UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)
x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

or

o **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 offices)	**(Zip Code)**

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

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

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

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

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

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

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

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

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

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

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

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

As of June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $8.6 billion (based upon the closing price on the New York Stock Exchange on June 30, 2013 of $181.03 per share).

As of February 24, 2014, 53,172,615 shares of common stock were outstanding.

Documents Incorporated By Reference

Certain information called for by Part III is incorporated by reference to certain sections of the Proxy Statement for the 2014 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2013.

ALLIANCE DATA SYSTEMS CORPORATION

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Caution Regarding Forward-Looking Statements

This Form 10-K and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may use words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "predict," "project," "would" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in the "Risk Factors" section in Item 1A of this Form 10-K, elsewhere in this Form 10-K and in the documents incorporated by reference in this Form 10-K.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements contained in this Form 10-K reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We have no intention, and disclaim any obligation, to update or revise any forward-looking statements, whether as a result of new information, future results or otherwise, except as required by law.

PART I

Item 1. Business.

Our Company

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

Our client base of more than 1,300 companies consists primarily of large consumer-based businesses, including well-known brands such as Bank of Montreal, Canada Safeway, Shell Canada, Procter & Gamble, AstraZeneca, Hilton, Bank of America, General Motors, FedEx, Kraft, Victoria’s Secret, Lane Bryant, Pottery Barn, J. Crew and Ann Taylor. Our client base is diversified across a broad range of end-markets, including financial services, specialty retail, grocery and drugstore chains, petroleum retail, automotive, hospitality and travel, telecommunications and pharmaceuticals. We believe our comprehensive suite of marketing solutions offers us a significant competitive advantage, as many of our competitors offer a more limited range of services. We believe the breadth and quality of our service offerings have enabled us to establish and maintain long-standing client relationships.

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

Our Market Opportunity and Growth Strategy

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

- *Capitalize on our Leadership in Highly Targeted and Data-Driven Consumer Marketing.* As consumer-based businesses shift their marketing spend to data-driven marketing strategies, we believe we are well-positioned to acquire new clients and sell additional services to existing clients based on our extensive experience in capturing and analyzing our clients’ customer transaction data to develop targeted marketing programs. We believe our comprehensive portfolio of high-quality targeted marketing and loyalty solutions provides a competitive advantage over other marketing services firms with more limited service offerings. We seek to extend our leadership position by continuing to improve the breadth and quality of our products and services. We intend to enhance our leadership position in loyalty and marketing solutions by expanding the scope of the Canadian AIR MILES® Reward Program, by continuing to develop stand-alone loyalty programs such as the Hilton HHonors® Program, and by increasing our penetration in the retail sector with our integrated marketing and credit services offering.

- *Sell More Fully Integrated End-to-End Marketing Solutions.* In our Epsilon® segment, we have assembled what we believe is the industry’s most comprehensive suite of targeted and data-driven marketing services, including marketing strategy consulting, data services, database development and management, marketing analytics, creative design and delivery services such as email communications. We offer an end-to-end solution to clients, providing a significant opportunity to expand our relationships with existing clients, the majority of whom do not currently purchase our full suite of services. In addition, we further intend to integrate our product and service offerings so that we can provide clients with a comprehensive portfolio of targeted marketing solutions, including both coalition and individual loyalty programs, private label and co-brand retail credit card programs and other data-driven marketing solutions. By selling integrated solutions across our entire client base, we have a significant opportunity to maximize the value of our long-standing client relationships.

- *Continue to Expand our Global Footprint.* We plan to grow our business by leveraging our core competencies in the North American marketplace to further penetrate international markets. We currently own approximately 37% of CBSM-Companhia Brasileira De Servicos De Marketing, the operator of the dotz coalition loyalty program in Brazil. In 2013, dotz expanded the number of regions in Brazil in which it operates from five regions with more than six million customers to nine regions with more than

10 million customers enrolled in the program. We expect dotz to enter into four additional markets in Brazil during 2014. In addition, on January 2, 2014, we acquired a 60% ownership interest in Netherlands-based BrandLoyalty Group B.V., or BrandLoyalty, a data-driven loyalty marketer focused on food retailers. The acquisition expands our presence across Europe and Asia. Global reach is increasingly important as our clients grow into new markets, and we are well positioned to cost-effectively increase our global presence. We believe continued international expansion will provide us with strong revenue growth opportunities.

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

Products and Services

Our products and services are reported under three segments—LoyaltyOne®, Epsilon and Private Label Services and Credit, and are listed below. Financial information about our segments and geographic areas appears in Note 18, "Segment Information," of the Notes to Consolidated Financial Statements.

Segment	Products and Services
LoyaltyOne	• AIR MILES Reward Program • Loyalty Services —Loyalty consulting —Customer analytics —Creative services
Epsilon	• Marketing Services —Agency services —Database design and management —Data services —Analytical services —Traditional and digital communications
Private Label Services and Credit	• Receivables Financing —Underwriting and risk management —Receivables funding • Processing Services —New account processing —Bill processing —Remittance processing —Customer care • Marketing Services

LoyaltyOne

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

LoyaltyOne owns and operates the AIR MILES Reward Program, which is the premier coalition loyalty program in Canada, with over 170 brand name sponsors participating in the program. The AIR MILES Reward Program enables consumers to earn AIR MILES reward miles as they shop within a range of retailers and other sponsors participating in the AIR MILES Reward Program. These AIR MILES reward miles can be redeemed by our collectors for travel or other rewards.

Approximately two-thirds of Canadian households actively participate in the AIR MILES Reward Program, and it was recently named as one of the 10 most influential brands in Canada in Canada's Ipsos Influence index. The three primary parties involved in our AIR MILES Reward Program are: sponsors, collectors and suppliers, each of which is described below.

Sponsors. More than 170 brand name sponsors participate in our AIR MILES Reward Program, including Canada Safeway, Shell Canada, Jean Coutu, RONA, Amex Bank of Canada, Sobey's and Bank of Montreal.

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

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

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

In December 2011, we introduced a new program option called AIR MILES Cash to which collectors can allocate some or all of their future AIR MILES reward miles collected. Effective March 2012, collectors were able to instantly redeem their AIR MILES reward miles collected in AIR MILES Cash towards in-store purchases at participating sponsors. We currently have 10 participating sponsors that can process instant redemptions of AIR MILES reward miles collected in the AIR MILES Cash program option.

On January 2, 2014, we acquired a 60% ownership interest in BrandLoyalty Group B.V., a Netherlands-based, data-driven loyalty marketer. BrandLoyalty designs, organizes, implements and evaluates innovative and tailor-made loyalty programs for food retailers. These loyalty programs are designed to generate immediate changes in consumer behavior and are offered through leading grocers across Europe and Asia. These instant loyalty programs are designed to drive traffic by attracting new customers and motivating existing customers to spend more because the reward is instant, topical and newsworthy. These programs are tailored for the specific client and are designed to reward key customer segments based on their spending levels during short-term campaign periods. Following the completion of each program, BrandLoyalty analyzes spending data to determine the grocer's lift in market share and the program's return on investment.

Epsilon

Epsilon is a leading marketing services firm providing end-to-end, integrated marketing solutions that leverage transactional data to help clients more effectively acquire and build stronger relationships with their customers. Services include strategic consulting, customer database technologies, permission-based email marketing, loyalty management, proprietary data, predictive modeling and a full range of direct and digital agency services. On behalf of our clients, we develop marketing programs for individual consumers with highly targeted offers and communications. Since these communications are more relevant to the consumer, the consumer is more likely to be responsive to these offers, resulting in a measurable return on our clients' marketing investments. We distribute marketing campaigns and communications through all marketing channels based on the consumer's preference, including digital platforms such as email, mobile and social media. Epsilon has over 950 clients, operating primarily in the financial services, automotive, travel and hospitality, pharmaceutical and telecommunications end-markets.

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

Database Design and Management. We design, build and operate complex consumer marketing databases for large consumer-facing brands such as Hilton HHonors and the Citi ThankYou® programs. Our solutions are highly customized and support our clients' needs for real-time data integration from a multitude of data sources, including multi-channel transactional data.

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

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

Traditional and Digital Communications. We provide strategic communication solutions and our end-to-end suite of products and services includes strategic consulting, creative services, campaign management and delivery optimization. We deploy marketing campaigns and communications through all marketing channels, including digital platforms such as email, mobile and social media. We also operate what we believe to be one of the largest global permission-based email marketing platforms in the industry.

Private Label Services and Credit

Our Private Label Services and Credit segment assists some of the best known retailers in extending their brand with a private label and/or co-brand credit card account that can be used by their customers in the store, or through online or catalog purchases.

Receivables Financing. Our Private Label Services and Credit segment provides risk management solutions, account origination and funding services for our more than 120 private label and co-brand credit card programs. Through these credit card programs, we had $8.2 billion in principal receivables, from over 33.5 million active accounts for the year ended December 31, 2013, with an average balance during that period of approximately $464 for accounts with outstanding balances. As of December 31, 2013, L Brands and its retail affiliates and Ascena Retail Group, Inc. and its retail affiliates accounted for approximately 13.0% and 10.6%, respectively, of our credit card and loan receivables. We process millions of credit card applications each year using automated proprietary scoring technology and verification procedures to make risk-based origination decisions when approving new credit card accountholders and establishing their credit card limits. We augment these procedures with credit risk scores provided by credit bureaus. This information helps us segment prospects into narrower risk ranges, allowing us to better evaluate individual credit risk.

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

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

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

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

Disaster and Contingency Planning

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

Protection of Intellectual Property and Other Proprietary Rights

We rely on a combination of copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions and other similar measures to protect our proprietary information and technology used in each segment of our business. We currently have one patent application pending with the U.S. Patent and Trademark Office. We generally enter into confidentiality or license agreements with our employees, consultants and corporate partners, and generally control access to and distribution of our technology, documentation and other proprietary information. Despite the efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain the use of our products or technology that we consider proprietary and third parties may attempt to develop similar technology independently. We pursue registration and protection of our trademarks primarily in the United States and Canada, although we also have either registered trademarks or applications pending for certain marks in Argentina, Australia, New Zealand, the European Union or some of its individual countries (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom), Peru, Mexico, Venezuela, Brazil, China, Hong Kong, Japan, South Korea, Switzerland, Norway, Russian Federation, Turkey, Vietnam and Singapore and internationally under the Madrid Protocol in several countries, including several of the aforementioned countries. We are the exclusive Canadian licensee of the AIR MILES family of trademarks pursuant to a perpetual license agreement with Air Miles International Trading B.V., for which we pay a royalty fee. We believe that the AIR MILES family of trademarks and our other trademarks are important for our branding, corporate identification and marketing of our services in each business segment.

Competition

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

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

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

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

Regulation

Federal and state laws and regulations extensively regulate the operations of Comenity Bank and Comenity Capital Bank, our bank subsidiaries. Many of these laws and regulations are intended to maintain the safety and soundness of Comenity Bank and Comenity Capital Bank, and they impose significant restraints on those companies to which other non-regulated companies are not subject. Because Comenity Bank is deemed a credit card bank and Comenity Capital Bank is an industrial bank within the meaning of the Bank Holding Company Act, we are not subject to regulation as a bank holding company. If we were subject to regulation as a bank holding company, we would be constrained in our operations to a limited number of activities that are closely related to banking or financial services in nature. Nevertheless, as a state bank, Comenity Bank is still subject to overlapping supervision by the Federal Deposit Insurance Corporation, or FDIC, and the State of Delaware; and, as an industrial bank, Comenity Capital Bank is still subject to overlapping supervision by the FDIC and the State of Utah.

The Dodd-Frank Act contains certain prohibitions and restrictions on the ability of a banking entity or nonbanking financial company supervised by the Federal Reserve (“covered organizations”) to engage in proprietary trading or to make investments in, or have certain relationships with, hedge funds and private equity funds (commonly referred to as the Volcker Rule). In December 2013, the Federal Reserve, the Office of the Comptroller of the Currency, the FDIC, the Commodity Futures Trading Commission and the Securities and Exchange Commission, or SEC, adopted final regulations implementing those provisions. Covered organizations have until July 21, 2015 to comply fully with most requirements of the Volcker Rule. We are still assessing the impact of the Volcker Rule on our business practices, but do not expect it to have a material impact on our credit card securitization program.

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

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

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

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

In the United States and under the Gramm-Leach-Bliley Act, we are required to maintain a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information. It also requires us to provide initial and annual privacy notices to customers that describe in general terms our information sharing practices. If we intend to share nonpublic personal information about customers with affiliates and/or nonaffiliated third parties, we must provide our customers with a notice and a reasonable period of time for each customer to "opt out" of any such disclosure. In Canada, the Act to promote the efficiency and adaptability of the Canadian economy by regulating certain activities that discourage reliance on electronic means of carrying out commercial activities, and to amend the Canadian Radio-television and Telecommunications Commission Act, the Competition Act, the Personal Information Protection and Electronic Documents Act and the Telecommunications Act, more generally known as Canada's Anti-Spam Legislation, may restrict our ability to send commercial "electronic messages," defined to include text, sound, voice and image messages to email, or similar accounts, where the primary purpose is advertising or promoting a commercial product or service to our customers and prospective customers. The Act, when in force, will require that a sender have consent to send a commercial electronic message, and provide the customers with an opportunity to opt out from receiving future commercial electronic email messages from the sender.

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

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

Employees

As of December 31, 2013, we had approximately 12,000 employees. We believe our relations with our employees are good. We have no collective bargaining agreements with our employees.

Available Information

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

Item 1A. Risk Factors.

RISK FACTORS

Strategic Business Risk and Competitive Environment

Our 10 largest clients represented 42.5% of our consolidated revenue in 2013 and the loss of any of these clients could cause a significant drop in our revenue.

We depend on a limited number of large clients for a significant portion of our consolidated revenue. Our 10 largest clients represented approximately 42.5% of our consolidated revenue during the year ended December 31, 2013, with no single client representing greater than 10.0% of our consolidated revenue. A decrease in revenue from any of our significant clients for any reason, including a decrease in pricing or activity, or a decision either to utilize another service provider or to no longer outsource some or all of the services we provide, could have a material adverse effect on our consolidated revenue.

LoyaltyOne. LoyaltyOne represents 21.3% of our consolidated revenue. Our 10 largest clients in this segment represented approximately 82.2% of our LoyaltyOne revenue in 2013. Bank of Montreal and Canada Safeway represented approximately 42.2% and 12.1%, respectively, of this segment's revenue for 2013. Our contract with Bank of Montreal expires in 2017 and our contract with Canada Safeway expires in 2015, each subject to automatic renewals at five-year intervals. In November 2013, Canada Safeway was acquired by Sobeys, which is also a sponsor in the AIR MILES Reward Program.

Epsilon. Epsilon represents 32.0% of our consolidated revenue. Our 10 largest clients in this segment represented approximately 33.1% of our Epsilon revenue in 2013, with no single client representing more than 10% of Epsilon's revenue.

Private Label Services and Credit. Private Label Services and Credit represents 47.1% of our consolidated revenue. Our 10 largest clients in this segment represented approximately 69.0% of our Private Label Services and Credit revenue in 2013. L Brands and its retail affiliates and Ascena Retail Group, Inc. and its retail affiliates represented approximately 17.2% and 14.4%, respectively, of our revenue for this segment in 2013. Our primary contract with a retail affiliate of L Brands expires in 2018 and our contracts with Ascena Retail Group and its retail affiliates expire in 2016 and 2019.

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

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

Breakage is based on management's estimate after viewing and analyzing various historical trends including vintage analysis, current run rates and other pertinent factors, such as the impact of macroeconomic factors and changes in the program structure. If actual redemptions are greater than our estimates, our profitability could be adversely affected due to the cost of the excess redemptions. Any significant change in, or failure by management to reasonably estimate, breakage could adversely affect our profitability.

From June 2008 through December 2012, our estimate of breakage was 28%. Based on the analysis of historical redemption trends, statistical analysis performed, and the expected impact of recent changes in the program structure, at December 31, 2012 we determined that our estimate of breakage should be lowered to 27%. At December 31, 2013 we determined that our estimate of breakage should be further reduced to 26%.

Our AIR MILES Reward Program also exposes us to risks arising from potentially increasing reward costs. Our profitability could be adversely affected if costs related to redemption of AIR MILES reward miles increase. A 10% increase in the cost of redemptions would have resulted in a decrease in pre-tax income of $41.8 million for the year ended December 31, 2013.

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

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

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

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

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

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

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

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

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

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

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

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

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

The primary risk associated with unsecured consumer lending is the risk of default or bankruptcy of the borrower, resulting in the borrower's balance being charged-off as uncollectible. We rely principally on the customer's creditworthiness for repayment of the loan and therefore have no other recourse for collection. We may not be able to successfully identify and evaluate the creditworthiness of cardholders to minimize delinquencies and losses. An increase in defaults or net charge-offs could result in a reduction in net income. General economic factors, such as the rate of inflation, unemployment levels and interest rates, may result in greater delinquencies that lead to greater credit losses. In addition to being affected by general economic conditions and the success of our collection and recovery efforts, the stability of our delinquency and net credit card and loan receivable charge-off rates are affected by the credit risk of our credit card and loan receivables and the average age or maturity of our various credit card account portfolios. Further, our pricing strategy may not offset the negative impact on profitability caused by increases in delinquencies and losses, thus any material increases in delinquencies and losses beyond our current estimates could have a material adverse impact on us. For 2013, our average credit card and loan receivable net charge-off rate was 4.7%, compared to 4.8% and 6.9% for 2012 and 2011, respectively.

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

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

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

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

Liquidity, Market and Credit Risk

The exercise of the convertible note warrants may dilute the ownership interest of existing stockholders or adversely affect the market price of our common stock.

We issued $345.0 million aggregate principal amount of convertible senior notes due 2014, which we have elected to repay solely in cash as converted through the maturity date in May 2014. Separately but also concurrently with this issuance, we sold warrants to acquire, subject to customary anti-dilution adjustments, up to approximately 7.3 million shares of our common stock exercisable from August 13, 2014 to December 4, 2014. The exercise of some or all of the convertible note warrants may dilute the ownership interests of existing stockholders. Any sales in the public market of any of our common stock issuable upon exercise of the convertible note warrants could adversely affect prevailing market prices of our common stock.

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

Interest rate risk affects us directly in our borrowing activities. Our borrowing costs were approximately $305.5 million for the year ended December 31, 2013. To manage our risk from market interest rates, we actively monitor the interest rates and the interest sensitive components to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. To achieve this objective, we manage our exposure to fluctuations in market interest rates through the use of fixed-rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. In 2013, a 1.0% increase in interest rates would have resulted in a decrease to fiscal year pre-tax income of approximately $23.9 million. Conversely, a corresponding decrease in interest rates would have resulted in a comparable increase to pre-tax income. In addition, we may enter into derivative instruments such as interest rate swaps and interest rate caps to mitigate our interest rate risk on related financial instruments or to lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes.

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

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

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

In addition, on April 7, 2010, the SEC proposed revised rules for asset-backed securities offerings that, if adopted, would substantially change the disclosure, reporting and offering process for public and private offerings of asset-backed securities, including those offered under our credit card securitization program. On July 26, 2011, the SEC re-proposed certain rules relating to the registrant and transaction requirements for the shelf registration of asset-backed securities. If the revised rules for asset-backed securities are adopted in their current form, issuers of publicly offered asset-backed securities would be required to disclose more information regarding the underlying assets. In addition, the proposals would alter the safe-harbor standards for the private placement of asset-backed securities to impose informational requirements similar to those that would apply to registered public offerings of such securities. The SEC also issued an advance notice of proposed rulemaking relating to the exemptions that our credit card securitization trusts rely on in our credit card securitization programs to avoid registration as investment companies. The form that these rules may ultimately take is uncertain at this time, but such rules may impact our ability or desire to issue asset-backed securities in the future.

On March 30, 2011, the SEC, the FDIC, the Board of Governors of the Federal Reserve System and certain other banking regulators proposed regulations that would mandate a five percent risk retention requirement for securitizations, and such regulators issued a re-proposal of the risk retention regulations on August 28, 2013. We cannot predict at this time whether our existing credit card securitization programs will satisfy the new regulatory requirements or whether structural changes to those programs will be necessary. Such risk retention requirements may impact our ability or desire to issue asset-backed securities in the future.

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

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

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

A failure by a counterparty to deliver shares or pay amounts due to us upon completion of a transaction, due to bankruptcy or otherwise, may result in an increase in dilution with respect to our common stock or a decline in our earnings per share.

A failure by a forward counterparty, due to bankruptcy or otherwise, to deliver shares of our common stock at settlement or upon acceleration of its respective prepaid forward transaction could result in the recording of those shares as issued and outstanding for purposes of computing and reporting our basic and diluted weighted average shares and earnings per share. This may lead to a decline in our earnings per share without our receiving a return of the purchase price for those shares that we paid to the relevant forward counterparty at the time we entered into the prepaid forward transaction.

A failure by a hedge counterparty, due to bankruptcy or otherwise, to pay to us amounts owed under the note hedge transactions entered into separately but concurrently with the sale of our convertible senior notes will not reduce the consideration we are required to deliver to a holder upon conversion of its convertible senior notes, which may result in an increase in dilution with respect to our common stock if we issue shares and lead to a decline in our earnings per share, or decrease our available liquidity if we pay cash.

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

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

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations under any of our debt instruments, including restrictive covenants, could result in an event of default under our credit agreement, the indenture governing our convertible senior notes, the indentures governing our senior notes and the agreements governing our other indebtedness;

- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, acquisitions and other purposes;

- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage;

- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions and other corporate purposes;

- reduce or delay investments and capital expenditures;

- cause any refinancing of our indebtedness to be at higher interest rates and require us to comply with more onerous covenants, which could further restrict our business operations; and

- prevent us from raising the funds necessary to repurchase all notes tendered to us upon the occurrence of certain changes of control, which would constitute a default under the indenture governing the convertible senior notes.

We do not intend to pay cash dividends.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay cash dividends will be made at the discretion of our board of directors and will be dependent upon our financial condition, operating results, capital requirements and other factors that our board deems relevant.

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

We are exposed to fluctuations in the exchange rate between the U.S. and Canadian dollars through our significant Canadian operations. In 2014, with the acquisition of BrandLoyalty Group B.V, we will also be exposed to fluctuations in the exchange rate between the U.S. dollar and the Euro. We currently do not hedge any of our net investment exposure in our Canadian or European operations. For the year ended December 31, 2013, a 10% increase in the strength of the Canadian dollar versus the U.S. dollar would have resulted in an increase in pre-tax income of $23.9 million. Conversely, a corresponding decrease in the strength of the Canadian dollar versus the U.S. dollar would result in a comparable decrease to pre-tax income in these periods.

Regulatory Environment

Legislative and regulatory reforms may have a significant impact on our business, results of operation and financial condition.

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

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

The Dodd-Frank Act created a Consumer Financial Protection Bureau, or CFPB, a new federal consumer protection regulator with authority to make further changes to the federal consumer protection laws and regulations. It is unclear what changes will be promulgated by the CFPB and what effect, if any, such changes would have on our business and operations. The CFPB assumed rulemaking authority under the existing federal consumer financial protection laws, and will enforce those laws against and examine certain non-depository institutions and insured depository institutions with total assets greater than $10 billion and their affiliates.

While the CFPB does not examine Comenity Bank and Comenity Capital Bank, it will receive information from their primary federal regulator. In addition, the CFPB's broad rulemaking authority is expected to impact their operations. For example, the CFPB's rulemaking authority may allow it to change regulations adopted in the past by other regulators including regulations issued under the Truth in Lending Act or the Credit Card Accountability Responsibility and Disclosure Act of 2009, or the CARD Act, by the Board of Governors of the Federal Reserve System. The CFPB's ability to rescind, modify or interpret past regulatory guidance could increase our compliance costs and litigation exposure. Furthermore, the CFPB has broad authority to prevent "unfair, deceptive or abusive" practices and has taken enforcement action against other credit card issuers and financial services companies. If the CFPB were to exercise its rulemaking authority or take additional enforcement actions, it could result in requirements to alter our products that would make our products less attractive to consumers and impair our ability to offer them profitably.

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

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

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

The enactment of new or amended legislation or industry regulations pertaining to consumer or private sector privacy issues could have a material adverse impact on our marketing services. Legislation or industry regulations regarding consumer or private sector privacy issues could place restrictions upon the collection, sharing and use of information that is currently legally available, which could materially increase our cost of collecting some data. These types of legislation or industry regulations could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our clients' requirements and our profitability and cash flow targets. While 46 states and the District of Columbia have enacted data breach notification laws, there is no such federal law generally applicable to our businesses. Data breach notification legislation has been proposed widely in the United States and Europe. If enacted, these legislative measures could impose strict requirements on reporting time frames for providing notice, as well as the contents of such notices. In addition to the United States, Canadian and European Union regulations discussed below, we have expanded our marketing services through the acquisition of companies formed and operating in foreign jurisdictions that may be subject to additional or more stringent legislation and regulations regarding consumer or private sector privacy.

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

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

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

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

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

In the European Union, the Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 requires member states to implement and enforce a comprehensive data protection law that is based on principles designed to safeguard personal data, defined as any information relating to an identified or identifiable natural person. The Directive frames certain requirements for transfer outside of the European Economic Area and individual rights such as consent requirements. The Directive may be superseded by the General Data Protection Regulation which would create more consistency among the European Union member states but could limit our ability to provide services and information to our clients. There is also rapid development of new privacy laws and regulations in the Asia Pacific region, including amendment of existing data protection laws to increase penalties for noncompliance. Failure to comply with these international data protection laws and regulations could have a negative impact on our reputation and subject us to significant penalties.

Current and proposed regulation and legislation relating to our retail credit card services could limit our business activities, product offerings and fees charged.

Various federal and state laws and regulations significantly limit the retail credit card services activities in which we are permitted to engage. Such laws and regulations, among other things, limit the fees and other charges that we can impose on consumers, limit or proscribe certain other terms of our products and services, require specified disclosures to consumers, or require that we maintain certain licenses, qualifications and minimum capital levels. In some cases, the precise application of these statutes and regulations is not clear. In addition, numerous legislative and regulatory proposals are advanced each year which, if adopted, could have a material adverse effect on our profitability or further restrict the manner in which we conduct our activities. The CARD Act, which was enacted in May 2009 and together with its implementing rules, became effective in 2010, acts to limit or modify certain credit card practices and require increased disclosures to consumers. The credit card practices addressed by the rules include, but are not limited to, restrictions on the application of rate increases to existing and new balances, payment allocation, default pricing, imposition of late fees and two-cycle billing. The failure to comply with, or adverse changes in, the laws or regulations to which our business is subject, or adverse changes in their interpretation, could have a material adverse effect on our ability to collect our receivables and generate fees on the receivables, thereby adversely affecting our profitability.

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

Federal and state laws and regulations extensively regulate the operations of Comenity Bank, as well as Comenity Capital Bank. Many of these laws and regulations are intended to maintain the safety and soundness of Comenity Bank and Comenity Capital Bank, and they impose significant restraints on them to which other non-regulated entities are not subject.

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

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

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

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

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

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

Operational and Other Risk

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

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

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

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

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

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

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

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

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

Our operations, acquisitions and employment of personnel outside the United States may require us to comply with numerous complex laws and regulations of the United States government and those of the various international jurisdictions where we do business. These laws and regulations may apply to a company, or individual directors, officers, employees or agents of such company, and may restrict our operations, investment decisions or joint venture activities. Specifically, we may be subject to anti-corruption laws and regulations, including the United States' Foreign Corrupt Practices Act, or FCPA; the United Kingdom's Bribery Act 2010, or UKBA; and Canada's Corruption of Foreign Public Officials Act, or CFPOA. These anti-corruption laws generally prohibit providing anything of value to foreign officials for the purpose of influencing official decisions, obtaining or retaining business, or obtaining preferential treatment and require us to maintain adequate record-keeping and internal controls to ensure that our books and records accurately reflect transactions. As part of our business, we or our partners may do business with state-owned enterprises, the employees and representatives of which may be considered foreign officials for purposes of the FCPA, UKBA or CFPOA. There can be no assurance that our policies, procedures, training and compliance programs will effectively prevent violation of all United States and international laws and regulations with which we are required to comply, and such a violation may subject us to penalties that could adversely affect our reputation, business, financial condition or results of operations. In addition, some of the international jurisdictions in which we operate may lack a developed legal system, have elevated levels of corruption, maintain strict currency controls, present adverse tax consequences or foreign ownership requirements, require difficult or lengthy regulatory approvals, or lack enforcement for non-compete agreements, among other obstacles.

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

As of February 24, 2014, we had an aggregate of 96,497,318 shares of our common stock authorized but unissued and not reserved for specific purposes. In general, we may issue all of these shares without any action or approval by our stockholders. We have reserved 24,003,000 shares of our common stock for issuance under our employee stock purchase plan and our long-term incentive plans, of which 1,015,326 shares are issuable upon vesting of restricted stock awards, restricted stock units, and upon exercise of options granted as of February 24, 2014, including options to purchase approximately 221,774 shares exercisable as of February 24, 2014 or that will become exercisable within 60 days after February 24, 2014. We have reserved for issuance 1,500,000 shares of our common stock, 759,194 of which remain issuable, under our 401(k) and Retirement Savings Plan as of December 31, 2013. In addition, we may pursue acquisitions of competitors and related businesses and may issue shares of our common stock in connection with these acquisitions. Sales or issuances of a substantial number of shares of common stock, or the perception that such sales could occur, could adversely affect prevailing market prices of our common stock, and any sale or issuance of our common stock will dilute the ownership interests of existing stockholders.

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

Delaware law, as well as provisions of our certificate of incorporation, bylaws and debt instruments, could discourage unsolicited proposals to acquire us, even though such proposals may be beneficial to our stockholders.

These include:

- our board's authority to issue shares of preferred stock without further stockholder approval; and
- fundamental change purchase rights of our convertible senior notes, which allow such note holders to require us to purchase all or a portion of their convertible senior notes upon the occurrence of a fundamental change, as well as provisions requiring an increase to the conversion rate for conversions in connection with make-whole fundamental changes.

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

As of December 31, 2013, we own one general office property and lease approximately 80 general office properties worldwide, comprised of approximately 3.0 million square feet. These facilities are used to carry out our operational, sales and administrative functions. Our principal facilities are as follows:

Location	Segment	Approximate Square Footage	Lease Expiration Date
Plano, Texas	Corporate	108,269	June 29, 2021
Columbus, Ohio	Corporate, Private Label Services and Credit	272,602	February 28, 2018
Toronto, Ontario, Canada	LoyaltyOne	194,018	September 30, 2017
Mississauga, Ontario, Canada	LoyaltyOne	50,908	November 30, 2019
Wakefield, Massachusetts	Epsilon	184,411	December 31, 2020
Irving, Texas	Epsilon	150,232	June 30, 2018
Lewisville, Texas	Epsilon	10,000	January 15, 2017
Earth City, Missouri	Epsilon	116,783	December 31, 2014
West Chicago, Illinois	Epsilon	155,412	December 31, 2024
Columbus, Ohio	Private Label Services and Credit	103,161	January 31, 2019
Westerville, Ohio	Private Label Services and Credit	100,800	July 31, 2024
Wilmington, Delaware	Private Label Services and Credit	5,198	November 30, 2020
Salt Lake City, Utah	Private Label Services and Credit	6,488	January 31, 2018

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

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information

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

	High	Low
Year Ended December 31, 2013		
First quarter	$ 162.07	$ 146.39
Second quarter	185.32	152.80
Third quarter	220.02	171.30
Fourth quarter	264.31	209.71
Year Ended December 31, 2012		
First quarter	$ 127.55	$ 100.42
Second quarter	135.49	119.56
Third quarter	144.34	123.11
Fourth quarter	148.41	135.91

Holders

As of February 24, 2014, the closing price of our common stock was $286.30 per share, there were 53,172,615 shares of our common stock outstanding, and there were approximately 30 holders of record of our common stock.

Dividends

We have never declared or paid any cash dividends on our common stock, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all available funds and future earnings, if any, for use in the operation and the expansion of our business. Any future determination to pay cash dividends on our common stock will be at the discretion of our board of directors and will be dependent upon our financial condition, operating results, capital requirements and other factors that our board deems relevant. In addition, under the terms of our credit agreement, we are restricted in the amount of any cash dividends or return of capital, other distribution, payment or delivery of property or cash to our common stockholders.

Issuer Purchases of Equity Securities

On January 2, 2013, our Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of our outstanding common stock from January 2, 2013 through December 31, 2013, subject to any restrictions pursuant to the terms of our credit agreements, indentures, applicable securities laws or otherwise. On December 5, 2013, our Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of our outstanding common stock from January 1, 2014 through December 31, 2014, subject to any restrictions pursuant to the terms of our credit agreements, indentures, applicable securities laws or otherwise.

The following table presents information with respect to purchases of our common stock made during the three months ended December 31, 2013:

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]
				(In millions)
During 2013:				
October 1-31	5,217	$ 228.24	—	$ 168.9
November 1-30	3,142	245.43	—	168.9
December 1-31	3,484	250.57	—	168.9
Total	11,843	$ 239.37	—	$ 168.9

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(1) During the period represented by the table, 11,843 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Saving Plan for the benefit of the employees who participated in that portion of the plan.

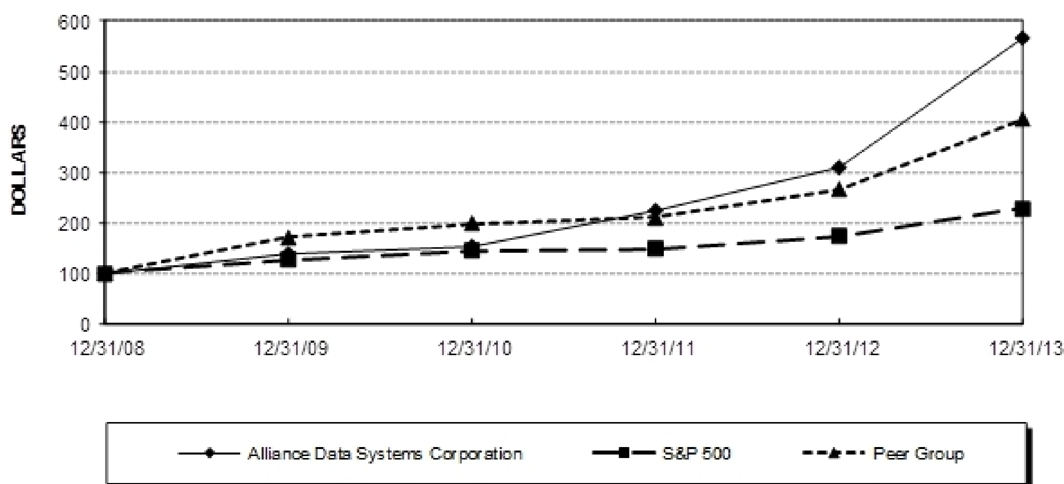
(2) On January 2, 2013, our Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of our outstanding common stock from January 2, 2013 through December 31, 2013, subject to any restrictions pursuant to the terms of our credit agreements, indentures, applicable securities laws or otherwise. On December 5, 2013, our Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of our outstanding common stock from January 1, 2014 through December 31, 2014, subject to any restrictions pursuant to the terms of our credit agreements, indentures, applicable securities laws or otherwise.

Performance Graph

The following graph compares the yearly percentage change in cumulative total stockholder return on our common stock since December 31, 2008, with the cumulative total return over the same period of (1) the S&P 500 Index and (2) a peer group of fourteen companies selected by us.

The companies in the peer group are Acxiom Corporation, American Express Company, Discover Financial Services, Equifax, Inc., Experian PLC, Fidelity National Information Services, Inc., Fiserv, Inc., Global Payments, Inc., Nielsen Holdings N.V., Omnicom Group Inc., The Dun & Bradstreet Corporation, The Interpublic Group of Companies, Inc., Total Systems Services, Inc. and WPP plc.

Pursuant to rules of the SEC, the comparison assumes $100 was invested on December 31, 2008 in our common stock and in each of the indices and assumes reinvestment of dividends, if any. Also pursuant to SEC rules, the returns of each of the companies in the peer group are weighted according to the respective company's stock market capitalization at the beginning of each period for which a return is indicated. Historical stock prices are not indicative of future stock price performance.



*$100 invested on 12/31/08 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	Alliance Data Systems Corporation	S&P 500	Peer Group
December 31, 2008	$ 100.00	$ 100.00	$ 100.00
December 31, 2009	138.81	126.46	171.96
December 31, 2010	152.65	145.51	198.03
December 31, 2011	223.17	148.59	210.31
December 31, 2012	311.11	172.37	265.31
December 31, 2013	565.08	228.19	404.97

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

Item 6. Selected Financial Data.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

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

	Years Ended December 31,				
	2013	2012	2011	2010	2009 [1]
	(In thousands, except per share amounts)				
Income statement data					
Total revenue	$ 4,319,063	$ 3,641,390	$ 3,173,287	$ 2,791,421	$ 1,964,341
Cost of operations (exclusive of amortization and depreciation disclosed separately below) [2]	2,549,159	2,106,612	1,811,882	1,545,380	1,354,138
Provision for loan loss	345,758	285,479	300,316	387,822	—
General and administrative [2]	109,115	108,059	95,256	85,773	99,823
Depreciation and other amortization	84,291	73,802	70,427	67,806	62,196
Amortization of purchased intangibles	131,828	93,074	82,726	75,420	63,090
Gain on acquisition of a business	—	—	—	—	(21,227)
Merger reimbursements	—	—	—	—	(1,436)
Total operating expenses	3,220,151	2,667,026	2,360,607	2,162,201	1,556,584
Operating income	1,098,912	974,364	812,680	629,220	407,757
Interest expense, net	305,500	291,460	298,585	318,330	144,811
Income from continuing operations before income taxes	793,412	682,904	514,095	310,890	262,946
Provision for income taxes	297,242	260,648	198,809	115,252	86,227
Income from continuing operations	496,170	422,256	315,286	195,638	176,719
Loss from discontinued operations, net of taxes	—	—	—	(1,901)	(32,985)
Net income	$ 496,170	$ 422,256	$ 315,286	$ 193,737	$ 143,734
Income from continuing operations per share—basic	$ 10.09	$ 8.44	$ 6.22	$ 3.72	$ 3.17
Income from continuing operations per share—diluted	$ 7.42	$ 6.58	$ 5.45	$ 3.51	$ 3.06
Net income per share—basic	$ 10.09	$ 8.44	$ 6.22	$ 3.69	$ 2.58
Net income per share—diluted	$ 7.42	$ 6.58	$ 5.45	$ 3.48	$ 2.49
Weighted average shares used in computing per share amounts—basic	49,190	50,008	50,687	52,534	55,765
Weighted average shares used in computing per share amounts—diluted	66,866	64,143	57,804	55,710	57,706

	Years Ended December 31,				
	2013	2012	2011	2010	2009 (1)
	(In thousands)				
Adjusted EBITDA (3)					
Adjusted EBITDA	$ 1,374,214	$ 1,191,737	$ 1,009,319	$ 822,540	$ 590,077
Other financial data					
Cash flows from operating activities	$ 1,003,492	$ 1,134,190	$ 1,011,347	$ 902,709	$ 358,414
Cash flows from investing activities	$ (1,619,416)	$ (2,671,350)	$ (1,040,710)	$ (340,784)	$ (888,022)
Cash flows from financing activities	$ 704,152	$ 2,209,019	$ 109,250	$ (715,675)	$ 570,189
Segment Operating data					
Private label statements generated	192,508	166,091	142,064	142,379	130,176
Credit sales	$ 15,252,299	$ 12,523,632	$ 9,636,053	$ 8,773,436	$ 7,968,125
Average credit card and loan receivables	$ 7,212,678	$ 5,927,562	$ 4,962,503	$ 5,025,915	$ 4,359,625
AIR MILES reward miles issued	5,420,723	5,222,887	4,940,364	4,584,384	4,545,774
AIR MILES reward miles redeemed	4,017,494	4,040,876	3,633,921	3,634,821	3,326,307

	As of December 31,				
	2013	2012	2011	2010	2009 (1)
	(In thousands)				
Balance sheet data					
Credit card and loan receivables, net	$ 8,131,795	$ 6,697,674	$ 5,197,690	$ 4,838,354	$ 616,298
Redemption settlement assets, restricted	510,349	492,690	515,838	472,428	574,004
Total assets	13,244,257	12,000,139	8,980,249	8,272,152	5,225,667
Deferred revenue	1,137,186	1,249,061	1,226,436	1,221,242	1,146,146
Deposits	2,816,361	2,228,411	1,353,775	859,100	1,465,000
Non-recourse borrowings of consolidated securitization entities	4,591,916	4,130,970	3,260,287	3,660,142	—
Long-term and other debt, including current maturities	2,800,281	2,854,839	2,183,474	1,869,772	1,782,352
Total liabilities	12,388,496	11,471,652	8,804,283	8,249,058	4,952,891
Total stockholders' equity	855,761	528,487	175,966	23,094	272,776

(1) On January 1, 2010, we adopted guidance codified in Accounting Standards Codification, or ASC, 810, "Consolidation," and ASC 860, "Transfers and Servicing," which resulted in the consolidation of the credit card securitization trusts on a prospective basis. Therefore, the selected financial data for the year ended December 31, 2009 does not reflect this change in accounting principle.

(2) Included in cost of operations is stock compensation expense of $40.3 million, $32.7 million, $25.8 million, $27.6 million and $29.3 million for the years ended December 31, 2013, 2012, 2011, 2010, and 2009, respectively. Included in general and administrative is stock compensation expense of $18.9 million, $17.8 million, $17.7 million, $22.5 million and $24.3 million for the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

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

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

Overview

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

LoyaltyOne

LoyaltyOne generates revenue primarily from our coalition loyalty program in Canada, the AIR MILES Reward Program. Revenue increased $0.4 million to $919.5 million and adjusted EBITDA increased 9.5% to $258.5 million for the year ended December 31, 2013 as compared to the same period in 2012.

LoyaltyOne's revenues are primarily earned in Canada, and can therefore be impacted by changes in the foreign currency exchange rate between the U.S. dollar and the Canadian dollar. A weaker Canadian dollar negatively impacted the results of operations for the year ended December 31, 2013, as the average foreign currency exchange rate was $0.97 as compared to $1.00 in the prior year period, which lowered revenue and adjusted EBITDA by $26.9 million and $8.0 million, respectively.

AIR MILES reward miles issued and AIR MILES reward miles redeemed are the two primary drivers of LoyaltyOne's revenue and indicators of success of the program. The number of AIR MILES reward miles issued impacts the number of future AIR MILES reward miles available to be redeemed. This can also impact our future revenue recognized with respect to the number of AIR MILES reward miles redeemed and the amount of breakage for those AIR MILES reward miles expected to remain unredeemed.

AIR MILES reward miles issued during the year ended December 31, 2013 increased 3.8% compared to the same period in the prior year due to the addition of new sponsors and strength in consumer credit card spending. AIR MILES reward miles redeemed during the year ended December 31, 2013 decreased 0.6% compared to the same period in the prior year.

As discussed in the "Discussion of Critical Accounting Policies and Estimates" for those sponsor contracts not yet subject to Accounting Standards Update, or ASU, 2009-13, "Multiple-Deliverable Revenue Arrangements," the allocation of the fees received from AIR MILES reward miles issued is allocated to the redemption element based on the fair value of the redemption element, and the service element is determined based on the residual method. The adoption of ASU 2009-13 eliminates the use of the residual method for new sponsor agreements entered into, or existing sponsor agreements that are materially modified, after January 1, 2011. For these agreements, we determine the selling price for all of the deliverables in the arrangement, and use the relative selling price method to allocate the arrangement consideration among the deliverables.

In the first quarter of 2013, we renewed our agreements with two of our top five sponsors. As part of our analysis, it was determined that in addition to the redemption and service elements, the right to use of the "AIR MILES" brand name met the criteria for a separate deliverable or element under ASU 2009-13. As a result, for those sponsor contracts within the scope of ASU 2009-13, proceeds from the issuance of AIR MILES reward miles are allocated to three elements: the redemption element, the service element and the brand element, based on the relative selling price method.

Revenue for the redemption element is recognized at the time an AIR MILES reward mile is redeemed. For the service element, revenue is recognized over the estimated life of an AIR MILES reward mile. Revenue attributable to the brand element is recognized at the time an AIR MILES reward mile is issued. For the year ended December 31, 2013, we recognized $33.5 million associated with the brand element, which is included as transaction revenue in the consolidated statements of income.

Also, based on the analysis of historical redemption trends and additional statistical analysis performed, including the impact of changes in the program structure, we determined that our estimate of breakage had changed from 27% to 26% as of December 31, 2013. The change in estimate will have no impact on the total redemption liability but is expected to reduce earnings in 2014 by approximately $30 million. We expect to mitigate this loss with lower operating expenses and higher product margins.

AIR MILES Cash, an instant reward option added to the AIR MILES Reward Program in March 2012, continues to expand with over 1.9 million collectors. We currently have 10 participating sponsors that can process instant redemptions of AIR MILES reward miles collected in the AIR MILES Cash program option. For the year ended December 31, 2013, AIR MILES Cash represented approximately 12% of the AIR MILES reward miles issued. We have not recognized any breakage associated with AIR MILES Cash in 2012 and 2013 and do not expect to recognize any breakage associated with AIR MILES Cash until we have sufficient evidence to make the assessment.

During the year ended December 31, 2013, LoyaltyOne signed new multi-year agreements with Old Navy, a leading retailer of family apparel; Eastlink, a privately-held Canadian telecommunications company; Irving Oil, a regional energy and marketing company; and Staples Canada, Inc., Canada's largest supplier of office supplies, technology, office furniture and business services, to participate as sponsors in the AIR MILES Reward Program.

We currently own approximately 37% of CBSM-Companhia Brasileira De Servicos De Marketing, the operator of the dotz coalition loyalty program in Brazil. In 2013, dotz expanded the number of regions in Brazil in which it operates from five regions with more than six million customers to nine regions with more than 10 million customers enrolled in the program. We expect dotz to enter into four additional markets in Brazil during 2014. Our investment in dotz did not have a significant impact on our results of operations in 2012 and 2013, and we are not expecting it to have a significant impact on our results of operations in 2014.

Further, on January 2, 2014, we acquired a 60% ownership interest in BrandLoyalty Group B.V., a Netherlands-based, data-driven loyalty marketer, as further described in Item 1, "Business." BrandLoyalty will be consolidated in our financial statements and included in our results of operations as of the date of acquisition.

Epsilon

Epsilon is a leading marketing services firm providing end-to-end, integrated marketing solutions that leverage transactional data to help clients more effectively acquire and build stronger relationships with their customers. Services include strategic consulting, customer database technologies, loyalty management, proprietary data, predictive modeling and a full range of direct and digital agency services.

Revenue increased 38.6% to $1.4 billion and adjusted EBITDA increased 30.3% to $289.7 million for the year ended December 31, 2013. These increases were driven by the acquisition of HMI in November 2012 as well as strength in the telecommunications and automotive verticals.

During the year ended December 31, 2013, Epsilon announced new multi-year agreements with the National Football League to provide database and email marketing services, Dunkin' Donuts to provide technology for its new loyalty initiative, and Road Scholar, a not-for-profit organization providing adults with educational travel opportunities worldwide, to provide database marketing services.

Epsilon signed multi-year renewal and expansion agreements with The Leukemia & Lymphoma Society® to continue to provide database management services and to provide comprehensive marketing campaign management services, AT&T to continue to provide data and agency services, and Kroger, one of the world's largest retailers, to continue to provide permission-based email marketing deployment and to provide strategic, creative and analytic services.

Epsilon also renewed multi-year agreements with Marriott International, Inc., a leading lodging company, to continue to support email deployment, strategy and creative services for its loyalty program, Guthy-Renker, one of the world's largest direct marketing companies, to continue to provide database, data and permission-based email marketing services, and Carlson Rezidor Hotel Group, one of the world's largest hotel groups, to continue to provide email marketing services.

Private Label Services and Credit

The Private Label Services and Credit segment provides risk management solutions, account origination, funding services, transaction processing, marketing, customer care and collection services for our more than 120 private label retail and co-branded credit card programs.

Revenue, generated primarily from finance charges and late fees as well as other servicing fees, increased 17.5% to $2.0 billion and adjusted EBITDA increased 11.3% to $916.1 million for the year ended December 31, 2013 as compared to the prior year.

For the year ended December 31, 2013, average credit card and loan receivables increased 21.7% as compared to the same period in the prior year as a result of increased credit sales, recent client signings and recent credit card portfolio acquisitions. Credit sales increased 21.8% for the year ended December 31, 2013 due to strong credit cardholder spending, recent new client signings and recent credit card portfolio acquisitions.

Delinquency rates were 4.2% of principal credit card and loan receivables at December 31, 2013 as compared to 4.0% at December 31, 2012. The principal net charge-off rate improved to 4.7% for the year ended December 31, 2013 as compared to 4.8% in the prior year period. We expect our 2014 charge-off rate to be consistent with 2013.

During the year ended December 31, 2013, we announced the signings of certain agreements to provide private label credit card services to Lifestyle Lift, Dwolla, Orchard Brands, El Dorado Furniture, Aspen Dental and Tiger Direct. We also announced the signing of a new multi-year agreement with Zale Corporation to provide private label credit card services and to acquire the existing credit card portfolio at a future date. We announced the signing of a multi-year renewal agreement with Z Gallerie to continue providing private label credit card services.

Additionally, we announced the signings of certain agreements to provide co-brand credit card services to Excentus Corporation, CREDO, The Geddes Group, Ohio University Alumni Association, Caesars Entertainment Corporation and Gander Mountain. We also announced the signing of a new multi-year agreement with Coldwater Creek to provide co-brand and private label credit card services and to acquire the existing co-brand credit card portfolio at a future date.

In March 2013, we purchased the existing private label credit card portfolio of Barneys New York for a total purchase price of $37.1 million.

In August 2013, we announced the signing of new multi-year agreements with subsidiaries of eBay, Inc., or collectively, PayPal, to become an issuer for their Bill Me Later® credit products. After issuance, these loan receivables are sold to PayPal at par value plus accrued interest. Upon PayPal's purchase of the originated loan receivables, we are obligated to purchase a participating interest in the pool of loan receivables generated in the Bill Me Later program.

Discussion of Critical Accounting Policies and Estimates

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

Allowance for Loan Loss.

We maintain an allowance for loan loss at a level that is appropriate to absorb probable losses inherent in credit card and loan receivables. The allowance for loan loss covers forecasted uncollectable principal as well as unpaid interest and fees. The allowance for loan loss is evaluated monthly for adequacy. In estimating the allowance for principal loan losses, we utilize 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.

Net charge-offs include the principal amount of losses from credit cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased credit cardholders, less recoveries and exclude charged-off interest, fees and fraud losses. Charged-off interest and fees reduce finance charges, net while fraud losses are recorded as an expense. Credit card and loan receivables, including unpaid interest and fees, are charged-off at the end of 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 at the end of 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.

We record the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. In estimating the allowance for uncollectable unpaid interest and fees, we utilize historical charge-off trends, analyzing actual charge-offs for the prior three months. The allowance for unpaid interest and fees 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, loan volume and amounts, payment rates and forecasting uncertainties. If management used different assumptions in estimating net losses that could be incurred, the impact to the allowance for loan loss could have a material effect on our consolidated financial condition and results of operations. For example, a 100 basis point change in management's estimate of incurred net loan losses could have resulted in a change of approximately $84.6 million in the allowance for loan loss at December 31, 2013, with a corresponding change in the provision for loan loss.

Revenue Recognition.

We recognize revenue when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) the service has been performed or the product has been delivered. We may also enter into contracts that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used to interpret the terms and determine when all the criteria of revenue recognition have been met in order for revenue recognition to occur in the appropriate accounting period. While changes in the allocation of the estimated sales price between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition.

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

Under certain of our contracts, a portion of the proceeds is paid to us upon the issuance of AIR MILES reward miles and a portion is paid at the time of redemption and therefore, we do not have a redemption obligation related to these contracts. Revenue is recognized at the time of redemption. Under such contracts, the proceeds received at issuance are initially deferred as service revenue and revenue is amortized over the estimated life of an AIR MILES reward mile.

For those sponsor contracts not yet subject to the adoption of ASU 2009-13, we allocate the proceeds received from sponsors for the issuance of AIR MILES reward miles between the redemption element which represents the award ultimately provided to the collector (the "redemption element") and the service element (the "service element"). The service element consists of direct marketing and support services. For contracts entered into prior to January 1, 2011, revenue related to the service element is determined using the residual method.

The adoption of ASU 2009-13 eliminated the use of the residual method for new sponsor agreements entered into, or existing sponsor agreements that are materially modified, after January 1, 2011. ASU 2009-13 also established the use of a three-level hierarchy when establishing the selling price and the relative selling price method when allocating arrangement consideration. The ASU had no significant impact upon adoption in 2011, as no new material contracts or material modifications were experienced with sponsors in the AIR MILES Reward Program from its adoption through December 31, 2012.

In the first quarter of 2013, we renewed our agreements with two of our top five sponsors. As part of our analysis, it was determined that in addition to the redemption and service elements, the right to use of the "AIR MILES" brand name met the criteria for a separate deliverable or element under ASU 2009-13. For the "brand element," revenue is recognized at the time an AIR MILES reward mile is issued.

For those sponsor contracts within the scope of ASU 2009-13, proceeds from the issuance of AIR MILES reward miles are allocated to three elements, the redemption element, the service element, and the brand element, based on the relative selling price method. The fair value of each element was determined using management's estimated selling price for that respective element. The objective of using the estimated selling price methodology is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. Accordingly, we determine our best estimate of selling price by considering multiple inputs and methods, including discounted cash flows, the estimated brand value and the number of AIR MILES reward miles issued and redeemed. We estimated the selling prices and volumes over the term of the respective agreements in order to determine the allocation of proceeds to each of the multiple elements delivered.

The amount of revenue recognized in a period is subject to the estimate of breakage and the estimated life of an AIR MILES reward mile. Breakage and the life of an AIR MILES reward mile are based on management's estimate after viewing and analyzing various historical trends including vintage analysis, current run rates and other pertinent factors, such as the impact of macroeconomic factors and changes in the program structure.

Redemption revenue recognized is impacted by our estimate of breakage, or those AIR MILES reward miles that we estimate will remain unredeemed by the collector base.

Service revenue recognized in a period is subject to the estimated life of an AIR MILES reward mile, or 42 months.

Based on the analysis of historical redemption trends and additional statistical analysis performed, including the impact of changes in the program structure, we determined that our estimate of breakage had changed from 27% to 26% as of December 31, 2013. The change in estimate will have no impact on the total redemption liability but is expected to reduce earnings in 2014 by approximately $30 million, absent any changes to the AIR MILES Reward Program.

There have been no changes to management's estimate of the life of an AIR MILES reward miles in the periods presented in the financial statements. We estimate that an increase (decrease) to the estimated life of an AIR MILES reward mile of one month would decrease (increase) transaction revenue by approximately $6 million.

As of December 31, 2013, we had $1.1 billion in deferred revenue related to the AIR MILES Reward Program that will be recognized in the future. Further information is provided in Note 10, "Deferred Revenue," of the Notes to Consolidated Financial Statements.

Income Taxes.

We account for uncertain tax positions in accordance with ASC 740, "Income Taxes". The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of, and guidance surrounding, income tax laws and regulations change over time. Changes in our subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of income. See Note 15, "Income Taxes," of the Notes to Consolidated Financial Statements for additional detail on our uncertain tax positions and further information regarding ASC 740.

Recent Accounting Pronouncements

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

Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure equal to income from continuing operations, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, merger and other costs, depreciation and other amortization and amortization of purchased intangibles.

We use adjusted EBITDA as an integral part of our internal reporting to measure the performance of our reportable segments. Adjusted EBITDA is 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, as well as asset sales through other financial measures, 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. Stock compensation expense is not included in the measurement of segment adjusted EBITDA provided to the chief operating decision maker for purposes of assessing segment performance and decision making with respect to resource allocations. Therefore, we believe that adjusted EBITDA provides useful information to our investors regarding our performance and overall results of operations. Adjusted EBITDA is not intended to be a performance measure that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, adjusted EBITDA is 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 accounting principles generally accepted in the United States of America, or GAAP.

The adjusted EBITDA measure presented in this Annual Report on Form 10-K may not be comparable to similarly titled measures presented by other companies, and may not be identical to corresponding measures used in our various agreements.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands)				
Income from continuing operations	$ 496,170	$ 422,256	$ 315,286	$ 195,638	$ 176,719
Stock compensation expense	59,183	50,497	43,486	50,094	53,612
Provision for income taxes	297,242	260,648	198,809	115,252	86,227
Interest expense, net	305,500	291,460	298,585	318,330	144,811
Merger and other costs [1]	—	—	—	—	3,422
Depreciation and other amortization	84,291	73,802	70,427	67,806	62,196
Amortization of purchased intangibles	131,828	93,074	82,726	75,420	63,090
Adjusted EBITDA	$ 1,374,214	$ 1,191,737	$ 1,009,319	$ 822,540	$ 590,077

[1] Represents investment banking, legal and accounting costs directly associated with the proposed merger with an affiliate of The Blackstone Group. Other costs represent compensation charges related to the departure of certain employees resulting from cost saving initiatives and other non-routine costs associated with the disposition of certain businesses.

Consolidated Results of Operations

	Year Ended December 31,			% Change	
	2013	2012	2011	2013 to 2012	2012 to 2011
	(in thousands, except percentages)				
Revenues					
Transaction	$ 329,027	$ 300,801	$ 290,582	9.4%	3.5%
Redemption	587,187	635,536	572,499	(7.6)	11.0
Finance charges, net	1,956,654	1,643,405	1,402,041	19.1	17.2
Database marketing fees and direct marketing services	1,289,356	931,533	806,470	38.4	15.5
Other revenue	156,839	130,115	101,695	20.5	27.9
Total revenue	4,319,063	3,641,390	3,173,287	18.6	14.8
Operating expenses					
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	2,549,159	2,106,612	1,811,882	21.0	16.3
Provision for loan loss	345,758	285,479	300,316	21.1	(4.9)
General and administrative	109,115	108,059	95,256	1.0	13.4
Depreciation and other amortization	84,291	73,802	70,427	14.2	4.8
Amortization of purchased intangibles	131,828	93,074	82,726	41.6	12.5
Total operating expenses	3,220,151	2,667,026	2,360,607	20.7	13.0
Operating income	1,098,912	974,364	812,680	12.8	19.9
Interest expense					
Securitization funding costs	95,326	92,808	126,711	2.7	(26.8)
Interest expense on deposits	29,111	25,181	23,078	15.6	9.1
Interest expense on long-term and other debt, net	181,063	173,471	148,796	4.4	16.6
Total interest expense, net	305,500	291,460	298,585	4.8	(2.4)
Income before income tax	793,412	682,904	514,095	16.2	32.8
Provision for income taxes	297,242	260,648	198,809	14.0	31.1
Net income	$ 496,170	$ 422,256	$ 315,286	17.5%	33.9%
Key Operating Metrics:					
Private label statements generated	192,508	166,091	142,064	15.9%	16.9%
Credit sales	$ 15,252,299	$ 12,523,632	$ 9,636,053	21.8%	30.0%
Average credit card and loan receivables	$ 7,212,678	$ 5,927,562	$ 4,962,503	21.7%	19.4%
AIR MILES reward miles issued	5,420,723	5,222,887	4,940,364	3.8%	5.7%
AIR MILES reward miles redeemed	4,017,494	4,040,876	3,633,921	(0.6)%	11.2%

Year ended December 31, 2013 compared to the year ended December 31, 2012

Revenue. Total revenue increased $677.7 million, or 18.6%, to $4.3 billion for the year ended December 31, 2013 from $3.6 billion for the year ended December 31, 2012. The net increase was due to the following:

- *Transaction*. Revenue increased $28.2 million, or 9.4%, to $329.0 million for the year ended December 31, 2013. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $40.0 million due to $33.5 million of revenue recognized associated with the AIR MILES brand element, as well as increases in the number of AIR MILES reward miles issued in previous quarters. Other servicing fees charged to our credit cardholders increased $30.0 million, offset by a decrease of $41.7 million in merchant fees, which are transaction fees charged to the retailer, due to increased royalty payments associated with the signing of new clients.

- *Redemption*. Revenue decreased $48.3 million, or 7.6%, to $587.2 million for the year ended December 31, 2013 due to the impact of the change in estimate of our breakage rate in December 2012, a slight decrease in AIR MILES reward miles redeemed, and an unfavorable exchange rate. The decline in the Canadian dollar impacted redemption revenue by $17.1 million.

- *Finance charges, net*. Revenue increased $313.2 million, or 19.1%, to $2.0 billion for the year ended December 31, 2013. This increase was driven by a 21.7% increase in average credit card and loan receivables, which have increased approximately $1.3 billion through a combination of recent credit card portfolio acquisitions and strong credit cardholder spending. This was offset in part by a 60 basis point decline in gross yield primarily due to the onboarding of new credit card portfolios.

- *Database marketing fees and direct marketing*. Revenue increased $357.8 million, or 38.4%, to $1.3 billion for the year ended December 31, 2013. The increase in revenue was driven by increases within our Epsilon segment, including our acquisition of HMI, which added $272.6 million and an increase in agency revenue of $61.2 million due to demand in the telecommunications and automotive verticals. Additionally, marketing technology revenue increased $21.7 million due to new database builds that were placed in service during the year ended December 31, 2013, offset by declines in email volume experienced by our digital business.

- *Other revenue*. Revenue increased $26.7 million, or 20.5%, to $156.8 million for the year ended December 31, 2013 due to additional consulting services provided by Epsilon, particularly in the telecommunications vertical.

Cost of operations. Cost of operations increased $442.5 million, or 21.0%, to $2.5 billion for the year ended December 31, 2013 as compared to $2.1 billion for the year ended December 31, 2012. The increase resulted from growth across each of our segments, including the following:

- Within the LoyaltyOne segment, cost of operations decreased $20.5 million due to a $20.7 million decrease in fulfillment costs for the AIR MILES Reward Program associated with the decline in AIR MILES reward miles redeemed as well as a reduction in losses associated with international expansion. These decreases were partially offset by increases in payroll and benefits of $1.7 million and marketing expenses of $2.0 million. The impact of the exchange rate reduced cost of operations by $19.0 million and is reflected in the changes described above.

- Within the Epsilon segment, cost of operations increased $320.6 million due to the HMI acquisition, which added $234.6 million, as well as an increase of $68.1 million in cost of operations associated with the increase in agency and consulting revenue.

- Within the Private Label Services and Credit segment, cost of operations increased by $151.6 million. Payroll and benefits increased $72.1 million due to an increase in the number of associates to support growth, and marketing expenses increased $24.0 million due to the increase in credit sales. Other operating expenses increased by $55.5 million, as credit card processing expenses were higher due to an increase in the number of statements generated, and data processing costs increased due to growth in volumes.

Provision for loan loss. Provision for loan loss increased $60.3 million, or 21.1%, to $345.8 million for the year ended December 31, 2013 as compared to $285.5 million for the year ended December 31, 2012. The increase in the provision was a result of the growth in credit card and loan receivables, offset in part by stabilized credit quality. The net charge-off rate was 4.7% for the year ended December 31, 2013 as compared to 4.8% for the year ended December 31, 2012. Delinquency rates were 4.2% of principal credit card and loan receivables at December 31, 2013 as compared to 4.0% at December 31, 2012.

General and administrative. General and administrative expenses increased $1.0 million, or 1.0%, to $109.1 million for the year ended December 31, 2013 as compared to $108.1 million for the year ended December 31, 2012 due to higher payroll costs and higher data processing costs, offset by lower Corporate benefit costs.

Depreciation and other amortization. Depreciation and other amortization increased $10.5 million, or 14.2%, to $84.3 million for the year ended December 31, 2013, as compared to $73.8 million for the year ended December 31, 2012, due to additional assets placed into service resulting from both the HMI acquisition and recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles increased $38.7 million, or 41.6%, to $131.8 million for the year ended December 31, 2013 as compared to $93.1 million for the year ended December 31, 2012. The increase relates to $31.1 million of additional amortization associated with the intangible assets from the HMI acquisition as well as recent credit card portfolio acquisitions.

Interest expense, net. Total interest expense, net increased $14.0 million, or 4.8%, to $305.5 million for the year ended December 31, 2013 as compared to $291.5 million for the year ended December 31, 2012. The increase was due to the following:

- *Securitization funding costs*. Securitization funding costs increased $2.5 million due to greater average borrowings for the year ended December 31, 2013 as compared to the year ended December 31, 2012. These increases were offset by lower average interest rates.

- *Interest expense on deposits*. Interest on deposits increased $3.9 million as increases from higher borrowings were offset by lower average interest rates.

- *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net increased $7.6 million due to an increase of $27.1 million resulting from the issuances of senior notes in 2012 and an increase of $2.3 million related to term debt as increases from higher borrowings were offset by lower average interest rates. These increases were offset in part by the maturity of the 2013 convertible senior notes on August 1, 2013 which resulted in a decrease in interest expense of $23.8 million, including a reduction of the imputed interest, compared to the prior year period.

Taxes. Income tax expense increased $36.6 million to $297.2 million for the year ended December 31, 2013 from $260.6 million for the year ended December 31, 2012 due primarily to an increase in taxable income, offset in part by a decline in the effective tax rate. The effective tax rate for the year ended December 31, 2013 improved to 37.5% as compared to 38.2% for the year ended December 31, 2012 due to the reinvestment of international profits into international expansion efforts. We expect a similar rate for 2014.

Year ended December 31, 2012 compared to the year ended December 31, 2011

Revenue. Total revenue increased $468.1 million, or 14.8%, to $3.6 billion for the year ended December 31, 2012 from $3.2 billion for the year ended December 31, 2011. The net increase was due to the following:

- *Transaction*. Revenue increased $10.2 million, or 3.5%, to $300.8 million for the year ended December 31, 2012 due to an increase of $13.5 million in AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, as a result of increases in the number of AIR MILES reward miles issued over the previous several quarters. Other servicing fees charged to our credit cardholders also increased transaction revenue by $20.5 million. These increases were offset by a decrease of $20.8 million in lower merchant fees, which are transaction fees charged to the retailer, primarily due to increased profit sharing and royalty payments associated with the signing of new clients.

- *Redemption*. Revenue increased $63.0 million, or 11.0%, to $635.5 million for the year ended December 31, 2012 due to an 11.2% increase in AIR MILES reward miles redeemed. The introduction of a five-year expiry policy to the AIR MILES Reward Program in December 2011 stimulated redemption activity through the first half of 2012.

- *Finance charges, net*. Revenue increased $241.4 million, or 17.2%, to $1.6 billion for the year ended December 31, 2012. This increase was driven by a 19.4% increase in average credit card receivables due to strong credit cardholder spending, the stabilization of customer payment rates, as well as recent client signings and credit card portfolio acquisitions, offset in part by a 50 basis point decline in gross yield related to the recent credit card portfolio acquisitions.

- *Database marketing fees and direct marketing*. Revenue increased $125.1 million, or 15.5%, to $931.5 million for the year ended December 31, 2012. The increase in revenue was driven primarily by our acquisitions of HMI and Aspen, which added $30.8 million and $92.9 million, respectively.

- *Other revenue*. Revenue increased $28.4 million, or 27.9%, to $130.1 million for the year ended December 31, 2012 due to increased revenue associated with strategic consulting initiatives. The Aspen acquisition contributed $19.0 million of this increase.

Cost of operations. Cost of operations increased $294.7 million, or 16.3%, to $2.1 billion for the year ended December 31, 2012 as compared to $1.8 billion for the year ended December 31, 2011. The increase resulted from growth across each of our segments, including the following:

- Within the LoyaltyOne segment, cost of operations increased $57.4 million due to a $19.8 million increase in the cost of fulfillment for the AIR MILES Reward Program as a result of an 11.2% increase in the number of AIR MILES reward miles redeemed. In addition, marketing expenses increased $12.1 million due to costs associated with the launch and promotion of AIR MILES Cash, and payroll and benefit costs increased $16.2 million to support new growth initiatives, including international expansion activities.

- Within the Epsilon segment, cost of operations increased $124.8 million due to the acquisitions of HMI and Aspen, which added $26.7 million and $96.9 million, respectively. Cost of operations also increased as a result of enhancements to infrastructure and security as well as a relocation of a data center to support future growth, which were mitigated by cost-saving initiatives and operational efficiencies implemented in 2012.

- Within the Private Label Services and Credit segment, cost of operations increased $115.3 million due to growth in the segment. Payroll and benefits increased $39.6 million due to an increase in the number of associates and marketing expenses increased $21.2 million due to growth in credit sales. Credit card and other expenses increased $28.4 million due to higher volumes and growth, and legal and consulting expenses also increased $8.1 million due to new initiatives.

Provision for loan loss. Provision for loan loss decreased $14.8 million, or 4.9%, to $285.5 million for the year ended December 31, 2012 as compared to $300.3 million for the year ended December 31, 2011. The decrease in the provision was a result of improved credit quality, offset in part by the growth in credit card receivables. The net charge-off rate improved 210 basis points to 4.8% for the year ended December 31, 2012 as compared to 6.9% for the year ended December 31, 2011. Delinquency rates improved to 4.0% of principal credit card receivables at December 31, 2012 from 4.4% at December 31, 2011.

General and administrative. General and administrative expenses increased $12.8 million, or 13.4%, to $108.1 million for the year ended December 31, 2012 as compared to $95.3 million for the year ended December 31, 2011. The increase was driven by payroll and benefit costs as a result of higher medical costs and an increase in expenses for our retirement savings plans, as well as the impact of the amortization of deferred gains in 2011 associated with sale-leaseback transactions that were fully amortized in April 2011.

Depreciation and other amortization. Depreciation and other amortization increased $3.4 million, or 4.8%, to $73.8 million for the year ended December 31, 2012, as compared to $70.4 million for the year ended December 31, 2011, due to additional assets placed in service resulting from capital expenditures as well as fixed assets acquired in the Aspen and HMI acquisitions.

Amortization of purchased intangibles. Amortization of purchased intangibles increased $10.3 million, or 12.5%, to $93.1 million for the year ended December 31, 2012 as compared to $82.7 million for the year ended December 31, 2011. The increase relates to $9.6 million and $2.6 million of additional amortization associated with the intangible assets acquired in the Aspen and HMI acquisitions, respectively, and additional amortization associated with the intangible assets from recent credit card portfolio acquisitions, offset in part by certain fully amortized intangible assets.

Interest expense, net. Total interest expense, net decreased $7.1 million, or 2.4%, to $291.5 million for the year ended December 31, 2012 as compared to $298.6 million for the year ended December 31, 2011. The decrease was due to the following:

- *Securitization funding costs*. Securitization funding costs decreased $33.9 million due to lower interest rates for the year ended December 31, 2012 as compared to the year ended December 31, 2011.

- *Interest expense on deposits*. Interest on deposits increased $2.1 million as increases from higher borrowings were offset by lower average interest rates.

- *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net increased $24.7 million due in part to an increase in borrowings resulting from the issuance of senior notes in 2012 which added $26.5 million in interest expense. In addition, the amortization of imputed interest associated with the convertible senior notes increased $8.6 million as compared to the prior year. These increases were offset by a decline in interest expense associated with our credit facility and a decline in the amortization of debt issuance costs resulting from a $2.6 million write-off in unamortized debt costs associated with the early extinguishment of certain previous term loans in the second quarter of 2011.

Taxes. Income tax expense increased $61.8 million to $260.6 million for the year ended December 31, 2012 from $198.8 million for the year ended December 31, 2011 due primarily to an increase in taxable income, offset in part by a decline in the effective tax rate. The effective tax rate for the year ended December 31, 2012 declined to 38.2% as compared to 38.7% for the year ended December 31, 2011 due primarily to the result of settlements of certain state audits and statutory tax rate adjustments in Canada.

Segment Revenue and Adjusted EBITDA

	Year Ended December 31,			% Change	
	2013	2012	2011	2013 to 2012	2012 to 2011
Revenue:	(in thousands, except percentages)				
LoyaltyOne	$ 919,480	$ 919,041	$ 844,774	—%	8.8%
Epsilon	1,380,344	996,210	847,136	38.6	17.6
Private Label Services and Credit	2,034,724	1,732,160	1,488,998	17.5	16.3
Corporate/Other	82	372	1,136	(78.0)	(67.3)
Eliminations	(15,567)	(6,393)	(8,757)	nm*	nm*
Total	$ 4,319,063	$ 3,641,390	$ 3,173,287	18.6%	14.8%
Adjusted EBITDA [1]:					
LoyaltyOne	$ 258,541	$ 236,094	$ 217,083	9.5%	8.8%
Epsilon	289,699	222,253	195,397	30.3	13.7
Private Label Services and Credit	916,099	823,241	678,334	11.3	21.4
Corporate/Other	(90,125)	(89,851)	(76,407)	0.3	17.6
Eliminations	—	—	(5,088)	nm*	nm*
Total	$ 1,374,214	$ 1,191,737	$ 1,009,319	15.3%	18.1%
Adjusted EBITDA margin [2]:					
LoyaltyOne	28.1%	25.7%	25.7%		
Epsilon	21.0	22.3	23.1		
Private Label Services and Credit	45.0	47.5	45.6		
Total	31.8%	32.7%	31.8%		

(1) Adjusted EBITDA is equal to income from continuing operations, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and amortization and amortization of purchased intangibles. For a reconciliation of adjusted EBITDA to income from continuing operations, the most directly comparable GAAP financial measure, see “Use of Non-GAAP Financial Measures” included in this report.

(2) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Management uses adjusted EBITDA margin to analyze the operating performance of the segments and the impact revenue growth has on operating expenses.

* not meaningful.

Year ended December 31, 2013 compared to the year ended December 31, 2012

Revenue. Total revenue increased $677.7 million, or 18.6%, to $4.3 billion for the year ended December 31, 2013 from $3.6 billion for the year ended December 31, 2012. The net increase was due to the following:

- *LoyaltyOne*. Revenue increased $0.4 million to $919.5 million for the year ended December 31, 2013. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $40.0 million due to $33.5 million of revenue recognized associated with the AIR MILES brand element, as well as increases in the number of AIR MILES reward miles issued in previous quarters. Database marketing fees and direct marketing services increased $8.8 million due to an increase in marketing analytic services provided to certain clients. Redemption revenue decreased $48.3 million, or 7.6%, due to the impact of the change in estimate of our breakage rate in December 2012 as well as a slight decline in the number of AIR MILES reward miles redeemed. The changes in revenue described above include the impacts of an unfavorable Canadian foreign currency exchange rate, which decreased revenue by $26.9 million.

- *Epsilon*. Revenue increased $384.1 million, or 38.6%, to $1.4 billion for the year ended December 31, 2013. The acquisition of HMI contributed $273.6 million to revenue. Agency revenue also increased $82.7 million due to increased demand in the telecommunications and automotive verticals. Additionally, marketing technology revenue increased $30.1 million due to new databases placed in service during the year ended December 31, 2013, offset by declines in email volumes experienced by our digital business.

- *Private Label Services and Credit*. Revenue increased $302.6 million, or 17.5%, to $2.0 billion for the year ended December 31, 2013. Finance charges, net increased by $313.2 million, driven by a 21.7% increase in average credit card and loan receivables due to recent credit card portfolio acquisitions and strong credit cardholder spending. Transaction revenue decreased $10.7 million due to a decrease of $41.7 million in merchant fees, offset by an increase in other servicing fees of $30.0 million.

Adjusted EBITDA. Adjusted EBITDA increased $182.5 million, or 15.3%, to $1.4 billion for the year ended December 31, 2013 from $1.2 billion for the year ended December 31, 2012. The increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA increased $22.4 million, or 9.5%, to $258.5 million for the year ended December 31, 2013, despite a weaker Canadian dollar which negatively impacted adjusted EBITDA by $8.0 million. Adjusted EBITDA was positively impacted by a reduction in operating expenses, including a decline in losses associated with international expansion activities.

- *Epsilon*. Adjusted EBITDA increased $67.4 million, or 30.3%, to $289.7 million for the year ended December 31, 2013. Adjusted EDITDA was positively impacted by the acquisition of HMI, which added $39.8 million to adjusted EBITDA, and growth in agency as discussed above, which resulted in an increase in adjusted EBITDA of $15.5 million. Additionally, Epsilon benefited from the reorganization of its data survey products in 2012, which had a positive impact to adjusted EBITDA of $12.9 million.

- *Private Label Services and Credit*. Adjusted EBITDA increased $92.9 million, or 11.3%, to $916.1 million for the year ended December 31, 2013. Adjusted EBITDA was positively impacted by the increase in finance charges, net, offset in part by both an increase in operating expenses due to increased volumes and an increase in the provision for loan loss due to the increase in credit card and loan receivables.

- *Corporate/Other*. Adjusted EBITDA decreased $0.3 million to a loss of $90.1 million for the year ended December 31, 2013 related to an increase in payroll costs and higher data processing costs.

Year ended December 31, 2012 compared to the year ended December 31, 2011

Revenue. Total revenue increased $468.1 million, or 14.8%, to $3.6 billion for the year ended December 31, 2012 from $3.2 billion for the year ended December 31, 2011. The net increase was due to the following:

- *LoyaltyOne*. Revenue increased $74.3 million, or 8.8%, to $919.0 million for the year ended December 31, 2012. Redemption revenue increased $63.0 million, or 11.0%, due to higher collector redemptions compared to the year ended December 31, 2011. The introduction of a five-year expiry policy to the AIR MILES Reward Program on December 31, 2011 stimulated redemption activity in the first half of 2012. Revenue from issuance fees, for which we provide marketing and administrative services, increased $13.5 million due to increases in the total number of AIR MILES reward miles issued over the previous several quarters. An unfavorable Canadian foreign currency exchange rate impacted revenue by $10.9 million.

- *Epsilon*. Revenue increased $149.1 million, or 17.6%, to $996.2 million for the year ended December 31, 2012. The acquisition of HMI contributed $31.0 million to revenue, while the acquisition of Aspen contributed $111.9 million to revenue. In addition, marketing technology revenue increased $8.4 million, or 2.0%, due to the expansion of services to its clients while data revenue decreased $2.7 million, or 1.4%, due to softness in consumer demographic data offerings.

- *Private Label Services and Credit*. Revenue increased $243.2 million, or 16.3%, to $1.7 billion for the year ended December 31, 2012. Finance charges and late fees increased by $241.4 million, driven by a 19.4% increase in average credit card and loan receivables due to strong credit cardholder spending, the stabilization of customer payment rates, recent new client signings and recent credit card portfolio acquisitions. Other servicing fees charged to our credit cardholders increased by $20.5 million. These increases were offset by a decrease of $20.8 million in lower merchant fees, which are transaction fees charged to the retailer, primarily due to increased profit sharing and royalty payments associated with the signing of new clients.

Adjusted EBITDA. Adjusted EBITDA increased $182.4 million, or 18.1%, to $1.2 billion for the year ended December 31, 2012 from $1.0 billion for the year ended December 31, 2011. The increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA increased $19.0 million, or 8.8%, to $236.1 million for the year ended December 31, 2012. Adjusted EBITDA was positively impacted by the increase in AIR MILES reward miles redeemed, partially offset by marketing expenses associated with the launch and promotion of AIR MILES Cash and increases in costs associated with our international initiatives.

- *Epsilon*. Adjusted EBITDA increased $26.9 million, or 13.7%, to $222.3 million for the year ended December 31, 2012. Adjusted EDITDA was positively impacted by the HMI acquisition, Aspen's marketing services product lines and growth in marketing technology. The positive impacts to adjusted EBITDA were somewhat offset by higher payroll and benefit costs, costs associated with a data center relocation and incremental spending on infrastructure and security to support future growth. Adjusted EBITDA margin decreased to 22.3% for the year ended December 31, 2012 from 23.1% for the prior year. The negative impact to adjusted EBITDA margin was due to a shift in revenue mix, as agency products typically carry lower adjusted EBITDA margins, and additional costs to support future growth, as discussed above.

- *Private Label Services and Credit*. Adjusted EBITDA increased $144.9 million, or 21.4%, to $823.2 million for the year ended December 31, 2012. Adjusted EBITDA was positively impacted by the increase in finance charges, net and a decline in the provision for loan loss, each as described above, offset by higher operating costs such as payroll and benefits, marketing expenses and credit card and other expenses attributable to growth in the segment.

- *Corporate/Other*. Adjusted EBITDA decreased $13.4 million to a loss of $89.9 million for the year ended December 31, 2012. Payroll and benefit costs increased $10.5 million as a result of higher medical costs and an increase in expenses for our retirement savings plans. In addition, in 2011, we recognized $1.2 million in the amortization of deferred gains in 2011 associated with sale-leaseback transactions that were fully amortized in April 2011.

Asset Quality

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

Delinquencies. A credit card account is contractually delinquent when we do not receive the minimum payment by the specified due date on the cardholder's statement. Our policy is to continue to accrue interest and fee income on all credit card accounts beyond 90 days, except in limited circumstances, until the credit card account balance and all related interest and other fees are paid or charged off, typically at 180 days delinquent. When an account becomes delinquent, a message is printed on the credit cardholder's billing statement requesting payment. After an account becomes 30 days past due, a proprietary collection scoring algorithm automatically scores the risk of the account becoming further delinquent. The collection system then recommends a collection strategy for the past due account based on the collection score and account balance and dictates the contact schedule and collections priority for the account. If we are unable to make a collection after exhausting all in-house collection efforts, we may engage collection agencies and outside attorneys to continue those efforts.

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

	December 31, 2013	% of Total	December 31, 2012	% of Total
	(In thousands, except percentages)			
Receivables outstanding - principal	$ 8,166,961	100.0%	$ 7,097,951	100.0%
Principal receivables balances contractually delinquent:				
31 to 60 days	114,430	1.4%	100,479	1.4%
61 to 90 days	74,700	0.9	62,546	0.9
91 or more days	150,425	1.9	120,163	1.7
Total	$ 339,555	4.2%	$ 283,188	4.0%

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 at the end of 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 at the end of each month subsequent to 60 days after the receipt of notification of the bankruptcy or death, but in any case, not later than the 180-day contractual time frame.

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

	Year Ended December 31,		
	2013	2012	2011
	(In thousands, except percentages)		
Average credit card and loan receivables	$ 7,212,678	$ 5,927,562	$ 4,962,503
Net charge-offs of principal receivables	335,547	282,842	340,064
Net charge-offs as a percentage of average credit card and loan receivables	4.7%	4.8%	6.9%

Liquidity and Capital Resources

Operating Activities. We generated cash flow from operating activities of $1.0 billion and $1.1 billion for the years ended December 31, 2013 and 2012, respectively. The decrease in operating cash flows in 2013 was primarily due to an increase in operating assets as well as activity related to receivables held for sale, offset by increased profitability for the year ended December 31, 2013 as compared to 2012.

We utilize our cash flow from operations for ongoing business operations, repayments of revolving or other debt, acquisitions and capital expenditures.

Investing Activities. Cash used in investing activities was $1.6 billion and $2.7 billion for the years ended December 31, 2013 and 2012, respectively. Significant components of investing activities are as follows:

- *Redemption Settlement Assets*. Cash decreased $54.6 million for the year ended December 31, 2013, as compared to a cash increase of $37.2 million for the year ended December 31, 2012, due to the increase in funding requirements resulting from the change in our estimate of breakage in December 2012.

- *Credit Card and Loan Receivables Funding*. Cash decreased $1.4 billion for each of the years ended December 31, 2013 and 2012, respectively, due to growth in our credit card and loan receivables.

- *Purchase of Credit Card Portfolios*. Cash decreased $46.7 million for the year ended December 31, 2013 due to the acquisition of private label credit card portfolios from Barneys New York and Gulf Credit Union. During the year ended December 31, 2012, cash decreased $780.0 million due to the acquisition of private label credit card portfolios from Pier 1 Imports, Premier Designs, The Bon-Ton Stores, Inc. and The Talbots, Inc.

- *Capital Expenditures*. Our capital expenditures for the year ended December 31, 2013 were $135.4 million compared to $116.5 million for the comparable period in 2012 due to our overall growth. We anticipate capital expenditures not to exceed approximately 3% of annual revenue for the foreseeable future.

Financing Activities. Cash provided by financing activities was $704.2 million and $2.2 billion for the years ended December 31, 2013 and 2012, respectively. Our financing activities during the year ended December 31, 2013 relate to a net increase in long-term debt from our 2013 credit agreement and repayment of our 2011 credit agreement and increases in deposits and non-recourse borrowings of consolidated securitization entities due to growth in credit card receivables, offset by the settlement of convertible senior notes and repurchases of our common stock. Our financing activities during the year ended December 31, 2012 relate to an increase in long-term debt from the issuance of senior notes and increases in deposits and non-recourse borrowings of consolidated securitization entities due to growth in credit card receivables, offset by repurchases of our common stock.

Liquidity Sources. In addition to cash generated from operating activities, our primary sources of liquidity include our credit card securitization program, deposits issued by Comenity Bank and Comenity Capital Bank, our credit agreement and issuances of equity securities. In addition to our efforts to renew and expand our current liquidity sources, we continue to seek new funding sources. We have also expanded our brokered certificates of deposits and our money market deposits to supplement liquidity for our credit card and loan receivables.

As of December 31, 2013, we had $336.0 million of borrowings under our credit facility, with total availability at $914.0 million. Our total leverage ratio, as defined in our credit agreement, was 2.0 to 1 at December 31, 2013, as compared to the maximum covenant ratio of 3.5 to 1.

We believe that internally generated funds and other sources of liquidity discussed above will be sufficient to meet working capital needs, capital expenditures, and other business requirements for at least the next 12 months, including the settlement of the 2014 convertible senior notes.

Debt

2011 Credit Agreement. We entered into a credit agreement dated May 24, 2011, or the 2011 Credit Agreement, which, as amended, provided for a $903.1 million term loan subject to certain principal repayments and a $917.5 million revolving line of credit. Upon entering the 2013 Credit Agreement described below, the 2011 Credit Agreement was terminated.

2013 Credit Agreement. We entered into a credit agreement dated July 10, 2013, or the 2013 Credit Agreement, among us as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Data Management, LLC, Comenity LLC, Comenity Servicing LLC and Aspen Marketing Services, LLC, as guarantors, with various agents and lenders. The 2013 Credit Agreement originally provided for a $1,142.5 million term loan subject to certain principal repayments and a $1,142.5 million revolving line of credit, or the 2013 Credit Facility, with a U.S. $65.0 million sublimit for Canadian dollar borrowings and a $65.0 million sublimit for swing line loans.

In 2013, we exercised in part the accordion feature of the 2013 Credit Agreement, and increased the borrowings under the 2013 Term Loan by $107.3 million to $1.25 billion and increased the capacity under the 2013 Credit Facility by $107.5 million to $1.25 billion.

Convertible Senior Notes due 2013. On August 1, 2013, we settled in cash, with cash on hand and borrowings under the 2013 Credit Agreement, the remaining $772.6 million of Convertible Senior Notes due 2013, of which $772.5 million was surrendered for conversion for $1,790.3 million, with the remaining principal paid at maturity. We applied $1,017.7 million of cash received from certain counterparties in settlement of the related convertible note hedge transactions.

Through December 31, 2013, we net settled 5.1 million of the approximately 10.2 million warrants associated with the Convertible Senior Notes due 2013 by issuing 2.8 million shares of our common stock. The remaining 5.1 million warrants are exercisable and will expire in separate tranches through February 25, 2014.

Convertible Senior Notes due 2014. In June 2009, we issued $345.0 million aggregate principal amount of convertible senior notes maturing in May 2014, or the Convertible Senior Notes due 2014. Holders of the Convertible Senior Notes due 2014 have the right to require us to repurchase for cash all or some of their Convertible Senior Notes due 2014 upon the occurrence of certain fundamental changes.

The Convertible Senior Notes due 2014 are convertible at the option of the holder based on the condition that the common stock trading price exceeded 130% of the applicable conversion price. Through December 31, 2013, certain of the Convertible Senior Notes due 2014 were surrendered for conversion and, in each case, either have been or will be settled in cash following the completion of the applicable cash settlement averaging period. The amounts settled during 2013 were not material. We have elected to repay all conversions solely in cash.

Senior Notes Due 2017. In November 2012, we issued and sold $400 million aggregate principal amount of 5.250% senior notes due December 1, 2017, or the Senior Notes due 2017, at an issue price of 98.912% of the aggregate principal amount. The Senior Notes due 2017 accrue interest on the principal amount at the rate of 5.250% per annum from November 20, 2012, payable semiannually in arrears, on June 1 and December 1 of each year, beginning on June 1, 2013. The payment obligations under the Senior Notes due 2017 are governed by an indenture dated November 20, 2012. The Senior Notes due 2017 are unsecured and are guaranteed on a senior unsecured basis by certain of our existing and future domestic subsidiaries that guarantee our 2013 Credit Agreement.

Senior Notes Due 2020. In March 2012, we issued and sold $500 million aggregate principal amount of 6.375% senior notes due April 1, 2020, or the Senior Notes due 2020. The Senior Notes due 2020 accrue interest on the principal amount at the rate of 6.375% per annum from March 29, 2012, payable semiannually in arrears, on April 1 and October 1 of each year, beginning on October 1, 2012. The payment obligations under the Senior Notes due 2020 are governed by an indenture dated March 29, 2012. The Senior Notes due 2020 are unsecured and are guaranteed on a senior unsecured basis by certain of our existing and future domestic subsidiaries that guarantee our 2013 Credit Agreement.

As of December 31, 2013, we were in compliance with our debt covenants.

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

Comenity Bank and Comenity Capital Bank offer demand deposit programs through contractual arrangements with securities brokerage firms. As of December 31, 2013, Comenity Bank and Comenity Capital Bank had $329.8 million in money market deposits outstanding with interest rates that range from 0.01% to 0.12%. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

Comenity Bank and Comenity Capital Bank issue certificates of deposit in denominations of $100,000 and $1,000, respectively, in various maturities ranging between three months and seven years and with effective annual interest rates ranging from 0.15% to 3.55%. As of December 31, 2013, we had $2.5 billion of certificates of deposit outstanding. Certificate of deposit borrowings are subject to regulatory capital requirements.

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

As of December 31, 2013, the WFN Trusts and the WFC Trust had approximately $7.1 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 private label credit cards in these credit card securitization trusts.

Historically, we have used both public and private term asset-backed securities transactions as well as private conduit facilities as sources of funding for our credit card receivables. Private conduit facilities have been used to accommodate seasonality needs and to bridge to completion of asset-backed securitization transactions.

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

At December 31, 2013, we had $4.6 billion of non-recourse borrowings of consolidated securitization entities, of which $1.0 billion is due within the next 12 months.

The following table shows the maturities of borrowing commitments as of December 31, 2013 for the WFN Trusts and the WFC Trust by year:

	2014	2015	2016	2017	2018 and Thereafter	Total
			(In thousands)			
Term notes	$ 250,000	$ 393,750	$ 600,000	$ 325,000	$ 1,433,166	$ 3,001,916
Conduit facilities [1]	1,200,000	890,000	—	—	—	2,090,000
Total [2]	$ 1,450,000	$ 1,283,750	$ 600,000	$ 325,000	$ 1,433,166	$ 5,091,916

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

(2) Total amounts do not include $1.4 billion of debt issued by the credit card securitization trusts, which was retained by us and has been eliminated in the consolidated financial statements.

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

In 2013, World Financial Network Credit Card Master Note Trust issued $1.2 billion of asset-backed term securities, $282.9 million of which we retained and eliminated from the consolidated financial statements. These securities have maturities of May 2016 and February 2018 and fixed interest rates of 0.91% and 1.61%. Proceeds from these issuances were used to repay $822.3 million of asset-backed term securities that matured in 2013.

As of December 31, 2013, $3.8 billion of asset-backed term securities were outstanding, $0.8 billion of which we retained and eliminated from the consolidated financial statements. These securities have varying maturities from October 2014 through June 2019 and fixed interest rates ranging from 0.91% to 6.75% as of December 31, 2013.

We have access to committed undrawn capacity through three conduit facilities to support the funding of our credit card receivables through World Financial Network Credit Card Master Note Trust, World Financial Network Credit Card Master Trust III and the WFC Trust. As of December 31, 2013, total capacity under the conduit facilities was $2.1 billion, of which $1.6 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the consolidated balance sheets. Borrowings outstanding under each facility bear interest at a margin above the London Interbank Offered Rate, or LIBOR, or the asset-backed commercial paper costs of each individual conduit provider. The conduits have varying maturities from March 2014 to September 2015 with variable interest rates ranging from 1.18% to 1.70% as of December 31, 2013. In February 2014, World Financial Network Credit Card Master Note Trust reduced its capacity under the conduit facility from $1.2 billion to $800.0 million.

In February 2014, World Financial Network Credit Card Master Note Trust issued $625.0 million of asset-backed term securities, $175.0 million of which we retained and eliminated from the consolidated financial statements. These securities mature in February 2016 and have a variable interest rate equal to LIBOR plus a margin of 0.38%.

See Note 9, “Debt,” of the Notes to Consolidated Financial Statements for additional information regarding our debt.

Repurchase of Equity Securities. During 2013, 2012, and 2011, we repurchased approximately 1.4 million, 1.0 million and 2.9 million shares of our common stock for an aggregate amount of $231.1 million, $137.4 million and $240.9 million, respectively. We have Board authorization to acquire $400.0 million of our common stock through December 31, 2014.

Contractual Obligations. The following table highlights, as of December 31, 2013, our contractual obligations and commitments to make future payments by type and period:

	2014	2015 & 2016	2017 & 2018	2019 & Thereafter	Total
			(In thousands)		
Deposits [1]	$ 1,566,707	$ 816,910	$ 428,251	$ 63,793	$ 2,875,661
Non-recourse borrowings of consolidated securitization entities [1]	1,103,843	1,913,374	1,021,532	808,845	4,847,594
2013 Credit Facility [1]	7,260	14,519	347,072	—	368,851
2013 Term Loan [1]	54,900	153,793	1,124,703	—	1,333,396
Senior notes [1]	52,875	105,750	483,000	539,844	1,181,469
Convertible senior notes [1]	351,069	—	—	—	351,069
Operating leases	67,289	120,189	82,896	116,845	387,219
Software licenses	4,364	4,337	—	—	8,701
ASC 740 obligations [2]	—	—	—	—	—
Purchase obligations [3]	98,524	30,948	26,181	3,828	159,481
Total	$ 3,306,831	$ 3,159,820	$ 3,513,635	$ 1,533,155	$ 11,513,441

(1) The deposits, non-recourse borrowings of consolidated securitization entities, 2013 Credit Facility, 2013 Term Loan, senior notes and convertible senior notes represent our estimated debt service obligations, including both principal and interest. Interest was based on the interest rates in effect as of December 31, 2013, applied to the contractual repayment period.

(2) Does not reflect unrecognized tax benefits of $117.3 million, of which the timing remains uncertain.

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

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

Business Acquisition. On January 2, 2014, we acquired a 60% ownership interest in BrandLoyalty Group B.V., a Netherlands-based, data-driven loyalty marketer. BrandLoyalty designs, organizes, implements and evaluates innovative and tailor-made loyalty programs for food retailers. The acquisition expands our presence across Europe and Asia. The initial

cash consideration was approximately €172.4 million ($235.6 million at January 2, 2014) in addition to the assumption of debt and is subject to certain customary purchase price adjustments. The consideration amount may also be increased through an earn-out provision as defined in the purchase and sale agreement based upon 2014 results. We also have the ability to acquire the remaining 40% interest over a four-year period, 10% per year, based upon predetermined valuation multiples. If specified annual earnings targets are met by BrandLoyalty, we must acquire the additional 10% interest for the year achieved; otherwise the seller has a put option to sell us the 10% interest for the respective year.

Inflation and Seasonality

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

Legislative and Regulatory Matters

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

Quantitative measures established by regulations to ensure capital adequacy require Comenity Bank and Comenity Capital Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets and of Tier 1 capital to average assets. Under the regulations, a “well capitalized” institution must have a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An “adequately capitalized” institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, but 3% is allowed in some cases. Under these guidelines, Comenity Bank and Comenity Capital Bank are considered well capitalized. As of December 31, 2013, Comenity Capital Bank’s Tier 1 capital ratio was 14.1%, total capital ratio was 15.4% and leverage ratio was 14.0%, and Comenity Capital Bank was not subject to a capital directive order. As of December 31, 2013, Comenity Bank’s Tier 1 capital ratio was 14.2%, total capital ratio was 15.5% and leverage ratio was 14.2%, and Comenity Bank was not subject to a capital directive order.

On April 7, 2010, the SEC proposed revised rules for asset-backed securities offerings that, if adopted, would substantially change the disclosure, reporting and offering process for public and private offerings of asset-backed securities, including those offered under our credit card securitization program. On July 26, 2011, the SEC re-proposed certain rules relating to the registrant and transaction requirements for the shelf registration of asset-backed securities. If the revised rules for asset-backed securities are adopted in their current form, issuers of publicly offered asset-backed securities would be required to disclose more information regarding the underlying assets. In addition, the proposals would alter the safe-harbor standards for the private placement of asset-backed securities to impose informational requirements similar to those that would apply to registered public offerings of such securities. The SEC also issued an advance notice of proposed rulemaking relating to the exemptions that our credit card securitization trusts relied on in our credit card securitization program to avoid registration as investment companies. The form that these rules may ultimately take is uncertain at this time, but such rules may impact our ability or desire to issue asset-backed securities in the future.

On March 30, 2011, the SEC, the FDIC, the Board of Governors of the Federal Reserve System and certain other banking regulators proposed regulations that would mandate a five percent risk retention requirement for securitizations, and such regulators issued a re-proposal of the risk retention regulations on August 28, 2013. We cannot predict at this time whether our existing credit card securitization programs will satisfy the new regulatory requirements or whether structural changes to those programs will be necessary. Such risk retention requirements may impact our ability or desire to issue asset-backed securities in the future.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

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

Interest Rate Risk. Interest rate risk affects us directly in our borrowing activities. Our total borrowing costs were approximately $305.5 million for 2013. To manage our risk from market interest rates, we actively monitor the interest rates and the interest sensitive components to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. To achieve this objective, we manage our exposure to fluctuations in market interest rates through the use of fixed-rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. In addition, we may enter into derivative instruments such as interest rate swaps and interest rate caps to mitigate our interest rate risk on related financial instruments or to lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes.

The approach we use to quantify interest rate risk is a sensitivity analysis, which we believe best reflects the risk inherent in our business. This approach calculates the impact on pre-tax income from an instantaneous and sustained increase in interest rates of 1.0%. In 2013, a 1.0% increase in interest rates would have resulted in a decrease to fiscal year pre-tax income of approximately $23.9 million. Conversely, a corresponding decrease in interest rates would have resulted in a comparable increase to pre-tax income. Our use of this methodology to quantify the market risk of financial instruments should not be construed as an endorsement of its accuracy or the appropriateness of the related assumptions.

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

Foreign Currency Exchange Rate Risk. We are exposed to fluctuations in the exchange rate between the U.S. and the Canadian dollar through our significant Canadian operations. In 2014, with the acquisition of BrandLoyalty Group B.V, we will also be exposed to fluctuations in the exchange rate between the U.S. dollar and the Euro. We currently do not hedge any of our net investment exposure in our Canadian or European operations. For the year ended December 31, 2013, a 10% increase in the strength of the Canadian dollar versus the U.S. dollar would have resulted in an increase in pre-tax income of $23.9 million. Conversely, a corresponding decrease in the strength of the Canadian dollar versus the U.S. dollar would result in a comparable decrease to pre-tax income.

Redemption Reward Risk. Through our AIR MILES Reward Program, we are exposed to potentially increasing reward costs associated primarily with travel rewards. To minimize the risk of rising travel reward costs, we:

- have multi-year supply agreements with several Canadian, U.S. and international airlines;
- are seeking new supply agreements with additional airlines;
- periodically alter the total mix of rewards available to collectors with the introduction of new merchandise rewards, which are typically lower cost per AIR MILES reward mile than air travel;
- allow collectors to obtain certain travel rewards using a combination of AIR MILES reward miles and cash or cash alone in addition to using AIR MILES reward miles alone; and
- periodically adjust the number of AIR MILES reward miles required to be redeemed to obtain a reward.

A 10% increase in the cost of rewards to satisfy redemptions would have resulted in a decrease in pre-tax income of $41.8 million, as of December 31, 2013. Conversely, a corresponding decrease in the cost of rewards to satisfy redemptions would result in a comparable increase to pre-tax income.

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2013, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2013, our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

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

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (1992)*. Based on this evaluation, management, with the participation of the Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of internal control over financial reporting as of December 31, 2013, has been audited by Deloitte & Touche LLP, the independent registered public accounting firm who also audited our consolidated financial statements. Deloitte & Touche's attestation report on the effectiveness of our internal control over financial reporting appears on page F-3.

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to the Proxy Statement for the 2014 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2013.

Item 11. Executive Compensation.

Incorporated by reference to the Proxy Statement for the 2014 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2013.

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

Incorporated by reference to the Proxy Statement for the 2014 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2013.

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

Incorporated by reference to the Proxy Statement for the 2014 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2013.

Item 14. Principal Accounting Fees and Services.

Incorporated by reference to the Proxy Statement for the 2014 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2013.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

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

(1) Financial Statements

(2) Financial Statement Schedule

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

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit No. 3.1 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.2	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit No. 3.1 to our Current Report on Form 8-K, filed with the SEC on June 7, 2013, File No. 001-15749).
3.3	Fourth Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.2 to our Current Report on Form 8-K, filed with the SEC on June 7, 2013, File No. 001-15749).
4	Specimen Certificate for shares of Common Stock of the Registrant (incorporated by reference to Exhibit No. 4 to our Quarterly Report on Form 10-Q, filed with the SEC on August 8, 2003, File No. 001-15749).
10.1	Office Lease between Nodenble Associates, LLC and ADS Alliance Data Systems, Inc., dated as of October 1, 2009 (incorporated by reference to Exhibit No. 10.1 to our Annual Report on Form 10-K, filed with the SEC on March 1, 2010, File No. 001-15749).
10.2	Fourth Amendment to Office Lease between FSP One Legacy Circle LLC (as successor-in-interest to Nodenble Associates, LLC) and ADS Alliance Data Systems, Inc. dated as of June 15, 2011 (incorporated by reference to Exhibit No. 10.2 to our Annual Report on Form 10-K, filed with the SEC on February 27, 2012, File No. 001-15749).
10.3	Lease Agreement, dated as of May 19, 2010 between Brandywine Operating Partnership, L.P. and ADS Alliance Data Systems, Inc. (incorporated by reference to Exhibit No. 10.13 to our Quarterly Report on Form 10-Q, filed with the SEC on August 9, 2010, File No. 001-15749).
10.4	Office Lease between Office City, Inc. and World Financial Network National Bank, dated December 24, 1986, and amended January 19, 1987, May 11, 1988, August 4, 1989 and August 18, 1999 (incorporated by reference to Exhibit No. 10.17 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.5	Fifth Amendment to Office Lease between Office City, Inc. and World Financial Network National Bank, dated March 29, 2004 (incorporated by reference to Exhibit 10.6 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2008, File No. 001-15749).
*10.6	Lease Modification Agreement between Office City, Inc. and Comenity Servicing LLC, successor in interest to World Financial Network National Bank, dated October 17, 2013.

Exhibit No.	Description
10.7	Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated July 2, 1990, and amended September 11, 1990, November 16, 1990 and February 18, 1991 (incorporated by reference to Exhibit No. 10.18 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.8	Fourth Amendment to Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated June 1, 2000 (incorporated by reference to Exhibit No. 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2003, File No. 001-15749).
10.9	Fifth Amendment to Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated June 30, 2001 (incorporated by reference to Exhibit No. 10.10 to our Annual Report on Form 10-K filed with the SEC on March 3, 2006, File No. 001-15749).
10.10	Sixth Amendment to Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated January 27, 2006 (incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2008, File No. 001-15749).
10.11	Letter Agreement by and between Continental Realty, Ltd. and ADS Alliance Data Systems, Inc., dated as of October 29, 2009 (incorporated by reference to Exhibit No. 10.10 to our Annual Report on Form 10-K, filed with the SEC on March 1, 2010, File No. 001-15749).
10.12	Seventh Amendment to Lease Agreement by and among JEL/220 W. Schrock, LLC, FEK/220 W. Schrock, LLC, CP/220 W. Schrock, LLC, NRI 220 Schrock, LLC, ADS Alliance Data Systems, Inc. and Alliance Data Systems Corporation, dated as of January 14, 2010 (incorporated by reference to Exhibit No. 10.10 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2011, File No. 001-15749).
*10.13	Eighth Amendment to Lease by and between JEL/220 W. Schrock, LLC, FEK/220 W. Schrock, LLC, CP/220 W. Schrock, LLC, NRI 220 Schrock, LLC, Comenity Servicing LLC, successor in interest to ADS Alliance Data Systems, Inc., and Alliance Data Systems Corporation, dated as of December 3, 2013.
10.14	Lease Agreement by and between 601 Edgewater LLC and Epsilon Data Management, Inc., dated July 30, 2002 (incorporated by reference to Exhibit No. 10.17 to our Annual Report on Form 10-K filed with the SEC on March 4, 2005, File No. 001-15749).
10.15	First Amendment to Lease Agreement by and between 601 Edgewater LLC and Epsilon Data Management, Inc., dated August 29, 2007 (incorporated by reference to Exhibit 10.13 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2008, File No. 001-15749).
10.16	Second Amendment to Lease Agreement by and between 601 Edgewater LLC and Epsilon Data Management, LLC, dated October 3, 2008 (incorporated by reference to Exhibit 10.13 to our Annual Report on Form 10-K, filed with the SEC on March 2, 2009, File No. 001-15749).
10.17	Third Amendment to Lease Agreement by and between 601 Edgewater LLC and Epsilon Data Management, LLC, dated November 10, 2009 (incorporated by reference to Exhibit No. 10.14 to our Annual Report on Form 10-K, filed with the SEC on March 1, 2010, File No. 001-15749).

Exhibit No.	Description
10.18	Lease Agreement by and between Sterling Direct, Inc. and Sterling Properties, L.L.C., dated September 22, 1997, as subsequently assigned (incorporated by reference to Exhibit No. 10.18 to our Annual Report on Form 10-K filed with the SEC on March 4, 2005, File No. 001-15749).
10.19	First Amendment to Lease by and between Bekins Properties LLC (as successor in interest to Sterling Properties LLC) and Epsilon Data Management, LLC (as successor in interest to Sterling Direct, Inc.), dated as of September 1, 2011 (incorporated by reference to Exhibit No. 10.17 to our Annual Report on Form 10-K, filed with the SEC on February 27, 2012, File No. 001-15749).
10.20	Lease Agreement by and between KDC-Regent I Investments, LP and Epsilon Data Management, Inc., dated May 31, 2005 (incorporated by reference to Exhibit No. 10.17 to our Annual Report on Form 10-K filed with the SEC on March 3, 2006, File No. 001-15749).
10.21	Second Amendment to Lease Agreement by and between KDC-Regent I Investments, LP and Epsilon Data Management, Inc., dated May 11, 2007 (incorporated by reference to Exhibit 10.17 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2008, File No. 001-15749).
10.22	Lease between 592423 Ontario Inc. and Loyalty Management Group Canada, Inc., dated November 14, 2005 (incorporated by reference to Exhibit No. 10.18 to our Annual Report on Form 10-K filed with the SEC on February 26, 2007, File No. 001-15749).
10.23	Lease Amending Agreement by and between Dundeal Canada (GP) Inc. (as successor in interest to 592423 Ontario Inc.) and LoyaltyOne, Inc., dated as of May 21, 2009 (incorporated by reference to Exhibit No. 10.19 to our Annual Report on Form 10-K, filed with the SEC on March 1, 2010, File No. 001-15749).
10.24	Lease Agreement by and between ADS Place Phase I, LLC and ADS Alliance Data Systems, Inc. dated August 25, 2006 (incorporated by reference to Exhibit No. 10.20 to our Annual Report on Form 10-K filed with the SEC on February 26, 2007, File No. 001-15749).
10.25	Third Lease Amendment by and between ADS Place Phase I, LLC and ADS Alliance Data Systems, Inc. dated as of November 1, 2007 (incorporated by reference to Exhibit No. 10.21 to our Annual Report on Form 10-K, filed with the SEC on March 1, 2010, File No. 001-15749).
*10.26	Office Lease by and between BRE/COH OH LLC and ADS Alliance Data Systems, Inc. dated as of July 26, 2012, as amended.
10.27	Lease between 2725312 Canada Inc. and Loyalty Management Group Canada Inc. dated as of February 26, 2008, as amended (incorporated by reference to Exhibit No. 10.29 to our Annual Report on Form 10-K, filed with the SEC on February 27, 2012, File No. 001-15749).
10.28	Industrial Building Lease between Aspen Marketing Services, Inc. (as successor-in-interest to Aspen Marketing, Inc.) and A. & A. Conte Joint Venture Limited Partnership dated June 3, 2003, as amended (incorporated by reference to Exhibit No. 10.30 to our Annual Report on Form 10-K, filed with the SEC on February 27, 2012, File No. 001-15749).

Exhibit No.	Description
10.29	Fourth Amendment to Industrial Building Lease between Aspen Marketing Services, LLC (as successor-in-interest to Aspen Marketing Services, Inc.) and A. & A. Conte Joint Venture Limited Partnership dated March 26, 2012 (incorporated by reference to Exhibit No. 10.26 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2013, File No. 001-15749).
10.30	Co-Location Agreement between Epsilon Data Management, LLC and Cyrus Networks, LLC d/b/a CyrusOne dated November 15, 2011 (incorporated by reference to Exhibit No. 10.27 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2013, File No. 001-15749).
10.31	Lease Agreement between NOP Cottonwood 2795, LLC and ADS Alliance Data Systems, Inc. dated as of September 21, 2010, as amended (incorporated by reference to Exhibit No. 10.28 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2013, File No. 001-15749).
+10.32	Alliance Data Systems Corporation Amended and Restated Executive Deferred Compensation Plan effective January 1, 2008 (incorporated by reference to Exhibit No. 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on May 11, 2009, File No. 001-15749).
+10.33	Amended and Restated Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Plan (incorporated by reference to Exhibit No. 10.34 to our Registration Statement on Form S-1 filed with the SEC on May 4, 2001, File No. 333-94623).
+10.34	Form of Alliance Data Systems Corporation Non-Qualified Stock Option Agreement under the Amended and Restated Alliance Data Systems Corporation and its Subsidiaries Stock Option and Restricted Stock Plan (incorporated by reference to Exhibit No. 10.36 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
+10.35	Alliance Data Systems Corporation 2003 Long-Term Incentive Plan (incorporated by reference to Exhibit No. 4.6 to our Registration Statement on Form S-8 filed with the SEC on June 18, 2003, File No. 333-106246).
+10.36	Alliance Data Systems Corporation 2005 Long-Term Incentive Plan (incorporated by reference to Exhibit A to our Definitive Proxy Statement filed with the SEC on April 29, 2005, File No. 001-15749).
+10.37	Amendment Number One to the Alliance Data Systems Corporation 2005 Long Term Incentive Plan, dated as of September 24, 2009 (incorporated by reference to Exhibit No. 10.8 to our Quarterly Report on Form 10-Q filed with the SEC on November 9, 2009, File No. 001-15749).
+10.38	Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit A to our Definitive Proxy Statement, filed with the SEC on April 20, 2010, File No. 001-15749).
+10.39	Form of Nonqualified Stock Option Agreement for awards under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan (incorporated by reference to Exhibit No. 10.4 to our Current Report on Form 8-K filed with the SEC on August 4, 2005, File No. 001-15749).
+10.40	Form of Canadian Nonqualified Stock Option Agreement for awards under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan (incorporated by reference to Exhibit No. 10.101 to our Annual Report on Form 10-K filed with the SEC on February 26, 2007, File No. 001-15749).

Exhibit No.	Description
+10.41	Form of Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2011 grant) (incorporated by reference to Exhibit No. 10.1 to our Quarterly Report on Form 10-Q, filed with the SEC on May 9, 2011, File No. 001-15749).
+10.42	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2011 grant) (incorporated by reference to Exhibit No. 10.2 to our Quarterly Report on Form 10-Q, filed with the SEC on May 9, 2011, File No. 001-15749).
+10.43	Form of Canadian Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2011 grant) (incorporated by reference to Exhibit No. 10.3 to our Quarterly Report on Form 10-Q, filed with the SEC on May 9, 2011, File No. 001-15749).
+10.44	Form of Canadian Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2011 grant) (incorporated by reference to Exhibit No. 10.4 to our Quarterly Report on Form 10-Q, filed with the SEC on May 9, 2011, File No. 001-15749).
+10.45	Form of Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2012 grant) (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on February 23, 2012, File No. 001-15749).
+10.46	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2012 grant) (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on February 23, 2012, File No. 001-15749).
+10.47	Form of Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2013 grant) (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on February 25, 2013, File No. 001-15749).
+10.48	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2013 grant) (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on February 25, 2013, File No. 001-15749).
+10.49	Form of Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2014 grant) (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on February 20, 2014, File No. 001-15749).
+10.50	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2014 grant) (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on February 20, 2014, File No. 001-15749).
+10.51	Form of Non-Employee Director Nonqualified Stock Option Agreement (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on June 13, 2005, File No. 001-15749).
+10.52	Form of Non-Employee Director Share Award Letter (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on June 13, 2005, File No. 001-15749).

Exhibit No.	Description
+10.53	Form of Non-Employee Director Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan (2008 grant) (incorporated by reference to Exhibit No. 10.10 to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2008, File No. 001-15749).
+10.54	Form of Non-employee Director Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit No. 10.52 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2013, File No. 001-15749).
+10.55	Alliance Data Systems Corporation Non-Employee Director Deferred Compensation Plan (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on June 9, 2006, File No. 001-15749).
+10.56	Form of Alliance Data Systems Associate Confidentiality Agreement (incorporated by reference to Exhibit No. 10.24 to our Annual Report on Form 10-K filed with the SEC on March 12, 2003, File No. 001-15749).
+10.57	Form of Alliance Data Systems Corporation Indemnification Agreement for Officers and Directors (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on February 1, 2005, File No. 001-15749).
+10.58	Amended and Restated Alliance Data Systems 401(k) and Retirement Savings Plan, effective January 1, 2013 (incorporated by reference to Exhibit No. 10.56 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2013, File No. 001-15749).
*+10.59	First Amendment to the Amended and Restated Alliance Data Systems 401(k) and Retirement Savings Plan, executed June 21, 2013.
*+10.60	Second Amendment to the Amended and Restated Alliance Data Systems 401(k) and Retirement Savings Plan, executed November 26, 2013.
+10.61	LoyaltyOne, Inc. Registered Retirement Savings Plan, as amended (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed with the SEC on May 7, 2010, File No. 001-15749).
+10.62	LoyaltyOne, Inc. Deferred Profit Sharing Plan, as amended (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q, filed with the SEC on May 7, 2010, File No. 001-15749).
+10.63	LoyaltyOne, Inc. Canadian Supplemental Executive Retirement Plan, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed with the SEC on May 7, 2010, File No. 001-15749).
+10.64	Form of Change in Control Agreement, dated as of September 25, 2003, by and between ADS Alliance Data Systems, Inc. and Edward J. Heffernan (incorporated by reference to Exhibit No. 10.1 to our Registration Statement on Form S-3 filed with the SEC on October 15, 2003, File No. 333-109713).
10.65	Amended and Restated License to Use the Air Miles Trade Marks in Canada, dated as of July 24, 1998, by and between Air Miles International Holdings N.V. and Loyalty Management Group Canada Inc. (incorporated by reference to Exhibit No. 10.43 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623) (assigned by Air Miles International Holdings N.V. to Air Miles International Trading B.V. by a novation agreement dated as of July 18, 2001).

Exhibit No.	Description
10.66	Amended and Restated License to Use and Exploit the Air Miles Scheme in Canada, dated July 24, 1998, by and between Air Miles International Trading B.V. and Loyalty Management Group Canada Inc. (incorporated by reference to Exhibit No. 10.44 to our Registration Statement on Form S-1 filed with the SEC on January 13, 2000, File No. 333-94623).
10.67	Second Amended and Restated Pooling and Servicing Agreement, dated as of January 17, 1996 as amended and restated as of September 17, 1999 and August 1, 2001, by and among WFN Credit Company, LLC, World Financial Network National Bank, and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.6 to the Registration Statement on Form S-3 of World Financial Network Credit Card Master Trust filed with the SEC on July 5, 2001, File No. 333-60418).
10.68	Omnibus Amendment, dated as of March 31, 2003, among WFN Credit Company, LLC, World Financial Network Credit Card Master Trust, World Financial Network National Bank and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4 to the Current Report on Form 8-K filed by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on April 22, 2003, File Nos. 333-60418 and 333-60418-01).
10.69	Second Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of May 19, 2004, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on August 4, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.70	Third Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of March 30, 2005, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed by World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on April 4, 2005, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.71	Fourth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of June 13, 2007, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on June 15, 2007, File Nos. 333-60418 and 333-113669).
10.72	Fifth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of October 26, 2007, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on October 31, 2007, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.73	Sixth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of May 27, 2008, among World Financial Network National Bank, WFN Credit Company, LLC, and The Bank of New York Trust Company, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on May 29, 2008, File Nos. 333-60418 and 333-113669).

Exhibit No.	Description
10.74	Seventh Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of June 28, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on June 30, 2010, File Nos. 333-60418 and 333-113669).
10.75	Supplemental Agreement to Second Amended and Restated Pooling and Servicing Agreement, dated as of August 9, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on August 12, 2010, File Nos. 333-60418 and 333-113669).
10.76	Eighth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of November 9, 2011, among World Financial Network Bank, WFN Credit Company, LLC, and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on November 14, 2011, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.77	Transfer and Servicing Agreement, dated as of August 1, 2001, between WFN Credit Company, LLC, World Financial Network National Bank, and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.3 to the Registration Statement on Form S-3 of World Financial Network Credit Card Master Trust filed with the SEC on July 5, 2001, File No. 333-60418).
10.78	First Amendment to the Transfer and Servicing Agreement, dated as of November 7, 2002, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on November 20, 2002, File Nos. 333-60418 and 333-60418-01).
10.79	Third Amendment to the Transfer and Servicing Agreement, dated as of May 19, 2004, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.2 of the Current Report on Form 8-K filed by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on August 4, 2004, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.80	Fourth Amendment to the Transfer and Servicing Agreement, dated as of March 30, 2005, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed by World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on April 4, 2005, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.81	Fifth Amendment to the Transfer and Servicing Agreement, dated as of June 13, 2007, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on June 15, 2007, File Nos. 333-60418 and 333-113669).

Exhibit No.	Description
10.82	Sixth Amendment to the Transfer and Servicing Agreement, dated as of October 26, 2007, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on October 31, 2007, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.83	Seventh Amendment to Transfer and Servicing Agreement, dated as of June 28, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.4 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on June 30, 2010, File Nos. 333-60418 and 333-113669).
10.84	Supplemental Agreement to Transfer and Servicing Agreement, dated as of August 9, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.3 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on August 12, 2010, File Nos. 333-60418 and 333-113669).
10.85	Eighth Amendment to Transfer and Servicing Agreement, dated as of June 15, 2011, among World Financial Network National Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by World Financial Network Credit Card Master Note Trust and WFN Credit Company, LLC on June 15, 2011, File Nos. 333-113669 and 333-60418).
10.86	Ninth Amendment to Transfer and Servicing Agreement, dated as of November 9, 2011, among World Financial Network Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.3 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on November 14, 2011, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.87	Receivables Purchase Agreement, dated as of August 1, 2001, between World Financial Network National Bank and WFN Credit Company, LLC (incorporated by reference to Exhibit No. 4.8 to the Registration Statement on Form S-3 of World Financial Network Credit Card Master Trust filed with the SEC on July 5, 2001, File No. 333-60418).
10.88	First Amendment to Receivables Purchase Agreement, dated as of June 28, 2010, between World Financial Network National Bank and WFN Credit Company, LLC (incorporated by reference to Exhibit No. 4.3 to the Current Report on Form 8-K filed with the SEC by World Financial Network Credit Card Master Note Trust and WFN Credit Company, LLC on June 30, 2010, File Nos. 333-113669 and 333-60418).
10.89	Second Amendment to Receivables Purchase Agreement, dated as of November 9, 2011, between World Financial Network Bank and WFN Credit Company, LLC (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on November 14, 2011, File Nos. 333-60418, 333-60418-01 and 333-113669).

Exhibit No.	Description
10.90	Supplemental Agreement to Receivables Purchase Agreement, dated as of August 9, 2010, between World Financial Network National Bank and WFN Credit Company, LLC (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed with the SEC by World Financial Network Credit Card Master Note Trust and WFN Credit Company, LLC on August 12, 2010, File Nos. 333-113669 and 333-60418).
10.91	Master Indenture, dated as of August 1, 2001, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.1 to the Registration Statement on Form S-3 filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on July 5, 2001, File Nos. 333-60418 and 333-60418-01).
10.92	Supplemental Indenture No. 1, dated as of August 13, 2003, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.2 of the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Trust on August 28, 2003, File Nos. 333-60418 and 333-60418-01).
10.93	Supplemental Indenture No. 2, dated as of June 13, 2007, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company (incorporated by reference to Exhibit No. 4.3 to the Current Report on Form 8-K filed by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on June 15, 2007, File Nos. 333-60418 and 333-113669).
10.94	Supplemental Indenture No. 3, dated as of May 27, 2008, between World Financial Network Credit Card Master Note Trust and The Bank of New York Trust Company, N.A. (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on May 29, 2008, File Nos. 333-60418 and 333-113669).
10.95	Supplemental Indenture No. 4, dated as of June 28, 2010, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on June 30, 2010, File Nos. 333-60418, 333-60418-01, 333-113669, 333-166240, 333-166240-01 and 333-166240-02).
10.96	Supplemental Indenture No. 5, dated as of February 20, 2013, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A. (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on February 22, 2013, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.97	Agreement of Resignation, Appointment and Acceptance, dated as of June 26, 2012, by and among World Financial Network Bank, World Financial Network Credit Card Master Note Trust, The Bank of New York Mellon Trust Company, N.A., and Union Bank, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust, and World Financial Network Credit Card Master Note Trust on June 26, 2012, File Nos. 333-60418, 333-60418-01 and 333-113669).

Exhibit No.	Description
10.98	Agreement of Resignation, Appointment and Acceptance, dated as of June 26, 2012, by and among WFN Credit Company, LLC, The Bank of New York Mellon Trust Company, N.A., and Union Bank, N.A. (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust, and World Financial Network Credit Card Master Note Trust on June 26, 2012, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.99	Series 2010-A Indenture Supplement, dated as of July 8, 2010, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by World Financial Network Credit Card Master Note Trust and WFN Credit Company, LLC on July 14, 2010, File Nos. 333-113669 and 333-60418).
10.100	Series 2011-A Indenture Supplement, dated as of November 9, 2011, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on November 14, 2011, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.101	Series 2011-B Indenture Supplement, dated as of November 9, 2011, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on November 14, 2011, File Nos. 333 -60418, 333-60418-01 and 333-113669).
10.102	Series 2012-A Indenture Supplement, dated as of April 12, 2012, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on April 16, 2012, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.103	Series 2012-B Indenture Supplement, dated as of July 19, 2012, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on July 23, 2012, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.104	Series 2012-C Indenture Supplement, dated as of July 19, 2012, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A. (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on July 23, 2012, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.105	Series 2012-D Indenture Supplement, dated as of October 5, 2012, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on October 10, 2012, File Nos. 333-60418, 333-60418-01 and 333-113669).

Exhibit No.	Description
10.106	Series 2013-A Indenture Supplement, dated as of February 20, 2013, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on February 22, 2013, File Nos. 333-60418, 333-60418-01, 333-113669, 333-166240,333-166240-01 and 333-166240-02).
10.107	Series 2013-B Indenture Supplement, dated as of May 21, 2013, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on May 24, 2013, File Nos. 333-166240, 333-60418, 333-188583, 333-166240-01, 333-113669, 333-166240-02, 233-188583-01 and 333-60418-01).
10.108	Series 2014-A Indenture Supplement, dated as of February 19, 2014, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on February 21, 2014, File Nos. 333-166240, 333-60418, 333-188583, 333-166240-01, 333-113669, 333-166240-02, 333-60418-01, 333-189182, 333-189182-01).
10.109	Amended and Restated Service Agreement, dated as of June 28, 2013, between Comenity Servicing LLC and Comenity Bank (incorporated by reference to Exhibit No. 99.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on July 3, 2013, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.110	First Amendment to Amended and Restated Service Agreement, dated as of September 9, 2013, between Comenity Servicing LLC and Comenity Bank (incorporated by reference to Exhibit No. 99.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on September 11, 2013, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.111	Receivables Purchase Agreement, dated as of September 28, 2001, between World Financial Network National Bank and WFN Credit Company, LLC (incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q, filed with the SEC on November 7, 2008, File No. 001-15749).
10.112	First Amendment to Receivables Purchase Agreement, dated as of June 24, 2008, between World Financial Network National Bank and WFN Credit Company, LLC. (incorporated by reference to Exhibit 10.94 to our Annual Report on Form 10-K, filed with the SEC on March 2, 2009, File No. 001-15749).
10.113	Second Amendment to Receivables Purchase Agreement, dated as of March 30, 2010, between World Financial Network National Bank and WFN Credit Company, LLC. (incorporated by reference to Exhibit No. 10.127 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2011, File No. 001-15749).
10.114	Supplemental Agreement to Receivables Purchase Agreement, dated as of August 9, 2010, between World Financial Network National Bank and WFN Credit Company, LLC. (incorporated by reference to Exhibit No. 10.128 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2011, File No. 001-15749).

Exhibit No.	Description
10.115	Third Amendment to Receivables Purchase Agreement, dated as of September 30, 2011, between World Financial Network Bank and WFN Credit Company, LLC (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q, filed with the SEC on November 7, 2011, File No. 001-15749).
10.116	World Financial Network Credit Card Master Trust III Amended and Restated Pooling and Servicing Agreement, dated as of September 28, 2001, among WFN Credit Company, LLC, World Financial Network National Bank, and The Chase Manhattan Bank, USA, National Association (incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q, filed with the SEC on November 7, 2008, File No. 001-15749).
10.117	First Amendment to the Amended and Restated Pooling and Servicing Agreement, dated as of April 7, 2004, among WFN Credit Company, LLC, World Financial Network National Bank, and The Chase Manhattan Bank, USA, National Association (incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q, filed with the SEC on November 7, 2008, File No. 001-15749).
10.118	Second Amendment to the Amended and Restated Pooling and Servicing Agreement, dated as of March 23, 2005, among WFN Credit Company, LLC, World Financial Network National Bank, and The Chase Manhattan Bank, USA, National Association (incorporated by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q, filed with the SEC on November 7, 2008, File No. 001-15749).
10.119	Third Amendment to the Amended and Restated Pooling and Servicing Agreement, dated as of October 26, 2007, among WFN Credit Company, LLC, World Financial Network National Bank, and Union Bank of California, N.A. (successor to JPMorgan Chase Bank, N.A.) (incorporated by reference to Exhibit 10.9 to our Quarterly Report on Form 10-Q, filed with the SEC on November 7, 2008, File No. 001-15749).
10.120	Fourth Amendment to Amended and Restated Pooling and Servicing Agreement, dated as of March 30, 2010, among WFN Credit Company, LLC, World Financial Network National Bank, and Union Bank, N.A. (incorporated by reference to Exhibit 10.9 to our Quarterly Report on Form 10-Q, filed with the SEC on May 7, 2010, File No. 001-15749).
10.121	Fifth Amendment to Amended and Restated Pooling and Servicing Agreement, dated as of September 30, 2011, among WFN Credit Company, LLC, World Financial Network Bank, and Union Bank, N.A. (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed with the SEC on November 7, 2011, File No. 001-15749).
10.122	Supplemental Agreement to Amended and Restated Pooling and Servicing Agreement, dated as of August 9, 2010, among WFN Credit Company, LLC, World Financial Network National Bank, and Union Bank, N.A (incorporated by reference to Exhibit No. 10.134 to our Annual Report on Form 10-K, filed with the SEC on February 28, 2011, File No. 001-15749).
10.123	Receivables Purchase Agreement, dated as of September 29, 2008, between World Financial Capital Bank and World Financial Capital Credit Company, LLC (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed with the SEC on November 7, 2008, File No. 001-15749).
10.124	Amendment No. 1 to Receivables Purchase Agreement, dated as of June 4, 2010, between World Financial Capital Bank and World Financial Capital Credit Company, LLC (incorporated by reference to Exhibit 10.11 to our Quarterly Report on Form 10-Q, filed with the SEC on August 9, 2010, File No. 001-15749).

Exhibit No.	Description
10.125	Transfer and Servicing Agreement, dated as of September 29, 2008, among World Financial Capital Credit Company, LLC, World Financial Capital Bank and World Financial Capital Master Note Trust (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q, filed with the SEC on November 7, 2008, File No. 001-15749).
10.126	Amendment No. 1 to Transfer and Servicing Agreement, dated as of June 4, 2010, among World Financial Capital Credit Company, LLC, World Financial Capital Bank and World Financial Capital Master Note Trust (incorporated by reference to Exhibit 10.12 to our Quarterly Report on Form 10-Q, filed with the SEC on August 9, 2010, File No. 001-15749).
10.127	Second Amended and Restated Series 2009-VFC1 Supplement, dated as of September 25, 2013, among WFN Credit Company, LLC, Comenity Bank and Deutsche Bank Trust Company Americas (incorporated by reference to Exhibit No. 10.4 to our Quarterly Report on Form 10-Q, filed with the SEC on November 5, 2013, File No. 001-15749).
10.128	Third Amended and Restated Series 2009-VFN Indenture Supplement, dated as of May 24, 2013, between World Financial Capital Master Note Trust and Deutsche Bank Trust Company Americas (incorporated by reference to Exhibit No. 10.2 to our Quarterly Report on Form 10-Q, filed with the SEC on August 5, 2013, File No. 001-15749).
10.129	Third Amended and Restated Series 2009-VFN Indenture Supplement, dated as of June 13, 2012, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit No. 10.4 to our Quarterly Report on Form 10-Q, filed with the SEC on November 5, 2012, File No. 001-15749).
10.130	Credit Agreement, dated as of July 10, 2013, by and among Alliance Data Systems Corporation, as borrower, and certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, N.A., as Administrative Agent, and various other agents and lenders (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K, filed with the SEC on July 16, 2013, File No. 001-15749).
10.131	Indenture, dated June 2, 2009, between Alliance Data Systems Corporation and The Bank of New York Mellon Trust Company, National Association, as Trustee (including the form of the Company's 4.75% Convertible Senior Note due May 15, 2014) (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K, filed with the SEC on June 2, 2009, File No. 001-15749).
10.132	Form of Convertible Note Hedge confirmation, dated May 27, 2009, between Alliance Data Systems Corporation and each of J.P. Morgan Securities Inc., as agent for JPMorgan Chase Bank, National Association, Bank of America, N.A., and Barclays Capital Inc., as agent for Barclays Bank PLC (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K, filed with the SEC on June 2, 2009, File No. 001-15749).
10.133	Form of Warrant confirmation, dated May 27, 2009, between Alliance Data Systems Corporation and each of J.P. Morgan Securities Inc., as agent for JPMorgan Chase Bank, National Association, London Branch, Bank of America, N.A., and Barclays Capital Inc., as agent for Barclays Bank PLC (incorporated by reference to Exhibit No. 10.3 to our Current Report on Form 8-K, filed with the SEC on June 2, 2009, File No. 001-15749).
10.134	Form of Forward Stock Purchase Transaction, dated May 27, 2009, between Alliance Data Systems Corporation and each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, as agent for Merrill Lynch International, and Barclays Capital Inc., as agent for Barclays Bank PLC (incorporated by reference to Exhibit No. 10.4 to our Current Report on Form 8-K, filed with the SEC on June 2, 2009, File No. 001-15749).

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Exhibit No.	Description
10.135	Form of Additional Convertible Note Hedge confirmation, dated June 4, 2009, between Alliance Data Systems Corporation and each of J.P. Morgan Securities Inc., as agent for JPMorgan Chase Bank, National Association, London Branch, Bank of America, N.A., and Barclays Capital Inc., as agent for Barclays Bank PLC (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K, filed with the SEC on June 9, 2009, File No. 001-15749).
10.136	Form of Additional Warrant confirmation, dated June 4, 2009, between Alliance Data Systems Corporation and each of J.P. Morgan Securities Inc., as agent for JPMorgan Chase Bank, National Association, London Branch, Bank of America, N.A., and Barclays Capital Inc., as agent for Barclays Bank PLC (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K, filed with the SEC on June 9, 2009, File No. 001-15749).
10.137	Indenture, dated March 29, 2012, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as Trustee (including the form of the Company's 6.375% Senior Note due April 1, 2010) (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K filed with the SEC on April 2, 2012, File No. 001-15749).
10.138	Indenture, dated November 20, 2012, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as Trustee (including the form of the Company's 5.250% Senior Note due December 1, 2017) (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K filed with the SEC on November 27, 2012, File No. 001-15749).
*12.1	Statement re Computation of Ratios
*21	Subsidiaries of the Registrant
*23.1	Consent of Deloitte & Touche LLP
*31.1	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
*31.2	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	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	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	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

\+ Management contract, compensatory plan or arrangement

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ALLIANCE DATA SYSTEMS CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Alliance Data Systems Corporation and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Alliance Data Systems Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 28, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Alliance Data Systems Corporation and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2013 of the Company and our report dated February 28, 2014 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 28, 2014

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 969,822	$ 893,352
Trade receivables, less allowance for doubtful accounts ($2,262 and $3,919 at December 31, 2013 and 2012, respectively)	394,822	370,110
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	7,080,014	6,597,120
Other credit card and loan receivables	1,492,868	852,512
Loan receivables held for sale	62,082	—
Total credit card and loan receivables	8,634,964	7,449,632
Allowance for loan loss	(503,169)	(481,958)
Credit card and loan receivables, net	8,131,795	6,967,674
Deferred tax asset, net	216,195	237,268
Other current assets	177,859	171,049
Redemption settlement assets, restricted	510,349	492,690
Total current assets	10,400,842	9,132,143
Property and equipment, net	299,188	253,028
Deferred tax asset, net	2,454	30,027
Cash collateral, restricted	34,124	65,160
Intangible assets, net	460,404	582,874
Goodwill	1,735,703	1,751,053
Other non-current assets	311,542	185,854
Total assets	$ 13,244,257	$ 12,000,139
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 210,019	$ 215,470
Accrued expenses	262,307	274,625
Deposits	1,544,059	1,092,753
Non-recourse borrowings of consolidated securitization entities	1,025,000	1,474,054
Current debt	364,489	803,269
Other current liabilities	140,186	117,283
Deferred revenue	966,438	1,055,323
Total current liabilities	4,512,498	5,032,777
Deferred revenue	170,748	193,738
Deferred tax liability, net	275,757	277,354
Deposits	1,272,302	1,135,658
Non-recourse borrowings of consolidated securitization entities	3,566,916	2,656,916
Long-term and other debt	2,435,792	2,051,570
Other liabilities	154,483	123,639
Total liabilities	12,388,496	11,471,652
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, $0.01 par value; authorized, 200,000 shares; issued, 98,302 shares and 94,963 shares at December 31, 2013 and 2012, respectively	983	950
Additional paid-in capital	1,512,752	1,454,230
Treasury stock, at cost, 46,752 shares and 45,360 shares at December 31, 2013 and 2012, respectively	(2,689,177)	(2,458,092)
Retained earnings	2,049,430	1,553,260
Accumulated other comprehensive loss	(18,227)	(21,861)
Total stockholders' equity	855,761	528,487
Total liabilities and stockholders' equity	$ 13,244,257	$ 12,000,139

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2013	2012	2011
	(In thousands, except per share amounts)		
Revenues			
Transaction	$ 329,027	$ 300,801	$ 290,582
Redemption	587,187	635,536	572,499
Finance charges, net	1,956,654	1,643,405	1,402,041
Database marketing fees and direct marketing services	1,289,356	931,533	806,470
Other revenue	156,839	130,115	101,695
Total revenue	4,319,063	3,641,390	3,173,287
Operating expenses			
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	2,549,159	2,106,612	1,811,882
Provision for loan loss	345,758	285,479	300,316
General and administrative	109,115	108,059	95,256
Depreciation and other amortization	84,291	73,802	70,427
Amortization of purchased intangibles	131,828	93,074	82,726
Total operating expenses	3,220,151	2,667,026	2,360,607
Operating income	1,098,912	974,364	812,680
Interest expense			
Securitization funding costs	95,326	92,808	126,711
Interest expense on deposits	29,111	25,181	23,078
Interest expense on long-term and other debt, net	181,063	173,471	148,796
Total interest expense, net	305,500	291,460	298,585
Income before income tax	$ 793,412	$ 682,904	$ 514,095
Provision for income taxes	297,242	260,648	198,809
Net income	$ 496,170	$ 422,256	$ 315,286
Basic income per share	$ 10.09	$ 8.44	$ 6.22
Diluted income per share	$ 7.42	$ 6.58	$ 5.45
Weighted average shares:			
Basic	49,190	50,008	50,687
Diluted	66,866	64,143	57,804

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2013	2012	2011
		(In thousands)	
Net income	$ 496,170	$ 422,256	$ 315,286
Other comprehensive income, net of tax			
Net unrealized (loss) gain on securities, net of tax (benefit) expense of $(1,460) $(377) and $251 for the years ended December 31, 2013, 2012 and 2011, respectively	(6,132)	3,368	27,035
Foreign currency translation adjustments	9,766	(2,173)	(15,591)
Other comprehensive income	3,634	1,195	11,444
Total comprehensive income, net of tax	$ 499,804	$ 423,451	$ 326,730

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount					
	(In thousands)						
January 1, 2011	92,797	$ 928	$ 1,320,767	$ (2,079,819)	$ 815,718	$ (34,500)	$ 23,094
Net income	—	—	—	—	315,286	—	315,286
Other comprehensive loss	—	—	—	—	—	11,444	11,444
Stock-based compensation	—	—	43,486	—	—	—	43,486
Repurchases of common stock	—	—	—	(240,877)	—	—	(240,877)
Other	1,344	13	23,520	—	—	—	23,533
December 31, 2011	94,141	$ 941	$ 1,387,773	$ (2,320,696)	$ 1,131,004	$ (23,056)	$ 175,966
Net income	—	—	—	—	422,256	—	422,256
Other comprehensive income	—	—	—	—	—	1,195	1,195
Stock-based compensation	—	—	50,497	—	—	—	50,497
Repurchases of common stock	—	—	—	(137,396)	—	—	(137,396)
Other	822	9	15,960	—	—	—	15,969
December 31, 2012	94,963	$ 950	$ 1,454,230	$ (2,458,092)	$ 1,553,260	$ (21,861)	$ 528,487
Net income	—	—	—	—	496,170	—	496,170
Other comprehensive income	—	—	—	—	—	3,634	3,634
Stock-based compensation	—	—	59,183	—	—	—	59,183
Repurchases of common stock	—	—	—	(231,085)	—	—	(231,085)
Other	3,339	33	(661)	—	—	—	(628)
December 31, 2013	98,302	$ 983	$ 1,512,752	$ (2,689,177)	$ 2,049,430	$ (18,227)	$ 855,761

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2013	2012	2011
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 496,170	$ 422,256	$ 315,286
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	216,119	166,876	153,153
Deferred income taxes	42,913	102,266	47,037
Provision for loan loss	345,758	285,479	300,316
Non-cash stock compensation	59,183	50,497	43,486
Fair value gain on interest-rate derivatives	(8,511)	(29,592)	(31,728)
Amortization of discount on debt	65,677	82,452	73,787
Amortization of deferred financing costs	25,492	24,935	17,527
Change in operating assets and liabilities, net of acquisitions:			
Change in trade accounts receivable	(33,414)	(49,219)	(32,158)
Change in other assets	(148,952)	(3,184)	17,518
Change in accounts payable and accrued expenses	(28,011)	115,114	53,676
Change in deferred revenue	(30,383)	(11,225)	33,341
Change in other liabilities	63,914	(13,146)	31,944
Originations of loan receivables held for sale	(1,674,713)	—	—
Sales of loan receivables held for sale	1,612,631	—	—
Excess tax benefits from stock-based compensation	(17,267)	(20,199)	(15,028)
Other	16,886	10,880	3,190
Net cash provided by operating activities	1,003,492	1,134,190	1,011,347
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in redemption settlement assets	(54,572)	37,232	(49,179)
Change in cash collateral, restricted	32,405	99,035	22,046
Change in restricted cash	39,378	(46,837)	98,408
Change in credit card and loan receivables	(1,420,931)	(1,371,352)	(578,058)
Purchase of credit card portfolios	(46,705)	(780,003)	(68,554)
Payments for acquired businesses, net of cash	—	(463,964)	(359,076)
Capital expenditures	(135,376)	(116,455)	(73,502)
Purchases of marketable securities	(35,084)	(34,069)	(14,809)
Maturities/sales of marketable securities	2,852	15,651	—
Investments in the stock of investees	(1,383)	(921)	(17,986)
Other	—	(9,667)	—
Net cash used in investing activities	(1,619,416)	(2,671,350)	(1,040,710)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under debt agreements	1,985,000	1,095,148	3,256,500
Repayments of borrowings	(1,300,241)	(506,214)	(3,012,682)
Proceeds from convertible note hedge counterparties	1,056,307	—	—
Settlement of convertible note borrowings	(1,861,289)	—	—
Issuances of deposits	1,989,576	1,866,213	1,180,284
Repayments of deposits	(1,401,625)	(991,577)	(685,609)
Non-recourse borrowings of consolidated securitization entities	2,268,285	2,543,892	2,179,721
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(1,807,339)	(1,673,209)	(2,579,577)
Payment of deferred financing costs	(24,772)	(40,267)	(29,025)
Excess tax benefits from stock-based compensation	17,267	20,199	15,028
Proceeds from issuance of common stock	14,090	20,696	29,412
Purchase of treasury shares	(231,085)	(125,840)	(240,877)
Other	(22)	(22)	(3,925)
Net cash provided by financing activities	704,152	2,209,019	109,250
Effect of exchange rate changes on cash and cash equivalents	(11,758)	5,280	(2,788)
Change in cash and cash equivalents	76,470	677,139	77,099
Cash and cash equivalents at beginning of year	893,352	216,213	139,114
Cash and cash equivalents at end of year	$ 969,822	$ 893,352	$ 216,213
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 239,203	$ 215,708	$ 231,049
Income taxes paid, net	$ 216,530	$ 137,838	$ 123,480

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

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

LoyaltyOne includes the Company's Canadian AIR MILES® Reward Program. Epsilon provides end-to-end, integrated direct marketing solutions that leverage transactional data to help clients more effectively acquire and build stronger relationships with their customers. Private Label Services and Credit encompasses credit card processing, billing and payment processing, customer care and collections services for private label retailers as well as private label retail credit card and loan receivables financing, including securitization of the credit card receivables that it underwrites from its private label retail credit card programs.

For purposes of comparability, certain prior period amounts have been reclassified to conform to the current year presentation in accordance with accounting principles generally accepted in the United States of America ("GAAP").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of ADSC and its wholly-owned subsidiaries. All intercompany transactions have been eliminated.

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

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

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

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

Credit card and loan receivables consist of credit card and loan receivables held for investment and credit card and loan receivables held for sale, if any. All new originations of credit card and loan receivables (except for the amount of new credit card receivables related to existing securitized portfolios transferred to the WFN Trusts or the WFC Trust during the term of a securitization and those originations associated with agreements with subsidiaries of eBay, Inc., further discussed in Note 4, "Credit Card and Loan Receivables,") are deemed to be held for investment at origination because management has the intent and ability to hold them for the foreseeable future. Management makes judgments about the Company's ability to fund these credit card and loan receivables through means other than securitization, such as money market deposits, certificates of deposit and other borrowings. In determining what constitutes the foreseeable future, management considers the short average life and homogenous nature of the Company's credit card and loan receivables.

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

In assessing whether these credit card and loan receivables continue to be held for investment, management also considers capital levels and scheduled maturities of funding instruments used. Management believes that the assertion regarding its intent and ability to hold credit card and loan receivables for the foreseeable future can be made with a high degree of certainty given the maturity distribution of the Company's money market deposits, certificates of deposit and other funding instruments; the historic ability to replace maturing certificates of deposits and other borrowings with new deposits or borrowings; and historic credit card payment activity. Due to the homogenous nature of credit card and loan receivables, amounts are classified as held for investment on an individual client portfolio basis.

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

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

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 uncollectable 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, loan volume and amounts, payment rates and forecasting uncertainties.

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

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

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

Cash Collateral, Restricted—Cash collateral, restricted consists of cash and securities and includes spread deposits and excess funding deposits. Spread deposits are held by a trustee or agent and are used to absorb shortfalls in the available net cash flows related to securitized credit card receivables if those available net cash flows are insufficient to satisfy certain obligations of the WFN Trusts and WFC Trust. The spread deposit accounts are recorded in cash collateral, restricted at their estimated fair values. The Company uses a valuation model that calculates the present value of estimated future cash flows for each asset. The model is based on the weighted average life of the underlying securities and discount rate. Changes in the fair value estimates of the spread deposit accounts are recorded in interest expense, net. The excess funding deposits represent cash amounts deposited with the trustee of the securitizations and are used to supplement seller's interest.

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

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

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

Revenue Recognition—The Company's policy follows the guidance from ASC 605, "Revenue Recognition," and Accounting Standards Update ("ASU") 2009-13, "Multiple-Deliverable Revenue Arrangements," which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. The Company recognizes revenues when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) the service has been performed or the product has been delivered.

Transaction —The Company earns transaction fees, which are principally based on the number of transactions processed or statements generated and are recognized as such services are performed. Included are reimbursements received for "out-of-pocket" expenses.

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

For those sponsor contracts not yet subject to the adoption of ASU 2009-13, the Company allocates the proceeds received from sponsors for the issuance of AIR MILES reward miles between the redemption element which represents the award ultimately provided to the collector (the "redemption element") and the service element (the "service element"). The service element consists of direct marketing and support services. For contracts entered into prior to January 1, 2011, revenue related to the service element is determined using the residual method.

The adoption of ASU 2009-13 eliminated the use of the residual method for new sponsor agreements entered into, or existing sponsor agreements that are materially modified, after January 1, 2011. ASU 2009-13 also established the use of a three-level hierarchy when establishing the selling price and the relative selling price method when allocating arrangement consideration. The ASU had no significant impact upon adoption in 2011, as no new material contracts or material modifications were experienced with sponsors in the AIR MILES Reward Program from its adoption through December 31, 2012.

In 2013, as part of the Company's analysis of the renewal of certain contracts, it was determined that in addition to the redemption and service elements, the right to use of the "AIR MILES" brand name met the criteria for a separate deliverable or element under ASU 2009-13. For the brand element, revenue is recognized at the time an AIR MILES reward mile is issued.

For those sponsor contracts within the scope of ASU 2009-13, proceeds from the issuance of AIR MILES reward miles are allocated to three elements, the redemption element, the service element, and the brand element, based on the relative selling price method. The fair value of each element was determined using management's estimated selling price for that respective element. The estimated breakage rate changed from 28% to 27%, effective December 31, 2012 and from 27% to 26%, effective December 31, 2013.

Based on its historical analysis, the Company makes a determination as to average life of an AIR MILES reward mile. The estimated life of an AIR MILES reward mile is 42 months. There have been no changes to management's estimate of the life of an AIR MILES reward mile in the periods presented in the financial statements.

Finance charges, net—Finance charges, net represents revenue earned on customer accounts serviced by the Company, and is recognized in the period in which it is earned. The Company recognizes earned finance charges, interest income and fees on credit card and loan receivables in accordance with the contractual provisions of the credit arrangements. As discussed in Note 4, "Credit Card and Loan Receivables," interest and fees continue to accrue on all credit card accounts beyond 90 days, except in limited circumstances, until the credit card account balance and all related interest and other fees are paid or charged off, typically at 180 days delinquent. Charge-offs for unpaid interest and fees as well as any adjustments to the allowance associated with unpaid interest and fees are recorded as a reduction to finance charges, net. Pursuant to ASC Subtopic 310-20, "Receivables - Nonrefundable Fees and Other Costs," direct loan origination costs on credit card and loan receivables are deferred and amortized on a straight-line basis over a one-year period and recorded as a reduction to finance charges, net. As of December 31, 2013 and 2012, the remaining unamortized deferred costs related to loan origination were $20.5 million and $16.4 million, respectively, and were recorded in other current assets in the consolidated balance sheets.

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

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

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

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

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

	Years Ended December 31,		
	2013	2012	2011
	(In thousands, except per share amounts)		
Numerator			
Net income	$ 496,170	$ 422,256	$ 315,286
Denominator			
Weighted average shares, basic	49,190	50,008	50,687
Weighted average effect of dilutive securities:			
Shares from assumed conversion of convertible senior notes	8,516	8,645	4,641
Shares from assumed exercise of convertible note warrants	8,482	4,702	1,510
Net effect of dilutive stock options and unvested restricted stock	678	788	966
Denominator for diluted calculation	66,866	64,143	57,804
Basic net income per share	$ 10.09	$ 8.44	$ 6.22
Diluted net income per share	$ 7.42	$ 6.58	$ 5.45

The Company calculates the effect of its convertible senior notes, which can be settled in cash or shares of common stock, on diluted net income per share as if they will be settled in cash as the Company has elected to settle the convertible senior notes for cash.

Concurrently with the issuance of its convertible senior notes, the Company entered into hedge transactions that are generally expected to offset the potential dilution of the shares from assumed conversion of convertible senior notes.

The Company is also party to prepaid forward contracts to purchase 1,857,400 shares of its common stock that are to be delivered over a settlement period in 2014. The number of shares to be delivered under the prepaid forward contracts is used to reduce weighted-average basic and diluted shares outstanding.

At December 31, 2011, the Company excluded 10.3 million warrants from the calculation of earnings per share as the effect was anti-dilutive.

Currency Translation—The assets and liabilities of the Company's subsidiaries outside the U.S., primarily Canada, are translated into U.S. dollars at the rates of exchange in effect at the balance sheet dates. Income and expense items are translated at the average exchange rates prevailing during the period. Gains and losses resulting from currency transactions are recognized currently in income and those resulting from translation of financial statements are included in accumulated other comprehensive income (loss). The Company recognized $(1.0) million, $0.6 million and $(2.7) million in foreign currency transaction (losses) gains for the years ended December 31, 2013, 2012 and 2011, respectively.

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

Advertising Costs—The Company participates in various advertising and marketing programs, including collaborative arrangements with certain clients. The cost of advertising and marketing programs is expensed in the period incurred. The Company has recognized advertising expenses, including advertising on behalf of its clients, of $206.6 million, $166.1 million and $129.0 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

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

Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-02, "Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income," which expands the disclosure requirements for items reclassified from accumulated other comprehensive income to net income by requiring the total changes of each component of other comprehensive income to be disaggregated and separately presenting current period reclassification adjustments from the remainder of other comprehensive income for the period. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012 and requires prospective application. ASU 2013-02 had no impact on the Company's financial condition, results of operations or cash flows, but did add certain disclosure requirements. The related disclosures are presented in Note 14, "Accumulated Other Comprehensive Income."

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the governing tax law. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013 and requires prospective application. The Company does not expect the adoption of ASU 2013-11 to have a material impact on the Company's financial condition, results of operations or cash flows.

3. ACQUISITIONS

2012 Acquisitions:

Hyper Marketing Group

On November 30, 2012, the Company acquired all of the stock of HMI Holding Corp. and Solution Set Holding Corp. (collectively, "HMI"). The purchase price was subject to customary working capital adjustments. HMI offers ROI-based targeted marketing services through digital user experience design technology, customer relationship marketing, consumer promotions marketing, direct and digital shopper marketing, distributed and local area marketing, and analytical services that include brand planning and consumer insights. The results of HMI have been included since the date of acquisition and are reflected in the Company's Epsilon segment. The acquisition enhanced Epsilon's core capabilities, strengthened its competitive advantage, expanded Epsilon into new industry verticals and added a talented team of marketing professionals.

Total consideration was $451.8 million, net of $7.1 million of cash and cash equivalents acquired. The goodwill that was deductible for tax purposes is $66.4 million. The following table summarizes the allocation of the consideration and the respective fair values of the assets acquired and liabilities assumed in the HMI acquisition as of the date of purchase:

	As of November 30, 2012 (In thousands)
Current assets	$ 49,700
Deferred tax assets	12,050
Property and equipment	6,907
Other assets	118
Intangible assets	194,751
Goodwill	291,249
Total assets acquired	554,775
Current liabilities	33,928
Deferred tax liabilities	68,624
Other liabilities	420
Total liabilities assumed	102,972
Net assets acquired	$ 451,803

In connection with the HMI acquisition, on December 31, 2012, the Company acquired Advecor, Inc. (“Advecor”), a marketing services agency, for consideration of $12.2 million, net of $0.4 million of cash and cash equivalents acquired. Total assets acquired were $13.4 million, including $8.8 million of intangible assets and $3.0 million of goodwill, with current liabilities assumed of $1.2 million.

2011 Acquisition:

On May 31, 2011, the Company acquired all of the stock of Aspen Marketing Holdings, Inc. (“Aspen”). Aspen specializes in a full range of digital and direct marketing services, including the use of advanced analytics to perform data-driven customer acquisition and retention campaigns. Aspen is also a leading provider of marketing agency services, with expertise in the automotive and telecommunications industries. The results of Aspen have been included since the date of acquisition and are reflected in the Company’s Epsilon segment. The acquisition enhanced Epsilon’s core capabilities, strengthened its competitive advantage, expanded Epsilon into new industry verticals and added a talented team of marketing professionals.

The final purchase price for Aspen was $359.1 million, net of $13.5 million of cash and cash equivalents acquired. The goodwill resulting from the acquisition was not deductible for tax purposes. The following table summarizes the allocation of the consideration and the respective fair values of the assets acquired and liabilities assumed in the Aspen acquisition as of the date of purchase:

	As of May 31, 2011 (In thousands)
Current assets	$ 39,924
Property and equipment	4,829
Other assets	1,600
Capitalized software	24,000
Intangible assets	140,000
Goodwill	232,910
Total assets acquired	443,263
Current liabilities	30,099
Other liabilities	3,904
Deferred tax liabilities	50,184
Total liabilities assumed	84,187
Net assets acquired	$ 359,076

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4. CREDIT CARD AND LOAN RECEIVABLES

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

	December 31, 2013	December 31, 2012
	(In thousands)	
Principal receivables	$ 8,166,961	$ 7,097,951
Billed and accrued finance charges	343,521	291,476
Other credit card and loan receivables	124,482	60,205
Total credit card and loan receivables	8,634,964	7,449,632
Less credit card receivables – restricted for securitization investors	7,080,014	6,597,120
Less loan receivables held for sale	62,082	—
Other credit card and loan receivables	$ 1,492,868	$ 852,512

Allowance for Loan Loss

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

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

Net charge-offs include the principal amount of losses from credit cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased credit cardholders, less recoveries and exclude charged-off interest, fees and fraud losses. Charged-off interest and fees reduce finance charges, net while fraud losses are recorded as an expense. Credit card and loan receivables, including unpaid interest and fees, are charged-off at the end of 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 at the end of 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. For the years ended December 31, 2013, 2012 and 2011, actual charge-offs for unpaid interest and fees were $240.8 million, $191.1 million and $199.0 million, respectively.

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, loan volume and amounts, payment rates and forecasting uncertainties. The following table presents the Company's allowance for loan loss for the periods indicated:

	Years Ended December 31,		
	2013	2012	2011
		(In thousands)	
Balance at beginning of period	$ 481,958	$ 468,321	$ 518,069
Provision for loan loss	345,758	285,479	300,316
Change in estimate for uncollectible unpaid interest and fees	11,000	11,000	(5,000)
Recoveries	112,538	97,131	89,764
Principal charge-offs	(448,085)	(379,973)	(429,828)
Other	—	—	(5,000)
Balance at end of period	$ 503,169	$ 481,958	$ 468,321

Delinquencies

A credit card account is contractually delinquent if the Company does not receive the minimum payment by the specified due date on the cardholder's statement. It is the Company's policy to continue to accrue interest and fee income on all credit card accounts beyond 90 days, except in limited circumstances, until the credit card account balance and all related interest and other fees are paid or charged off, typically at 180 days delinquent. When an account becomes delinquent, a message is printed on the credit cardholder's billing statement requesting payment. After an account becomes 30 days past due, a proprietary collection scoring algorithm automatically scores the risk of the account becoming further delinquent. The collection system then recommends a collection strategy for the past due account based on the collection score and account balance and dictates the contact schedule and collections priority for the account. If the Company is unable to make a collection after exhausting all in-house collection efforts, the Company may engage collection agencies and outside attorneys to continue those efforts.

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

	December 31, 2013	% of Total	December 31, 2012	% of Total
	(In thousands, except percentages)			
Receivables outstanding - principal	$ 8,166,961	100.0%	$ 7,097,951	100.0%
Principal receivables balances contractually delinquent:				
31 to 60 days	114,430	1.4%	100,479	1.4%
61 to 90 days	74,700	0.9	62,546	0.9
91 or more days	150,425	1.9	120,163	1.7
Total	$ 339,555	4.2%	$ 283,188	4.0%

The practice of re-aging an account may affect credit card loan delinquencies and charge-offs. A re-age is intended to assist delinquent cardholders who have experienced financial difficulties but who demonstrate both an ability and willingness to repay the amounts due. Accounts meeting specific defined criteria are re-aged when the cardholder makes one or more consecutive payments aggregating a certain pre-defined amount of their account balance. With re-aging, the outstanding balance of a delinquent account is returned to a current status. For the years ended December 31, 2013, 2012 and 2011, the Company's re-aged accounts represented 1.4%, 1.3% and 1.9%, respectively, of total credit card and loan receivables for each period and thus do not have a significant impact on the Company's delinquencies or net charge-offs. The Company's re-aging practices comply with regulatory guidelines.

Modified Credit Card and Loan Receivables

The Company holds certain credit card and loan receivables for which the terms have been modified. The Company's modified credit card and loan receivables include credit card and loan receivables for which temporary hardship concessions have been granted and credit card and loan receivables in permanent workout programs. These modified credit card and loan 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 and loan 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 and loan 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 and loan receivables for which temporary hardship and permanent concessions were granted are both considered troubled debt restructurings and are collectively evaluated for impairment. Modified credit card and loan receivables are evaluated at their present value with impairment measured as the difference between the credit card and loan 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 and loan receivables on a pooled basis, the discount rate used for credit card and loan receivables is the average current annual percentage rate the Company applies to non-impaired credit card and loan receivables, which approximates what would have been applied to the pool of modified credit card and loan receivables prior to impairment. In assessing the appropriate allowance for loan loss, these modified credit card and loan receivables are included in the general pool of credit card and loan 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 and loan receivables in these programs, there would not be a material difference in the allowance for loan loss.

The Company had $118.1 million and $117.0 million, respectively, as a recorded investment in impaired credit card and loan receivables with an associated allowance for loan loss of $33.9 million and $39.7 million, respectively, as of December 31, 2013 and 2012. These modified credit card and loan receivables represented less than 3% of the Company's total credit card and loan receivables as of both December 31, 2013 and 2012.

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The average recorded investment in the impaired credit card and loan receivables was $117.4 million and $114.6 million for the years ended December 31, 2013 and 2012, respectively.

Interest income on these modified credit card and loan receivables is accounted for in the same manner as other accruing credit card and loan receivables. Cash collections on these modified credit card and loan receivables are allocated according to the same payment hierarchy methodology applied to credit card and loan receivables that are not in such programs. The Company recognized $12.7 million, $15.5 million and $13.8 million for the years ended December 31, 2013, 2012 and 2011, respectively, in interest income associated with modified credit card and loan receivables during the period that such credit card and loan receivables were impaired.

The following tables indicate the modifications related to troubled debt restructurings within credit card and loan receivables for the years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in thousands)		
Troubled debt restructurings – credit card and loan receivables	147,200	$ 134,892	$ 134,799

	Year Ended December 31, 2012		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in thousands)		
Troubled debt restructurings – credit card and loan receivables	134,187	$ 119,985	$ 119,856

The tables below summarize troubled debt restructurings that have defaulted during the years ended December 31, 2013 and 2012 where the default occurred within 12 months of their modification date:

	Year Ended December 31, 2013	
	Number of Restructurings	Outstanding Balance
	(Dollars in thousands)	
Troubled debt restructurings that subsequently defaulted – credit card and loan receivables	63,590	$ 60,490

	Year Ended December 31, 2012	
	Number of Restructurings	Outstanding Balance
	(Dollars in thousands)	
Troubled debt restructurings that subsequently defaulted – credit card and loan receivables	55,198	$ 53,806

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

Age of Credit Card and Loan Receivable Accounts

The following table sets forth, as of December 31, 2013 and 2012, the number of active credit card and loan accounts with balances and the related principal balances outstanding, based upon the age of the active credit card and loan accounts from origination:

	December 31, 2013			
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 thousands, except percentages)			
0-12 Months	5,048	27.2%	$ 1,962,153	24.1%
13-24 Months	2,550	13.7	1,072,648	13.1
25-36 Months	1,799	9.7	826,911	10.1
37-48 Months	1,318	7.1	622,766	7.6
49-60 Months	1,104	6.0	557,407	6.8
Over 60 Months	6,729	36.3	3,125,076	38.3
Total	18,548	100.0%	$ 8,166,961	100.0%

	December 31, 2012			
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 thousands, except percentages)			
0-12 Months	4,287	25.1%	$ 1,545,955	21.8%
13-24 Months	2,216	12.9	867,230	12.2
25-36 Months	1,580	9.2	676,362	9.5
37-48 Months	1,297	7.6	616,296	8.7
49-60 Months	1,053	6.2	502,217	7.1
Over 60 Months	6,681	39.0	2,889,891	40.7
Total	17,114	100.0%	$ 7,097,951	100.0%

Credit Quality

The Company uses proprietary scoring models developed specifically for the purpose of monitoring the Company's obligor credit quality. The proprietary scoring models are used as a tool in the underwriting process and for making credit decisions. The proprietary scoring models are based on historical data and require various assumptions about future performance. Information regarding customer performance is factored into these proprietary scoring models to determine the probability of an account becoming 90 or more days past due at any time within the next 12 months. Obligor credit quality is monitored at least monthly during the life of an account. The following table reflects composition of the Company's credit card and loan receivables by obligor credit quality as of December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
Probability of an Account Becoming 90 or More Days Past Due or Becoming Charged-off (within the next 12 months)	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
	(In thousands, except percentages)			
No Score	$ 162,366	2.0%	$ 298,829	4.2%
27.1% and higher	362,366	4.4	286,046	4.0
17.1% - 27.0%	732,425	9.0	613,184	8.7
12.6% - 17.0%	858,721	10.5	713,489	10.1
3.7% - 12.5%	3,234,547	39.6	2,840,964	40.0
1.9% - 3.6%	1,748,317	21.4	1,492,289	21.0
Lower than 1.9%	1,068,219	13.1	853,150	12.0
Total	$ 8,166,961	100.0%	$ 7,097,951	100.0%

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Transfer of Financial Assets

In August 2013, under agreements with subsidiaries of eBay, Inc., including PayPal, Inc. and Bill Me Later, Inc. (collectively, "PayPal"), the Company became an issuer for their Bill Me Later® credit products. After origination, these loan receivables are sold to PayPal at par value plus accrued interest. These transfers qualify for sale treatment as they meet the conditions established in ASC 860-10, "Transfers and Servicing." Following the sale, PayPal owns the loan receivables, bears the risk of loss in the event of loan defaults and is responsible for all servicing functions related to the amounts. The loan receivables originated by the Company that have not yet been sold to PayPal are included in loan receivables held for sale in the Company's consolidated balance sheets and carried at the lower of cost or fair value. The carrying value of these loan receivables approximates fair value due to the short duration between origination and sale. Purchases and sales of these loan receivables held for sale are reflected as operating activities in the Company's consolidated statements of cash flows.

Upon PayPal's purchase of the originated loan receivables, the Company is obligated to purchase a participating interest in the pool of loan receivables generated in the Bill Me Later program. Such interest participates on a pro rata basis in the cash flows of the underlying pool of loan receivables, including principal repayments, finance charges, losses, recoveries, and servicing costs. The Company bears the risk of loss related to its participation interest in this pool. Through December 31, 2013, the Company had purchased $80.1 million of these loan receivables, of which $61.6 million was outstanding at December 31, 2013 and included in other credit card and loan receivables in the Company's consolidated balance sheets.

Portfolio Acquisitions

During the years ended December 31, 2013 and 2012, the Company acquired the following credit card portfolios:

- December 2013 – Gulf Credit Union, for a preliminary total purchase price of $9.6 million, which remains subject to customary purchase price adjustments and consists of $8.3 million of credit card receivables, $1.7 million of intangible assets, and $0.4 million assumed customer liabilities;

- March 2013 – Barneys New York, for a total purchase price of $37.1 million, which consisted of $35.3 million of credit card receivables and $1.8 million of intangible assets;

- August 2012 – The Talbots, Inc., for a total purchase price of $163.3 million, which consisted of $133.4 million of credit card receivables and $29.9 million of intangible assets;

- July 2012 – The Bon-Ton Stores, Inc., for a total purchase price of $494.7 million, which consisted of $444.9 million of credit card receivables and $49.8 million of intangible assets;

- May 2012 – Premier Designs, Inc., for a total purchase price of $24.3 million, which consisted of $22.9 million of credit card receivables and $1.4 million of intangible assets; and

- March 2012 – Pier 1 Imports, for a total purchase price of $97.7 million, which consisted of $96.2 million of credit card receivables and $1.5 million of intangible assets.

Securitized Credit Card Receivables

The Company regularly securitizes its credit card receivables through its credit card securitization trusts, consisting of the WFN Trusts and the WFC Trust. The Company continues to own and service the accounts that generate credit card receivables held by the WFN Trusts and the WFC Trust. In its capacity as a servicer, each of the respective banks earns a fee from the WFN Trusts and the WFC Trust to service and administer the credit card receivables, collect payments and charge-off uncollectible receivables. These fees are eliminated and therefore are not reflected in the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

Cash collateral, restricted deposits are generally released proportionately as investors are repaid, although some cash collateral, restricted deposits are released only when investors have been paid in full. None of the cash collateral, restricted deposits were required to be used to cover losses on securitized credit card receivables in the periods ending December 31, 2013, 2012 and 2011, respectively.

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

	December 31, 2013	December 31, 2012
	(In thousands)	
Total credit card receivables – restricted for securitization investors	$ 7,080,014	$ 6,597,120
Principal amount of credit card receivables – restricted for securitization investors, 90 days or more past due	$ 131,659	$ 112,203

	Years Ended December 31,		
	2013	2012	2011
		(In thousands)	
Net charge-offs of securitized principal	$ 311,111	$ 265,305	$ 306,301

5. REDEMPTION SETTLEMENT ASSETS

Redemption settlement assets consist of cash and cash equivalents 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. These assets are primarily denominated in Canadian dollars. Realized gains and losses from the sale of investment securities were not material. The principal components of redemption settlement assets, which are carried at fair value, are as follows:

	December 31, 2013				December 31, 2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
				(In thousands)				
Cash and cash equivalents	$ 73,984	$ —	$ —	$ 73,984	$ 40,266	$ —	$ —	$ 40,266
Government bonds	—	—	—	—	5,064	53	—	5,117
Corporate bonds	429,592	7,083	(310)	436,365	436,846	10,560	(99)	447,307
Total	$ 503,576	$ 7,083	$ (310)	$ 510,349	$ 482,176	$ 10,613	$ (99)	$ 492,690

As of December 31, 2013, the $0.3 million unrealized losses related to corporate bonds with a fair value of $80.5 million had been unrealized for less than twelve months. As of December 31, 2012, the $0.1 million unrealized losses related to corporate bonds with a fair value of $36.5 million had been unrealized for less than twelve months. There were no unrealized losses for twelve months or greater for the years ended December 31, 2013 and 2012.

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 ability to hold the investments until maturity. As of December 31, 2013, the Company does not consider the investments to be other-than-temporarily impaired.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

The net carrying value and estimated fair value of the redemption settlement assets at December 31, 2013 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 195,230	$ 196,584
Due after one year through five years	308,346	313,765
Total	$ 503,576	$ 510,349

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2013	December 31, 2012
	(In thousands)	
Computer software and development	$ 373,844	$ 293,727
Furniture and equipment	263,373	225,062
Land, buildings and leasehold improvements	106,197	99,644
Construction in progress	49,488	59,417
Total	792,902	677,850
Accumulated depreciation	(493,714)	(424,822)
Property and equipment, net	$ 299,188	$ 253,028

Depreciation expense totaled $53.7 million, $46.6 million and $44.8 million for the years ended December 31, 2013, 2012 and 2011, respectively, and includes purchased software and amortization of capital leases. Amortization associated with internally developed capitalized software totaled $33.9 million, $30.0 million and $29.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

7. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	December 31, 2013			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
	(In thousands)			
Finite Lived Assets				
Customer contracts and lists	$ 440,200	$ (187,350)	$ 252,850	3-12 years—straight line
Premium on purchased credit card portfolios	216,041	(118,006)	98,035	5-10 years—straight line, accelerated
Customer database	161,700	(122,230)	39,470	4-10 years—straight line
Collector database	65,895	(60,711)	5,184	30 years—15% declining balance
Tradenames	58,567	(15,443)	43,124	4-15 years—straight line
Purchased data lists	17,567	(11,959)	5,608	1-5 years—straight line, accelerated
Favorable lease	3,291	(375)	2,916	10 years—straight line
Noncompete agreements	1,300	(433)	867	3 years—straight line
	$ 964,561	$ (516,507)	$ 448,054	
Indefinite Lived Assets				
Tradenames	12,350	—	12,350	Indefinite life
Total intangible assets	$ 976,911	$ (516,507)	$ 460,404	

	December 31, 2012			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
	(In thousands)			
Finite Lived Assets				
Customer contracts and lists	$ 440,200	$ (124,351)	$ 315,849	3-12 years—straight line
Premium on purchased credit card portfolios	237,800	(108,227)	129,573	5-10 years—straight line, accelerated
Customer database	161,700	(102,706)	58,994	4-10 years—straight line
Collector database	70,550	(63,980)	6,570	30 years—15% declining balance
Tradenames	59,102	(10,139)	48,963	4-15 years—straight line
Purchased data lists	14,540	(8,527)	6,013	1-5 years—straight line, accelerated
Favorable lease	3,291	(29)	3,262	10 years—straight line
Noncompete agreements	1,300	—	1,300	3 years—straight line
	$ 988,483	$ (417,959)	$ 570,524	
Indefinite Lived Assets				
Tradenames	12,350	—	12,350	Indefinite life
Total intangible assets	$ 1,000,833	$ (417,959)	$ 582,874	

With the HMI acquisition on November 30, 2012, the Company acquired $194.8 million of intangible assets, consisting of $170.0 million of customer relationships, $21.5 million of trade names and $3.3 million for a favorable lease, which are being amortized over a weighted average life of 6.4 years, 8.7 years and 9.5 years, respectively. With the Advecor acquisition on December 31, 2012, the Company acquired $8.8 million of intangible assets, consisting of $7.5 million of customer relationships and $1.3 million of noncompete agreements, which are being amortized over a weighted average life of 3.5 years and 3.0 years, respectively.

See Note 3, “Acquisitions,” for more information on the HMI and Advecor acquisitions.

With the credit card portfolio acquisitions made during the year ended December 31, 2013, the Company acquired $3.5 million of intangible assets, consisting of $2.0 million of customer relationships being amortized over a weighted average life of 5.0 years and $1.5 million of marketing relationships being amortized over a weighted average life of 9.2 years.

With the credit card portfolio acquisitions made during the year ended December 31, 2012, the Company acquired $82.6 million of intangible assets, consisting of $44.5 million of customer relationships being amortized over a weighted average life of 5.0 years and $38.1 million of marketing relationships being amortized over a weighted average life of 6.6 years. See Note 4, “Credit Card and Loan Receivables,” for additional information related to the credit card portfolio acquisitions.

Amortization expense related to the intangible assets was approximately $128.5 million, $90.3 million and $78.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

	For Years Ending December 31, (In thousands)
2014	$ 118,945
2015	94,436
2016	77,873
2017	52,172
2018	42,539
2019 & thereafter	62,089

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2013 and 2012, respectively, are as follows:

	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Total
			(In thousands)		
December 31, 2011	$ 241,697	$ 945,934	$ 261,732	$ —	$ 1,449,363
Goodwill acquired during year	—	294,275	—	—	294,275
Effects of foreign currency translation	6,373	1,042	—	—	7,415
December 31, 2012	248,070	1,241,251	261,732	—	1,751,053
Effects of foreign currency translation	(15,621)	271	—	—	(15,350)
December 31, 2013	$ 232,449	$ 1,241,522	$ 261,732	$ —	$ 1,735,703

For the year ended December 31, 2012, the Company acquired $294.3 million of goodwill of which $291.3 million resulted from the HMI acquisition in November 2012 and $3.0 million resulted from the Advecor acquisition in December 2012. See Note 3, “Acquisitions,” for additional information.

The Company completed annual impairment tests for goodwill on July 31, 2013, 2012 and 2011 and determined at each date that no impairment exists. No further testing of goodwill impairments will be performed until July 31, 2014, unless events occur or circumstances indicate an impairment may have occurred.

8. ACCRUED EXPENSES

Accrued expenses consist of the following:

	December 31, 2013	December 31, 2012
	(In thousands)	
Accrued payroll and benefits	$ 137,982	$ 131,341
Accrued marketing	30,612	28,876
Accrued taxes	18,178	48,202
Accrued other liabilities	75,535	66,206
Accrued expenses	$ 262,307	$ 274,625

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

9. DEBT

Debt consists of the following:

Description	December 31, 2013	December 31, 2012	Maturity	Interest Rate
	(Dollars in thousands)			
Long-term and other debt:				
2013 credit facility	$ 336,000	$ —	July 2018	(1)
2013 term loan	1,234,688	—	July 2018	(1)
2011 term loan	—	885,928	—	—
Convertible senior notes due 2013	—	768,831	—	—
Convertible senior notes due 2014	333,082	304,333	May 2014	4.75%
Senior notes due 2017	396,511	395,734	December 2017	5.250%
Senior notes due 2020	500,000	500,000	April 2020	6.375%
Capital lease obligations and other debt	—	13	—	—
Total long-term and other debt	2,800,281	2,854,839		
Less: current portion	(364,489)	(803,269)		
Long-term portion	$ 2,435,792	$ 2,051,570		
Deposits:				
Certificates of deposit	$ 2,486,533	$ 1,974,158	Various – January 2014 – December 2020	0.15% to 3.55%
Money market deposits	329,828	254,253	On demand	0.01% to 0.12%
Total deposits	2,816,361	2,228,411		
Less: current portion	(1,544,059)	(1,092,753)		
Long-term portion	$ 1,272,302	$ 1,135,658		
Non-recourse borrowings of consolidated securitization entities:				
Fixed rate asset-backed term note securities	$ 3,001,916	$ 2,403,555	Various - October 2014 – June 2019	0.91% to 6.75%
Floating rate asset-backed term note securities	—	545,700	—	—
Conduit asset-backed securities	1,590,000	1,181,715	Various - March 2014 – September 2015	1.18% to 1.70%
Total non-recourse borrowings of consolidated securitization entities	4,591,916	4,130,970		
Less: current portion	(1,025,000)	(1,474,054)		
Long-term portion	$ 3,566,916	$ 2,656,916		

(1) At December 31, 2013, the weighted average interest rate for the 2013 Credit Facility and 2013 Term Loan was 2.14% and 1.92%, respectively.

At December 31, 2013, the Company was in compliance with its covenants.

Credit Agreements

In July 2013, the Company, as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Data Management, LLC, Comenity LLC, Comenity Servicing LLC and Aspen Marketing Services, LLC, as guarantors, entered into a credit agreement with various agents and lenders dated July 10, 2013 (the “2013 Credit Agreement”), replacing the Company’s credit agreement dated May 24, 2011 (the “2011 Credit Agreement”), which was concurrently terminated. The 2011 Credit Agreement, as amended, provided for a $903.1 million term loan subject to certain principal repayments and a $917.5 million revolving line of credit.

Wells Fargo Bank, N.A. is the administrative agent and letter of credit issuer under the 2013 Credit Agreement. The 2013 Credit Agreement originally provided for a $1,142.5 million term loan (the “2013 Term Loan”) with certain principal repayments and a $1,142.5 million revolving line of credit (the “2013 Credit Facility”) with a U.S. $65.0 million sublimit for Canadian dollar borrowings and a $65.0 million sublimit for swing line loans. The 2013 Credit Agreement includes an uncommitted accordion feature of up to $500.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions.

In September 2013, the Company exercised in part the accordion feature of the 2013 Credit Agreement, and increased the borrowings under the 2013 Term Loan and the capacity under the 2013 Credit Facility, each by $57.5 million.

In October 2013, the Company exercised in part the accordion feature of the 2013 Credit Agreement, and increased the borrowings under the 2013 Term Loan and the capacity under the 2013 Credit Facility, each by $25.0 million.

In December 2013, the Company exercised in part the accordion feature of the 2013 Credit Agreement, and increased the borrowings under the 2013 Term Loan by $24.8 million to $1.25 billion and increased the capacity under the 2013 Credit Facility by $25.0 million to $1.25 billion.

Total availability under the 2013 Credit Facility at December 31, 2013 was $914.0 million.

The loans under the 2013 Credit Agreement are scheduled to mature on July 10, 2018. The 2013 Term Loan provides for aggregate principal payments of 2.5% of the initial term loan amount in each of the first and second year and 5% of the initial term loan amount in each of the third, fourth, and fifth year, payable in equal quarterly installments beginning on September 30, 2013. The 2013 Credit Agreement is unsecured.

Advances under the 2013 Credit Agreement are in the form of either U.S. dollar-denominated or Canadian dollar-denominated base rate loans or U.S. dollar-denominated eurodollar loans. The interest rate for base rate loans denominated in U.S. dollars fluctuates and is equal to the highest of (i) Wells Fargo's prime rate (ii) the Federal funds rate plus 0.5% and (iii) the London Interbank Offered Rate ("LIBOR") as defined in the 2013 Credit Agreement plus 1.0%, in each case plus a margin of 0.25% to 1.0% based upon the Company's total leverage ratio as defined in the 2013 Credit Agreement. The interest rate for base rate loans denominated in Canadian dollars fluctuates and is equal to the higher of (i) Wells Fargo's prime rate for Canadian dollar loans and (ii) the Canadian Dollar Offered Rate ("CDOR") plus 1.0%, in each case plus a margin of 0.25% to 1.0% based upon the Company's total leverage ratio as defined in the 2013 Credit Agreement. The interest rate for eurodollar loans fluctuates based on the rate at which deposits of U.S. dollars in the London interbank market are quoted plus a margin of 1.25% to 2.0% based on the Company's total leverage ratio as defined in the 2013 Credit Agreement.

The 2013 Credit Agreement contains the usual and customary negative covenants for transactions of this type, including, but not limited to, restrictions on the Company's ability and in certain instances, its subsidiaries' ability to consolidate or merge; substantially change the nature of its business; sell, lease, or otherwise transfer any substantial part of its assets; create or incur indebtedness; create liens; pay dividends; and make acquisitions. The negative covenants are subject to certain exceptions as specified in the 2013 Credit Agreement. The 2013 Credit Agreement also requires the Company to satisfy certain financial covenants, including a maximum total leverage ratio as determined in accordance with the 2013 Credit Agreement and a minimum ratio of consolidated operating EBITDA to consolidated interest expense as determined in accordance with the 2013 Credit Agreement. The 2013 Credit Agreement also includes customary events of default.

Convertible Senior Notes

Due 2013

In the third quarter of 2008, the Company issued $805.0 million aggregate principal amount of Convertible Senior Notes due 2013. The Convertible Senior Notes due 2013 matured and were repaid by the Company on August 1, 2013.

Concurrently with the pricing of the Convertible Senior Notes due 2013, the Company entered into convertible note hedge transactions with respect to its common stock (the "2013 Convertible Note Hedges") with J.P. Morgan Securities Inc., as agent to JPMorgan Chase Bank, National Association, London Branch, and Bank of America, N.A., affiliates of two of the initial purchasers (together, the "2013 Hedge Counterparties").

Separately, but also concurrently with the pricing of the Convertible Senior Notes due 2013 and the exercise of the over-allotment option, the Company entered into warrant transactions whereby it sold to the 2013 Hedge Counterparties warrants to acquire, subject to customary anti-dilution adjustments, up to approximately 10.2 million shares of its common stock at an initial strike price of approximately $112.14 (the "2013 Convertible Note Warrants").

Prior to maturity, $32.5 million of Convertible Senior Notes due 2013 were surrendered for conversion and settled in cash. On August 1, 2013, the Company settled in cash the remaining $772.6 million of Convertible Senior Notes due 2013, of which $772.5 million was surrendered for conversion for $1,790.3 million, with the remaining principal paid at maturity. The Company applied $1,017.7 million of cash received from the 2013 Hedge Counterparties in settlement of the 2013 Convertible Note Hedges.

Through December 31, 2013, the Company net settled 5.1 million of the approximately 10.2 million warrants associated with the Convertible Senior Notes due 2013 by issuing 2.8 million shares of our common stock. The remaining 5.1 million warrants are exercisable and will expire in separate tranches through February 25, 2014.

The Company accounted for the 2013 Convertible Note Hedges and the 2013 Convertible Note Warrants in accordance with the guidance in ASC 815-40, "Derivatives and Hedging – Contracts in an Entity's Own Equity." The 2013 Convertible Note Hedges and 2013 Convertible Note Warrants met the requirements under ASC 815-40 to be accounted for as equity instruments, and accordingly, were recorded to additional paid-in capital in the consolidated balance sheets.

Due 2014

In the second quarter of 2009, the Company issued $345.0 million aggregate principal amount of Convertible Senior Notes due 2014. Holders of the Convertible Senior Notes due 2014 have the right to require the Company to repurchase for cash all or some of their Convertible Senior Notes due 2014 upon the occurrence of certain fundamental changes.

The Convertible Senior Notes due 2014 are governed by an indenture dated June 2, 2009 between the Company and the Bank of New York Mellon Trust Company, National Association, as trustee. Pursuant to the indenture, the Convertible Senior Notes due 2014 are general unsecured senior obligations of the Company, pay interest semi-annually in arrears at a rate of 4.75% per annum on May 15 and November 15 of each year beginning November 15, 2009, will be convertible during certain periods and under certain circumstances and, subject to earlier repurchase by the Company or conversion, will mature on May 15, 2014. The Company may not redeem the Convertible Senior Notes due 2014 prior to their maturity date.

Holders may convert their Convertible Senior Notes due 2014 at their option at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date of the Convertible Senior Notes due 2014, in equal multiples of $1,000 principal amounts, under the following circumstances:

- during any fiscal quarter (and only during such fiscal quarter) after the fiscal quarter ending December 31, 2009, if the last reported sale price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is equal to or more than 130% of the conversion price of $47.57 of the Convertible Senior Notes due 2014 on the last day of such preceding fiscal quarter;

- during the five business-day period after any five consecutive trading-day period, or the measurement period, in which the trading price per $1,000 principal amount of the Convertible Senior Notes due 2014 for each day of that measurement period was less than 98% of the product of the last reported sales price of the Company's common stock and the conversion rate of the Convertible Senior Notes due 2014 on each such day; or

- upon the occurrence of certain specified corporate transactions.

In addition, holders may convert their Convertible Senior Notes due 2014 at their option at any time beginning on January 13, 2014 and ending on the close of business on the second scheduled trading day immediately preceding the maturity date, without regard to the foregoing circumstances.

The Convertible Senior Notes due 2014 have an initial conversion rate of 21.0235 shares of common stock per $1,000 principal amount, which is equal to an initial conversion price of approximately $47.57 per share. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination thereof at the Company's election. The Company has elected to settle the principal amount (or the amount of the Company's conversion obligation, if less) of the Convertible Senior Notes due 2014 in cash upon conversion.

Through December 31, 2013, certain of the Convertible Senior Notes due 2014 were surrendered for conversion and, in each case, either have been or will be settled in cash following the completion of the applicable cash settlement averaging period. The amounts settled during 2013 were not material. The Company has elected to repay all conversions solely in cash.

Concurrently with the pricing of the Convertible Senior Notes due 2014 and the exercise of the over-allotment option, the Company entered into convertible note hedge transactions with respect to its common stock with the following affiliates of three of the initial purchasers: J.P. Morgan Securities Inc., as agent to JPMorgan Chase Bank, National Association, London Branch; Bank of America, N.A.; and Barclays Capital Inc., as agent for Barclays Bank PLC (together, the "2014 Hedge Counterparties"), which cover, subject to customary anti-dilution adjustments, approximately 7.3 million shares of the Company's common stock at an initial strike price equal to the initial conversion price of the Convertible Senior Notes due 2014 (the "2014 Convertible Note Hedges").

Separately but also concurrently with the pricing of the Convertible Senior Notes due 2014 and the exercise of the over-allotment option, the Company entered into warrant transactions whereby it sold to the 2014 Hedge Counterparties warrants to acquire, subject to customary anti-dilution adjustments, up to approximately 7.3 million shares of its common stock at an initial strike price of approximately $70.54 (the "2014 Convertible Note Warrants"). The 2014 Convertible Note Warrants will be exercisable and will expire in 79 equal tranches of 45,331 warrants and an 80th tranche of 45,405 warrants for one of the 2014 Hedge Counterparties and will be exercisable and will expire in 79 equal tranches of 22,665 warrants and an 80th tranche of either 22,741 or 22,743 warrants with respect to the remaining two 2014 Hedge Counterparties, beginning on August 13, 2014 and continuing on each business day through December 4, 2014 as to each of the 2014 Hedge Counterparties.

The cost of the 2014 Convertible Note Hedges, reduced by the proceeds to the Company from the sale of the 2014 Convertible Note Warrants, was approximately $50.7 million. The 2014 Convertible Note Hedges and 2014 Convertible Note Warrants are generally expected to offset the potential dilution of the Company's common stock upon conversion of the Convertible Senior Notes due 2014 to the extent that the Company's common stock price does not exceed $70.54 at the time of the exercise of the 2014 Convertible Note Warrants. The Company accounted for the 2014 Convertible Note Hedges and 2014 Convertible Note Warrants as equity instruments in accordance with the guidance in ASC 815-40. Accordingly, the cost of the 2014 Convertible Note Hedges and the proceeds from the sale of the 2014 Convertible Note Warrants are included in additional paid-in capital in the consolidated balance sheets at December 31, 2013.

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Concurrently with the pricing of the Convertible Senior Notes due 2014, the Company entered into prepaid forward transactions (the "Prepaid Forwards") with Merrill Lynch, Pierce, Fenner & Smith Incorporated, as agent for Merrill Lynch International, and Barclays Capital Inc., as agent for Barclays Bank PLC (collectively, the "Forward Counterparties"). Under the Prepaid Forwards, the Company purchased 1,857,400 shares of its common stock for approximately $74.9 million with proceeds from the offering. The shares are to be delivered over a settlement period in 2014. Each of the Prepaid Forwards is subject to early settlement, in whole or in part, at any time prior to the final settlement date at the option of the applicable Forward Counterparty, as well as early settlement or settlement with alternative consideration in the event of certain corporate transactions. In the event the Company pays any cash dividends on its common stock, the Forward Counterparties will pay an equivalent amount to the Company. The shares under the Prepaid Forwards were accounted for as a repurchase of common stock and a reduction of stockholders' equity.

The table below summarizes the carrying value of the components of the convertible senior notes:

	December 31,	
	2013	2012
	(In millions)	
Carrying amount of equity component	$ 115.9	$ 368.7
Principal amount of liability component	$ 345.0	$ 1,150.0
Unamortized discount	(11.9)	(76.8)
Net carrying value of liability component	$ 333.1	$ 1,073.2
If-converted value of common stock	$ 1,906.9	$ 2,534.4

The discount on the liability component will be amortized as interest expense over the remaining life of the convertible senior notes which, at December 31, 2013, is a period of 0.4 years.

Interest expense on the convertible senior notes recognized in the Company's consolidated statements of income for the years ended December 31, 2013, 2012 and 2011 is as follows:

	Years Ended December 31,		
	2013	2012	2011
	(In thousands, except percentages)		
Interest expense calculated on contractual interest rate	$ 24,169	$ 30,475	$ 30,475
Amortization of discount on liability component	64,900	82,366	73,787
Total interest expense on convertible senior notes	$ 89,069	$ 112,841	$ 104,262
Effective interest rate (annualized)	12.4%	11.0%	11.0%

Senior Notes

Due 2017

In November 2012, the Company issued and sold $400 million aggregate principal amount of 5.250% senior notes due December 1, 2017 (the "Senior Notes due 2017") at an issue price of 98.912% of the aggregate principal amount. The Senior Notes due 2017 accrue interest on the principal amount at the rate of 5.250% per annum from November 20, 2012, payable semiannually in arrears, on June 1 and December 1 of each year, beginning on June 1, 2013. The unamortized discount at the time of issuance was $4.3 million. The discount is being amortized using the effective interest method over the remaining life of the Senior Notes due 2017 which, at December 31, 2013, is a period of 3.9 years at an effective annual interest rate of 5.5%.

The payment obligations under the Senior Notes due 2017 are governed by an indenture dated November 20, 2012 with Wells Fargo Bank, N.A., as trustee. The Senior Notes due 2017 are unsecured and are guaranteed on a senior unsecured basis by certain of the Company's existing and future domestic subsidiaries that guarantee its Credit Agreement, including ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Data Management LLC, Comenity LLC, Comenity Servicing LLC and Aspen Marketing Services, LLC. The indenture includes usual and customary negative covenants and events of default for transactions of this type.

Due 2020

In March 2012, the Company issued and sold $500 million aggregate principal amount of 6.375% senior notes due April 1, 2020 (the “Senior Notes due 2020”). The Senior Notes due 2020 accrue interest on the principal amount at the rate of 6.375% per annum from March 29, 2012, payable semiannually in arrears, on April 1 and October 1 of each year, beginning on October 1, 2012. The proceeds from the issuance of the Senior Notes due 2020 were used to repay outstanding indebtedness under the Company’s Credit Agreement.

The payment obligations under the Senior Notes due 2020 are governed by an indenture dated March 29, 2012 with Wells Fargo Bank, N.A., as trustee. The Senior Notes due 2020 are unsecured and are guaranteed on a senior unsecured basis by certain of the Company’s existing and future domestic subsidiaries that guarantee its Credit Agreement, including ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Data Management LLC, Comenity LLC, Comenity Servicing LLC and Aspen Marketing Services, LLC. The indenture includes usual and customary negative covenants and events of default for transactions of this type.

Deposits

Terms of the certificates of deposit range from three months to seven years with annual interest rates ranging from 0.15% to 3.55%, with a weighted average interest rate of 1.07%, at December 31, 2013 and 0.20% to 5.25%, with a weighted average interest rate of 1.18%, at December 31, 2012. Interest is paid monthly and at maturity.

Comenity Bank and Comenity Capital Bank offer demand deposit programs through contractual arrangements with securities brokerage firms. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date. As of December 31, 2013, Comenity Bank and Comenity Capital Bank had $329.8 million in money market deposits outstanding with annual interest rates ranging from 0.01% to 0.12%, with a weighted average interest rate of 0.04%. As of December 31, 2012, Comenity Bank and Comenity Capital Bank had $254.3 million in money market deposits outstanding with annual interest rates ranging from 0.01% to 0.26%, with a weighted average interest rate of 0.22%.

Non-Recourse Borrowings of Consolidated Securitization Entities

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

Asset-Backed Term Notes

In 2013, Master Trust I issued $1.2 billion of asset-backed term securities, $282.9 million of which was retained by the Company and eliminated from the consolidated financial statements. These securities have maturities of May 2016 and February 2018 and fixed interest rates of 0.91% and 1.61%. Proceeds from these issuances were used to repay the $822.3 million of asset-backed term securities that matured in 2013.

As of December 31, 2013, $3.8 billion of asset-backed term securities were outstanding, $0.8 billion of which was retained by the Company and eliminated from the consolidated financial statements. These securities have varying maturities from October 2014 through June 2019 and fixed interest rates ranging from 0.91% to 6.75% as of December 31, 2013.

In February 2014, Master Trust I issued $625.0 million of asset-backed term securities, $175.0 million of which was retained by the Company and eliminated from the consolidated financial statements. These securities mature in February 2016 and have a variable interest rate equal to LIBOR plus a margin of 0.38%.

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 December 31, 2013, total capacity under the conduit facilities was $2.1 billion, of which $1.6 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the consolidated balance sheets. Borrowings outstanding under each facility bear interest at a margin above LIBOR or the asset-backed commercial paper costs of each individual conduit provider. The conduits have varying maturities from March 2014 to September 2015 with variable interest rates ranging from 1.18% to 1.70% as of December 31, 2013. In February 2014, Master Trust I reduced its capacity under the conduit facility from $1.2 billion to $800.0 million.

Maturities

Debt at December 31, 2013 matures as follows:

Year	Long-Term and Other Debt	Non-Recourse Borrowings of Consolidated Securitization Entities and Deposits	Total
		(In thousands)	
2014 [1]	$ 376,377	$ 2,569,059	$ 2,945,436
2015	46,875	1,589,081	1,635,956
2016	62,500	1,010,334	1,072,834
2017 [2]	462,500	585,704	1,048,204
2018	1,367,406	789,471	2,156,877
Thereafter	500,000	864,628	1,364,628
Total maturities	2,815,658	7,408,277	10,223,935
Unamortized discount [3]	(15,377)	—	(15,377)
	$ 2,800,281	$ 7,408,277	$ 10,208,558

(1) Long-Term and Other Debt includes $345.0 million representing the aggregate principal amount of the Convertible Senior Notes due 2014.

(2) Long-Term and Other Debt includes $400.0 million representing the aggregate principal amount of the Senior Notes due 2017.

(3) Unamortized discount consists of $11.9 million for the Convertible Senior Notes due 2014 and $3.5 million for the Senior Notes due 2017, respectively.

Derivative Instruments

As part of its interest rate risk management program, the Company may enter into derivative contracts with institutions that are established dealers to manage its exposure to changes in interest rates for certain obligations.

The credit card securitization trusts entered into certain interest rate derivative instruments that involved the receipt of variable rate amounts from counterparties in exchange for the Company making fixed rate payments over the life of the agreement without the exchange of the underlying notional amount. These interest rate derivative instruments were not designated as hedges. Such instruments were not speculative and were used to manage interest rate risk, but did not meet the specific hedge accounting requirements of ASC 815, “Derivatives and Hedging.”

The Company’s outstanding interest rate derivative instruments matured in April 2013. The Company was not a party to any derivative instruments as of December 31, 2013.

During the years ended December 31, 2013, 2012 and 2011, gains on derivative instruments of $8.5 million, $29.6 million and $31.7 million, respectively, were recognized in securitization funding costs within the consolidated statements of income.

The following tables identify the notional amount, fair value and classification of the Company’s outstanding interest rate derivatives at December 31, 2012 in the consolidated balance sheets:

	December 31, 2012	
	Notional Amount	Weighted Average Years to Maturity
	(Dollars in thousands)	
Interest rate derivatives not designated as hedging instruments	$ 545,700	0.51

	December 31, 2012	
	Balance Sheet Location	Fair Value
	(In thousands)	
Interest rate derivatives not designated as hedging instruments	Other assets	$ 4
Interest rate derivatives not designated as hedging instruments	Other current liabilities	$ 8,515

10. DEFERRED REVENUE

As further discussed in Note 2, “Summary of Significant Accounting Policies,” the AIR MILES Reward Program collects fees from its sponsors based on the number of AIR MILES reward miles issued and, in limited circumstances, the number of AIR MILES reward miles redeemed. Because management has determined that the earnings process is not complete at the time an AIR MILES reward mile is issued, the recognition of redemption and service revenue is deferred.

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

	Deferred Revenue		
	Service	Redemption	Total
		(In thousands)	
December 31, 2011	$ 358,973	$ 867,463	$ 1,226,436
Cash proceeds	216,772	570,439	787,211
Revenue recognized	(205,740)	(593,679)	(799,419)
Other	—	1,000	1,000
Effects of foreign currency translation	10,008	23,825	33,833
December 31, 2012	380,013	869,048	1,249,061
Cash proceeds	203,735	528,474	732,209
Revenue recognized	(212,301)	(550,577)	(762,878)
Other	—	276	276
Effects of foreign currency translation	(24,816)	(56,666)	(81,482)
December 31, 2013	$ 346,631	$ 790,555	$ 1,137,186
Amounts recognized in the consolidated balance sheets:			
Current liabilities	$ 175,883	$ 790,555	$ 966,438
Non-current liabilities	$ 170,748	$ —	$ 170,748

11. COMMITMENTS AND CONTINGENCIES

AIR MILES Reward Program

The Company has entered into contractual arrangements with certain AIR MILES Reward Program sponsors that result in fees being billed to those sponsors upon the redemption of AIR MILES reward miles issued by those sponsors. The Company has obtained letters of credit and other assurances from those sponsors for the Company’s benefit that expire at various dates. These letters of credit and other assurances totaled $188.2 million at December 31, 2013, which exceeds the amount of the Company’s estimate of its obligation to provide travel and other rewards upon the redemption of the AIR MILES reward miles issued by those sponsors.

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

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

Leases

The Company leases certain office facilities and equipment under noncancellable operating leases and is generally responsible for property taxes and insurance related to such facilities. Lease expense was $80.5 million, $71.5 million and $61.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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Future annual minimum rental payments required under noncancellable operating leases, some of which contain renewal options, as of December 31, 2013, are:

Year	Future Minimum Rental Payments
	(In thousands)
2014	$ 67,289
2015	63,950
2016	56,239
2017	50,345
2018	32,551
Thereafter	116,845
Total	$ 387,219

Regulatory Matters

Comenity Bank is regulated, supervised and examined by the State of Delaware and the Federal Deposit Insurance Corporation (“FDIC”). Comenity Bank remains subject to regulation by the Board of the Governors of the Federal Reserve System. The Company’s industrial bank, Comenity Capital Bank, is authorized to do business by the State of Utah and the FDIC.

Quantitative measures established by regulations to ensure capital adequacy require Comenity Bank and Comenity Capital Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets and of Tier 1 capital to average assets as well as adequate allowances for loan losses. Under the regulations, a “well capitalized” institution must have a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An “adequately capitalized” institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, but 3% is allowed in some cases. Under these guidelines, Comenity Bank and Comenity Capital Bank are considered well capitalized. As of December 31, 2013, Comenity Capital Bank’s Tier 1 capital ratio was 14.1%, total capital ratio was 15.4% and leverage ratio was 14.0%, and Comenity Capital Bank was not subject to a capital directive order. As of December 31, 2013, Comenity Bank’s Tier 1 capital ratio was 14.2%, total capital ratio was 15.5% and leverage ratio was 14.2%, and Comenity Bank was not subject to a capital directive order.

Cardholders

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

Holders of credit cards issued by the Company have available lines of credit, which vary by cardholders that can be used for purchases of merchandise offered for sale by clients of the Company. These lines of credit represent elements of risk in excess of the amount recognized in the financial statements. The lines of credit are subject to change or cancellation by the Company. Excluding loans originated under the Company’s agreements with PayPal, as of December 31, 2013, the Company had approximately 39.3 million cardholders, having unused lines of credit averaging $1,434 per account. The Company also owns 9.5 million accounts through its agreements with PayPal discussed in Note 4, “Credit Card and Loan Receivables,” with unused lines of credit averaging $1,552 per account. The Company only bears the risk for its participating interest in the receivables originated by the Company and subsequently purchased by PayPal.

Legal Proceedings

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

12. STOCKHOLDERS’ EQUITY

Stock Repurchase Programs

On September 13, 2010, the Company’s Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of the Company’s outstanding common stock from September 13, 2010 through December 31, 2011.

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

On December 13, 2011, the Company's Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of the Company's outstanding common stock from January 1, 2012 through December 31, 2012. On January 2, 2013, the Company's Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of the Company's outstanding common stock from January 2, 2013 through December 31, 2013, subject to any restrictions pursuant to the terms of the Company's credit agreements, indentures, applicable securities laws or otherwise.

During 2013, 2012 and 2011, the Company repurchased approximately 1.4 million, 1.0 million and 2.9 million shares of its common stock for an aggregate amount of $231.1 million, $137.4 million and $240.9 million, respectively.

As of December 31, 2013, $168.9 million remained unused under the stock repurchase program that was authorized in January 2013 and expired on December 31, 2013.

On December 5, 2013, the Company's Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of our outstanding common stock from January 1, 2014 through December 31, 2014, subject to any restrictions pursuant to the terms of the Company's credit agreements, indentures, applicable securities laws or otherwise.

Stock Compensation Plans

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

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

Terms of all awards under the 2010 Omnibus Incentive Plan are determined by the Board of Directors or the compensation committee of the Board of Directors or its designee at the time of award.

Stock Compensation Expense

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

Total stock-based compensation expense recognized in the Company's consolidated statements of income for the years ended December 31, 2013, 2012 and 2011, is as follows:

	Years Ended December 31,		
	2013	**2012**	**2011**
		(In thousands)	
Cost of operations	$ 40,264	$ 32,654	$ 25,766
General and administrative	18,919	17,843	17,720
Total	$ 59,183	$ 50,497	$ 43,486

As the amount of stock-based compensation expense recognized is based on awards ultimately expected to vest, the amount recognized in the Company's results of operations has been reduced for estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on the Company's historical experience. The Company's forfeiture rate was 5% for the years ended December 31, 2013, 2012 and 2011. As of December 31, 2013, there was approximately $70.9 million of unrecognized expense, adjusted for estimated forfeitures, related to non-vested, stock-based equity awards granted to employees, which is expected to be recognized over a weighted average period of approximately 1.2 years.

Restricted Stock Awards

During 2013, the Company awarded both service-based and performance-based restricted stock units. Fair value of the restricted stock units is estimated using the Company's closing share price on the date of grant. In accordance with ASC 718, the Company recognizes the estimated stock-based compensation expense, net of estimated forfeitures, over the applicable service period.

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

	Performance-Based	Service-Based	Total	Weighted Average Fair Value
Balance at January 1, 2011	1,787,473	773,725	2,561,198	$ 51.93
Shares granted	457,180	158,539	615,719	83.28
Shares vested	(373,099)	(543,643)	(916,742)	49.81
Shares cancelled [1]	(1,014,982)	(43,432)	(1,058,414)	56.73
Balance at December 31, 2011	856,572	345,189	1,201,761	$ 65.39
Shares granted	527,080	127,646	654,726	110.18
Shares vested	(505,335)	(130,066)	(635,401)	59.06
Shares cancelled	(104,476)	(27,618)	(132,094)	86.13
Balance at December 31, 2012	773,841	315,151	1,088,992	$ 93.33
Shares granted	409,575	92,206	501,781	155.31
Shares vested	(448,868)	(122,931)	(571,799)	88.15
Shares cancelled	(49,544)	(14,915)	(64,459)	115.83
Balance at December 31, 2013	685,004	269,511	954,515	$ 121.86
Outstanding and Expected to Vest			884,545	$ 120.56

(1) In March 2009, the Company determined that it was no longer probable that the specified performance measures associated with certain performance-based restricted stock units that were granted during 2008 and January 2009 would be achieved. The Company did not recognize stock-based compensation expense related to those awards no longer probable to vest. A total of 939,190 shares related to these certain performance-based restricted stock units did not meet the specified performance criteria and thus did not vest, resulting in their cancellation during the year ended December 31, 2011.

The total fair value of restricted stock units vested was $50.4 million, $37.5 million and $45.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. The aggregate intrinsic value of restricted stock units outstanding and expected to vest was $232.6 million at December 31, 2013. The weighted-average remaining contractual life for unvested restricted stock units was 1.2 years at December 31, 2013.

Stock Options

Stock option awards are granted with an exercise price equal to the market price of the Company's stock on the date of grant. Options typically vest ratably over three years and expire ten years after the date of grant. No stock option awards were granted during the years ended December 31, 2013, 2012 and 2011. The fair value of the option awards was estimated on the date of grant using a binomial lattice model.

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

	Outstanding		Exercisable	
	Options	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Balance at January 1, 2011	1,422,264	$ 40.12	1,422,264	$ 40.12
Granted	—	—		
Exercised	(669,712)	37.24		
Forfeited	(12,535)	31.46		
Balance at December 31, 2011	740,017	$ 42.87	740,017	$ 42.87
Granted	—	—		
Exercised	(355,764)	42.95		
Forfeited	—	—		
Balance at December 31, 2012	384,253	$ 42.80	384,253	$ 42.80
Granted	—	—		
Exercised	(143,577)	36.30		
Forfeited	(1,000)	31.38		
Balance at December 31, 2013	239,676	$ 46.75	239,676	$ 46.75
Vested and Expected to Vest (1)	239,676	$ 46.75		

(1) All options outstanding at December 31, 2013 are vested and exercisable and there were no remaining options expected to vest.

Based on the market value on their respective exercise dates, the total intrinsic value of stock options exercised was approximately $25.7 million, $31.0 million and $33.9 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The aggregate intrinsic value of the outstanding stock options as of December 31, 2013 was approximately $51.8 million. The weighted average remaining contractual life of stock options vested and exercisable as of December 31, 2013 was approximately 1.8 years.

The Company received cash proceeds of approximately $5.2 million from stock options exercised during the year ended December 31, 2013.

13. EMPLOYEE BENEFIT PLANS

Employee Stock Purchase Plan

On June 7, 2005, at the annual meeting of stockholders, the stockholders approved and adopted the Amended and Restated Employee Stock Purchase Plan (the "ESPP"), effective on July 1, 2005. No employee may purchase more than $25,000 in stock under the ESPP in any calendar year, and no employee may purchase stock under the ESPP if such purchase would cause the employee to own more than 5% of the voting power or value of the Company's common stock. The ESPP provides for three month offering periods, commencing on the first trading day of each calendar quarter and ending on the last trading day of each calendar quarter. The purchase price of the common stock upon exercise shall be 85% of the fair market value of shares on the applicable purchase date as determined by averaging the high and low trading prices of the last trading day of each quarter. An employee may elect to pay the purchase price of such common stock through payroll deductions. The maximum number of shares reserved for issuance under the ESPP is 1,500,000 shares, subject to adjustment as provided in the ESPP. Employees are required to hold any stock purchased through the ESPP for 180 days prior to any sale or withdrawal of shares.

On August 22, 2001, the Company registered 1,500,000 shares of its common stock for issuance in accordance with the ESPP pursuant to a Registration Statement on Form S-8, File No. 333-68134.

During the year ended December 31, 2013, the Company issued 52,241 shares of common stock under the ESPP at a weighted-average issue price of $169.93. Since its adoption, 1,011,423 shares of common stock have been issued under the ESPP.

2010 Omnibus Incentive Plan

At the June 8, 2010 annual meeting of stockholders, the Company's stockholders approved the 2010 Omnibus Incentive Plan. The 2010 plan authorizes the compensation committee to grant cash-based and other equity-based or equity-related awards, including deferred stock units and fully-vested shares. The maximum cash amount that may be awarded to any single participant in any one calendar year may not exceed $7.5 million.

401(k) Retirement Savings Plan

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

Through December 31, 2013, the Company matched dollar-for-dollar on the first three percent of savings, and an additional fifty cents for each dollar an employee contributed for savings of more than three percent and up to five percent of pay. Effective January 1, 2014, the Company will match dollar-for-dollar up to five percent of savings. All company matching contributions are immediately vested. In addition to the company match, the Company may make an additional annual discretionary contribution based on the Company’s profitability. This contribution, subject to Board of Director approval, is based on a percentage of pay and is subject to a separate three-year cliff vesting schedule. The discretionary contribution vests in full upon achieving three years of service for participants with less than three years of service. All of these contributions vest immediately if the participating employee has more than three years of service, attains age 65, becomes disabled, dies or if the 401(k) and Retirement Savings Plan terminates. Company matching and discretionary contributions for the years ended December 31, 2013, 2012 and 2011 were $28.1 million, $22.0 million and $14.0 million, respectively.

The participants in the plan can direct their contributions and the Company’s matching contribution to numerous investment options, including the Company’s common stock. On July 20, 2001, the Company registered 1,500,000 shares of its common stock for issuance in accordance with its 401(k) and Retirement Savings Plan pursuant to a Registration Statement on Form S-8, File No. 333-65556. As of December 31, 2013, 759,194 of such shares remain available for issuance.

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

The Company provides for its Canadian employees the Group Retirement Savings Plan of the Loyalty Group (“GRSP”), which is a group retirement savings plan registered with the Canada Revenue Agency. Contributions made by Canadian employees on their behalf or on behalf of their spouse to the GRSP, and income earned on these contributions, are not taxable to employees until withdrawn from the GRSP. Employee contributions eligible for company match may not exceed the overall maximum allowed by the Income Tax Act (Canada); the maximum tax-deductible GRSP contribution is set by the Canada Revenue Agency each year. The Deferred Profit Sharing Plan (“DPSP”) is a legal trust registered with the Canada Revenue Agency. Eligible full-time employees can participate in the GRSP after three months of employment and eligible part-time employees after six months of employment. Employees become eligible to receive company matching contributions into the DPSP on the first day of the calendar quarter following twelve months of employment. Based on the eligibility guidelines, the Company matches up to 5% of contributions dollar-for-dollar. Contributions made to the DPSP reduce an employee’s maximum contribution amounts to the GRSP under the Income Tax Act (Canada) for the following year. All company matching contributions into the DPSP vest after receipt of one continuous year of DPSP contributions. LoyaltyOne matching and discretionary contributions for the years ended December 31, 2013, 2012 and 2011 were $2.1 million, $2.0 million and $2.0 million, respectively.

Executive Deferred Compensation Plan and the Canadian Supplemental Executive Retirement Plan

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

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

14. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Net Unrealized Gains (Losses) on Securities	Foreign Currency Translation Adjustments (1)	Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Balance as of January 1, 2011	$ (20,082)	$ (14,418)	$ (34,500)
Changes in other comprehensive income (loss)	27,035	(15,591)	11,444
Balance as of December 31, 2011	6,953	(30,009)	(23,056)
Changes in other comprehensive income (loss)	3,368	(2,173)	1,195
Balance as of December 31, 2012	10,321	(32,182)	(21,861)
Changes in other comprehensive income (loss)	(6,132)	9,766	3,634
Balance as of December 31, 2013	$ 4,189	$ (22,416)	$ (18,227)

(1) Primarily related to the impact of changes in the Canadian currency exchange rate.

A de minimis amount was reclassified out of accumulated other comprehensive income (loss) for the year ended December 31, 2013.

15. INCOME TAXES

The Company files a consolidated federal income tax return.

	Years Ended December 31,		
	2013	2012	2011
		(In thousands)	
Components of income before income taxes:			
Domestic	$ 547,757	$ 481,243	$ 332,010
Foreign	245,655	201,661	182,085
Total	$ 793,412	$ 682,904	$ 514,095
Components of income tax expense are as follows:			
Current			
Federal	$ 188,600	$ 143,695	$ 71,843
State	33,595	13,991	9,415
Foreign	32,134	696	70,514
Total current	254,329	158,382	151,772
Deferred			
Federal	1,477	28,267	46,459
State	(1,485)	6,176	3,482
Foreign	42,921	67,823	(2,904)
Total deferred	42,913	102,266	47,037
Total provision for income taxes	$ 297,242	$ 260,648	$ 198,809

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

	Years Ended December 31,		
	2013	2012	2011
		(In thousands)	
Expected expense at statutory rate	$ 277,694	$ 239,016	$ 179,933
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal benefit	20,871	13,109	8,383
Foreign earnings at other than U.S. rates	(9,225)	(4,328)	(7,131)
Canadian tax rate reductions	—	(7,128)	7,188
U.S. tax on foreign dividends, net of credits	—	15,617	5,228
Other	7,902	4,362	5,208
Total	$ 297,242	$ 260,648	$ 198,809

Deferred tax assets and liabilities consist of the following:

	December 31,	
	2013	2012
	(In thousands)	
Deferred tax assets		
Deferred revenue	$ 42,359	$ 90,675
Allowance for doubtful accounts	192,546	186,503
Net operating loss carryforwards and other carryforwards	53,591	51,603
Derivatives	—	4,456
Stock-based compensation and other employee benefits	28,582	27,205
Accrued expenses and other	50,120	44,267
Total deferred tax assets	367,198	404,709
Valuation allowance	(22,414)	(22,542)
Deferred tax assets, net of valuation allowance	344,784	382,167
Deferred tax liabilities		
Deferred income	$ 244,612	$ 203,658
Convertible note hedges	1,474	7,553
Depreciation	8,440	8,950
Intangible assets	147,366	172,065
Total deferred tax liabilities	401,892	392,226
Net deferred tax liability	$ (57,108)	$ (10,059)
Amounts recognized in the consolidated balance sheets:		
Current assets	$ 216,195	$ 237,268
Non-current assets	2,454	30,027
Non-current liabilities	(275,757)	(277,354)
Total – Net deferred tax liability	$ (57,108)	$ (10,059)

At December 31, 2013, the Company has approximately $20.1 million of U.S. federal net operating loss carryovers (“NOLs”), approximately $4.6 million of capital losses, and approximately $27.4 million of foreign tax credits (“credits”), which expire at various times through the year 2023. Pursuant to Section 382 of the Internal Revenue Code, the Company’s utilization of such NOLs is subject to an annual limitation. In addition, at December 31, 2013, the Company has state income tax NOLs of approximately $452.8 million, approximately $4.6 million of capital losses, and state credits of approximately $6.1 million available to offset future state taxable income. The state NOLs and credits will expire at various times through the year 2033. The Company believes it is more likely than not that the capital losses and a portion of the state credits and state NOLs will expire before being utilized. Therefore, in accordance with ASC 740-10, “Income Taxes—Overall—Initial Measurement,” the Company has established a valuation allowance on the portion of state credits and state NOLs that the Company expects to expire prior to utilization.

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

The income tax expense does not reflect the tax effect of certain items recorded directly to additional paid-in capital. The net tax impact resulting from the exercise of employee stock options and other employee stock programs that was recorded in additional paid-in capital was approximately $17.3 million, $21.4 million and $17.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

In December 2009, the Ontario government enacted a law to reduce the corporate income tax rates for years beginning in 2010. As a result of these rate reductions, the Company was required to book additional expense to reduce the net deferred tax asset in Canada related to the future lower income tax rates. The Company recorded $7.2 million of income tax expense for the year ended December 31, 2011 related to these rate reductions. In June 2012, the Ontario government enacted a law that froze the corporate income tax rate at the current rate, essentially repealing the rate reductions scheduled for future years. As a result of the rate freeze, the Company was required to record a $7.1 million tax benefit to increase its deferred tax asset in Canada related to future years.

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

Balance at December 31, 2010	$	54,200
Increases related to prior years' tax positions		14,509
Decreases related to prior years' tax positions		(5,497)
Increases related to current year tax positions		9,581
Settlements during the period		(2,569)
Lapses of applicable statutes of limitation		(680)
Balance at December 31, 2011	$	69,544
Increases related to prior years' tax positions		4,188
Decreases related to prior years' tax positions		(7,424)
Increases related to current year tax positions		11,703
Settlements during the period		(1,253)
Lapses of applicable statutes of limitation		(604)
Balance at December 31, 2012	$	76,154
Increases related to prior years' tax positions		4,328
Decreases related to prior years' tax positions		(1,580)
Increases related to current year tax positions		23,567
Settlements during the period		(197)
Lapses of applicable statutes of limitation		(918)
Balance at December 31, 2013	$	101,354

Included in the balance at December 31, 2013 are tax positions reclassified from deferred tax liabilities. Deductibility or taxability is highly certain for these tax positions but there is uncertainty about the timing of such deductibility or taxability. Because of the impact of deferred tax accounting, other than interest and penalties, this timing uncertainty would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company has potential cumulative interest and penalties with respect to unrecognized tax benefits of approximately $18.5 million, $15.5 million and $15.1 million at December 31, 2013, 2012 and 2011, respectively. For the years ended December 31, 2013 and 2012, the Company recorded approximately $2.1 million and $0.3 million, respectively, in potential interest and penalties with respect to unrecognized tax benefits. For the year ended December 31, 2011, the Company released approximately $0.3 million in potential interest and penalties with respect to unrecognized tax benefits.

At December 31, 2013, 2012 and 2011, the Company had unrecognized tax benefits of approximately $56.0 million, $37.5 million and $37.1 million, respectively that, if recognized, would impact the effective tax rate. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits over the next twelve months.

The Company files income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. With some exceptions, the tax returns filed by the Company are no longer subject to state and local or foreign income tax examinations for years before 2009 and are no longer subject to U.S. federal income tax examinations by tax authorities for years before 2010.

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.

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

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

	December 31,			
	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets				
Cash and cash equivalents	$ 969,822	$ 969,822	$ 893,352	$ 893,352
Trade receivables, net	394,822	394,822	370,110	370,110
Credit card and loan receivables, net	8,131,795	8,131,795	6,967,674	6,967,674
Redemption settlement assets, restricted	510,349	510,349	492,690	492,690
Cash collateral, restricted	34,124	34,124	65,160	65,160
Other investments	99,221	99,221	91,972	91,972
Derivative instruments	—	—	4	4
Financial liabilities				
Accounts payable	210,019	210,019	215,470	215,470
Deposits	2,816,361	2,836,352	2,228,411	2,255,089
Non-recourse borrowings of consolidated securitization entities	4,591,916	4,618,205	4,130,970	4,225,745
Long-term and other debt	2,800,281	4,404,500	2,854,839	4,358,379
Derivative instruments	—	—	8,515	8,515

Fair Value of Assets and Liabilities Held at December 31, 2013 and 2012

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

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

Credit card and loan receivables, net — Credit card and loan receivables, net includes both receivables issued or purchased by the Company in the normal course of business and loan receivables held for sale as described in Note 4, "Credit Card and Loan Receivables." The carrying amount of credit card and loan receivables, net approximates fair value due to the short maturity and average interest rates that approximate current market origination rates. Loan receivables held for sale, which were $62.1 million at December 31, 2013, are carried at the lower of cost or fair value, and their carrying amount approximates fair value due to the short duration between origination and sale.

Redemption settlement assets, restricted — Redemption settlement assets, restricted consists of cash and cash equivalents and marketable securities. The fair value for securities is based on quoted market prices for the same or similar securities.

Cash collateral, restricted — The spread deposits are recorded at their fair value based on discounted cash flow models. The Company uses a valuation model that calculates the present value of estimated cash flows for each asset. The fair value is based on the term of the underlying securities and a discount rate. The carrying amount of excess funding deposits approximates its fair value due to the relatively short maturity period and average interest rates, which approximate current market rates.

Other investments — Other investments consist of restricted cash and marketable securities. The fair value is 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 valuation of these instruments was determined using a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs, including interest rate curves and option volatility.

Other Investments

Other investments consist of restricted cash and marketable securities. As of December 31, 2013 and 2012, other investments are comprised as follows:

	December 31, 2013				December 31, 2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)							
Restricted cash	$ 25,988	$ —	$ —	$ 25,988	$ 47,120	$ —	$ —	$ 47,120
Marketable securities	77,351	62	(4,180)	73,233	45,119	202	(469)	44,852
Total	$ 103,339	$ 62	$ (4,180)	$ 99,221	$ 92,239	$ 202	$ (469)	$ 91,972

The following tables show the gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2013 and 2012, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	December 31, 2013					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Marketable securities	$ 39,954	$ (2,206)	$ 25,785	$ (1,974)	$ 65,739	$ (4,180)

	December 31, 2012					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Marketable securities	$ 28,886	$ (292)	$ 4,913	$ (177)	$ 33,799	$ (469)

The amortized cost and estimated fair value of the marketable securities at December 31, 2013 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 6,571	$ 6,503
Due after five years through ten years	4,580	4,611
Due after ten years	66,200	62,119
Total	$ 77,351	$ 73,233

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 ability to hold the investments until maturity. Realized gains and losses from the sale of investment securities were not material.

As of December 31, 2013, the Company does not consider the investments to be other-than-temporarily impaired.

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

Financial Assets and Financial Liabilities Fair Value Hierarchy

ASC 825 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

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

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

The following table provides information for the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2013 and 2012:

	Balance at December 31, 2013	Fair Value Measurements at December 31, 2013 Using		
		Level 1	Level 2	Level 3
	(In thousands)			
Corporate bonds [1]	$ 436,365	$ —	$ 436,365	$ —
Cash collateral, restricted	34,124	—	—	34,124
Other investments [2]	99,221	30,888	68,333	—
Total assets measured at fair value	$ 569,710	$ 30,888	$ 504,698	$ 34,124

	Balance at December 31, 2012	Fair Value Measurements at December 31, 2012 Using		
		Level 1	Level 2	Level 3
	(In thousands)			
Government bonds [1]	$ 5,117	$ —	$ 5,117	$ —
Corporate bonds [1]	447,307	6,165	441,142	—
Cash collateral, restricted	65,160	2,500	—	62,660
Other investments [2]	91,972	51,951	40,021	—
Derivative instruments [3]	4	—	4	—
Total assets measured at fair value	$ 609,560	$ 60,616	$ 486,284	$ 62,660
Derivative instruments [4]	$ 8,515	$ —	$ 8,515	$ —
Total liabilities measured at fair value	$ 8,515	$ —	$ 8,515	$ —

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

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

(3) Amount is included in other assets in the consolidated balance sheets.

(4) Amount is included in other current liabilities in the consolidated balance sheets.

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

The following table summarizes the changes in fair value of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 825 as of December 31, 2013 and 2012:

	Cash Collateral, Restricted	
	Years Ended December 31,	
	2013	2012
	(In thousands)	
Balance at beginning of period	$ 62,660	$ 158,727
Total gains (realized or unrealized):		
Included in earnings	1,369	5,469
Purchases	—	1,287
Sales	—	—
Issuances	—	—
Settlements	(29,905)	(102,823)
Transfers in or out of Level 3	—	—
Balance at end of period	$ 34,124	$ 62,660
Gains for the period included in earnings related to assets still held at end of period	$ 971	$ 5,469

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the years ended December 31, 2013 and 2012.

The spread deposits included in cash collateral, restricted are recorded at their fair value based on discounted cash flow models, utilizing the respective term of each instrument which ranged from 10 to 34 months, with a weighted average term of 17 months. The unobservable input used to calculate the fair value was the discount rate of 3.2%, which was based on an interest rate curve that is observable in the market as adjusted for a credit spread. Significant increases (decreases) in the term or the discount rate would result in a lower (higher) fair value.

For the years ended December 31, 2013 and 2012, gains and losses included in earnings attributable to cash collateral, restricted are included in interest in the consolidated statements of income.

Financial Instruments Disclosed but Not Carried at Fair Value

The following tables provide assets and liabilities disclosed but not carried at fair value as of December 31, 2013 and 2012:

	Fair Value Measurements at December 31, 2013			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Cash and cash equivalents	$ 969,822	$ 969,822	$ —	$ —
Credit card and loan receivables, net	8,131,795	—	—	8,131,795
Total assets	$ 9,101,617	$ 969,822	$ —	$ 8,131,795
Deposits	$ 2,836,352	$ —	$ 2,836,352	$ —
Non-recourse borrowings of consolidated securitization entities	4,618,205	—	4,618,205	—
Long-term and other debt	4,404,500	—	4,404,500	—
Total liabilities	$ 11,859,057	$ —	$ 11,859,057	$ —

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

	Fair Value Measurements at December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Cash and cash equivalents	$ 893,352	$ 893,352	$ —	$ —
Credit card and loan receivables, net	6,967,674	—	—	6,967,674
Total assets	$ 7,861,026	$ 893,352	$ —	$ 6,967,674
Deposits	$ 2,255,089	$ —	$ 2,255,089	$ —
Non-recourse borrowings of consolidated securitization entities	4,225,745	—	4,225,745	—
Long-term and other debt	4,358,379	—	4,358,379	—
Total liabilities	$ 10,839,213	$ —	$ 10,839,213	$ —

17. PARENT-ONLY FINANCIAL STATEMENTS

The following ADSC financial statements are provided in accordance with the rules of the Securities and Exchange Commission, which require such disclosure when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets. Certain of the Company’s subsidiaries may be restricted in distributing cash or other assets to ADSC, which could be utilized to service its indebtedness. The stand alone parent-only financial statements are presented below.

Balance Sheets

	December 31,	
	2013	2012
	(In thousands)	
Assets:		
Cash and cash equivalents	$ 15,216	$ 247,478
Investment in subsidiaries	3,819,760	2,813,219
Intercompany receivables	399,305	887,518
Other assets	96,039	61,222
Total assets	$ 4,330,320	$ 4,009,437
Liabilities:		
Current debt	$ 364,489	$ 803,256
Long-term debt	2,435,792	2,051,570
Intercompany payables	—	8,519
Other liabilities	674,278	617,605
Total liabilities	3,474,559	3,480,950
Stockholders’ equity	855,761	528,487
Total liabilities and stockholders’ equity	$ 4,330,320	$ 4,009,437

Statements of Income

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Interest from loans to subsidiaries	$ 10,065	$ 10,248	$ 10,197
Dividends from subsidiaries	68,544	464,971	343,676
Total revenue	78,609	475,219	353,873
Interest expense, net	184,727	179,527	159,088
Other expenses, net	1,240	533	646
Total expenses	185,967	180,060	159,734
(Loss) income before income taxes and equity in undistributed net income of subsidiaries	(107,358)	295,159	194,139
Benefit for income taxes	32,909	73,106	34,127
(Loss) income before equity in undistributed net income of subsidiaries	(74,449)	368,265	228,266
Equity in undistributed net income of subsidiaries	570,619	53,991	87,020
Net income	$ 496,170	$ 422,256	$ 315,286

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

Statements of Cash Flows

	Years Ended December 31,		
	2013	2012	2011
		(In thousands)	
Net cash provided by (used in) operating activities	$ 144,841	$ (224,835)	$ (10,011)
Investing activities:			
Payments for acquired businesses, net of cash acquired	—	—	(359,076)
Loans to subsidiaries	(112,903)	—	—
Investment in subsidiaries	—	(475,000)	—
Dividends received	68,544	464,971	343,676
Net cash used in investing activities	(44,359)	(10,029)	(15,400)
Financing activities:			
Borrowings under debt agreements	1,985,000	1,095,148	3,256,500
Repayments of borrowings	(1,300,241)	(506,214)	(3,010,906)
Proceeds from convertible note hedge counterparties	1,056,307	—	—
Settlement of convertible note borrowings	(1,861,289)	—	—
Excess tax benefits from stock-based compensation	17,267	20,199	15,028
Payment of deferred financing costs	(12,784)	(21,672)	(23,861)
Purchase of treasury shares	(231,085)	(125,840)	(240,877)
Proceeds from issuance of common stock	14,090	20,696	29,412
Other	(9)	—	—
Net cash (used in) provided by financing activities	(332,744)	482,317	25,296
(Decrease) increase in cash and cash equivalents	(232,262)	247,453	(115)
Cash and cash equivalents at beginning of year	247,478	25	140
Cash and cash equivalents at end of year	$ 15,216	$ 247,478	$ 25

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 and serves different markets.

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

- LoyaltyOne includes the Company’s Canadian AIR MILES Reward Program;
- Epsilon provides end-to-end, integrated direct marketing solutions that leverage transactional data to help clients more effectively acquire and build stronger relationships with their customers; and
- Private Label Services and Credit provides risk management solutions, account origination, funding, transaction processing, customer care and collections services for the Company’s private label retail credit card programs.

Corporate and all 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.” Total assets are not allocated to the segments.

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

The accounting policies of the operating segments are generally the same as those described in the summary of significant accounting policies.

Year Ended December 31, 2013	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
	(In thousands)					
Revenues	$ 919,480	$ 1,380,344	$ 2,034,724	$ 82	$ (15,567)	$ 4,319,063
Adjusted EBITDA [1]	258,541	289,699	916,099	(90,125)	—	1,374,214
Stock compensation expense	10,804	18,365	11,095	18,919	—	59,183
Depreciation and amortization	18,057	139,984	52,277	5,801	—	216,119
Operating income (loss)	229,680	131,350	852,727	(114,845)	—	1,098,912
Interest expense, net	(1,312)	(56)	122,159	184,709	—	305,500
Income before income tax	230,992	131,406	730,568	(299,554)	—	793,412
Capital expenditures	$ 28,713	$ 67,024	$ 27,909	$ 11,730	$ —	$ 135,376

Year Ended December 31, 2012	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
	(In thousands)					
Revenues	$ 919,041	$ 996,210	$ 1,732,160	$ 372	$ (6,393)	$ 3,641,390
Adjusted EBITDA [1]	236,094	222,253	823,241	(89,851)	—	1,191,737
Stock compensation expense	9,311	14,414	8,930	17,842	—	50,497
Depreciation and amortization	19,614	101,684	42,464	3,114	—	166,876
Operating income (loss)	207,169	106,155	771,847	(110,807)	—	974,364
Interest expense, net	(1,560)	(67)	114,193	178,894	—	291,460
Income before income tax	208,729	106,222	657,654	(289,701)	—	682,904
Capital expenditures	$ 19,424	$ 60,065	$ 28,295	$ 8,671	$ —	$ 116,455

Year Ended December 31, 2011	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
	(In thousands)					
Revenues	$ 844,774	$ 847,136	$ 1,488,998	$ 1,136	$ (8,757)	$ 3,173,287
Adjusted EBITDA [1]	217,083	195,397	678,334	(76,407)	(5,088)	1,009,319
Stock compensation expense	7,202	11,816	6,748	17,720	—	43,486
Depreciation and amortization	20,253	90,111	35,480	7,309	—	153,153
Operating income (loss)	189,628	93,470	636,106	(101,436)	(5,088)	812,680
Interest expense, net	(383)	(68)	145,580	158,544	(5,088)	298,585
Income before income tax	190,011	93,538	490,526	(259,980)	—	514,095
Capital expenditures	$ 18,331	$ 35,600	$ 13,485	$ 6,086	$ —	$ 73,502

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(1) Adjusted EBITDA is a non-GAAP financial measure equal to income (loss) from continuing operations, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization and amortization of purchased intangibles. Adjusted EBITDA is presented in accordance with ASC 280 as it is the primary performance metric utilized to assess performance of the segment.

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

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

	United States	Canada	Other	Total
	(In thousands)			
Revenues				
Year Ended December 31, 2013	$ 3,327,688	$ 906,459	$ 84,916	$ 4,319,063
Year Ended December 31, 2012	$ 2,655,506	$ 913,188	$ 72,696	$ 3,641,390
Year Ended December 31, 2011	$ 2,264,336	$ 833,427	$ 75,524	$ 3,173,287
Long-lived assets				
December 31, 2013	$ 2,371,054	$ 313,891	$ 158,470	$ 2,843,415
December 31, 2012	$ 2,379,536	$ 350,122	$ 138,338	$ 2,867,996

19. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Unaudited quarterly results of operations for the years ended December 31, 2013 and 2012 are presented below.

	Quarter Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
	(In thousands, except per share amounts)			
Revenues	$ 1,053,437	$ 1,028,092	$ 1,096,447	$ 1,141,087
Operating expenses	762,212	758,912	807,679	891,348
Operating income	291,225	269,180	288,768	249,739
Interest expense, net	82,544	83,466	74,015	65,475
Income before income taxes	208,681	185,714	214,753	184,264
Provision for income taxes	79,702	69,274	81,875	66,391
Net income	$ 128,979	$ 116,440	$ 132,878	$ 117,873
Net income per share—basic	$ 2.59	$ 2.37	$ 2.73	$ 2.40
Net income per share—diluted	$ 1.92	$ 1.71	$ 2.01	$ 1.79

	Quarter Ended			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
	(In thousands, except per share amounts)			
Revenues	$ 891,569	$ 866,485	$ 911,492	$ 971,844
Operating expenses	638,950	625,942	647,021	755,113
Operating income	252,619	240,543	264,471	216,731
Interest expense, net	65,652	73,067	74,365	78,376
Income before income taxes	186,967	167,476	190,106	138,355
Provision for income taxes	71,738	63,655	70,561	54,694
Net income	$ 115,229	$ 103,821	$ 119,545	$ 83,661
Net income per share—basic	$ 2.30	$ 2.07	$ 2.39	$ 1.68
Net income per share—diluted	$ 1.86	$ 1.63	$ 1.84	$ 1.27

20. NON-CASH FINANCING AND INVESTING ACTIVITIES

In December 2012, the Company purchased 0.1 million of treasury shares for an aggregate amount of $11.6 million that had not settled on December 31, 2012 and was included in accounts payable.

21. SUBSEQUENT EVENT

On January 2, 2014, the Company acquired a 60% ownership interest in BrandLoyalty Group B.V., a Netherlands-based, data-driven loyalty marketer. BrandLoyalty designs, organizes, implements and evaluates innovative and tailor-made loyalty programs for food retailers worldwide. The acquisition expands the Company's presence across Europe and Asia. The initial cash consideration was approximately €172.4 million ($235.6 million at January 2, 2014) in addition to the assumption of debt and is subject to certain customary purchase price adjustments. The consideration amount may also be increased through an earn-out provision as defined in the purchase and sale agreement based upon 2014 results. The Company also has the ability to acquire the remaining 40% interest over a four-year period, 10% per year, based upon predetermined valuation multiples. If specified annual earnings targets are met by BrandLoyalty, the Company must acquire the additional 10% interest for the year achieved; otherwise the seller has a put option to sell the Company its 10% interest for the respective year.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Alliance Data Systems Corporation has duly caused this annual report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLIANCE DATA SYSTEMS CORPORATION

By: /S/ EDWARD J. HEFFERNAN

Edward J. Heffernan
President and Chief Executive Officer

DATE: February 28, 2014

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

Name	Title	Date
/S/ EDWARD J. HEFFERNAN **Edward J. Heffernan**	President, Chief Executive Officer and Director	February 28, 2014
/S/ CHARLES L. HORN **Charles L. Horn**	Executive Vice President and Chief Financial Officer	February 28, 2014
/S/ LAURA SANTILLAN **Laura Santillan**	Senior Vice President and Chief Accounting Officer	February 28, 2014
/S/ BRUCE K. ANDERSON **Bruce K. Anderson**	Director	February 28, 2014
/S/ ROGER H. BALLOU **Roger H. Ballou**	Director	February 28, 2014
/S/ LAWRENCE M. BENVENISTE, PH.D. **Lawrence M. Benveniste, Ph.D.**	Director	February 28, 2014
/S/ D. KEITH COBB **D. Keith Cobb**	Director	February 28, 2014
/S/ E. LINN DRAPER, JR., PH.D. **E. Linn Draper, Jr., Ph.D.**	Director	February 28, 2014
/S/ KENNETH R. JENSEN **Kenneth R. Jensen**	Director	February 28, 2014
/S/ ROBERT A. MINICUCCI **Robert A. Minicucci**	Chairman of the Board, Director	February 28, 2014

SCHEDULE II

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Write-Offs Net of Recoveries	Balance at End of Period
			(In thousands)		
Allowance for Doubtful Accounts —Trade receivables:					
Year Ended December 31, 2013	$ 3,919	$ 386	$ 1,273	$ (3,316)	$ 2,262
Year Ended December 31, 2012	$ 2,406	$ 2,270	$ 384	$ (1,141)	$ 3,919
Year Ended December 31, 2011	$ 4,350	$ 2,141	$ 547	$ (4,632)	$ 2,406

Exhibit 10.6

LEASE MODIFICATION AGREEMENT

This Lease Modification Agreement ("Agreement") is entered into as of October 17, 2013 (the "Effective Date"), by and between OFFICE CITY, INC., an Ohio corporation ("Landlord"), and COMENITY SERVICING LLC, a Texas limited liability company, its successors and assigns ("Tenant").

Recitals

A. Landlord and Tenant (as successor in interest to ADS Alliance Data Systems, Inc.) entered into that certain Office Lease dated December 24, 1986, as modified by Amendment to Lease dated January 19, 1987, Amendment to Office Lease dated January 19, 1987, Assignment of Lease effective January 20, 1987, Second Amendment to Office Lease dated May 11, 1988, Bill of Sale and Assignment dated May 1, 1989, Third Amendment to Office Lease dated August 4, 1989, Lease Extension dated July 28, 1994, Assignment and Assumption Agreement effective February 1, 1998, Modification of Lease dated August 18, 1999, Letter Agreement (Addendum to Modification of Lease) dated March 6, 2001, Fifth Amendment to Office Lease dated March 29, 2004, Sixth Amendment to Office Lease dated September __, 2007 and that certain letter agreement dated December 12, 2012 (collectively, the "Lease") for those certain premises consisting of approximately103,161 square feet designated as Storeroom Number 4590 and having an address of4590 East Broad Street, Columbus, Ohio 43213 (the "Premises"), which Premises are situated within the Airport Commerce Park located in the City of Whitehall, County of Franklin and State of Ohio ("Shopping Center").

B. The term of the Lease expires January 31, 2014 and Landlord and Tenant desire to extend the term of the Lease for an additional period of five (5) Lease Years.

C. Landlord and Tenant mutually intend and desire to modify the Lease on and subject to the terms and conditions hereinafter set forth.

Agreement

In consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord and Tenant agree as follows:

1. As of the Effective Date, the Lease is modified as follows:

   a. Extended Term. Notwithstanding any contrary provision of the Lease, the term of the Lease is hereby extended for five (5) Lease Years commencing on February 1, 2014 and continuing through January 31, 2019 (such period, the "Extended Term"). Except as otherwise set forth herein, all the terms, covenants, provisions and conditions set forth in the Lease shall apply during the Extended Term. "Term" as defined in the Lease shall include the Extended Term.

   b. Renewal Option. Provided Tenant is continuously open and operating its business and has not been in default under this Lease beyond any applicable cure period, Tenant may extend the term of this Lease for an additional period of five (5) Lease Years commencing on February 1, 2019 and continuing through January 31, 2024 (the "Renewal Term"). The Renewal Term may be exercised by Tenant's delivery of written notice to Landlord no later than July 31, 2018. If Tenant fails to so notify Landlord, then this Lease shall expire at the end of the Extended Term and the Renewal Term shall lapse and be of no further force or effect.

   c. Rent. Any contrary provision of the Lease notwithstanding, Rent for the Extended Term and Renewal Term, as applicable,shall be payable in accordance with the terms of the Lease in the amounts set forth below:

   d. Tenant may, at Tenant's option and sole cost construct additional parking serving the Premises in the area shown on the attached **Exhibit A**, attached hereto and made a part hereof (the "Permissible Parking Lot Build Area"), and pursuant to plans approved by Landlord in writing in advance, which approval shall not be unreasonably delayed, withheld or conditioned (the "Parking Lot Work"). In the event Tenant timely notifies Landlord of such intention and completes the Parking Lot Work within one year after the commencement of the Extended Term, and provided Tenant is not then in default of the terms and provisions of the Lease beyond any applicable notice and cure period, and further provided Tenant has delivered to Landlord the following: (i) Tenant's affidavit stating that the Parking Lot Work has been completed in compliance with the Lease, **Exhibit A** hereto and plans and specifications approved by Landlord, including breakdown of Tenant's final and total construction costs, together with proof, satisfactory to Landlord, of payment thereof; (ii) an affidavit of the contractor(s) performing the Parking Lot Work stating that the Parking Lot

Work has been fully completed in compliance with the Lease, **Exhibit A** hereto and plans and specifications approved by Landlord and that all subcontractors, laborers and materials suppliers, who supplied materials and/or labor for the Parking Lot Work (whose names and addresses shall be recited in the affidavit) have been paid in full, and that all liens therefor that have been or might be filed have been discharged of record or waived; and (iii) a complete release and waivers of lien executed by said contractor(s); then Tenant shall have the option to require Landlord to, within thirty (30) days thereafter, pay to Tenant, as Landlord's contribution to the Parking Lot Work ("Landlord's Contribution"), an amount equal to the lesser of (a) ($) and (b) the actual cost of the Parking Lot Work. In the event Tenant elects to receive Landlord's Contribution, on the first day of each month of the Extended Term after Tenant's receipt of Landlord's Contribution, Tenant shall reimburse Landlord for Landlord's Contribution, as additional rent, without demand, deductions or set-off, with such amount amortized over the Extended Term at an annual interest rate of (%). Further, in the event this Lease shall be terminated for any reason prior to the natural expiration of the Extended Term, Tenant shall pay Landlord the unpaid portion of Landlord's Contribution.

e. Tenant shall be responsible for the repair, maintenance and replacement of all drives and parking areas serving the Premises and depicted as "Tenant Common Area Maintenance" on **Exhibit A** (provided, however, if Tenant fails to properly maintain and repair the parking areas and drive aisles, and such failure continues for thirty (30) or more days after Tenant receives written notice from Landlord of such failure, then Landlord may perform such work on Tenant's behalf and at Tenant's sole cost and expense), and (ii) Tenant shall no longer be responsible for the Common Area Charge set forth in Section 4(c) of the Lease.

3. As a material inducement to Landlord entering into this Agreement, Tenant certifies to Landlord that to Tenant's actual knowledge, as of the date hereof: (i) the Lease, as modified hereby, contains the entire agreement between the parties hereto relating to the Premises and that there are no other agreements between the parties relating to the Premises, the Lease or the Shopping Center which are not contained herein or in the Lease; (ii) Landlord is not in default in any respect in any of the terms, covenants and conditions of the Lease; and (iii) Tenant has no setoffs, counterclaims or defenses against Landlord under the Lease.

4. As a material inducement to Tenant entering into this Agreement, Landlord certifies to Tenant that to Landlord's actual knowledge, as of the date hereof: (i) the Lease, as modified hereby, contains the entire agreement between the parties hereto relating to the Premises and that there are no other agreements between the parties relating to the Premises, the Lease or the Shopping Center which are not contained herein or in the Lease; and (ii) Tenant is not in default in any respect in any of the terms, covenants and conditions of the Lease.

5. Landlord and Tenant each warrant and represent to each other that there are no claims for brokerage commissions or finders fees in connection with consummating this Agreement, except with respect to State Street Capital Realty, LLC d/b/a "Casto" (an affiliate of Landlord) ("Broker") whose commission shall be paid by Landlord pursuant to a separate agreement. Each party agrees to indemnify and hold the other harmless against any claims for commission or fees arising by reason of a breach by the indemnifying party of the foregoing representation and warranty.

6. Tenant represents and warrants that it has taken all action necessary to execute and deliver this Agreement, and that this Agreement constitutes the legally binding obligation of Tenant enforceable in accordance with its terms. Tenant shall save and hold Landlord harmless from any claims, or damages including reasonable attorneys' fees arising from Tenant's misrepresentation of its authority to enter into and execute this Agreement. Landlord represents and warrants that it has taken all action necessary to execute and deliver this Agreement, and that this Agreement constitutes the legally binding obligation of Landlord enforceable in accordance with its terms. Landlord shall save and hold Tenant harmless from any claims, or damages including reasonable attorneys' fees arising from Landlord's misrepresentation of its authority to enter into and execute this Agreement.

7. Capitalized terms not defined herein shall have the definitions given such terms in the Lease.

8. In the event of any conflict or inconsistency between the terms of this Agreement and the terms of the Lease, the terms of this Agreement shall be deemed operative and any conflicting or inconsistent terms contained in the Lease shall be deemed null and void. As modified and amended hereby, Landlord and Tenant each ratify and affirm the terms of the Lease.

9. This Agreement may be executed in counterparts, all of which counterparts shall be deemed originals, all of which counterparts taken together shall constitute a single Agreement, and signature pages of which may be detached from the several counterparts and attached to a single copy of this Agreement to physically form a single document.

WHEREFOR, Landlord and Tenant have executed this Agreement as of the date first set forth above.

LANDLORD:

OFFICE CITY, INC., an Ohio corporation

By: /s/ Don M. Casto, III
Name: Don M. Casto, III
Title: Vice President

LANDLORD'S ACKNOWLEDGMENT

STATE OF OHIO)
COUNTY OF FRANKLIN) ss:

The foregoing was acknowledged before me, a Notary Public, in and for said County, by Don M. Casto, III, who is personally known to me and who is Vice President of Office City, Inc., an Ohio corporation, on behalf of the corporation, this 17th day of October, 2013.

(notarial seal)

/s/ Juliana Fernandes
Notary Public

TENANT:

COMENITY SERVICING LLC,
A Texas limited liability company

By: /s/ Sallie Komiter
Name: Sallie Komiter
Title: President

TENANT'S ACKNOWLEDGMENT

STATE OF OHIO)
COUNTY OF Franklin) ss:

The foregoing was acknowledged before me, a Notary Public, in and for said County, by Sallie Komiter, who is personally known to me, or who has provided valid identification, and who is the President of COMENITY SERVICING LLC, a Texas limited liability company, on behalf of the limited liability company, this 26 day of Sept, 2013.

/s/ Nancy Wiseman
Notary Public

(notarial seal)

Exhibit 10.13

EIGHTH AMENDMENT TO LEASE

THIS EIGHTH AMENDMENT TO LEASE (hereinafter referred to as the "Eighth Amendment") is made effective as of this 3rd day of December, 2013, by and between the entities listed as "Lessor" at the end of this Eighth Amendment (hereinafter jointly and severally referred to as "Lessor"), **COMENITY SERVICING LLC**, a Texas limited liability company (hereinafter referred to as "Lessee") and **ALLIANCE DATA SYSTEMS CORPORATION**, a Delaware corporation (hereinafter referred to a "Guarantor").

RECITALS

A. Continental Acquisitions, Inc., as Lessor, and World Financial Network National Bank (U.S.) (hereinafter referred to as "WFN"), as Lessee, entered into a Lease dated July 2, 1990 for a certain office building containing approximately 100,800 square feet and located at 220 West Schrock Road, Westerville, Ohio 43081("Premises").

B. Lessor is the current holder of the interest of Continental Acquisitions, Inc. as "Lessor" under the Lease by certain assignments.

C. The Lease was amended by that certain First Amendment of Lease between WFN and Lessor dated September 11, 1990, that certain Second Amendment of Lease between WFN and Lessor dated November 16, 1990, that certain Third Amendment of Lease between WFN and Lessor dated February 18, 1991, that certain Assignment and Assumption Agreement between WFN and ADS Alliance Data Systems, Inc. ("ADS") dated February 1, 1998, that certain Fourth Amendment to Lease dated June 1, 2000, that certain Fifth Amendment to Lease dated June 30, 2001, that certain Sixth Amendment to Lease dated January 27, 2006, that certain letter agreement between Continental Realty, Ltd. and ADS dated October 29, 2009, that certain Seventh Amendment to Lease dated January 14, 2010, and that certain Consent to Assignment and Assumption of Lease dated February ___, 2013 (collectively, the "Lease").

D. Guarantor has guaranteed the obligations of the Lessee under the Lease pursuant to a certain "Guarantee" dated June 1, 2000 (hereinafter referred to a "Guarantee").

E. The current term of the Lease expires on July 31, 2014, and Lessor and Lessee wish to extend the Lease for an additional term of ten (10) years on the terms and conditions set forth herein.

PROVISIONS

1. **Incorporation of Recitals.** The Recitals portion of this Eighth Amendment is hereby incorporated by this reference to the same extent and as fully as though it were here rewritten in its entirety. All capitalized terms not otherwise defined herein shall have the same meaning set forth in the Lease.

2. **Extension of Term; Renewal Option.** Lessor and Lessee hereby extend the term of the Lease for an additional term of ten (10) years commencing on August 1, 2014 and terminating on July 31, 2024.

   Subject to the terms and conditions set forth below, Lessee shall have the option to renew the term the Lease for one (1) additional period of five (5) years beginning August 1, 2024 and ending on July 31, 2029 ("Renewal Option"). The exercise of the Renewal Option by Lessee shall be subject to satisfaction of all of the following conditions precedent:

   (a) No default under the Lease shall exist and no event shall have occurred which with notice or lapse of time, or both, would constitute a default under the Lease at the time of the exercise of the option and at the commencement of the renewal term.

   (b) This Lease shall not have been assigned or the Premises sublet in whole or in part except as expressly permitted under this Lease.

   (c) Lessee shall have given Lessor notice in writing of Lessee's exercise the Renewal Option no later than January 31, 2024.

The Fixed Minimum Rent during the Renewal Option shall be as set forth in paragraph 3 of this Eighth Amendment. Except as otherwise provided herein, the term under the Renewal Option shall be on the same terms and conditions as contained in the Lease. Lessee shall have no further right or option to extend the term of the Lease beyond the Renewal Option term.

3. **Fixed Minimum Rent.** Lessee shall pay Fixed Minimum Rent during the extended term under paragraph 2 above and the Renewal Option, if applicable, in the following annual and monthly amounts:

In addition to Fixed Minimum Rent, Lessee shall continue to be responsible for the payment of all additional rent and all other costs and expenses as provided in the Lease.

4. **Tenant Improvement Payment.** Within thirty (30) days after the latest date of the execution of this Eighth Amendment by Lessor, Lessee and Guarantor, Lessor shall pay, in immediately available funds, ($) to Lessee ("Tenant Improvement Allowance"). The Tenant Improvement Allowance shall be used to construct and install alterations, additions and improvements to the Premises ("Tenant Improvements") and for no other purpose without Lessor's prior written consent. Upon written request from Lessor, Lessee shall furnish to Lessor copies of invoices and other evidence of the utilization of the Tenant Improvement Allowance for the construction and installation of Tenant Improvements.

5. **Lessee Certifications**. As a material inducement to Lessor entering into this Eighth Amendment, Lessee certifies to Lessor that to Lessee's actual knowledge, as of the date hereof: (i) the Lease, as modified hereby, contains the entire agreement between the parties hereto relating to the Premises and that there are no other agreements between the parties relating to the Premises or the Lease which are not contained herein or in the Lease; (ii) Lessor is not in default in any respect in any of the terms, covenants and conditions of the Lease; and (iii) Lessee has no setoffs, counterclaims or defenses against Lessor under the Lease.

6. **Lessor Certifications**. As a material inducement to Lessee entering into this Eighth Amendment, Lessor certifies to Lessee that to Lessor's actual knowledge, as of the date hereof: (i) the Lease, as modified hereby, contains the entire agreement between the parties hereto relating to the Premises and that there are no other agreements between the parties relating to the Premises or the Lease which are not contained herein or in the Lease; and (ii) Lessee is not in default in any respect in any of the terms, covenants and conditions of the Lease.

7. **No Other Changes; Ratification of Lease and Guarantee.** This Eighth Amendment shall only modify or amend the Lease to the extent provided herein and all other conditions, covenants and agreements in the Lease shall remain in full force and effect. Subject to the terms of this Eighth Amendment, Lessor and Lessee do hereby ratify and confirm in their entirety the conditions, covenants and agreements contained in the Lease, and Guarantor hereby ratifies and confirms in their entirety the conditions, covenants and agreements contained in the Guarantee. If there is a conflict between the provisions contained in this Eighth Amendment and the provisions of the Lease, this Eighth Amendment shall control.

8. **Miscellaneous.** The governing law provisions set forth in the Lease shall also be applicable to this Eighth Amendment. The captions at the beginning of the several paragraphs of this Eighth Amendment are for the convenience of the reader and shall be ignored in construing this Eighth Amendment. This Eighth Amendment may be executed in several counterparts and each of such counterparts shall be deemed to be an original hereof.

IN WITNESS WHEREOF, Lessor, Lessee and Guarantor have executed this Eighth Amendment effective as of the date first set forth above.

LESSOR:

JEL/220 W. SCHROCK, LLC,
an Ohio limited liability company

By: /s/ John E. Lucks, Jr.
John E. Lucks, Jr., Manager

FEK/220 W. SCHROCK, LLC,
an Ohio limited liability company

By: /s/ Franklin E. Kass
Franklin E. Kass, Manager

CP/220 W. SCHROCK, LLC,
an Ohio limited liability company

By: /s/ Franklin E. Kass
Franklin E. Kass, Manager

NRI 220 SCHROCK, LLC,
an Ohio limited liability company

By: Nationwide Realty Investors, Ltd., its sole member and manager

By: /s/ Brian J. Ellis
Name: Brian J. Ellis
Title: President & Chief Operating Officer

LESSEE:

COMENITY SERVICING LLC, a Texas
Limited liability company

By: /s/ Sallie Komitor
Name: Sallie Komitor
Title: President

GUARANTOR:

ALLIANCE DATA SYSTEMS CORPORATION, a
Delaware corporation

By: /s/ Brian Gore
Name: Brian Gore
Title: SVP & Treasurer

STATE OF OHIO
COUNTY OF FRANKLIN

The foregoing instrument was acknowledged before me this 27th day of November, 2013 by John E. Lucks, Jr., Manager of **JEL/220 W. SCHROCK, LLC**, an Ohio limited liability company, on behalf of the company.

(notarial seal)

/s/ Thomas R. Davis
Notary Public

STATE OF OHIO
COUNTY OF FRANKLIN

The foregoing instrument was acknowledged before me this 27th day of November, 2013 by Franklin E. Kass, Manager of **FEK/220 W. SCHROCK, LLC**, an Ohio limited liability company, on behalf of the company.

(notarial seal)

/s/ Thomas R. Davis
Notary Public

STATE OF OHIO
COUNTY OF FRANKLIN

The foregoing instrument was acknowledged before me this 27th day of November, 2013 by Franklin E. Kass, Manager of **CP/220 W. SCHROCK, LLC**, an Ohio limited liability company, on behalf of the company.

(notarial seal)

/s/ Thomas R. Davis
Notary Public

STATE OF OHIO
COUNTY OF FRANKLIN

The foregoing instrument was acknowledged before me this 3 day of December, 2013 by Brian J. Ellis, President & Chief Operating Officer of Nationwide Realty Investors, Ltd., as sole member and manager of **NRI 220 SCHROCK, LLC**, an Ohio limited liability company, on behalf of the company.

(notarial seal)

/s/ Deborah A. Wyatt
Notary Public

STATE OF Ohio
COUNTY OF Franklin

The foregoing instrument was acknowledged before me this 20th day of November, 2013 by Sallie Komitor, President of **COMENITY SERVICING LLC,** a Texas limited liability company, on behalf of the limited liability company.

(notarial seal)

/s/ Katherine Fielhauer
Notary Public

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 20th day of November, 2013 by Brian Gore, SVP & Treasurer of **ALLIANCE DATA SYSTEMS CORPORATION**, a Delaware corporation, on behalf of the corporation.

/s/ Julie Keils
Notary Public

Exhibit 10.26

OFFICE LEASE

This Office Lease (this "**Lease**"), dated as of the date set forth in Section 1.1, is made by and between **BRE/COH OH LLC, a Delaware limited liability company** ("**Landlord**"), and **ADS ALLIANCE DATA SYSTEMS, INC. a Delaware corporation** ("**Tenant**"). The following exhibits are incorporated herein and made a part hereof: **Exhibit A** (Outline of Premises); **Exhibit B** (Work Letter); **Exhibit B-1** (Initial Tenant Improvement Work); **Exhibit C** (Form of Confirmation Letter); **Exhibit D** (Rules and Regulations); **Exhibit E** ([Intentionally Omitted]); **Exhibit F** (Additional Provisions); **Exhibit F-1** (Building Signage); and **Exhibit G** (Reserved Parking).

1 BASIC LEASE INFORMATION

1.1 Date: July 26, 2012

1.2 Premises.

1.2.1 "**Building**": 4400 Easton Commons, Columbus, Ohio, commonly known as 4400 Easton Commons.

1.2.2 "**Premises**": Subject to Section 2.1.1, 68,981 rentable square feet of space located on the 2nd and 3rd floors of the Building and commonly known as Suites 200 and 300, the outline and location of which is set forth in **Exhibit A**. If the Premises include any floor in its entirety, all corridors and restroom facilities located on such floor shall be considered part of the Premises.

1.2.3 "**Property**": The Building, the parcel(s) of land upon which it is located, and, at Landlord's discretion, any parking facilities and other improvements serving the Building and the parcel(s) of land upon which such parking facilities and other improvements are located.

1.2.4 "**Project**": The Property or, at Landlord's discretion, any project containing the Property and any other land, buildings or other improvements.

1.3 Term

1.3.1 Term: The term of this Lease (the "**Term**") shall commence on the Commencement Date and end on the Expiration Date (or any earlier date on which this Lease is terminated as provided herein).

1.3.2 "**Commencement Date**": The earlier of (i) the first date on which Tenant conducts business in the Premises, or (ii) the later of (a) August 1, 2012, or (b) the date on which the Initial Tenant Improvement Work (defined in Section 7 of **Exhibit B**) is Substantially Complete (defined in Section 8 of **Exhibit B**).

1.3.3 "**Expiration Date**": The last day of the 65th full calendar month commencing on or after the Commencement Date.

1.4 "**Base Rent**":

1.5	Intentionally Omitted.	
1.6	"**Tenant's Share**":	67.9549% (based upon a total of 101,510 rentable square feet in the Building), subject to Section 2.1.1.
1.7	"**Permitted Use**":	General office use consistent with a first-class office building; provided, however, that (i) at no time shall the Premises or any portion thereof be used (a) by a retail bank, other than The Huntington National Bank (or any affiliate or successor thereof), except for use by financial institutions and banks that is limited to general office use and not for retail banking purposes, (b) a book store, other than Barnes and Noble (or any successor by sale or merger), (c) an adult book store, or (d) an adult motion picture theater, and (ii) to the extent the Premises include a retail facility over 10,000 rentable square feet, at no time shall such facility be used primarily for the sale of home improvement supplies, lumber, building supplies & hardware. Notwithstanding anything herein to the contrary: (a) Tenant represents and warrants to Landlord that Tenant is not a Competitor (defined below), and (b) Tenant covenants that (i) Tenant shall not be a Competitor at any time from and after the date of this Lease through the date of expiration or earlier termination hereof; and (b) Tenant shall not permit (pursuant to a sublease or otherwise) any Competitor to occupy or use any portion of the Premises. As used herein, "**Competitor**" means any person or entity whose primary business (or whose primary business in the Building) is a retail or discount brokerage or a firm whose business (or whose business in the Building) does more than ten percent (10%) of its business in the sale of securities, investment banking or stock brokerage.
1.8.	"**Security Deposit**":	$, as more particularly described in Section 21.
Prepaid Base Rent:		
Prepaid Additional Rent:		
		$, as more particularly described in Section 3.
1.9	Parking:	The Applicable Number (defined below) of unreserved parking spaces, at the rate of $ per space per month. As used herein, "**Applicable Number**" means, at any time, the lowest whole number that equals or exceeds the number obtained by multiplying (a) the quotient obtained by dividing (i) four (4), by (ii) 1,000 rentable square feet, by (b) the rentable square footage of the Premises. Accordingly, so long as the rentable square footage of the Premises remains 68,981 rentable square feet, the Applicable Number shall be 275.
		12 reserved parking spaces, at the rate of $ per space per month, in the locations shown on **Exhibit G**.

1.10	Address of Tenant:	ADS Alliance Data Systems, Inc. 3100 Easton Square Place Columbus, OH 43219 Attn: General Counsel <u>with a copy to:</u> ADS Alliance Data Systems, Inc. 7500 Dallas Parkway, Suite 700 Plano, TX 75024 Attn: Legal Department
1.11	Address of Landlord:	BRE/COH OH LLC 2311 Cedar Springs Road Suite 300 Dallas, TX 75201 <u>with copies to:</u> Equity Office 2655 Campus Drive Suite 100 San Mateo, CA 94403 Attn: Managing Counsel <u>and</u> Equity Office Two North Riverside Plaza Suite 2100 Chicago, IL 60606 Attn: Lease Administration
1.12	Broker(s):	None ("**Tenant's Broker**"), representing Tenant, and Cassidy Turley Ohio, Inc., a Missouri Corporation ("**Landlord's Broker**"), representing Landlord.
1.13	Building HVAC Hours and Holidays:	"**Building HVAC Hours**" means 7:00 a.m. to 6:00 p.m., Monday through Friday and 9:00 a.m. to 1:00 p.m. Saturday, excluding the day of observation of New Year's Day, Presidents Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and, at Landlord's discretion, any other locally or nationally recognized holiday that is observed by other buildings comparable to and in the vicinity of the Building (collectively, "**Holidays**").
1.14	"**Transfer Radius**":	None.
1.15	"**Tenant Improvements**":	Defined in **<u>Exhibit B</u>**, if any.
1.16	"**Guarantor**":	None.

2 PREMISES AND COMMON AREAS.

2.1 **<u>The Premises</u>**.

2.1.1 Subject to the terms hereof, Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord. Landlord and Tenant acknowledge that the rentable square footage of the Premises is as set forth in <u>Section 1.2.2</u> and the rentable square footage of the Building is as set forth in <u>Section 1.6</u>. At any time Landlord may deliver to Tenant a notice substantially in the form of **<u>Exhibit C</u>**, as a confirmation of the information set forth therein. Tenant shall execute and return (or, by notice to Landlord, reasonably object to) such notice within 5 days after receiving it, and if Tenant fails to do so, Tenant shall be deemed to have executed and returned it without exception.

2.1.2 Except as expressly provided herein, the Premises are accepted by Tenant in their configuration and condition existing on the date hereof (or in such other configuration and condition

as any existing tenant of the Premises may cause to exist in accordance with its lease), without any obligation of Landlord to perform or pay for any alterations to the Premises, and without any representation or warranty regarding the configuration or condition of the Premises, the Building or the Project or their suitability for Tenant's business.

2.1.3 Landlord represents and warrants to Tenant that, as of the date of mutual execution delivery hereof, general office use is permitted in the Premises under applicable zoning laws.

2.2 **Common Areas**. Tenant may use, in common with Landlord and other parties and subject to the Rules and Regulations (defined in **Exhibit D**), any portions of the Property that are designated from time to time by Landlord for such use (the "**Common Areas**").

3 RENT. Tenant shall pay all Base Rent and Additional Rent (defined below) (collectively, "**Rent**") to Landlord or Landlord's agent, without prior notice or demand or any setoff or deduction, at the place Landlord may designate from time to time, in money of the United States of America that, at the time of payment, is legal tender for the payment of all obligations. As used herein, "**Additional Rent**" means all amounts, other than Base Rent, that Tenant is required to pay Landlord hereunder. Monthly payments of Base Rent and monthly payments of Additional Rent for Expenses (defined in Section 4.2.2), Taxes (defined in Section 4.2.3) and parking (collectively, "**Monthly Rent**") shall be paid in advance on or before the first day of each calendar month during the Term; provided, however, that the installment of Additional Rent for Expenses and Taxes for the first full calendar month for which such Additional Rent is payable hereunder shall be paid upon Tenant's execution and delivery hereof. Except as otherwise provided herein, all other items of Additional Rent shall be paid within 30 days after Landlord's request for payment. Rent for any partial calendar month shall be prorated based on the actual number of days in such month. Without limiting Landlord's other rights or remedies, (a) if any installment of Rent is not received by Landlord or its designee within 10 days after its due date, Tenant shall pay Landlord a late charge equal to % of the overdue amount (provided, however, that such late charge shall not apply to any such delinquency unless either (i) such delinquency is not cured within 10 days after notice from Landlord, or (ii) Tenant previously received notice from Landlord of a delinquency that occurred earlier in the same calendar year); and (b) any Rent that is not paid within 10 days after its due date shall bear interest, from its due date until paid, at the lesser of % per annum or the highest rate permitted by Law (defined in Section 5). Tenant's covenant to pay Rent is independent of every other covenant herein.

4 EXPENSES AND TAXES.

4.1 **General Terms**. In addition to Base Rent, Tenant shall pay, in accordance with Section 4.4, for each Expense Year (defined in Section 4.2.1), an amount equal to the sum of (a) Tenant's Share of Expenses for such Expense Year, plus (b) Tenant's Share of Taxes for such Expense Year. Tenant's Share of Expenses and Tenant's Share of Taxes for any partial Expense Year shall be prorated based on the number of days in such Expense Year.

4.2 **Definitions**. As used herein, the following terms have the following meanings:

4.2.1 "**Expense Year**" means each calendar year in which any portion of the Term occurs.

4.2.2 "**Expenses**" means all expenses, costs and amounts that Landlord pays or accrues during any Expense Year because of or in connection with the ownership, management, maintenance, security, repair, replacement, restoration or operation of the Property. Landlord shall act in a reasonable manner in incurring Expenses. Without limiting the preceding sentence, Landlord shall not "double-count" any amount as an Expense or add a "mark-up" to any Expense; provided, however, that this sentence shall not limit (a) Landlord's right to include a management fee in Expenses pursuant to clause (vi) of the next succeeding sentence, or (b) the second-to-last paragraph of this Section 4.2.2. Expenses shall include (i) the cost of supplying all utilities, the cost of operating, repairing, maintaining and renovating the utility, telephone, mechanical, sanitary, storm-drainage, and elevator systems, and the cost of maintenance and service contracts in connection therewith; (ii) the cost of licenses, certificates, permits and inspections, the cost of contesting any Laws that may affect Expenses, and the costs of complying with any governmentally-mandated transportation-management or similar program; (iii) the cost of all insurance premiums and deductibles; (iv) the cost of landscaping and relamping; (v) the cost of parking-area operation, repair, restoration, and maintenance; (vi) a management fee in the amount (which is hereby acknowledged to be reasonable) of 3% of gross annual receipts from the Building (excluding the management fee), together with other fees and costs, including consulting fees, legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Property; (vii) payments under any equipment-rental agreements and the fair rental value of any management office space; (viii) wages, salaries and other compensation, expenses and benefits, including taxes levied thereon, of all persons engaged in the operation, maintenance and security of the Property, and costs of training, uniforms, and employee enrichment for such persons; (ix) the costs of operation, repair, maintenance and replacement of all systems and equipment (and components thereof) of the Property; (x) the cost of janitorial, alarm, security and other services, replacement of wall and floor

coverings, ceiling tiles and fixtures in Common Areas, maintenance and replacement of curbs and walkways, repair to roofs and re-roofing; (xi) rental or acquisition costs of supplies, tools, equipment, materials and personal property used in the maintenance, operation and repair of the Property; (xii) the cost of capital improvements or any other items that are (A) intended to effect economies in the operation or maintenance of the Property, reduce current or future Expenses, enhance the safety or security of the Property or its occupants, or enhance the environmental sustainability of the Property's operations, (B) replacements or modifications of the nonstructural portions of the Base Building (defined in Section 7) or Common Areas that are required to keep the Base Building or Common Areas in good condition, or (C) required under any Law; (xiii) the cost of tenant-relation programs reasonably established by Landlord; (xiv) payments under any existing or future reciprocal easement agreement, transportation management agreement, cost-sharing agreement or other covenant, condition, restriction or similar instrument affecting the Property; (xv) business park association fees; and (xvi) the cost of snow removal in Common Areas.

Notwithstanding the foregoing, Expenses shall not include: (a) capital expenditures not described in clauses (xi) or (xii) above (in addition, any capital expenditure shall be amortized (including actual or imputed interest on the amortized cost) over such period of time as Landlord shall reasonably determine); (b) depreciation; (c) principal payments of mortgage or other non-operating debts of Landlord; (d) costs of repairs to the extent Landlord is reimbursed by insurance or condemnation proceeds; (e) except as provided in clause (xiii) above, costs of leasing space in the Building, including brokerage commissions, lease concessions, rental abatements and construction allowances granted to specific tenants; (f) costs of selling, financing or refinancing the Building; (g) fines, penalties or interest resulting from late payment of Taxes or Expenses; (h) organizational expenses of creating or operating the entity that constitutes Landlord; or (i) damages paid to Tenant hereunder or to other tenants of the Building under their respective leases.

If, during any portion of any Expense Year, the Building is not 100% occupied (or a service provided by Landlord to tenants of the Building generally is not provided by Landlord to a tenant that provides such service itself, or any tenant of the Building is entitled to free rent, rent abatement or the like), Expenses for such Expense Year shall be determined as if the Building had been 100% occupied (and all services provided by Landlord to tenants of the Building generally had been provided by Landlord to all tenants, and no tenant of the Building had been entitled to free rent, rent abatement or the like) during such portion of such Expense Year.

Notwithstanding any contrary provision hereof, Controllable Expenses (defined below) shall not increase after calendar year 2012 by more than 5% per calendar year, as determined on a compounding and cumulative basis. By way of example and not of limitation, if Controllable Expenses for calendar year 2012 are $10.00 per rentable square foot, then Controllable Expenses for calendar year 2013 shall not exceed $10.50 per rentable square foot; Controllable Expenses for calendar year 2014 shall not exceed $11.03 per rentable square foot; and so on. As used herein, "**Controllable Expenses**" means all Expenses other than (i) costs of utilities, (ii) insurance premiums and deductibles, (iii) capital expenditures, (iv) any market-wide cost increases resulting from extraordinary circumstances, including Force Majeure, boycotts, strikes, conservation surcharges, embargoes and shortages, (v) the cost of any repair or replacement that Landlord reasonably expects will not recur on an annual or more frequent basis, (vi) costs of materials, supplies, and removal of debris, (vii) costs of union labor (including labor that is unionized after the date hereof), and (viii) costs incurred to comply with Law. For purposes of determining Controllable Expenses, any management fee shall be calculated without regard to any free rent, abated rent, or the like.

4.2.3 "**Taxes**" means all federal, state, county or local governmental or municipal taxes, fees, charges, assessments, levies, licenses or other impositions, whether general, special, ordinary or extraordinary, that are paid or accrued during any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing or operation of the Property. Taxes shall include (a) real estate taxes; (b) assessments for improvement or transit districts; (c) personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems, appurtenances, furniture and other personal property used in connection with the Property; (d) any tax on the rent, right to rent or other income from any portion of the Property or as against the business of leasing any portion of the Property; and (e) any assessment, tax, fee, levy or charge imposed by any governmental agency, or by any non-governmental entity pursuant to any private cost-sharing agreement, in order to fund the provision or enhancement of any fire-protection, street-, sidewalk- or road-maintenance, refuse-removal or other service that is normally provided by governmental agencies to property owners or occupants without charge (other than through real property taxes). Any costs and expenses (including reasonable attorneys' and consultants' fees) incurred in attempting to protest, reduce or minimize Taxes shall be included in Taxes for the year in which they are incurred. Notwithstanding any contrary provision hereof, Taxes shall be determined without regard to any "green building" credit and shall exclude (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, transfer taxes, excise taxes, federal and state income taxes, the Ohio commercial activity tax, penalties and interest arising from the late payment

of Taxes, and other taxes to the extent (x) applicable to Landlord's general or net income (as opposed to rents, receipts or income attributable to operations at the Property), or (y) measured solely by the square footage, rent, fees, services, tenant allowances or similar amounts, rights or obligations described or provided in or under any particular lease, license or similar agreement or transaction at the Building; (ii) any Expenses, and (iii) any items required to be paid or reimbursed by Tenant under Section 4.5.

4.3 **Allocation**. Landlord, in its reasonable discretion, may equitably allocate Expenses among office, retail or other portions or occupants of the Property. If Landlord incurs Expenses or Taxes for the Property together with another property, Landlord, in its reasonable discretion, shall equitably allocate such shared amounts between the Property and such other property.

4.4 **Calculation and Payment of Expenses and Taxes.**

4.4.1 **Statement of Actual Expenses and Taxes; Payment by Tenant**. Landlord shall endeavor to give to Tenant, after the end of each Expense Year, a statement (the "**Statement**") setting forth the actual Expenses and Taxes for such Expense Year. If the amount paid by Tenant for such Expense Year pursuant to Section 4.4.2 is less or more than the sum of Tenant's Share of the actual Expenses plus Tenant's Share of the actual Taxes (as such amounts are set forth in such Statement), Tenant shall pay Landlord the amount of such underpayment, or receive a credit in the amount of such overpayment, with or against the Rent then or next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Tenant shall pay Landlord the amount of such underpayment, or Landlord shall pay Tenant the amount of such overpayment (less any Rent due), within 30 days after delivery of such Statement. Any failure of Landlord to timely deliver the Statement for any Expense Year shall not diminish either party's rights under this Section 4.

4.4.2 **Statement of Estimated Expenses and Taxes**. Landlord shall endeavor to give to Tenant, for each Expense Year, a statement (the "**Estimate Statement**") setting forth Landlord's reasonable estimates of the Expenses (the "**Estimated Expenses**") and Taxes (the "**Estimated Taxes**") for such Expense Year. Upon receiving an Estimate Statement, Tenant shall pay, with its next installment of Base Rent, an amount equal to the excess of (a) the amount obtained by multiplying (i) the sum of Tenant's Share of the Estimated Expenses plus Tenant's Share of the Estimated Taxes (as such amounts are set forth in such Estimate Statement), by (ii) a fraction, the numerator of which is the number of months that have elapsed in the applicable Expense Year (including the month of such payment) and the denominator of which is 12, over (b) any amount previously paid by Tenant for such Expense Year pursuant to this Section 4.4.2. Until Landlord delivers a new Estimate Statement (which Landlord may do at any time), Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the sum of Tenant's Share of the Estimated Expenses plus Tenant's Share of the Estimated Taxes, as such amounts are set forth in the previous Estimate Statement. Any failure of Landlord to timely deliver any Estimate Statement shall not diminish Landlord's rights to receive payments and revise any previous Estimate Statement under this Section 4.

4.4.3 **Retroactive Adjustment of Taxes**. Notwithstanding any contrary provision hereof, if, after Landlord's delivery of any Statement, an increase or decrease in Taxes occurs for the applicable Expense Year (whether by reason of reassessment, error, or otherwise), Taxes for such Expense Year shall be retroactively adjusted. If, as a result of such adjustment, it is determined that Tenant has under- or overpaid Tenant's Share of such Taxes, Tenant shall pay Landlord the amount of such underpayment, or receive a credit in the amount of such overpayment, with or against the Rent then or next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Tenant shall pay Landlord the amount of such underpayment, or Landlord shall pay Tenant the amount of such overpayment (less any Rent due), within 30 days after such adjustment is made.

4.5 **Charges for Which Tenant Is Directly Responsible**. Tenant shall pay, 10 days before delinquency, any taxes levied against Tenant's equipment, furniture, fixtures and other personal property located in or about the Premises. If any such taxes are levied against Landlord or its property (or if the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon such equipment, furniture, fixtures or other personal property of Tenant), Landlord may pay such taxes (or such increased assessment) regardless of their (or its) validity, in which event Tenant, upon demand, shall repay to Landlord the amount so paid. If any Tenant-Insured Improvements (defined in Section 10.2.2) are assessed for real property tax purposes at a valuation higher than the valuation at which tenant improvements conforming to Landlord's "building standard" in other space in the Building are assessed, the Taxes levied against Landlord or the Property by reason of such excess assessed valuation shall be deemed taxes levied against Tenant's personal property for purposes of this Section 4.5. Notwithstanding any contrary provision hereof, Tenant shall pay 10 days before delinquency (or reimburse to Landlord upon demand, if the same is required by Law to be paid by Landlord): (i) any rent tax, sales tax, service tax, transfer tax, value added tax, use tax, business tax, gross income tax, gross receipts tax, or other tax, assessment, fee, levy or charge measured solely by the square footage, Rent, services, tenant allowances or similar amounts, rights or obligations described or provided in or under this Lease; and (ii) any taxes

assessed upon the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of any portion of the Property.

4.6 Books and Records. Within 60 days after receiving any Statement (the "**Review Notice Period**"), Tenant may give Landlord notice ("**Review Notice**") stating that Tenant elects to review Landlord's calculation of the Expenses and/or Taxes for the Expense Year to which such Statement applies and identifying with reasonable specificity the records of Landlord reasonably relating to such matters that Tenant desires to review. Within a reasonable time after receiving a timely Review Notice (and, at Landlord's option, an executed confidentiality agreement as described below), Landlord shall deliver to Tenant, or make available for inspection at a location reasonably designated by Landlord, copies of such records. Within 60 days after such records are made available to Tenant (the "**Objection Period**"), Tenant may deliver to Landlord notice (an "**Objection Notice**") stating with reasonable specificity any objections to the Statement, in which event Landlord and Tenant shall work together in good faith to resolve Tenant's objections. Tenant may not deliver more than one Review Notice or more than one Objection Notice with respect to any Expense Year. If Tenant fails to give Landlord a Review Notice before the expiration of the Review Notice Period or fails to give Landlord an Objection Notice before the expiration of the Objection Period, Tenant shall be deemed to have approved the Statement. If Tenant retains an agent to review Landlord's records, the agent must be with a CPA firm licensed to do business in the state where the Building is located and its fees shall not be contingent, in whole or in part, upon the outcome of the review. Tenant shall be responsible for all costs of such review. The records and any related information obtained from Landlord shall be treated as confidential, and as applicable only to the Premises, by Tenant, its auditors, consultants, and any other parties reviewing the same on behalf of Tenant (collectively, "**Tenant's Auditors**"). Before making any records available for review, Landlord may require Tenant and Tenant's Auditors to execute a reasonable confidentiality agreement, in which event Tenant shall cause the same to be executed and delivered to Landlord within 30 days after receiving it from Landlord, and if Tenant fails to do so, the Objection Period shall be reduced by one day for each day by which such execution and delivery follows the expiration of such 30-day period. Notwithstanding any contrary provision hereof, Tenant may not examine Landlord's records or dispute any Statement if any Rent remains unpaid past its due date. If, for any Expense Year, Landlord and Tenant determine that the sum of Tenant's Share of the actual Expenses plus Tenant's Share of the actual Taxes is less or more than the amount reported, Tenant shall receive a credit in the amount of its overpayment against Rent then or next due hereunder, or pay Landlord the amount of its underpayment with the Rent next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Landlord shall pay Tenant the amount of its overpayment (less any Rent due), or Tenant shall pay Landlord the amount of its underpayment, within 30 days after such determination.

5 USE; COMPLIANCE WITH LAWS.

5.1 Tenant shall not (a) use the Premises for any purpose other than the Permitted Use, or (b) do anything in or about the Premises that violates any of the Rules and Regulations, damages the reputation of the Project, interferes with, injures or annoys other occupants of the Building, or constitutes a nuisance. Tenant, at its expense, shall comply with all Laws relating to (i) the operation of its business in the Premises, (ii) the use, condition, configuration or occupancy of the Premises, or (iii) the Building systems located in or exclusively serving the Premises. If, in order to comply with any such Law, Tenant must obtain or deliver any permit, certificate or other document evidencing such compliance, Tenant shall provide a copy of such document to Landlord promptly after obtaining or delivering it. If a change to any Common Area, the Building structure, or any Building system located outside of and not exclusively serving the Premises becomes required under Law (or if any such requirement is enforced) as a result of any Tenant-Insured Improvement, the installation of any trade fixture, or any particular use of the Premises (as distinguished from general office use), then Tenant, upon demand, shall (x) at Landlord's option, either make such change at Tenant's cost or pay Landlord the cost of making such change, and (y) pay Landlord a coordination fee equal to 10% of the cost of such change. As used herein, "**Law**" means any existing or future law, ordinance, regulation or requirement of any governmental authority having jurisdiction over the Project or the parties.

5.2 Landlord, at its expense (subject to Section 4), shall cause the Base Building and the Common Areas to comply with all Laws (including the Americans with Disabilities Act ("**ADA**")) to the extent that (a) such compliance is necessary for Tenant to use the Premises for general office use in a normal and customary manner and for Tenant's employees and visitors to have reasonably safe access to and from the Premises, or (b) Landlord's failure to cause such compliance would impose liability upon Tenant under Law; provided, however, that Landlord shall not be required to cause or pay for such compliance to the extent that (x) Tenant is required to cause or pay for such compliance under Section 5.1 or 7.3 or any other provision hereof, or (y) non-compliance arises under any provision of the ADA other than Title III thereof. Notwithstanding the foregoing, Landlord may contest any alleged violation in good faith, including by applying for and obtaining a waiver or deferment of compliance, asserting any defense allowed by Law, and appealing any order or judgment to the extent permitted by Law; provided, however,

that after exhausting any rights to contest or appeal, Landlord shall perform any work necessary to comply with any final order or judgment.

6 SERVICES.

6.1 **Standard Services**. Landlord shall provide the following services on all days (unless otherwise stated below): (a) subject to limitations imposed by Law, customary heating, ventilation and air conditioning ("**HVAC**") in season during Building HVAC Hours; (b) electricity supplied by the applicable public utility, stubbed to the Premises; (c) water supplied by the applicable public utility (i) for use in lavatories and any drinking facilities located in Common Areas within the Building, and (ii) stubbed to the Building core for use in any plumbing fixtures located in the Premises; (d) [Intentionally Omitted]; (e) elevator service (subject to scheduling by Landlord, and payment of Landlord's standard usage fee, for any freight service); and (f) access to the Building for Tenant and its employees, 24 hours per day/7 days per week, subject to the terms hereof and such security or monitoring systems as Landlord may reasonably impose, including sign-in procedures and/or presentation of identification cards.

6.2 **Above-Standard Use**. Landlord shall provide HVAC service outside Building HVAC Hours if Tenant gives Landlord such prior notice and pays Landlord such hourly cost per zone as Landlord may require. The parties acknowledge that, as of the date hereof, Landlord's charge for HVAC service outside Building HVAC Hours is $30.00 per hour per floor, subject to change from time to time. Tenant shall not, without Landlord's prior consent, use equipment that may affect the temperature maintained by the air conditioning system or consume above-Building-standard amounts of any water furnished for the Premises by Landlord pursuant to Section 6.1. If Tenant's consumption of electricity or water exceeds the rate Landlord reasonably deems to be standard for the Building, Tenant shall pay Landlord, upon billing, the cost of such excess consumption, including any costs of installing, operating and maintaining any equipment that is installed in order to supply or measure such excess electricity or water. The connected electrical load of Tenant's incidental-use equipment shall not exceed the Building-standard electrical design load, and Tenant's electrical usage shall not exceed the capacity of the feeders to the Project or the risers or wiring installation.

6.3 **Interruption**. Subject to Section 11, any failure to furnish, delay in furnishing, or diminution in the quality or quantity of any service resulting from any application of Law, failure of equipment, performance of maintenance, repairs, improvements or alterations, utility interruption, or event of Force Majeure (each, a "**Service Interruption**") shall not render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder. Notwithstanding the foregoing, if all or a material portion of the Premises is made untenantable or inaccessible for more than three (3) consecutive business days after notice from Tenant to Landlord by a Service Interruption that does not result from a Casualty (defined in Section 11) and that Landlord can correct through reasonable efforts, then, as Tenant's sole remedy, Monthly Rent shall abate for the period beginning on the day immediately following such 3-business-day period and ending on the day such Service Interruption ends, but only in proportion to the percentage of the rentable square footage of the Premises made untenantable or inaccessible.

6.4 **Janitorial Service to Premises**. Tenant, at its expense, shall provide all trash-disposal, janitorial, cleaning and pest-control services to the interior of the Premises, on a regular basis, so that the Premises are kept in a reasonably neat, clean and pest-free condition. Without limiting the foregoing, trash, garbage and other waste shall be kept only in sanitary containers installed by Tenant in the Premises, and all containers and equipment in the Premises for the storage or disposal of such materials shall be kept in a clean and sanitary condition. All trash, garbage and other waste collected in the Premises, when removed by Tenant from the Premises, shall be deposited in containers provided by Landlord for such purpose in the Common Areas, subject to such reasonable rules and procedures as Landlord may establish from time to time. Landlord shall have no obligation to provide trash-disposal, janitorial, cleaning or pest-control services to the interior of the Premises, and the incremental cost of providing such services to the interiors of other tenant suites shall be excluded from Expenses.

7 REPAIRS AND ALTERATIONS.

7.1 **Repairs**. Subject to Section 11, Tenant, at its expense, shall perform all maintenance and repairs (including replacements) to the Premises, and keep the Premises in as good condition and repair as existed when Tenant took possession and as thereafter improved by Landlord and/or Tenant, except for reasonable wear and tear and repairs that are Landlord's express responsibility hereunder. Tenant's maintenance and repair obligations shall include (a) all leasehold improvements in the Premises, whenever and by whomever installed or paid for, including any Tenant Improvements, any Alterations (defined in Section 7.2), and any leasehold improvements installed pursuant to any prior lease, but excluding the Base Building (the "**Leasehold Improvements**"); (b) all supplemental heating, ventilation and air conditioning units, kitchens (including hot water heaters, dishwashers, garbage disposals, insta-hot dispensers, and plumbing) and similar facilities exclusively serving Tenant, whether located inside

or outside of the Premises, and whenever and by whomever installed or paid for; and (c) all Lines (defined in Section 23) and trade fixtures. Notwithstanding the foregoing, if a Default (defined in Section 19.1) or an emergency exists as a result of Tenant's failure to perform such maintenance and repairs as required hereunder, Landlord may, at its option, perform such work on Tenant's behalf, in which case Tenant shall pay Landlord, upon demand, the cost of such work plus a coordination fee equal to 10% of such cost. Landlord shall perform all maintenance and repairs to (i) the roof and exterior walls and windows of the Building, (ii) the Base Building, and (iii) the Common Areas. As used herein, "**Base Building**" means the structural portions of the Building, together with all mechanical (including HVAC), electrical, plumbing and fire/life-safety systems serving the Building in general, whether located inside or outside of the Premises.

7.2 **Alterations**. Tenant may not make any improvement, alteration, addition or change to the Premises or to any mechanical, plumbing or HVAC facility or other system serving the Premises (an "**Alteration**") without Landlord's prior consent, which consent shall be requested by Tenant not less than 30 days before commencement of work and shall not be unreasonably withheld, conditioned or delayed by Landlord. Notwithstanding the foregoing, Landlord's prior consent shall not be required for any Alteration that is decorative only (*e.g.*, carpet installation or painting) and not visible from outside the Premises, provided that Landlord receives 10 business days' prior notice. For any Alteration, (a) Tenant, before commencing work, shall deliver to Landlord, and obtain Landlord's approval of, plans and specifications; (b) Landlord, in its discretion, may require Tenant to obtain security for performance satisfactory to Landlord; (c) Tenant shall deliver to Landlord "as built" drawings (in CAD format, if requested by Landlord), completion affidavits, full and final lien waivers, and all governmental approvals; and (d) Tenant shall pay Landlord upon demand (i) Landlord's reasonable out-of-pocket expenses incurred in reviewing the work, and (ii) a coordination fee equal to 10% of the cost of the work; provided, however, that this clause (d) shall not apply to any Tenant Improvements.

7.3 **Tenant Work**. Before commencing any repair or Alteration ("**Tenant Work**"), Tenant shall deliver to Landlord, and obtain Landlord's approval of, (a) names of contractors, subcontractors, mechanics, laborers and materialmen; (b) evidence of contractors' and subcontractors' insurance; and (c) any required governmental permits. Tenant shall perform all Tenant Work (i) in a good and workmanlike manner using materials of a quality reasonably approved by Landlord; (ii) in compliance with any approved plans and specifications, all Laws, the National Electric Code, and Landlord's construction rules and regulations; and (iii) in a manner that does not impair the Base Building. If, as a result of any Tenant Work, Landlord becomes required under Law to perform any inspection, give any notice, or cause such Tenant Work to be performed in any particular manner, Tenant shall comply with such requirement and promptly provide Landlord with reasonable documentation of such compliance. Landlord's approval of Tenant's plans and specifications shall not relieve Tenant from any obligation under this Section 7.3. In performing any Tenant Work, Tenant shall not use contractors, services, labor, materials or equipment that, in Landlord's reasonable judgment, would disturb labor harmony with any workforce or trades engaged in performing other work or services at the Project.

8 LANDLORD'S PROPERTY. All Leasehold Improvements shall become Landlord's property upon installation and without compensation to Tenant. Notwithstanding the foregoing, if any Tenant-Insured Improvements are not, in Landlord's reasonable judgment, Building-standard, then before the expiration or earlier termination hereof, Tenant shall, at Landlord's election, either (a) at Tenant's expense, and except as otherwise notified by Landlord, remove such Tenant-Insured Improvements (other than the Initial Tenant Improvement Work), repair any resulting damage to the Premises or Building, and restore the affected portion of the Premises to its configuration and condition existing before the installation of such Tenant-Insured Improvements (or, at Landlord's election, to a Building-standard tenant-improved configuration and condition as determined by Landlord), or (b) pay Landlord an amount equal to the estimated cost of such work, as reasonably determined by Landlord. If Tenant fails to timely perform any work required under clause (a) of the preceding sentence, Landlord may perform such work at Tenant's expense. If, when it requests Landlord's approval of any Tenant Improvements or Alterations, Tenant specifically requests that Landlord identify any such Tenant Improvements or Alterations that, in Landlord's judgment, are not Building-standard, Landlord shall do so when it provides such approval.

9 LIENS. Tenant shall keep the Project free from any lien arising out of any work performed, material furnished or obligation incurred by or on behalf of Tenant. Tenant shall remove any such lien within 15 business days after notice from Landlord, and if Tenant fails to do so, Landlord, without limiting its remedies, may pay the amount necessary to cause such removal, whether or not such lien is valid. The amount so paid, together with reasonable attorneys' fees and expenses, shall be reimbursed by Tenant upon demand.

10 INDEMNIFICATION; INSURANCE.

10.1 **Waiver and Indemnification.** Tenant waives all claims against Landlord, its Security Holders (defined in Section 17), Landlord's managing agent(s), their (direct or indirect) owners, and the beneficiaries, trustees, officers, directors, employees and agents of each of the foregoing (including

Landlord, the "**Landlord Parties**") for (i) any damage to person or property (or resulting from the loss of use thereof), except to the extent such damage is caused by any negligence, willful misconduct or breach of this Lease of or by any Landlord Party, or (ii) any failure to prevent or control any criminal or otherwise wrongful conduct by any third party or to apprehend any third party who has engaged in such conduct. Tenant shall indemnify, defend, protect, and hold the Landlord Parties harmless from any obligation, loss, claim, action, liability, penalty, damage, cost or expense (including reasonable attorneys' and consultants' fees and expenses) (each, a "**Claim**") that is imposed or asserted by any third party and arises from (a) any cause in, on or about the Premises, or (b) occupancy of the Premises by, or any negligence, willful misconduct or breach of this Lease of or by, Tenant, any party claiming by, through or under Tenant, their (direct or indirect) owners, or any of their respective beneficiaries, trustees, officers, directors, employees, agents, contractors, licensees or invitees, except to the extent such Claim arises from any negligence, willful misconduct or breach of this Lease of or by any Landlord Party. Landlord shall indemnify, defend, protect, and hold Tenant, its (direct or indirect) owners, and their respective beneficiaries, trustees, officers, directors, employees and agents (including Tenant, the "**Tenant Parties**") harmless from any Claim that is imposed or asserted by any third party and arises from any negligence, willful misconduct or breach of this Lease of or by any Landlord Party, except to the extent such Claim arises from any negligence, willful misconduct or breach of this Lease of or by any Tenant Party.

10.2 **<u>Tenant's Insurance</u>.** Tenant shall maintain the following coverages in the following amounts:

10.2.1 Commercial General Liability Insurance covering claims of bodily injury, personal injury and property damage arising out of Tenant's operations and contractual liabilities, including coverage formerly known as broad form, on an occurrence basis, with combined primary and excess/umbrella limits of $3,000,000 each occurrence and $4,000,000 annual aggregate.

10.2.2 Property Insurance covering (i) all office furniture, trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property in the Premises installed by, for, or at the expense of Tenant, and (ii) any Leasehold Improvements installed by or for the benefit of Tenant pursuant to this Lease ("**Tenant-Insured Improvements**"). Such insurance shall be written on a special cause of loss form for physical loss or damage, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance, and shall include coverage for damage or other loss caused by fire or other peril, including vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion, and providing business interruption coverage for a period of one year.

10.2.3 Workers' Compensation statutory limits and Employers' Liability limits of $1,000,000.

10.3 **<u>Form of Policies</u>**. The minimum limits of insurance required to be carried by Tenant shall not limit Tenant's liability. Such insurance shall be issued by an insurance company that has an A.M. Best rating of not less than A-VIII and shall be in form and content reasonably acceptable to Landlord. Tenant's Commercial General Liability Insurance shall (a) name the Landlord Parties and any other party designated by Landlord ("**Additional Insured Parties**") as additional insureds; and (b) be primary insurance as to all claims thereunder and provide that any insurance carried by Landlord is excess and non-contributing with Tenant's insurance. Landlord shall be designated as a loss payee with respect to Tenant's Property Insurance on any Tenant-Insured Improvements. Tenant shall deliver to Landlord, on or before the Commencement Date and at least 15 days before the expiration dates thereof, certificates from Tenant's insurance company on the forms currently designated "ACORD 25" (Certificate of Liability Insurance) and "ACORD 28" (Evidence of Commercial Property Insurance) or the equivalent. Attached to the ACORD 25 (or equivalent) there shall be an endorsement (or an excerpt from the policy) naming the Additional Insured Parties as additional insureds, and attached to the ACORD 28 (or equivalent) there shall be an endorsement (or an excerpt from the policy) designating Landlord as a loss payee with respect to Tenant's Property Insurance on any Tenant-Insured Improvements, and each such endorsement (or policy excerpt) shall be binding on Tenant's insurance company. Upon Landlord's request, Tenant shall deliver to Landlord, in lieu of such certificates, copies of the policies of insurance required to be carried under <u>Section 10.2</u> showing that the Additional Insured Parties are named as additional insureds and that Landlord is designated as a loss payee with respect to Tenant's Property Insurance on any Tenant-Insured Improvements.

10.4 **<u>Subrogation</u>**. Each party waives, and shall cause its insurance carrier to waive, any right of recovery against the other party, any of its (direct or indirect) owners, or any of their respective beneficiaries, trustees, officers, directors, employees or agents for any loss of or damage to property which loss or damage is (or, if the insurance required hereunder had been carried, would have been) covered by the waiving party's property insurance. For purposes of this <u>Section 10.4</u> only, (a) any deductible with respect to a party's insurance shall be deemed covered by, and recoverable by such party under, valid and collectable policies of insurance, and (b) any contractor retained by Landlord to

install, maintain or monitor a fire or security alarm for the Building shall be deemed an agent of Landlord.

10.5 **Additional Insurance Obligations**. Tenant shall maintain such increased amounts of the insurance required to be carried by Tenant under this Section 10, and such other types and amounts of insurance covering the Premises and Tenant's operations therein, as may be reasonably requested by Landlord, but not in excess of the amounts and types of insurance then being required by landlords of buildings comparable to and in the vicinity of the Building.

11 CASUALTY DAMAGE. With reasonable promptness (and in any event, if structural damage has occurred then within 120 days, and otherwise within 30 days) after discovering any damage to the Premises (other than trade fixtures), or to any Common Area or Building system necessary for access to or tenantability of the Premises, resulting from any fire or other casualty (a "**Casualty**"), Landlord shall notify Tenant of Landlord's reasonable estimate of the time required to substantially complete repair of such damage (the "**Landlord Repairs**"). If, according to such estimate, the Landlord Repairs cannot be substantially completed within 180 days after they are commenced, either party may terminate this Lease upon 60 days' notice to the other party delivered within 10 days after Landlord's delivery of such estimate. Within 45 days after discovering any damage to the Project resulting from any Casualty, Landlord may, whether or not the Premises are affected, terminate this Lease by notifying Tenant if (i) any Security Holder terminates any ground lease or requires that any insurance proceeds be used to pay any mortgage debt; (ii) any damage to Landlord's property is not fully covered by Landlord's insurance policies; (iii) Landlord decides to rebuild the Building or Common Areas so that it or they will be substantially different structurally or architecturally; (iv) the damage occurs during the last 12 months of the Term; or (v) any owner, other than Landlord, of any damaged portion of the Project does not intend to repair such damage. If this Lease is not terminated pursuant to this Section 11, Landlord shall promptly and diligently perform the Landlord Repairs, subject to reasonable delays for insurance adjustment and other events of Force Majeure. The Landlord Repairs shall restore the Premises (other than trade fixtures) and any Common Area or Building system necessary for access to or tenantability of the Premises to substantially the same condition that existed when the Casualty occurred, except for (a) any modifications required by Law or any Security Holder, and (b) any modifications to the Common Areas that are deemed desirable by Landlord, are consistent with the character of the Project, and do not materially impair access to or tenantability of the Premises. Notwithstanding Section 10.4, Tenant shall assign to Landlord (or its designee) all insurance proceeds payable to Tenant under Tenant's insurance required under Section 10.2 with respect to any Tenant-Insured Improvements, and if the estimated or actual cost of restoring any Tenant-Insured Improvements exceeds the insurance proceeds received by Landlord from Tenant's insurance carrier, Tenant shall pay such excess to Landlord within 15 days after Landlord's demand. Except to the extent Landlord may breach its obligations under this Section 11, no Casualty or restoration shall render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder; provided, however, that if the Premises (other than trade fixtures) or any Common Area or Building system necessary for access to or tenantability of the Premises is damaged by a Casualty, then, during any time that, as a result of such damage, any portion of the Premises is inaccessible or untenantable and is not occupied by Tenant, Monthly Rent shall be abated in proportion to the rentable square footage of such portion of the Premises. If Landlord does not substantially complete the Landlord Repairs by the Outside Restoration Date (defined below), Tenant may terminate this Lease by notifying Landlord within 15 days after the Outside Restoration Date and before the substantial completion of the Landlord Repairs. As used herein, "**Outside Restoration Date**" means the date occurring two (2) months after the later of (a) the expiration of the time set forth in Landlord's estimate described in the first sentence of this Section 11, or (b) the date occurring 180 days after the date the Landlord Repairs are commenced; provided, however, that the Outside Restoration Date shall be extended to the extent of (i) any delay caused by the insurance adjustment process; (ii) any other delay caused by events of Force Majeure, and (iii) any delay caused by Tenant or any party claiming by, through or under Tenant. Notwithstanding the foregoing, if Landlord determines in good faith that it will be unable to substantially complete the Landlord Repairs by the Outside Restoration Date, Landlord may cease its performance of the Landlord Repairs and provide Tenant with notice (the "**Restoration Date Extension Notice**") stating such inability and identifying the date on which Landlord reasonably believes such substantial completion will occur, in which event Tenant may terminate this Lease by notifying Landlord within 10 business days after receiving the Restoration Date Extension Notice. If Tenant does not terminate this Lease within such 10-business day period, the Outside Restoration Date shall be automatically amended to be the date identified in the Restoration Date Extension Notice.

12 NONWAIVER. No provision hereof shall be deemed waived by either party unless it is waived by such party expressly and in writing, and no waiver of any breach of any provision hereof shall be deemed a waiver of any subsequent breach of such provision or any other provision hereof. Landlord's acceptance of Rent shall not be deemed a waiver of any preceding breach of any provision hereof, other than Tenant's failure to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of such acceptance. No acceptance of payment of an amount less than the Rent due hereunder shall be deemed a waiver of Landlord's right to receive the full amount of Rent due, whether or not any endorsement or statement accompanying such payment purports to effect an accord and satisfaction. No receipt of monies by Landlord from Tenant after the giving of any notice, the

commencement of any suit, the issuance of any final judgment, or the termination hereof shall affect such notice, suit or judgment, or reinstate or extend the Term or Tenant's right of possession hereunder.

13 CONDEMNATION. If any part of the Premises, Building or Project is taken for any public or quasi-public use by power of eminent domain or by private purchase in lieu thereof (a "**Taking**") for more than 180 consecutive days, Landlord may terminate this Lease. If more than 25% of the rentable square footage of the Premises is Taken, or access to the Premises is substantially impaired as a result of a Taking, for more than 180 consecutive days, Tenant may terminate this Lease. Any such termination shall be effective as of the date possession must be surrendered to the authority, and the terminating party shall provide termination notice to the other party within 45 days after receiving written notice of such surrender date. Except as provided above in this Section 13, neither party may terminate this Lease as a result of a Taking. Tenant shall not assert any claim for compensation because of any Taking; provided, however, that Tenant may file a separate claim for any Taking of Tenant's personal property or any fixtures that Tenant is entitled to remove upon the expiration hereof, and for moving expenses, so long as such claim does not diminish the award available to Landlord or any Security Holder and is payable separately to Tenant. If this Lease is terminated pursuant to this Section 13, all Rent shall be apportioned as of the date of such termination. If a Taking occurs and this Lease is not so terminated, Monthly Rent shall be abated for the period of such Taking in proportion to the percentage of the rentable square footage of the Premises, if any, that is subject to, or rendered inaccessible by, such Taking.

14 ASSIGNMENT AND SUBLETTING.

14.1 **Transfers**. Subject to Section 14.8, Tenant shall not, without Landlord's prior consent, assign, mortgage, pledge, hypothecate, encumber, permit any lien to attach to, or otherwise transfer this Lease or any interest hereunder, permit any assignment or other transfer hereof or any interest hereunder by operation of law, enter into any sublease or license agreement, otherwise permit the occupancy or use of any part of the Premises by any persons other than Tenant and its employees and contractors, or permit a Change of Control (defined in Section 14.6) to occur (each, a "**Transfer**"). If Tenant desires Landlord's consent to any Transfer, Tenant shall provide Landlord with (i) notice of the terms of the proposed Transfer, including its proposed effective date (the "**Contemplated Effective Date**"), a description of the portion of the Premises to be transferred (the "**Contemplated Transfer Space**"), a calculation of the Transfer Premium (defined in Section 14.3), and a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, and (ii) current financial statements of the proposed transferee (or, in the case of a Change of Control, of the proposed new controlling party(ies)) certified by an officer or owner thereof and any other information reasonably required by Landlord in order to evaluate the proposed Transfer (collectively, the "**Transfer Notice**"). Within 15 business days after receiving the Transfer Notice, Landlord shall notify Tenant of (a) its consent to the proposed Transfer, or (b) its refusal to consent to the proposed Transfer. Any Transfer made without Landlord's prior consent shall, at Landlord's option, be void and shall, at Landlord's option, constitute a Default. Tenant shall pay Landlord a fee of $ for Landlord's review of any proposed Transfer, whether or not Landlord consents to it.

14.2 **Landlord's Consent**. Subject to Section 14.4, Landlord shall not unreasonably withhold its consent to any proposed Transfer. Without limiting other reasonable grounds for withholding consent, it shall be deemed reasonable for Landlord to withhold its consent to a proposed Transfer if:

14.2.1 The proposed transferee is not a party of reasonable financial strength in light of the responsibilities to be undertaken in connection with the Transfer on the date the Transfer Notice is received; or

14.2.2 The proposed transferee has a character or reputation or is engaged in a business that is not consistent with the quality of the Building or the Project; or

14.2.3 The proposed transferee is a governmental entity or a nonprofit organization; or

14.2.4 In the case of a proposed sublease, license or other occupancy agreement, the rent or occupancy fee charged by Tenant to the transferee during the term of such agreement, calculated using a present value analysis, is less than 95% of the rent being quoted by Landlord or its Affiliate (defined in Section 14.8) at the time of such Transfer for comparable space in the Project for a comparable term, calculated using a present value analysis; or

14.2.5 The proposed transferee or any of its Affiliates, on the date the Transfer Notice is received, leases or occupies (or, at any time during the 6-month period ending on the date the Transfer Notice is received, has negotiated with Landlord to lease) space in the Project.

Notwithstanding any contrary provision hereof, (a) if Landlord consents to any Transfer pursuant to this Section 14.2 but Tenant does not enter into such Transfer within six (6) months thereafter, such consent shall no longer apply and such Transfer shall not be permitted unless Tenant again obtains

Landlord's consent thereto pursuant and subject to the terms of this Section 14; and (b) if Landlord unreasonably withholds its consent under this Section 14.2, Tenant's sole remedies shall be contract damages (subject to Section 20) or specific performance, and Tenant waives all other remedies, including any right to terminate this Lease.

14.3 **Transfer Premium**. If Landlord consents to a Transfer, Tenant shall pay Landlord an amount equal to % of any Transfer Premium (defined below). As used herein, "**Transfer Premium**" means . Payment of Landlord's share of the Transfer Premium shall be made (x) in the case of an assignment or a Change of Control, within 10 days after Tenant or the prior controlling party(ies), as the case may be, receive(s) the consideration described above, and (y) in the case of a sublease, license or other occupancy agreement, for each month of the term of such agreement, within five (5) business days after Tenant receives the rent and other consideration described above.

14.4 Intentionally Omitted.

14.5 **Effect of Consent**. If Landlord consents to a Transfer, (i) such consent shall not be deemed a consent to any further Transfer, (ii) Tenant shall deliver to Landlord, promptly after execution, an executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, and (iii) Tenant shall deliver to Landlord, upon Landlord's request, a complete statement, certified by an independent CPA or Tenant's chief financial officer, setting forth in detail the computation of any Transfer Premium. In the case of an assignment, the assignee shall assume in writing, for Landlord's benefit, all of Tenant's obligations hereunder. No Transfer, with or without Landlord's consent, shall relieve Tenant or any guarantor hereof from any liability hereunder. Notwithstanding any contrary provision hereof, Tenant, with or without Landlord's consent, shall not enter into, or permit any party claiming by, through or under Tenant to enter into, any sublease, license or other occupancy agreement that provides for payment based in whole or in part on the net income or profit of the subtenant, licensee or other occupant thereunder.

14.6 **Change of Control**. As used herein, "**Change of Control**" means (a) if Tenant is a closely held professional service firm, the withdrawal or change (whether voluntary, involuntary or by operation of law) of more than 25% of its equity owners within a 12-month period; and (b) in all other cases, any transaction(s) resulting in the acquisition of a Controlling Interest (defined below) by one or more parties that did not own a Controlling Interest immediately before such transaction(s). As used herein, "**Controlling Interest**" means any direct or indirect equity or beneficial ownership interest in Tenant that confers upon its holder(s) the direct or indirect power to direct the ordinary management and policies of Tenant, whether through the ownership of voting securities, by contract or otherwise (but not through the ownership of voting securities listed on a recognized securities exchange).

14.7 **Effect of Default**. If Tenant is in Default, Landlord is irrevocably authorized, as Tenant's agent and attorney-in-fact, to direct any transferee under any sublease, license or other occupancy agreement to make all payments under such agreement directly to Landlord (which Landlord shall apply towards Tenant's obligations hereunder) until such Default is cured. Such transferee shall rely upon any representation by Landlord that Tenant is in Default, whether or not confirmed by Tenant.

14.8 **Permitted Transfers**. Notwithstanding any contrary provision hereof, if Tenant is not in Default, Tenant may, without Landlord's consent pursuant to Section 14.1, assign this Lease to (a) an Affiliate of Tenant (other than pursuant to a merger or consolidation), (b) a successor to Tenant by merger or consolidation, or (c) a successor to Tenant by purchase of all or substantially all of Tenant's assets (a "**Permitted Transfer**"), provided that (i) at least 10 business days before the Transfer, Tenant notifies Landlord of such Transfer and delivers to Landlord any documents or information reasonably requested by Landlord relating thereto, including reasonable documentation that the Transfer satisfies the requirements of this Section 14.8; (ii) in the case of an assignment pursuant to clause (a) or (c) above, the assignee executes and delivers to Landlord, at least 10 business days before the assignment, a commercially reasonable instrument pursuant to which the assignee assumes, for Landlord's benefit, all of Tenant's obligations hereunder; (iii) in the case of an assignment pursuant to clause (b) above, (A) the successor entity has a net worth (as determined in accordance with GAAP, but excluding intellectual property and any other intangible assets ("**Net Worth**")) immediately after the Transfer that is not less than the Net Worth of Tenant immediately before the Transfer, and (B) if Tenant is a closely held professional service firm, at least 75% of its equity owners existing 12 months before the Transfer are also equity owners of the successor entity; (iv) the transferee is qualified to conduct business in the state where the Building is located; and (v) the Transfer is made for a good faith operating business purpose

and not in order to evade the requirements of this Section 14. As used herein, "**Affiliate**" means, with respect to any party, a person or entity that controls, is under common control with, or is controlled by such party.

15 SURRENDER. Upon the expiration or earlier termination hereof, and subject to Sections 8 and 11 and this Section 15, Tenant shall surrender possession of the Premises to Landlord in as good condition and repair as existed when Tenant took possession and as thereafter improved by Landlord and/or Tenant, except for reasonable wear and tear and repairs that are Landlord's express responsibility hereunder. Before such expiration or termination, Tenant, without expense to Landlord, shall (a) remove from the Premises all debris and rubbish and all furniture, equipment, trade fixtures, Lines, free-standing cabinet work, movable partitions and other articles of personal property that are owned or placed in the Premises by Tenant or any party claiming by, through or under Tenant (except for any Lines not required to be removed under Section 23), and (b) repair all damage to the Premises and Building resulting from such removal. If Tenant fails to timely perform such removal and repair, Landlord may do so at Tenant's expense (including storage costs). If Tenant fails to remove such property from the Premises, or from storage, within 30 days after notice from Landlord, any part of such property shall be deemed, at Landlord's option, either (x) conveyed to Landlord without compensation, or (y) abandoned.

16 HOLDOVER. If Tenant fails to surrender the Premises upon the expiration or earlier termination hereof, Tenant's tenancy shall be subject to the terms and conditions hereof; provided, however, that such tenancy shall be a tenancy at sufferance only, for the entire Premises, and Tenant shall pay Monthly Rent (on a per-month basis without reduction for any partial month) at a rate equal to 150% of the Monthly Rent applicable during the last calendar month of the Term. Nothing in this Section 16 shall limit Landlord's rights or remedies or be deemed a consent to any holdover. If Landlord is unable to deliver possession of the Premises to a new tenant or to perform improvements for a new tenant as a result of Tenant's holdover, then, subject to Section 19.4, Tenant shall be liable for all resulting direct damages incurred by Landlord, but only to the extent that such holdover occurs more than 60 days after notice from Landlord that Landlord has entered into a lease with such new tenant. For purposes of the preceding sentence, without limitation, any loss of rent, increase in re-leasing costs, or liability (other than for consequential damages) in favor of a new tenant incurred by Landlord as a result of Tenant's holdover during any period following the expiration or earlier termination hereof shall be deemed direct damages.

17 SUBORDINATION; ESTOPPEL CERTIFICATES. This Lease shall be subject and subordinate to all existing and future ground or underlying leases, mortgages, trust deeds, deeds to secure debt, and other encumbrances against the Building or Project, all renewals, extensions, modifications, consolidations and replacements thereof (each, a "**Security Agreement**"), and all advances made upon the security of such mortgages or trust deeds, unless in each case the holder of such Security Agreement (each, a "**Security Holder**") requires in writing that this Lease be superior thereto. Upon any termination or foreclosure (or any delivery of a deed in lieu of foreclosure) of any Security Agreement (a "**Succession**"), Tenant, upon request, shall attorn, without deduction or set-off, to the Security Holder or purchaser or any successor thereto and shall recognize such party (the "**Successor**") as the lessor hereunder if the Successor agrees not to disturb Tenant's occupancy so long as Tenant timely pays the Rent and otherwise performs its obligations hereunder; provided, however, that the Successor shall not be liable for or bound by (i) any payment of Rent made to Landlord more than 30 days before its due date, (ii) any act or omission of or default by Landlord hereunder (but the Successor shall be subject to Landlord's continuing obligations hereunder to the extent arising after the Succession and to the extent of the Successor's interest in the Property), (iii) any credits, claims, setoffs or defenses that Tenant may have against Landlord, (iv) any modification or amendment to this Lease for which the Security Holder's consent is required, but has not been obtained, under the Security Agreement, or (v) any obligation hereunder to maintain a fitness facility at the Building. Within 15 business days after request by Landlord, Tenant shall execute such further instruments as Landlord may reasonably deem necessary to confirm such attornment and evidence the subordination or superiority of this Lease to any Security Agreement. Tenant waives any right it may have under Law to terminate or otherwise adversely affect this Lease or Tenant's obligations hereunder upon a foreclosure. Within 15 business days after Landlord's request, Tenant shall execute and deliver to Landlord a commercially reasonable estoppel certificate in favor of such parties as Landlord may reasonably designate, including current and prospective Security Holders and prospective purchasers.

18 ENTRY BY LANDLORD. At all reasonable times and upon reasonable notice to Tenant, or in an emergency, Landlord may enter the Premises to (i) inspect the Premises; (ii) show the Premises to prospective purchasers, current or prospective Security Holders or insurers, or, during the last 12 months of the Term (or while an uncured Default exists), prospective tenants; (iii) post notices of non-responsibility; or (iv) perform maintenance, repairs or alterations. At any time and without notice to Tenant, Landlord may enter the Premises to perform required services; provided, however, that, except in an emergency, Landlord shall provide Tenant with reasonable prior notice (which notice, notwithstanding Section 25.1, may be delivered by e-mail, fax, telephone or orally and in person) of any entry to perform a service that is not performed on a weekly or more frequent basis. If reasonably necessary, Landlord may temporarily close any portion of the Premises to perform maintenance, repairs or alterations. In an

emergency, Landlord may use any means it deems proper to open doors to and in the Premises. Except in an emergency, Landlord shall comply with any reasonable security procedures of Tenant (such as procedures requiring identification of any person entering the Premises, accompaniment by a Tenant employee, and/or the wearing of a badge, but excluding any background check that (i) requires the provision of identifying information other than (a) photo identification or other reasonable evidence of such person's name, and (b) the name of such person's employer, (ii) requires more than five (5) minutes to complete, or (iii) precludes entry for any reason other than discovery that such person (a) has been convicted of a felony involving dishonesty or breach of trust, or (b) is a Prohibited Party (defined in Section 25.3). No entry into or closure of any portion of the Premises pursuant to this Section 18 shall render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder.

19 DEFAULTS; REMEDIES.

19.1 **Events of Default**. The occurrence of any of the following shall constitute a "**Default**":

19.1.1 Any failure by Tenant to pay any Rent when due unless such failure is cured within 5 business days after notice from Landlord to Tenant (which notice, without limiting Section 25.10, shall be in writing); or

19.1.2 Except where a specific time period is otherwise set forth for Tenant's cure herein (in which event Tenant's failure to cure within such time period shall be a Default), and except as otherwise provided in this Section 19.1, any breach by Tenant of any other provision hereof where such breach continues for 30 days after notice from Landlord; provided that if such breach cannot reasonably be cured within such 30-day period, Tenant shall not be in Default as a result of such breach if Tenant diligently commences such cure within such period, thereafter diligently pursues such cure, and completes such cure within 60 days after Landlord's notice; or

19.1.3 Abandonment of the Premises by Tenant; or

19.1.4 Any breach by Tenant of Sections 5, 14, 17 or 18 where such breach continues for more than 2 business days after notice from Landlord; or

19.1.5 Tenant becomes in breach of Section 25.3.

If Tenant breaches a particular provision hereof (other than a provision requiring payment of Rent) on three (3) separate occasions during any 12-month period, Tenant's subsequent breach of such provision shall be, at Landlord's option, an incurable Default. The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by Law, and Landlord shall not be required to give any additional notice in order to be entitled to commence an unlawful detainer proceeding.

19.2 **Remedies Upon Default**. Upon any Default, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (which shall be cumulative and nonexclusive), the option to pursue any one or more of the following remedies (which shall be cumulative and nonexclusive) without any notice or demand:

19.2.1 Landlord may terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy it may have for possession or arrearages in Rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(a) The worth at the time of award of the unpaid Rent which has been earned at the time of such termination; plus

(b) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such Rent loss that Tenant proves could have been reasonably avoided; plus

(d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations hereunder or which in the ordinary course of things would be likely to result therefrom, including brokerage commissions, advertising expenses, expenses of remodeling any portion of the Premises for a new tenant (whether for the same or a

different use), and any special concessions made to obtain a new tenant; plus

(e) At Landlord's option, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Law.

As used in Sections 19.2.1(a) and (b), the "**worth at the time of award**" shall be computed by allowing interest at a rate per annum equal to the lesser of (i) the annual "Bank Prime Loan" rate cited in the Federal Reserve Statistical Release Publication G.13(415), published on the first Tuesday of each calendar month (or such other comparable index as Landlord shall reasonably designate if such rate ceases to be published) plus two (2) percentage points, or (ii) the highest rate permitted by Law. As used in Section 19.2.1(c), the "**worth at the time of award**" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1%.

19.2.2 [Intentionally Omitted.]

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, or any Law or other provision hereof), without prior demand or notice except as required by Law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.3 **Efforts to Relet**. Unless Landlord provides Tenant with express notice to the contrary, no re-entry, repossession, repair, maintenance, change, alteration, addition, reletting, appointment of a receiver or other action or omission by Landlord shall (a) be construed as an election by Landlord to terminate this Lease or Tenant's right to possession, or to accept a surrender of the Premises, or (b) operate to release Tenant from any of its obligations hereunder. Tenant waives, for Tenant and for all those claiming by, through or under Tenant, any existing or future rights to redeem or reinstate, by order or judgment of any court or by any legal process or writ, this Lease or Tenant's right of occupancy of the Premises after any termination hereof.

19.4 **Mitigation of Damages**. Landlord shall use reasonable efforts to mitigate damages resulting from any breach of this Lease by Tenant; provided, however, that (a) Landlord shall not be required to relet the Premises in preference to any other space in the Project or to relet the Premises to any party that Landlord could reasonably reject as a transferee pursuant to Section 14.2; and (b) nothing in this Section 19.4 shall limit Landlord's rights under clauses (a), (b) or (c) of Section 19.2.1 or under Section 19.3.

19.5 **Landlord Default**. Landlord shall not be in default hereunder unless it breaches a provision hereof and such breach continues for 30 days after notice from Tenant; provided that if such breach cannot reasonably be cured within such 30-day period, Landlord shall not be in default as a result of such breach if Landlord diligently commences such cure within such period, thereafter diligently pursues such cure, and completes such cure within 60 days after Tenant's notice. Upon any such default by Landlord, Tenant shall have all remedies available to it at law or in equity, except as otherwise provided herein. Before exercising any remedies for a default by Landlord, Tenant shall give notice and a reasonable time to cure to any Security Holder of which Tenant has been notified.

20 LANDLORD EXCULPATION. Notwithstanding any contrary provision hereof, (a) the liability of the Landlord Parties to Tenant shall be limited to an amount equal to the lesser of (i) Landlord's interest in the Building, or (ii) the equity interest Landlord would have in the Building if the Building were encumbered by third-party debt in an amount equal to 80% of the value of the Building (as such value is determined by Landlord); (b) Tenant shall look solely to Landlord's interest in the Building for the recovery of any judgment or award against any Landlord Party; (c) no Landlord Party shall have any personal liability for any judgment or deficiency, and Tenant waives and releases such personal liability on behalf of itself and all parties claiming by, through or under Tenant; and (d) no Landlord Party shall be liable for any injury or damage to, or interference with, Tenant's business, including loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, or for any form of special or consequential damage.

21 Intentionally Omitted.

22 Intentionally Omitted.

23 COMMUNICATIONS AND COMPUTER LINES. All Lines installed pursuant to this Lease shall be (a) installed in accordance with Section 7; and (b) clearly marked with adhesive plastic labels (or plastic tags attached to such Lines with wire) to show Tenant's name, suite number, and the purpose of such Lines (i) every six (6) feet outside the Premises (including the electrical room risers and any Common Areas), and (ii) at their termination points. Landlord may designate specific contractors for work relating to vertical Lines. Sufficient spare cables and space for additional cables shall be maintained

for other occupants, as reasonably determined by Landlord. Unless otherwise notified by Landlord, Tenant, at its expense and before the expiration or earlier termination hereof, shall remove all Lines and repair any resulting damage. As used herein, "**Lines**" means all communications or computer wires and cables serving the Premises, whenever and by whomever installed or paid for, including any such wires or cables installed pursuant to any prior lease.

24 PARKING. Tenant may park in the Building's parking facilities (the "**Parking Facility**"), in common with other tenants of the Building, upon the following terms and conditions. Tenant shall not use more than the number of unreserved and/or reserved parking spaces set forth in Section 1.9. Tenant shall pay Landlord any fees, taxes or other charges imposed by any governmental or quasi-governmental agency in connection with the Parking Facility, to the extent such amounts are allocated to Tenant by Landlord. Landlord shall not be liable to Tenant, nor shall this Lease be affected, if any parking is impaired by (or any parking charges are imposed as a result of) any Law. Tenant shall comply with all rules and regulations established by Landlord from time to time for the orderly operation and use of the Parking Facility, including any sticker or other identification system and the prohibition of vehicle repair and maintenance activities in the Parking Facility. Landlord may, in its discretion, allocate and assign parking passes among Tenant and the other tenants in the Building. Tenant's use of the Parking Facility shall be at Tenant's sole risk, and Landlord shall have no liability for any personal injury or damage to or theft of any vehicles or other property occurring in the Parking Facility or otherwise in connection with any use of the Parking Facility by Tenant or its employees or invitees. Landlord may alter the size, configuration, design, layout or any other aspect of the Parking Facility without abatement of Rent or liability to Tenant provided that such alteration does not materially impair Tenant's rights under this Section 24. In addition, for purposes of facilitating any such alteration, Landlord may temporarily deny or restrict access to the Parking Facility, without abatement of Rent or liability to Tenant, provided that Landlord uses commercially reasonable efforts to make reasonable substitute parking available to Tenant. Tenant's parking rights under this Section 24 are solely for the benefit of Tenant's employees and invitees and such rights may not be transferred without Landlord's prior consent, except pursuant to a Transfer permitted under Section 14.

25 MISCELLANEOUS.

25.1 **Notices**. Except as provided in Section 18, no notice, demand, statement, designation, request, consent, approval, election or other communication given hereunder ("**Notice**") shall be binding upon either party unless (a) it is in writing; (b) it is (i) sent by certified or registered mail, postage prepaid, return receipt requested, (ii) delivered by a nationally recognized courier service, or (iii) delivered personally; and (c) it is sent or delivered to the address set forth in Section 1.10 or 1.11, as applicable, or to such other place (other than a P.O. box) as the recipient may from time to time designate in a Notice to the other party. Any Notice shall be deemed received on the earlier of the date of actual delivery or the date on which delivery is refused, or, if Tenant is the recipient and has vacated its notice address without providing a new notice address, three (3) days after the date the Notice is deposited in the U.S. mail or with a courier service as described above.

25.2 **Force Majeure**. If either party is prevented from performing any obligation hereunder by any strike, act of God, war, terrorist act, shortage of labor or materials, governmental action, civil commotion or other cause beyond such party's reasonable control ("**Force Majeure**"), such obligation shall be excused during (and any time period for the performance of such obligation shall be extended by) the period of such prevention; provided, however, that this Section 25.2 shall not (a) permit Tenant to hold over in the Premises after the expiration or earlier termination hereof, or (b) excuse any of Tenant's obligations under Sections 3, 4, 5, 21 or 25.3 or any of Tenant's obligations whose nonperformance would interfere with another occupant's use, occupancy or enjoyment of its premises or the Project.

25.3 **Representations and Covenants**. Each party ("**Representing Party**") represents, warrants and covenants to the other that (a) Representing Party is, and at all times during the Term will remain, duly organized, validly existing and in good standing under the Laws of the state of its formation and qualified to do business in the state of Ohio; (b) neither Representing Party's execution of nor its performance under this Lease will cause Representing Party to be in violation of any agreement or Law; (c) Representing Party (and, if Representing Party is Tenant, any guarantor hereof) has not, and at no time during the Term will have, (i) made a general assignment for the benefit of creditors, (ii) filed a voluntary petition in bankruptcy or suffered the filing by creditors of an involuntary petition in bankruptcy that is not dismissed within 30 days, (iii) suffered the appointment of a receiver to take possession of all or substantially all of its assets, (iv) suffered the attachment or other judicial seizure of all or substantially all of its assets, (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or composition to its creditors generally; and (d) no party that (other than through the passive ownership of interests traded on a recognized securities exchange) constitutes, owns, controls, or is owned or controlled by Representing Party (or if Representing Party is Tenant, by any guarantor hereof or any subtenant of Tenant) is, or at any time during the Term will be, (i) in violation of any Laws relating to terrorism or money laundering, or (ii) a party (a "**Prohibited Party**") identified on any list compiled pursuant to Executive Order 13224 for the purpose of identifying suspected terrorists or on the

most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, http://www.treas.gov/ofac/tllsdn.pdf or any replacement website or other replacement official publication of such list.

25.4 **Signs**. Landlord shall include Tenant's name in any tenant directory located in the lobby on the first floor of the Building. If any part of the Premises is located on a multi-tenant floor, Landlord shall provide identifying suite signage for Tenant comparable to that provided by Landlord on similar floors in the Building. Such identifying suite signage shall be provided at Landlord's expense; provided, however, that any changes to such signage made after its initial installation shall be at Tenant's expense. Tenant may not install (a) any signs outside the Premises, or (b) without Landlord's prior consent in its sole and absolute discretion, any signs, window coverings, blinds or similar items that are visible from outside the Premises.

25.5 **Supplemental HVAC**. If any supplemental HVAC unit (a "**Unit**") serves the Premises, then (a) Tenant shall pay the costs of all electricity consumed in the Unit's operation, together with the cost of installing a meter to measure such consumption; (b) Tenant, at its expense, shall (i) operate and maintain the Unit in compliance with all applicable Laws and such reasonable rules and procedures as Landlord may impose; (ii) keep the Unit in as good working order and condition as exists upon its installation (or, if later, on the date Tenant takes possession of the Premises), subject to normal wear and tear and damage resulting from Casualty; (iii) maintain in effect, with a contractor reasonably approved by Landlord, a contract for the maintenance and repair of the Unit, which contract shall require the contractor, at least once every three (3) months, to inspect the Unit and provide to Tenant a report of any defective conditions, together with any recommendations for maintenance, repair or parts-replacement; (iv) follow all reasonable recommendation of such contractor; and (v) promptly provide to Landlord a copy of such contract and each report issued thereunder; (c) the Unit shall become Landlord's property upon installation and without compensation to Tenant; provided, however, that upon Landlord's request at the expiration or earlier termination hereof, Tenant, at its expense, shall remove the Unit and repair any resulting damage; (d) the Unit shall be deemed (i) a Leasehold Improvement (except for purposes of Section 8), and (ii) for purposes of Section 11, part of the Premises; (e) if the Unit exists on the date of mutual execution and delivery hereof, Tenant accepts the Unit in its "as is" condition, without representation or warranty as to quality, condition, fitness for use or any other matter; (f) if the Unit connects to the Building's condenser water loop (if any), then Tenant shall pay to Landlord, as Additional Rent, Landlord's standard one-time fee for such connection and Landlord's standard monthly per-ton usage fee; and (g) if any portion of the Unit is located on the roof, then (i) Tenant's access to the roof shall be subject to such reasonable rules and procedures as Landlord may impose; (ii) Tenant shall maintain the affected portion of the roof in a clean and orderly condition and shall not interfere with use of the roof by Landlord or any other tenants or licensees; and (iii) Landlord may relocate the Unit and/or temporarily interrupt its operation, without liability to Tenant, as reasonably necessary to maintain and repair the roof or otherwise operate the Building.

25.6 **Attorneys' Fees**. In any action or proceeding between the parties, including any appellate or alternative dispute resolution proceeding, the prevailing party may recover from the other party all of its costs and expenses in connection therewith, including reasonable attorneys' fees and costs.

25.7 **Brokers**. Tenant represents to Landlord that it has dealt only with Tenant's Broker as its broker in connection with this Lease. Tenant shall indemnify, defend, and hold Landlord harmless from all claims of any brokers, other than Tenant's Broker, claiming to have represented Tenant in connection with this Lease. Landlord shall indemnify, defend and hold Tenant harmless from all claims of any brokers, including Landlord's Broker, claiming to have represented Landlord in connection with this Lease. Tenant acknowledges that any Affiliate of Landlord that is involved in the negotiation of this Lease is representing only Landlord, and that any assistance rendered by any agent or employee of such Affiliate in connection with this Lease or any subsequent amendment or other document related hereto has been or will be rendered as an accommodation to Tenant solely in furtherance of consummating the transaction on behalf of Landlord, and not as agent for Tenant.

25.8 **Governing Law; WAIVER OF TRIAL BY JURY.** This Lease shall be construed and enforced in accordance with the Laws of the state where the Building is located. THE PARTIES WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY IN ANY LITIGATION ARISING OUT OF OR RELATING TO THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR DAMAGE OR ANY EMERGENCY OR STATUTORY REMEDY.

25.9 **[Intentionally Omitted.]**

25.10 **Interpretation**. As used herein, the capitalized term "Section" refers to a section hereof unless otherwise specifically provided herein. As used in this Lease, the terms "herein," "hereof," "hereto" and "hereunder" refer to this Lease and the term "include" and its derivatives are not limiting. As used herein, the term "business day" means any day other than Saturday, Sunday and any Holiday.

Any reference herein to "any part" or "any portion" of the Premises, the Property or any other property shall be construed to refer to all or any part of such property. Wherever this Lease requires Tenant to comply with any Law, rule, regulation, procedure or other requirement or prohibits Tenant from engaging in any particular conduct, this Lease shall be deemed also to require Tenant to cause each of its employees, licensees, invitees and subtenants, and any other party claiming by, through or under Tenant, to comply with such requirement or refrain from engaging in such conduct, as the case may be. Wherever this Lease requires Landlord to provide a customary service or to act in a reasonable manner (whether in incurring an expense, establishing a rule or regulation, providing an approval or consent, or performing any other act), this Lease shall be deemed also to provide that whether such service is customary or such conduct is reasonable shall be determined by reference to the practices of owners of buildings that (i) are comparable to the Building in size, age, class, quality and location, and (ii) at Landlord's option, have been, or are being prepared to be, certified under the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system or a similar rating system. Tenant waives the benefit of any rule that a written agreement shall be construed against the drafting party.

25.11 **Entire Agreement**. This Lease sets forth the entire agreement between the parties relating to the subject matter hereof and supersedes any previous agreements (none of which shall be used to interpret this Lease). Tenant acknowledges that in entering into this Lease it has not relied upon any representation, warranty or statement, whether oral or written, not expressly set forth herein. This Lease can be modified only by a written agreement signed by both parties.

25.12 **Other**. Landlord, at its option, may cure any Default, without waiving any right or remedy or releasing Tenant from any obligation, in which event Tenant shall pay Landlord, upon demand, the cost of such cure. If any provision hereof is void or unenforceable, no other provision shall be affected. Submission of this instrument for examination or signature by Tenant does not constitute an option or offer to lease, and this instrument is not binding until it has been executed and delivered by both parties. If Tenant is comprised of two or more parties, their obligations shall be joint and several. Time is of the essence with respect to the performance of every provision hereof in which time of performance is a factor. So long as Tenant performs its obligations hereunder, Tenant shall have peaceful and quiet possession of the Premises against any party claiming by, through or under Landlord, subject to the terms hereof. Landlord may transfer its interest herein, in which event Landlord shall be released from, Tenant shall look solely to the transferee for the performance of, and the transferee shall be deemed to have assumed, all of Landlord's obligations arising hereunder after the date of such transfer (including the return of any Security Deposit) and Tenant shall attorn to the transferee. Landlord reserves all rights not expressly granted to Tenant hereunder, including the right to make alterations to the Project. No rights to any view or to light or air over any property are granted to Tenant hereunder. The expiration or termination hereof shall not relieve either party of any obligation that accrued before, or continues to accrue after, such expiration or termination.

[SIGNATURES BEGIN ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

LANDLORD:

BRE/COH OH LLC,
a Delaware limited liability company

By: /s/ Chris Hendricks
Name: Chris Hendricks
Title: Executive Vice President and Chief Operating Officer

STATE OF TEXAS)
) SS:
COUNTY OF DALLAS)

Before me, a Notary Public in and for said County and State, personally appeared Chris Hendricks, by me known and by me known to be the EVP and COO of BRE/COH OH LLC, a Delaware limited liability company, who acknowledged the execution of the foregoing Office Lease on behalf of said limited liability company.

WITNESS my hand and Notarial Seal this 26th day of July, 2012.

/s/ Jeanette Kay Drew
Notary Public

Jeanette Kay Drew
Printed Signature

(notarial seal)

My Commission Expires: June 3, 2015
My County of Residence: Collin

TENANT:

ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation

By: /s/ Timothy King
Name: Timothy King
Title: CFO, Retail Services

STATE OF Ohio)
) SS:
COUNTY OF Franklin)

Before me, a Notary Public in and for said County and State, personally appeared Timothy King, by me known and by me known to be the CFO of ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation, who acknowledged the execution of the foregoing Office Lease on behalf of said corporation.

WITNESS my hand and Notarial Seal this 19 day of July, 2012.

/s/ Linda E. Megnin
Notary Public

Linda E. Megnin
Printed Signature

(notarial seal)

My Commission Expires: 10/20/2014
My County of Residence: Franklin

4400 Easton Commons

CONFIRMATION LETTER

October 2, 2012

To: Alliance Data Systems, Inc.
4400 Easton Commons
Columbus, Ohio 43219

Re: Office Lease (the "Lease") dated July 26, 2012, between BRE/COH OH LLC, a Delaware limited liability company ("Landlord") and Alliance Data Systems, Inc., A Delaware corporation ("Tenant"), concerning suit the 2nd floor and 3rd floor of the building located at 4400 Easton Commons, Columbus, Ohio 43219.

Lease ID:
Business Unit Number: 20770

Dear Alliance Data Systems, Inc.:

In accordance with the Lease, Tenant accepts possession of the Premises and confirms the following:

1. The Commencement Date is October 1, 2012 and the Expiration Date is February 28, 2018.
2. The exact number of rentable square feet within the Premises is 68,981 square feet, subject to Section 1.2.2 of the Lease.
3. Tenant's Share, based upon the exact number of rentable square feet within the Premises, is 67.9549%, subject to Section 1.6 of the Lease.

Please acknowledge the foregoing by signing all three (3) counterparts of this letter in the space provided below and returning two (2) fully executed counterparts to my attention.

"Landlord:"

BRE/COH OH LLC
A Delaware limited Liability Company

By: /s/ Thomas Burdi
Name: Thomas Burdi
Title: VP Asset Management

Agreed and Accepted as of 11/16, 2012

"Tenant:"

Alliance Data Systems, Inc.
A Delaware Corporation

By: /s/ Timothy King
Name: Timothy King
Title: CFO

FIRST AMENDMENT

THIS FIRST AMENDMENT (this "**Amendment**") is made and entered into as of May 14, 2013, by and between **BRE/COH OH LLC, a Delaware limited liability company** ("**Landlord**"), and **ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation** ("**Tenant**").

RECITALS

A. Landlord and Tenant are parties to that certain lease dated July 26, 2012 (the "**Lease**"). Pursuant to the Lease, Landlord has leased to Tenant space currently containing approximately **68,981** rentable square feet (the "**Existing Premises**") described as Suite No(s). 200 and 300 on the 2nd and 3rd floors of the building commonly known as 4400 Easton Commons located at 4400 Easton Commons, Columbus, Ohio (the "**Building**").

B. The parties wish to expand the Premises (defined in the Lease) to include additional space, containing approximately **4,509** rentable square feet described as Suite 175 on the 1st floor of the Building and shown on **Exhibit A** attached hereto (the "**Expansion Space**"), on the following terms and conditions.

NOW, THEREFORE, in consideration of the above recitals which by this reference are incorporated herein, the mutual covenants and conditions contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

1. **Expansion.**

1.1. **Effect of Expansion.** Effective as of the Expansion Effective Date (defined in Section 1.2 below), the Premises shall be increased from 68,981 rentable square feet on the 2nd and 3rd floors to **73,490** rentable square feet on the 1st, 2nd and 3rd floors by the addition of the Expansion Space, and, from and after the Expansion Effective Date, the Existing Premises and the Expansion Space shall collectively be deemed the Premises. The term of the Lease for the Expansion Space (the "**Expansion Term**") shall commence on the Expansion Effective Date and, unless sooner terminated in accordance with the Lease, end on the last day of the term of the Lease for the Existing Premises (which the parties acknowledge is February 28, 2018). From and after the Expansion Effective Date, the Expansion Space shall be subject to all the terms and conditions of the Lease except as provided herein. Except as may be expressly provided herein, (a) Tenant shall not be entitled to receive, with respect to the Expansion Space, any allowance, free rent or other financial concession granted with respect to the Existing Premises, and (b) no representation or warranty made by Landlord with respect to the Existing Premises shall apply to the Expansion Space.

1.2. **Expansion Effective Date.** As used herein, "**Expansion Effective Date**" means the earlier to occur of (i) the date on which Tenant first conducts business in the Expansion Space, or (ii) June 1, 2013 Landlord shall tender possesion of the the Expansion Space to Tenant free from occupancy by any party (the date of such tender shall be referred to hereinafter as the "**Delivery Date**") on the first business day following mutual execution and delivery hereof. During the period beginning on the Delivery Date and ending on the date immediately preceding the Expansion Effective Date, the provisions of this Amendment shall apply to the Expansion Space as if the Expansion Effective Date had occurred; provided, however, that during such period Tenant shall not be required to pay Monthly Rent for the Expansion Space.

1.3. **Confirmation Letter.** At any time after the Expansion Effective Date, Landlord may deliver to Tenant a notice substantially in the form of **Exhibit C** attached hereto, as a confirmation of the information set forth therein, which Tenant shall execute and return to Landlord within five (5) days after receiving it. If Tenant fails to execute and return (or reasonably object in writing to) such notice within five (5) days after receiving it, Tenant shall be deemed to have executed and returned it without exception.

2. **Base Rent.** With respect to the Expansion Space during the Expansion Term, the schedule of Base Rent shall be as follows:

All such Base Rent shall be payable by Tenant in accordance with the terms of the Lease.

3. **[Intentionally Omitted.]**.

4. **Tenant's Share.** With respect to the Expansion Space during the Expansion Term, Tenant's Share shall be 4.4419%.

5. **Expenses and Taxes.** With respect to the Expansion Space during the Expansion Term, Tenant shall pay for Tenant's Share of Expenses and Taxes in accordance with the terms of the Lease.

6. **Improvements to Expansion Space.**

6.1. **Condition and Configuration of Expansion Space.** Tenant acknowledges that it has inspected the Expansion Space and agrees to accept it in its existing condition and configuration (or in such other condition and configuration as any existing tenant of the Expansion Space may cause to exist in accordance with its lease), without any representation by Landlord regarding its condition or configuration and without any obligation on the part of Landlord to perform or pay for any alteration or improvement, except as may be otherwise expressly provided in this Amendment.

6.2. **Responsibility for Improvements to Expansion Space.** Landlord shall perform improvements to the Expansion Space in accordance with **Exhibit B** attached hereto.

7. **Other Pertinent Provisions.** Landlord and Tenant agree that, effective as of the date of this Amendment (unless different effective date(s) is/are specifically referenced in this Section), the Lease shall be amended in the following additional respects:

7.1. **Acceleration Fee**. In Section 2.3 of Exhibit F to the Lease, the amount "$ " is hereby replaced with the amount "$."

8. **Miscellaneous.**

8.1. This Amendment and the attached exhibits, which are hereby incorporated into and made a part of this Amendment, set forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Tenant shall not be entitled, in connection with entering into this Amendment, to any free rent, allowance, alteration, improvement or similar economic incentive to which Tenant may have been entitled in connection with entering into the Lease, except as may be otherwise expressly provided in this Amendment.

8.2. Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect.

8.3. In the case of any inconsistency between the provisions of the Lease and this Amendment, the provisions of this Amendment shall govern and control.

8.4. Submission of this Amendment by Landlord is not an offer to enter into this Amendment but rather is a solicitation for such an offer by Tenant. Landlord shall not be bound by this Amendment until Landlord has executed and delivered it to Tenant.

8.5. The capitalized terms used in this Amendment shall have the same definitions as set forth in the Lease to the extent that such capitalized terms are defined therein and not redefined in this Amendment.

8.6. Tenant shall indemnify and hold Landlord, its trustees, members, principals, beneficiaries, partners, officers, directors, employees, mortgagee(s) and agents, and the respective principals and members of any such agents harmless from all claims of any brokers claiming to have represented Tenant in connection with this Amendment. Landlord shall indemnify and hold Tenant, its trustees, members, principals, beneficiaries, partners, officers, directors, employees, and agents, and the respective principals and members of any such agents harmless from all claims of any brokers claiming to have represented Landlord in connection with this Amendment. Tenant acknowledges that any assistance rendered by any agent or employee of any affiliate of Landlord in connection with this Amendment has been made as an accommodation to Tenant solely in furtherance of consummating the transaction on behalf of Landlord, and not as agent for Tenant.

8.7. If Tenant has any expansion right (whether such right is designated as a right of first offer, right of first refusal, expansion option or otherwise) that was granted to Tenant under the Lease (as determined without giving effect to this Amendment) and that, by virtue of this Amendment, will apply to space different from or in addition to the space to which such expansion right previously applied, then, as applied to such different or additional space, such expansion right shall be subject and subordinate to any expansion right (whether such right is designated as a right of first offer, right of first refusal, expansion option or otherwise) of any tenant of the Building existing on the date of mutual execution and delivery hereof.

[SIGNATURES ARE ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have duly executed this Amendment as of the day and year first above written.

LANDLORD:

BRE/COH OH LLC,
a Delaware limited liability company

By: /s/ Thomas Burdi
Name: Thomas Burdi
Title: VP – Asset Management

STATE OF TEXAS)
) SS:
COUNTY OF DALLAS)

Before me, a Notary Public in and for said County and State, personally appeared Thomas Burdi, by me known and by me known to be the VP – Asset Management of BRE/COH OH LLC, a Delaware limited liability company, who acknowledged the execution of the foregoing Amendment on behalf of said limited liability company.

WITNESS my hand and Notarial Seal this 14th day of May, 2013.

/s/ Jeanette Kay Drew
Notary Public

Jeanette Kay Drew
Printed Signature

(notarial seal)

My Commission Expires: June 3, 2015
My County of Residence: Collin

TENANT:

ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation

By: /s/ Timothy King
Name: Timothy King
Title: CFO & CAO

STATE OF Ohio)
) SS:
COUNTY OF Franklin)

Before me, a Notary Public in and for said County and State, personally appeared Timothy King, by me known and by me known to be the CFO & CAO of ADS ALLIANCE DATA SYSTEMS, INC., a Delaware corporation, who acknowledged the execution of the foregoing Amendment on behalf of said corporation.

WITNESS my hand and Notarial Seal this 1 day of May, 20113.

/s/ Linda E. Megnin
Notary Public

Linda E. Megnin
Printed Signature

(notarial seal)

My Commission Expires: 10/20/2014
My County of Residence: Montgomery

Exhibit 10.59

FIRST AMENDMENT TO
THE ALLIANCE DATA SYSTEMS 401(k) AND RETIREMENT SAVINGS PLAN
(Amended and Restated as of January 1, 2013)

ADS Alliance Data Systems, Inc. hereby adopts this Amendment No. 1 to the Alliance Data Systems 401(k) and Retirement Savings Plan, amended and restated as of January 1, 2013 (the “Plan”), effective as of November 1, 2012.

1. **Section 1.46 of the Plan shall be amended to read as follows:**

1.46 Rollover Account

The account maintained for a Participant who made a rollover contribution pursuant to Article 10, Article 12, or Article 16, provided, however, that amounts attributable to (i) after-tax contributions, and (ii) a conversion election pursuant to Article 10, the rollover of a Roth account pursuant to Article 12, or both, and earnings thereon, shall be accounted for separately.

2. **Section 5.1 of the Plan shall be amended to read as follows:**

5.1 Separate Accounts

The Benefits Administration Committee shall maintain, or cause to be maintained, a separate account for each Participant which shall consist of his Personal Account, Company Account and Rollover Account, if any. A Participant's Personal Account shall have separate subaccounts for amounts attributable to Tax Deferred Deposits, Roth Elective Deferrals, Taxed Deposits, and Catch-Up Contributions. A Participant's Company Account shall have separate subaccounts for amounts attributable to Employer Matching Contributions, Retirement Contributions, and Discretionary Profit Sharing Contributions. A Participant's Rollover Account shall have a separate subaccount for amounts attributable to after-tax contributions, if any. A Participant's Company and Personal Accounts shall have, if applicable, separate subaccounts for amounts accumulated under plans merged into the Plan. Each such account and subaccount will be considered a subaccount of the Participant's Account.

3. **Section 16.1 of the Plan shall be amended to read as follows:**

16.1 Rollover of Funds from Other Plans

In the event that an individual: (1) becomes an Employee other than an Employee described in Section 2.3; (2) has been a participant in an employer's plan described in Section 401(a) of the Code, which is exempt from tax under Section 501(a) of the Code; and (3) receives from such trust an eligible rollover distribution, as defined in Section 402(c)(4) of the Code, and, provided that such property consists of money, or, in the case of an Employee who became an Employee as a result of the Company's acquisition of his former employer, such property consists of money or money and a loan or loans from such former employer’s tax-qualified 401(k) plan, then, with the consent of the Benefits Administration Committee, the eligible Employee may rollover any portion of the distribution that does not

include after-tax contributions to this Plan on or before the sixtieth (60th) day after the day on which he received such property and, if the distribution includes a loan, on or before ninety (90) days of the date the Participant first became eligible to effect the rollover, subject to the Employee providing such information and documentation as the Benefits Administration Committee requires in order to determine the amount in an eligible rollover distribution under Section 402(c)(4) of the Code. Such rollover may be made even though such Employee has not satisfied the age and service requirements for Plan participation at such time. Furthermore, the eligible Employee may direct the prior trust to transfer any portion of the distribution directly to the Plan, in which case such rollover distribution may include after-tax contributions. Upon receipt by the Plan, such amount shall be credited to the Rollover Account established hereunder pursuant to Article 5. The eligible Employee shall have a one hundred percent (100%) vested and nonforfeitable right to all amounts credited to his Rollover Account as a result of such transfer.

4. Effective January 1, 2013, Appendix A of the Plan shall be amended by adding the following new language at the end thereof:

Employing Company	Years of Eligibility	Years of Vesting
Barney’s New York (“Barney’s”)	All service recognized for this purpose under the 401(k) plan sponsored by Barney’s, but only if hired by the Company as of June 2, 2013.	All service recognized for this purpose under the 401(k) plan sponsored by Barney’s, but only if hired by the Company as of June 2, 2013.

IN WITNESS WHEREOF, this amendment has been executed on this 21st day of June, 2013, but effective as provided above.

ADS ALLIANCE DATA SYSTEMS, INC.

By: /s/ Calvin Hilton

Exhibit 10.60

SECOND AMENDMENT TO
THE ALLIANCE DATA SYSTEMS 401(k) AND RETIREMENT SAVINGS PLAN
(Amended and Restated as of January 1, 2013)

ADS Alliance Data Systems, Inc. hereby adopts this Amendment No. 2 to the Alliance Data Systems 401(k) and Retirement Savings Plan, amended and restated as of January 1, 2013 (the “Plan”).

1. **The first paragraph of Section 1.15 (A) of the Plan shall be amended, effective October 1, 2013, to read as follows:**

For purposes of determining the amount of any (i) Deposits; (ii) Employer Matching Contributions; (iii) Retirement Contributions; and (iv) Discretionary Profit Sharing Contributions, “Compensation” shall mean the regular wages (i.e., base pay), overtime, commissions, leave cashouts, and cash incentives paid to an Employee by an Employer for the applicable Plan Year while a Participant in the Plan, but excluding sign-on bonuses, disability pay, workers compensation, severance pay, service related cash awards, any amounts which constitute tax gross ups of taxable amounts, any amounts deferred under, or contributed to, a non-qualified deferred compensation plan, the CEO discretionary bonus, and referral awards.

2. **The first two sentences of Section 4.1 (A) of the Plan shall be amended, effective January 1, 2014, to read as follows:**

Each Employer shall contribute an Employer Matching Contribution for its Senior Associates who have elected to make Deposits. The amount of the Employer Matching Contribution made pursuant to this Section shall be equal to one hundred percent (100%) of the Deposits made by the Senior Associate up to five percent (5%) of Compensation.

IN WITNESS WHEREOF, this amendment has been executed on this 26th day of November, 2013, but effective as provided above.

ADS ALLIANCE DATA SYSTEMS, INC.

By: /s/ Calvin Hilton

Exhibit 12.1

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratios of earnings to fixed charges for the periods indicated. Earnings consist of income from continuing operations before provisions for income taxes plus fixed charges. Fixed charges include interest expense, amortization of debt issuance costs and the portion of rental expense we believe is representative of the interest component of rent expense.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share amounts)				
Income from continuing operations	$ 793,412	$ 682,904	$ 514,095	$ 310,890	$ 262,946
Plus					
Fixed charges	335,645	318,148	320,978	338,609	164,413
Total	$ 1,129,057	$ 1,001,052	$ 835,073	$ 649,499	$ 427,359
Earnings to fixed charges ratio	3.4	3.2	2.6	1.9	2.6
Fixed charges:					
Interest expense, including the amortization of debt issuance costs	$ 309,574	$ 295,175	$ 300,816	$ 320,469	$ 146,589
Estimate of interest component of rent expense(1)	26,071	22,973	20,162	18,140	17,824
Total fixed charges	$ 335,645	$ 318,148	$ 320,978	$ 338,609	$ 164,413

(1) Estimated at 1/3 of total rent expense

Exhibit 21

Subsidiaries of
Alliance Data Systems Corporation
A Delaware Corporation
(as of December 31, 2013)

Subsidiary	Jurisdiction of Organization	Other Business Names
3275976 Nova Scotia Company	Nova Scotia, Canada	None
Abacus Direct Europe BV	Netherlands	None
Acorn Direct Marketing Limited	Ireland	None
ADI, LLC	Delaware	None
ADS Alliance Data Systems, Inc.	Delaware	None
ADS Apollo Holdings B.V.	Netherlands	None
ADS Foreign Holdings, Inc.	Delaware	None
ADS Reinsurance Ltd.	Bermuda	None
ADS Sky Oak LLC	Delaware	None
Alliance Data FHC, Inc.	Delaware	Epsilon International
Alliance Data Foreign Holdings, Inc.	Delaware	None
Alliance Data Lux Financing S.ar.l.	Luxembourg	None
Alliance Data Lux Holdings S.ar.l.	Luxembourg	None
Alliance Data Pte. Ltd.	Singapore	None
Aspen Marketing Services, LLC	Delaware	None
Catapult Integrated Services, LLC	Delaware	Catapult Marketing
ClickGreener Inc.	Ontario, Canada	None
Comenity LLC	Delaware	None
Comenity Bank	Delaware	None
Comenity Capital Bank	Utah	None
Comenity Operating Co., LLC	Delaware	None
Comenity Servicing LLC	Texas	None
Coupons, LLC	Delaware	GetMembers Advecor
D. L. Ryan Companies, LLC	Delaware	Nsight Connect Etailing Solutions
DNCE LLC	Delaware	None
Eindia, LLC	Delaware	None
Epsilon Data Management, LLC	Delaware	None
Epsilon Email Marketing India Private Limited	India	None
Epsilon FMI, Inc.	Ohio	None
Epsilon Interactive CA, ULC	Nova Scotia, Canada	Abacus Canada Enterprises Abacus Canada Aspen of West Chicago Marketing Services Aspen Marketing Services
Epsilon International, LLC	Delaware	None
Epsilon International Consulting Services Private Limited	India	None
Epsilon International UK Ltd.	England	None
Epsilon Software Technology Consulting (Shanghai) Co., Ltd.	Shanghai, People's Republic of China	None
Epsilon SS LLC	Texas	None
Epsilon SS Holding LLC	Texas	None
Haggin Marketing LLC	California	None
HMI Holding LLC	Texas	None
Hyper Marketing Inc. International Holdings Limited	Ireland	None
I-Centrix Services, LLC	Delaware	None
ICOM Ltd.	Ontario, Canada	None
iCom Information & Communications, Inc.	Delaware	None

Subsidiary	Jurisdiction of Organization	Other Business Names
ICOM Information & Communications L.P.	Ontario, Canada	Shopper’s Voice Smart Shopper Stop
Interact Connect LLC	Delaware	None
LoyaltyOne, Co.	Nova Scotia, Canada	AIR MILES airmilesshops.ca AIR MILES Corporate Incentives AIR MILES For Business AIR MILES Incentives AIR MILES My Planet AIR MILES Reward Program Alliance Data Direct Antidote Loyalty & Marketing Services LoyaltyOne LoyaltyOne Canada My Planet Squareknot
LoyaltyOne Participacoes Ltda	Brazil	None
LoyaltyOne Rewards Private Limited	India	None
LoyaltyOne Travel Services Inc.	Ontario, Canada	AIR MILES Travel Services
LoyaltyOne US, Inc.	Delaware	Colloquy LoyaltyOne Consulting Precima
Panavista, LLC	Delaware	Promociones Panavista
RPM Connect, LLC	Delaware	None
Rhombus Investments L.P.	Bermuda	None
Ryan Next, LLC	Delaware	None
Ryan Partnership, LLC	Delaware	None
SolutionSet., LLC	California	None
The Retail Zone, LLC	Delaware	None
Triangle Investments L.P.	Bermuda	None
WFC Card Services L.P.	Ontario, Canada	None
WFC Card Services Holdings Inc.	Ontario, Canada	None
WFN Credit Company, LLC	Delaware	None
World Financial Capital Credit Company, LLC	Delaware	None

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-167525, 333-125770, 333-106246, 333-68134 and 333-65556 on Form S-8 of our reports dated February 28, 2014, relating to (1) the consolidated financial statements and financial statement schedule of Alliance Data Systems Corporation and subsidiaries and (2) the effectiveness of Alliance Data Systems Corporation and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Alliance Data Systems Corporation for the year ended December 31, 2013.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 28, 2014

Exhibit 31.1

CERTIFICATION OF THE
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

I, Edward J. Heffernan, certify that:

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

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

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

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

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

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

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

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

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

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

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

/S/ EDWARD J. HEFFERNAN
Edward J. Heffernan
Chief Executive Officer

Date: February 28, 2014

Exhibit 31.2

CERTIFICATION OF THE
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

I, Charles L. Horn, certify that:

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

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

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

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

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

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

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

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

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

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

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

/S/ CHARLES L. HORN

Charles L. Horn
Chief Financial Officer

Date: February 28, 2014

Exhibit 32.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the annual report on Form 10-K for the year ended December 31, 2013 (the “Form 10-K”) of Alliance Data Systems Corporation (the “Registrant”).

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

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

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

/S/ EDWARD J. HEFFERNAN
Edward J. Heffernan
Chief Executive Officer

Date: February 28, 2014

Subscribed and sworn to before me
this 28th day of February, 2014.

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

My commission expires:
October 23, 2016

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

Exhibit 32.2

CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the annual report on Form 10-K for the year ended December 31, 2013 (the “Form 10-K”) of Alliance Data Systems Corporation (the “Registrant”).

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

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

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

/S/ CHARLES L. HORN
Charles L. Horn
Chief Financial Officer

Date: February 28, 2014

Subscribed and sworn to before me
this 28th day of February, 2014.

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

My commission expires:
October 23, 2016

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