voting Convertible Preferred Stock. Each share of Series A Non-Voting Convertible Preferred Stock will initially be convertible into ten shares of common stock (subject to adjustment and the other terms described in the Certificate of Designations) at the holder's election or upon our written request, provided that upon such conversion the holder, together with its affiliates, will not own or control in the aggregate more than 9.9% of our outstanding common stock (or any class of our voting securities). Shares of Series A Non-Voting Convertible Preferred Stock will also be subject to automatic conversion if a holder transfers such shares pursuant to a transfer (a) to us, (b) in a widespread public distribution of common stock or Series A Non-Voting Convertible Preferred Stock, (c) in which no one transferee (or group of associated transferees) would receive 2% or more of any class of our voting securities then outstanding (including pursuant to a related series of such transfers), or (d) to a transferee that would control more than 50% of our voting securities (not including voting securities such person is acquiring from the transferor). Upon such a transaction, the transferred shares of Series A Non-Voting Convertible Preferred Stock will automatically be converted into shares of common stock on a ten-for-one basis (subject to adjustment as described in the Certificate of Designations).

The shares of Series A Non-Voting Convertible Preferred Stock have no voting rights, except as otherwise required by the General Corporation Law of the State of Delaware. The Series A Non-Voting Convertible Preferred Stock will, with respect to rights upon liquidation, winding up and dissolution, rank (i) subordinate and junior in right of payment to all our other securities that, by their respective terms, are senior to the Series A Non-Voting Convertible Preferred Stock, and (ii) pari passu with the common stock.

On April 30, 2019, we amended our credit agreement to provide that, upon consummation of the sale of Epsilon, the maturity date of the credit agreement will be reduced by one year from June 14, 2022 to June 14, 2021, a mandatory payment of $500 million of the revolving credit facility will be required, the aggregate revolving credit commitments will be reduced in the same amount (to $1,072.4 million), all of our outstanding senior notes will be required to be redeemed, net proceeds from future asset sales in excess of $50 million must be applied to repayment of the credit agreement and certain other minor amendments.

(b) None.

## Item 6. Exhibits.

(a) *Exhibits:*

### EXHIBIT INDEX

| Exhibit No. | Filer | Description | Incorporated by Reference Form | Exhibit | Filing Date |
|---|---|---|---|---|---|
| #2.1 | (a) | Securities Purchase Agreement, dated as of April 12, 2019, by and among Alliance Data Systems Corporation, the other sellers party thereto, Publicis Groupe, S.A. and certain subsidiaries thereof. | 8-K | 2.1 | 4/15/19 |
| 3.1 | (a) | Third Amended and Restated Certificate of Incorporation of the Registrant. | 8-K | 3.2 | 6/10/16 |
| 3.2 | (a) | Certificate of Designations of Series A Preferred Non-Voting Convertible Preferred Stock of the Registrant. | 8-K | 3.1 | 4/29/19 |
| 3.3 | (a) | Fifth Amended and Restated Bylaws of the Registrant. | 8-K | 3.1 | 2/1/16 |
| 4 | (a) | Specimen Certificate for shares of Common Stock of the Registrant. | 10-Q | 4 | 8/8/03 |
| +10.1 | (a) | Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2019 grant EBT). | 8-K | 10.1 | 2/20/19 |
| +10.2 | (a) | Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2019 grant rTSR). | 8-K | 10.2 | 2/20/19 |
| 10.3 | (b)<br>(c)<br>(d) | Series 2019-A Indenture Supplement, dated as of February 20, 2019, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A. | 8-K | 4.1 | 2/21/19 |
| 10.4 | (a) | Fifth Amendment to Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of February 1, 2019, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A., formerly known as Union Bank, N.A. | 10-K | 10.112 | 2/26/19 |
| 10.5 | (b)<br>(c)<br>(d) | Third Amended and Restated Service Agreement, dated as of April 23, 2019, between Comenity Servicing LLC and Comenity Bank. | 8-K | 99.1 | 4/23/19 |
| 10.6 | (a) | Exchange Agreement, dated as of April 25, 2019, by and between the Registrant and ValueAct Holdings, L.P. | 8-K | 10.1 | 4/29/19 |
| *10.7 | (a) | Third Amendment to Amended and Restated Credit Agreement, dated as of April 30, 2019, by and among Registrant, and certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, National Association, as Administrative Agent, and various other lenders. | | | |
| *31.1 | (a) | Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended. | | | |

| Exhibit No. | Filer | Description | Incorporated by Reference Form | Exhibit | Filing Date |
|---|---|---|---|---|---|
| *31.2 | (a) | Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended. | | | |
| *32.1 | (a) | Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code. | | | |
| *32.2 | (a) | Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code. | | | |
| *101.INS | (a) | XBRL Instance Document | | | |
| *101.SCH | (a) | XBRL Taxonomy Extension Schema Document | | | |
| *101.CAL | (a) | XBRL Taxonomy Extension Calculation Linkbase Document | | | |
| *101.DEF | (a) | XBRL Taxonomy Extension Definition Linkbase Document | | | |
| *101.LAB | (a) | XBRL Taxonomy Extension Label Linkbase Document | | | |
| *101.PRE | (a) | XBRL Taxonomy Extension Presentation Linkbase Document | | | |

* Filed herewith

\+ Management contract, compensatory plan or arrangement

\# Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Alliance Data hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the U.S. Securities and Exchange Commission.

(a) Alliance Data Systems Corporation

(b) WFN Credit Company

(c) World Financial Network Credit Card Master Trust

(d) World Financial Network Credit Card Master Note Trust

**SIGNATURES**

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

**ALLIANCE DATA SYSTEMS CORPORATION**

By: /s/ EDWARD J. HEFFERNAN
Edward J. Heffernan
*President and Chief Executive Officer*

Date: May 6, 2019

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

Date: May 6, 2019

# THIRD AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

THIRD AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment"), dated as of April 30, 2019, among ALLIANCE DATA SYSTEMS CORPORATION, a Delaware corporation (the "Borrower"), the Guarantors (as defined in the Credit Agreement referred to below) party hereto, the Banks party hereto (the "Consenting Banks"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, as administrative agent (the "Administrative Agent"). Unless otherwise indicated, all capitalized terms used herein and not otherwise defined herein shall have the respective meanings provided such terms in the Credit Agreement referred to below.

W I T N E S S E T H:

WHEREAS, the Borrower, the Guarantors party thereto, the lenders party thereto from time to time (the "Banks") and the Administrative Agent have entered into that certain Amended and Restated Credit Agreement, dated as of June 14, 2017 (as amended, supplemented or otherwise modified prior to the date hereof, the "Existing Credit Agreement"; the Existing Credit Agreement, as amended by this Amendment, the "Credit Agreement");

WHEREAS, the Borrower has requested, and subject to the terms and conditions set forth herein, the Administrative Agent and the Consenting Banks have agreed, to certain amendments to the Existing Credit Agreement as more specifically set forth herein;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is agreed as follows:

SECTION 1. Consent. Effective as of the Consent Effective Date (as defined below) and subject to the terms and conditions set forth herein and in reliance upon the representations and warranties set forth herein, notwithstanding anything to the contrary contained in the Existing Credit Agreement or any other Credit Document, the Consenting Banks hereby consent to the sale by the Credit Parties and their Subsidiaries of the Epsilon business pursuant to the transaction described in the Borrower's SEC Form 8-K dated April 12, 2019 (filed April 15, 2019), with such deviations from such description as may be acceptable to the Administrative Agent in its reasonable discretion and not materially adverse to the Banks (the "Epsilon Transaction"); provided that (a) within three (3) Business Days after the consummation of the Epsilon Transaction, the Borrower shall prepay outstanding Revolving Loans and Term Loans in a principal amount of at least $500,000,000 (for the avoidance of doubt, measured against the outstanding Revolving Loan principal amount immediately prior to the consummation of the Epsilon Transaction), to be applied first to repay outstanding Revolving Loans and then to repay outstanding Term Loans and (b) within thirty-five (35) days after the consummation of the Epsilon Transaction, the Borrower shall redeem, repurchase or otherwise retire or discharge outstanding senior notes of the Borrower in an aggregate principal amount of at least the lesser of (i) $1,890,000,000 and (ii) the total outstanding principal amount of the Borrower's senior notes, it being agreed that any failure to make any such payment, redemption, repurchase, retirement or discharge required under clause (a) or (b) shall constitute an immediate Event of Default. In addition, notwithstanding anything to the contrary contained in the Existing Credit Agreement, the Epsilon Transaction shall be deemed to be a transaction within the scope of Section 9.1(d) of the Existing Credit Agreement, and each Bank party hereto authorizes the Administrative Agent to release as a Guarantor any Subsidiary that ceases to be a Subsidiary in connection with the Epsilon Transaction upon the Borrower's satisfaction with respect to such Guarantor of the release requirements set forth in Section 5.20 of the Existing Credit Agreement.

SECTION 2. Amendments to Existing Credit Agreement. Effective as of the Third Amendment Effective Date (as defined in Section 5 below) and subject to the terms and conditions set forth herein and in reliance upon the representations and warranties set forth herein, the Existing Credit Agreement is hereby amended as follows:

(a) Article 1 of the Existing Credit Agreement is hereby amended by adding the following defined terms in appropriate alphabetical order:

"Beneficial Ownership Certification" means a certification regarding beneficial ownership as required by the Beneficial Ownership Regulation.

"Beneficial Ownership Regulation" means 31 CFR § 1010.230.

"Benefit Plan" means any of (a) an "employee benefit plan" (as defined in ERISA) that is subject to Title I of ERISA, (b) a "plan" as defined in and subject to Section 4975 of the Code or (c) any Person whose assets include (for purposes of ERISA Section 3(42) or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) the assets of any such "employee benefit plan" or "plan".

"Epsilon Transaction" has the meaning set forth in Section 5.7(d).

"Net Cash Proceeds" means, with respect to any sale, lease or other transfer of assets, the gross proceeds received by the Credit Parties and their Subsidiaries therefrom (including any cash, Eligible Cash Equivalents, deferred payment pursuant to, or by monetization of, a note receivable or otherwise, as and when received) less the sum of (a) the fees, costs and expenses relating to such sale or other transfer, including legal, accounting and investment banking fees, and brokerage and sales commissions, survey costs, title insurance premiums, and related search and recording charges, transfer taxes, deed or mortgage recording taxes, other customary expenses and consultant and other customary fees, and any relocation expenses incurred as a result thereof, (b) taxes paid or reasonably estimated to be payable as a result thereof (including, in respect of any proceeds received in connection with any sale or other transfer of or by any Foreign Subsidiary or of any asset located or deemed located outside of the United States, deductions in respect of withholding taxes and similar taxes, fees, charges and penalties payable in connection with repatriation of such funds to the United States), provided that if any such estimated taxes exceed the amount of actual taxes required to be paid in cash in respect of such transaction, the amount of such excess shall constitute Net Cash Proceeds, (c) distributions and other payments required to be made to holders of minority interests, royalty interests, stock appreciation rights or similar rights or interests in Subsidiaries or the assets or properties thereof as a result of such transaction, (d) amounts required to be applied to the payment of principal, premium, if any, and interest on Debt (other than Debt under the Credit Documents) secured by a Lien on such sold or otherwise transferred assets (or a portion thereof), which Debt is required to be paid as a result of such transaction, and (e) deduction of appropriate amounts to be provided by the Credit Parties or any of their Subsidiaries as a reserve in accordance with GAAP against any liabilities associated with the sold or otherwise transferred asset and retained by the Credit Parties or any of their Subsidiaries after such sale or other transfer thereof, including pension and other post-employment benefit liabilities, liabilities related to environmental matters, indemnification obligations associated with such transaction and purchase price adjustments, provided that, to the extent and at the time any such amounts are released from such reserve, such amounts shall constitute Net Cash Proceeds.

"PTE" means a prohibited transaction class exemption issued by the U.S. Department of Labor, as any such exemption may be amended from time to time.

"Senior Note Redemption" has the meaning set forth in Section 5.7(d).

"Third Amendment Effective Date" has the meaning set forth in the Third Amendment to Amended and Restated Credit Agreement, dated as of April 30, 2019.

(b) The definition of "Consolidated Operating EBITDA" set forth in Section 1.1 of the Existing Credit Agreement is hereby amended by replacing the "." at the end of such definition and replacing it with the following proviso:

"; provided that, notwithstanding anything herein to the contrary, if (i) the Epsilon Transaction is consummated on or prior to June 30, 2019 and (ii) the Senior Note Redemption has not occurred on or prior to June 30, 2019, then the Epsilon Transaction shall be deemed to have occurred on July 1, 2019 for the purpose of calculating Consolidated Operating EBITDA on a pro forma basis."

(c) The definition of "Maturity Date" set forth in Section 1.1 of the Existing Credit Agreement is hereby amended by replacing "June 14, 2022" with "June 14, 2021".

(d) Article 1 of the Existing Credit Agreement is hereby amended by adding the following new Section 1.4 thereto and in connection therewith the table of contents shall be amended to include a reference to "SECTION 1.4 Divisions":

"SECTION 1.4 Divisions. For all purposes under the Credit Documents, in connection with any division or plan of division under Delaware law (or any comparable event under a different jurisdiction's laws) (a "Statutory Division"): (a) if any asset, right, obligation or liability of any Person becomes the asset, right, obligation or liability of a different Person, then it shall be deemed to have been transferred from the original Person to the subsequent Person, and (b) if any new Person comes into existence, such new Person shall be deemed to have been organized on the first date of its existence by the holders of its Capital Stock at such time. The term "merge" set forth in Section 5.7 shall include any Statutory Division and Section 5.20 shall include any Material Domestic Subsidiary resulting from a Statutory Division."

(e) Section 2.11 of the Existing Credit Agreement is hereby amended by adding a new clause (d) at the end of such Section as follows:

"(d) Mandatory Prepayment of Term Loans. The Borrower shall make mandatory principal prepayments of the Term Loans in amounts equal to 100% of the aggregate Net Cash Proceeds from any sale or other transfer of assets made pursuant to Section 5.7(d)(i) after the Third Amendment Effective Date if required by Section 5.7(d)(i)(C). Such prepayments shall be made within three (3) Business Days after the date of receipt of the applicable Net Cash Proceeds. Each prepayment of the Term Loans under this clause (d) shall be applied to reduce the scheduled quarterly installments of the Term Loans under Section 2.5(b) in direct order of maturity. The Borrower may elect to utilize the option set forth in Section 2.11(c) in connection with any mandatory prepayment pursuant this clause (d).

(f) Section 5.1 of the Existing Credit Agreement is hereby amended by adding a new clause (q) at the end of such Section as follows:

> "(q) prompt notice to the Administrative Agent and each Bank that previously received a Beneficial Ownership Certification (or a certification that the Borrower qualifies for an express exclusion to the "legal entity customer" definition under the Beneficial Ownership Regulation) of any change in the information provided in the Beneficial Ownership Certification that would result in a change to the list of beneficial owners identified therein (or, if applicable, the Borrower ceasing to fall within an express exclusion to the definition of "legal entity customer" under the Beneficial Ownership Regulation) and promptly upon the reasonable request of the Administrative Agent or any Bank, provide the Administrative Agent or directly to such Bank, as the case may be, any information or documentation requested by it for purposes of complying with the Beneficial Ownership Regulation."

(g) Section 5.7 of the Existing Credit Agreement is hereby amended by amending and restating clause (d) thereof in its entirety as follows:

> "(d) (i) sales, leases and other transfers of assets; provided that, in the case (and only the case) of any sale, lease or other transfer made in reliance on this Section 5.7(d)(i) for total consideration in excess of $50,000,000 (A) such sale, lease or other transfer shall be made for fair market value (as determined by the Borrower in good faith) at the time of such sale, lease or other transfer (or if such sale, lease or other transfer is made pursuant to a legally binding commitment, at the time such commitment is entered into), (B) no less than 75% of the total consideration received with respect to such sale, lease or other transfer shall be cash, Eligible Cash Equivalents and the assumption of liabilities, and (C) the Net Cash Proceeds therefrom are applied as required by Section 2.11(d) and (ii) the sale by the Credit Parties and their Subsidiaries of the Epsilon business pursuant to the transaction described in the Borrower's SEC Form 8-K dated April 12, 2019 (filed April 15, 2019), with such deviations from such description as may be acceptable to the Administrative Agent in its reasonable discretion and not materially adverse to the Banks (the "Epsilon Transaction"); provided that (x) within three (3) Business Days after the consummation of the Epsilon Transaction, the Borrower shall prepay outstanding Revolving Loans and Term Loans in a principal amount of at least $500,000,000 (for the avoidance of doubt, measured against the outstanding Revolving Loan principal amount immediately prior to the consummation of the Epsilon Transaction), to be applied first to repay outstanding Revolving Loans and then to repay outstanding Term Loans and (y) within thirty-five (35) days after the consummation of the Epsilon Transaction, the Borrower shall redeem, repurchase or otherwise retire or discharge outstanding senior notes of the Borrower in an aggregate principal amount of at least the lesser of (i) $1,890,000,000 and (ii) the total outstanding principal amount of the Borrower's senior notes (such redemption, repurchase, retirement or other discharge, the "Senior Note Redemption"), it being agreed that any failure to make any such payment, redemption, retirement or discharge required under clause (x) or (y) shall constitute an immediate Event of Default, and"

(h) Article 10 of the Existing Credit Agreement is hereby amended by adding the following new Section 10.18 thereto and in connection therewith the table of contents shall be amended to include a reference to "SECTION 10.18 Certain ERISA Matters":

“SECTION 10.18 Certain ERISA Matters.

(a) Each Bank (x) represents and warrants, as of the date such Person became a Bank party hereto, to, and (y) covenants, from the date such Person became a Bank party hereto to the date such Person ceases being a Bank party hereto, for the benefit of, the Administrative Agent, each Arranger and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower or any other Credit Party, that at least one of the following is and will be true:

(i) such Bank is not using “plan assets” (within the meaning of Section 3(42) of ERISA or otherwise) of one or more Benefit Plans with respect to such Bank’s entrance into, participation in, administration of and performance of the Loans, the Letters of Credit or the Commitments;

(ii) the transaction exemption set forth in one or more PTEs, such as PTE 84-14 (a class exemption for certain transactions determined by independent qualified professional asset managers), PTE 95-60 (a class exemption for certain transactions involving insurance company general accounts), PTE 90-1 (a class exemption for certain transactions involving insurance company pooled separate accounts), PTE 91-38 (a class exemption for certain transactions involving bank collective investment funds) or PTE 96-23 (a class exemption for certain transactions determined by in-house asset managers), is applicable with respect to such Bank’s entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Commitments and this Agreement;

(iii) (A) such Bank is an investment fund managed by a “Qualified Professional Asset Manager” (within the meaning of Part VI of PTE 84-14), (B) such Qualified Professional Asset Manager made the investment decision on behalf of such Bank to enter into, participate in, administer and perform the Loans, the Letters of Credit, the Commitments and this Agreement, (C) the entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Commitments and this Agreement satisfies the requirements of sub-sections (b) through (g) of Part I of PTE 84-14 and (D) to the best knowledge of such Bank, the requirements of subsection (a) of Part I of PTE 84-14 are satisfied with respect to such Bank’s entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Commitments and this Agreement; or

(iv) such other representation, warranty and covenant as may be agreed in writing between the Administrative Agent, in its sole discretion, and such Bank.

(b) In addition, unless either (1) sub-clause (i) in the immediately preceding clause (a) is true with respect to a Bank or (2) a Bank has provided another representation, warranty and covenant in accordance with sub-clause (iv) in the immediately preceding clause (a), such Bank further (x) represents and warrants, as of the date such Person became a Bank party hereto, to, and (y) covenants, from the date such Person became a Bank party hereto to the date such Person ceases being a Bank party hereto, for the benefit of, the Administrative Agent, each Arranger and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower or any other Credit Party, that none of the Administrative Agent, any Arranger and their respective Affiliates is a fiduciary with respect to the assets of such Bank involved in such Bank's entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Commitments and this Agreement (including in connection with the reservation or exercise of any rights by the Administrative Agent under this Agreement, any Credit Document or any documents related hereto or thereto)."

(i) Schedule I to the Existing Credit Agreement is hereby amended by replacing the "Revolving Credit Commitment" column with the amounts set forth on Schedule I attached hereto with respect to each applicable Bank, and the heading of such column is hereby amended by adding at the end thereof the following parenthetical: "(as of the Third Amendment Effective Date)".

SECTION 3. Reduction in Revolving Credit Commitments. Effective as of the Third Amendment Effective Date, the aggregate amount of the Revolving Credit Commitments of the Banks is hereby reduced to $1,072,420,036.25, which such reduction shall be applied on a pro rata basis to reduce the Revolving Credit Commitment of each applicable Bank holding a Revolving Credit Commitment as of the Third Amendment Effective Date such that the Revolving Credit Commitment of each Bank on the Third Amendment Effective Date shall be as set forth on Schedule I attached hereto.

SECTION 4. Consent Effective Date Conditions. The consent set forth in Section 1 shall become effective on the date when the following conditions shall have been satisfied or waived (such date, the "Consent Effective Date"):

(a) The Administrative Agent's receipt of this Amendment, duly executed by an authorized officer of each signing Credit Party, the Consenting Banks constituting Required Banks and the Administrative Agent.

(b) The fact that immediately prior to and after giving effect to this Amendment, no Default has occurred and is continuing.

(c) The fact that the representations and warranties of the Credit Parties contained in the Credit Agreement are true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) on and as of the Consent Effective Date immediately prior to and after giving effect to this Amendment (other than representations and warranties that relate to a specific date, which shall be true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as of such date).

(d) Payment of all fees to Wells Fargo Bank, National Association required to be paid in connection with this Amendment.

SECTION 5. Third Amendment Effective Date Conditions. The amendments to the Existing Credit Agreement set forth in Section 2 and the reduction in the Revolving Credit Commitments set forth in Section 3 shall become effective on the date the Epsilon Transaction is consummated in accordance with Section 1 and the Credit Parties receive the cash consideration required thereunder (such date, the "Third Amendment Effective Date"). For the avoidance of doubt, if the Third Amendment Effective Date does not occur, the amendments and reductions set forth in Section 2 and Section 3 shall not occur and such provisions shall have no force or effect.

SECTION 6. Acknowledgement and Confirmation. Each of the Credit Parties party hereto hereby agrees that with respect to each Credit Document to which it is a party, after giving effect to this Amendment and the transactions contemplated hereunder, all of its obligations, liabilities and indebtedness under such Credit

Document, including guarantee obligations, shall, except as set forth herein or in the Credit Agreement, remain in full force and effect on a continuous basis.

SECTION 7. Limited Effect. Except as provided herein, the Existing Credit Agreement and the other Credit Documents shall remain unmodified and in full force and effect. This Amendment shall not be deemed (a) to be a waiver of, or consent to, or a modification or amendment of, any other term or condition of the Existing Credit Agreement or any other Credit Document other than as set forth herein, (b) to prejudice any right or rights that the Administrative Agent or the Banks may now have or may have in the future under or in connection with the Existing Credit Agreement or the other Credit Documents or any of the instruments or agreements referred to therein, as the same may be amended, restated, supplemented or modified from time to time, other than as set forth herein, or (c) to be a commitment or any other undertaking or expression of any willingness to engage in any further discussion with the Borrower, any of its Subsidiaries or any other Person with respect to any other waiver, amendment, modification or any other change to the Existing Credit Agreement or the Credit Documents or any rights or remedies arising in favor of the Banks or the Administrative Agent, or any of them, under or with respect to any such documents.

SECTION 8. Amendment Fee; Costs and Expenses.

(a) On the Third Amendment Effective Date, the Borrower shall pay to the Administrative Agent for the account of each Consenting Bank that executes and delivers its signature page to this Amendment to the Administrative Agent (or its counsel) on or prior to the deadline communicated by the Administrative Agent, an amendment fee previously agreed to between the Borrower and the Administrative Agent.

(b) The Borrower hereby reconfirms its obligations pursuant to Section 10.3(a) of the Credit Agreement to pay and reimburse the Administrative Agent in accordance with the terms thereof.

SECTION 9. Representations and Warranties. To induce the Administrative Agent and the Consenting Banks to enter into this Amendment, the Borrower represents and warrants to the Administrative Agent and the Consenting Banks that: (a) the representations and warranties contained in the Credit Agreement are true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) on and as of the date hereof immediately after giving effect to this Amendment with the same effect as though made on the date hereof (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) only as of such specified date); (b) immediately after giving effect to this Amendment, no Default or Event of Default exists; (c) this Amendment has been duly authorized by all necessary corporate proceedings and duly executed and delivered by the Borrower and each other Credit Party, and the Credit Agreement, as amended by this Amendment, is the legal, valid and binding obligation of the Borrower and each other Credit Party, enforceable against the Borrower and each other Credit Party in accordance with its terms; and (d) no consent, approval, authorization, order, registration or qualification with any Governmental Authority is required for, the absence of which would materially adversely affect, the legal and valid execution and delivery or performance by the Borrower or any other Credit Party of this Amendment or the performance by the Borrower or any other Credit Party of the Credit Agreement, as amended by this Amendment. Each Guarantor hereby ratifies and reaffirms: (i) the validity, legality and enforceability of its obligations under Article 9 of the Credit Agreement; (ii) that its reaffirmation of such obligations is a material inducement to the Administrative Agent and the Consenting Banks to enter into this Amendment; and (iii) that its obligations under Article 9 of the Credit Agreement shall remain in full force and effect in accordance with its terms until all the Guaranteed Obligations have been paid in full.

SECTION 10. Reference to and Effect on the Credit Agreement and the Credit Documents.

(a) On and after the Third Amendment Effective Date, each reference in the Credit Agreement to "this Agreement," "herein," "hereto", "hereof" and "hereunder" or words of like import referring to the Credit Agreement, and each reference in the Notes and each of the other Credit Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

(b) Except as specifically provided above, the Credit Documents shall remain in full force and effect and are hereby ratified and confirmed in all respects. The execution, delivery, and effectiveness of this Amendment shall not, except as provided herein, operate as a waiver of any right, power, or remedy of the Administrative Agent or any Bank under the Credit Agreement or any other Credit Document, nor constitute a waiver or modification of any provision of the Credit Agreement or any other Credit Document. This Amendment is a Credit Document and is subject to the terms and conditions of the Credit Agreement.

SECTION 11. Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 12. Counterparts. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery of an executed counterpart to this Amendment by facsimile transmission or by electronic mail in pdf format shall be as effective as delivery of a manually executed counterpart hereto.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Amendment as of the date first above written.

ALLIANCE DATA SYSTEMS CORPORATION, as Borrower
ADS ALLIANCE DATA SYSTEMS, INC., as Guarantor

By: /s/ Edward J. Heffernan
Name: Edward J. Heffernan
Title: President and Chief Executive Officer

EPSILON DATA MANAGEMENT, LLC, as Guarantor

By: /s/ J. Jeffrey Chesnut
Name: J. Jeffrey Chesnut
Title: Vice President, Assistant Treasurer

ALLIANCE DATA FOREIGN HOLDINGS, INC., as Guarantor
ADS FOREIGN HOLDINGS, INC., as Guarantor
COMMISSION JUNCTION LLC, as Guarantor
CONVERSANT LLC, as Guarantor

By: /s/ J. Jeffrey Chesnut
Name: J. Jeffrey Chesnut
Title: Treasurer

ASPEN MARKETING SERVICES, LLC, as Guarantor
COMENITY LLC, as Guarantor
COMENITY SERVICING LLC, as Guarantor

By: /s/ Jeffrey L. Fair
Name: Jeffrey L. Fair
Title: Vice President, Tax

ALLIANCE DATA INTERNATIONAL LLC, as Guarantor
BY: ALLIANCE DATA FOREIGN HOLDINGS, INC., its sole member

By: /s/ J. Jeffrey Chesnut
Name: J. Jeffrey Chesnut
Title: Vice President and Assistant Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent and a Bank

By: /s/ Spencer Ferry
Name: Spencer Ferry
Title: Vice President

BANK OF AMERICA, N.A., as a Bank

By: /s/ Molly Daniello
Name: Molly Daniello
Title: Vice President

MUFG BANK, LTD. (formerly known as The Bank of Tokyo-Mitsubishi UFG, Ltd.), as a Bank

By: /s/ Matthew Antioco
Name: Matthew Antioco
Title: Director

MIZUHO BANK LTD., as a Bank

By: /s/ Tracy Rahn
Name: Tracy Rahn
Title: Authorized Signatory

Alliance Data Systems Corporation
Third Amendment to Amended and Restated Credit Agreement
Signature Page

JPMORGAN CHASE BANK, NATIONAL
ASSOCIATION, as a Bank

By: /s/ Christine Lathrop
Name: Christine Lathrop
Title: Vice President

SUNTRUST BANK, as a Bank

By: /s/ Justin Lien
Name: Justin Lien
Title: Director

BNP PARIBAS, as a Bank

By: /s/ Gregory Paul
Name: Gregory Paul
Title: Managing Director

By: /s/ Yudesh Sohan
Name: Yudesh Sohan
Title: Director

FIFTH THIRD BANK, as a Bank

By: /s/ Matthew Lewis
Name: Matthew Lewis
Title: Director

ROYAL BANK OF CANADA, as a Bank

By: /s/ Kamran Khan
Name: Kamran Khan
Title: Authorized Signatory

SUMITOMO MITSUI BANKING CORPORATION, as a Bank

By: /s/ Katsuyuki Kubo
Name: Katsuyuki Kubo
Title: Managing Director

THE BANK OF NOVA SCOTIA, as a Bank

By: /s/ Kevin Chan
Name: Kevin Chan
Title: Director

CANADIAN IMPERIAL BANK OF COMMERCE,
NEW YORK BRANCH, as a Bank

By: /s/ Robert Robin
Name: Robert Robin
Title: Authorized Signatory

By: /s/ Melissa E. Brown
Name: Melissa E. Brown
Title: Authorized Signatory

CITIZENS BANK, N.A., as a Bank

By: /s/ Tyler Stephens
Name: Tyler Stephens
Title: Vice President

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.
NEW YORK BRANCH, as a Bank

By: /s/ Brian Crowley
Name: Brian Crowley
Title: Managing Director

By: /s/ Nurys Maleki
Name: Nurys Maleki
Title: Executive Director

KEYBANK NATIONAL ASSOCIATION, as a Bank

By: /s/ Geoff Smith
Name: Geoff Smith
Title: Senior Vice President

REGIONS BANK, as a Bank

By: /s/ Stephanie Herndon
Name: Stephanie Herndon
Title: Assistant Vice President

U.S. BANK NATIONAL ASSOCIATION, as a Bank

By: /s/ Michael D. Smith
Name: Michael D. Smith
Title: Senior Vice President

DEUTSCHE BANK AG NEW YORK BRANCH, as a Bank

By: /s/ Yumi Okabe
Name: Yumi Okabe
Title: Vice President

By: /s/ Marguerite Sutton
Name: Marguerite Sutton
Title: Vice President

MORGAN STANLEY SENIOR FUNDING, INC., as a Bank

By: /s/ Cindy Tse
Name: Cindy Tse
Title: Authorized Signatory

RAYMOND JAMES BANK, N.A., as a Bank

By: /s/ Joseph A. Ciccolini
Name: Joseph A. Ciccolini
Title: Senior Vice President – Corporate Banking

THE NORTHERN TRUST COMPANY, as a Bank

By: /s/ Wicks Barkhausen
Name: Wicks Barkhausen
Title: Senior Vice President

CITIBANK, N.A., as a Bank

By: /s/ Marina Donskaya
Name: Marina Donskaya
Title: Vice President

THE HUNTINGTON NATIONAL BANK, as a Bank

By: /s/ Dan Swanson
Name: Dan Swanson
Title: Vice President

ING BANK N.V., DUBLIN BRANCH, as a Bank

By: /s/ Sean Hassett
Name: Sean Hassett
Title: Director

By: /s/ Padraig Matthews
Name: Padraig Matthews
Title: Director

SYNOVUS BANK, as a Bank

By: /s/ Chandra Cockrell
Name: Chandra Cockrell
Title: Corporate Banker

CADENCE BANK, N.A., as a Bank

By: /s/ Ronald K. Baker
Name: Ronald K. Baker
Title: Executive Vice President

ASSOCIATED BANK, N.A., as a Bank

By: /s/ Dean H. Rosencrans
Name: Dean H. Rosencrans
Title: Senior Vice President

THE BANK OF EAST ASIA, LIMITED, LOS ANGELES BRANCH, as a Bank

By: /s/ David Loh
Name: David Loh
Title: EVP & Chief Lending Officer

By: /s/ Simon Keung
Name: Simon Keung
Title: General Manager

LAND BANK OF TAIWAN LOS ANGELES BRANCH, as a Bank

By: /s/ Kuang Wei Chang
Name: Kuang Wei Chang
Title: V.P. & General Manager

TAIWAN COOPERATIVE BANK LTD., ACTING THROUGH ITS NEW YORK BRANCH, as a Bank

By: /s/ Li Hua Huang
Name: Li Hua Huang
Title: SVP & General Manager

MEGA INTERNATIONAL COMMERCIAL BANK
CO., LTD., SILICON VALLEY BRANCH, as a Bank

By: /s/ Nian Tzy Yeh
Name: Nian Tzy Yeh
Title: SVP & General Manager

TAIWAN BUSINESS BANK, LTD., NEW YORK BRANCH, as a Bank

By: /s/ Melissa Cheng
Name: Melissa Cheng
Title: Deputy General Manager

FIRST HAWAIIAN BANK, as a Bank

By: /s/ Todd T. Nitta
Name: Todd T. Nitta
Title: Senior Vice President

BANCO DE SABADELL, S.A. – MIAMI BRANCH, as a Bank

By: /s/ Ignacio Alcaraz
Name: Ignacio Alcaraz
Title: Head of Structured Finance Americas

CHANG HWA COMMERCIAL BANK, LTD., LOS ANGELES BRANCH, as a Bank

By: /s/ Wan-Chin Chang
Name: Wan-Chin Chang
Title: VP & General Manager

THE KOREA DEVELOPMENT BANK, NEW YORK BRANCH, as a Bank

By: /s/ Young Eun Ban
Name: Young Eun Ban
Title: General Manager

VIRTUS SEIX FLOATING RATE HIGH INCOME FUND, as a Lender
By: Seix Investment Advisors LLC, as Subadviser

By: /s/ Deirdre A. Dillon, Esq.
Name: Deirdre A. Dillon, Esq.
Title: Chief Compliance Officer

MIDFIRST BANK, as a Bank

By: /s/ Tim Daniels
Name: Tim Daniels
Title: Managing Director

FIRST NATIONAL BANK OF OMAHA, as a Bank

By: /s/ Dale Ervin
Name: Dale Ervin
Title: Senior Advisor

SEIX MULTI-SECTOR ABSOLUTE RETURN FUND L.P., as a Lender
By: Seix Multi-Sector Absolute Return Fund GP LLC, in its capacity as sole general partner
By: Seix Investment Advisors LLC, its sole member

By: /s/ Deirdre A. Dillon, Esq.
Name: Deirdre A. Dillon, Esq.
Title: Chief Compliance Officer

BLUE CROSS OF IDAHO HEALTH SERVICE, INC.,
as a Lender
By: Seix Investment Advisors LLC, as Investment Manager

By: /s/ Deirdre A. Dillon, Esq.
Name: Deirdre A. Dillon, Esq.
Title: Chief Compliance Officer

**SCHEDULE I**

**REVOLVING CREDIT COMMITMENTS**
**(as of the Third Amendment Effective Date)**

| BANK | REVOLVING CREDIT COMMITMENT |
|---|---|
| Wells Fargo Bank, National Association | $69,100,537.49 |
| Bank of America, N.A. | $69,100,537.49 |
| MUFG Bank, Ltd. | $69,100,537.49 |
| JPMorgan Chase Bank, National Association. | $62,974,578.99 |
| Mizuho Bank Ltd. | $62,974,578.99 |
| SunTrust Bank | $62,974,578.99 |
| BNP Paribas | $58,035,396.32 |
| Fifth Third Bank | $58,035,396.32 |
| Royal Bank of Canada | $58,035,396.32 |
| Sumitomo Mitsui Banking Corporation | $58,035,396.32 |
| The Bank of Nova Scotia | $58,035,396.32 |
| Canadian Imperial Bank of Commerce, New York Branch | $49,391,826.65 |
| Citibank, N.A. | $49,391,826.65 |
| Citizens Bank, N.A. | $37,043,869.99 |
| Banco Bilbao Vizcaya Argentaria, S.A., New York Branch | $37,043,869.99 |
| Key Bank National Association | $37,043,869.99 |
| Regions Bank | $30,869,891.66 |
| U.S. Bank National Association | $30,869,891.66 |
| Deutsche Bank AG New York Branch | $34,100,940.32 |
| Morgan Stanley Senior Funding, Inc. | $24,695,913.33 |
| The Northern Trust Company | $18,521,935.00 |
| The Huntington National Bank | $14,817,547.99 |
| ING Bank N.V., Dublin Branch | $12,347,956.66 |
| Cadence Bank, N.A. | $7,408,774.00 |
| First National Bank of Omaha | $2,469,591.32 |
| Total | $1,072,420,036.25 |

**Exhibit 31.1**

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

I, Edward J. Heffernan, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Edward J. Heffernan

**Edward J. Heffernan**
**Chief Executive Officer**

Date: May 6, 2019

**Exhibit 31.2**

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

I, Charles L. Horn, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Charles L. Horn

**Charles L. Horn**
**Chief Financial Officer**

Date: May 6, 2019

**Exhibit 32.1**

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

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended March 31, 2019 (the “Form 10-Q”) of Alliance Data Systems Corporation (the “Registrant”).

I, Edward J. Heffernan, certify that to the best of my knowledge:

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

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

/s/ EDWARD J. HEFFERNAN
**Edward J. Heffernan**
**Chief Executive Officer**

Date: May 6, 2019

Subscribed and sworn to before me
this 6th day of May, 2019.

/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 quarterly report on Form 10-Q for the quarter ended March 31, 2019 (the “Form 10-Q”) of Alliance Data Systems Corporation (the “Registrant”).

I, Charles L. Horn, certify that to the best of my knowledge:

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

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

/s/ Charles L. Horn
**Charles L. Horn**
**Chief Financial Officer**

Date: May 6, 2019

Subscribed and sworn to before me
this 6th day of May, 2019.

/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.