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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2017

OR

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

Commission File Number: 001-15749

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

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

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

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

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

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

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

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

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

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

As of October 26, 2017, 55,248,667 shares of common stock were outstanding.

ALLIANCE DATA SYSTEMS CORPORATION

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PART I

Item 1. Financial Statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2017	December 31, 2016
	(In millions, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 3,326.0	$ 1,859.2
Accounts receivable, net, less allowance for doubtful accounts ($9.0 and $4.5 at September 30, 2017 and December 31, 2016 respectively)	769.3	797.2
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	11,304.4	11,437.1
Other credit card and loan receivables	5,135.4	5,106.8
Total credit card and loan receivables	16,439.8	16,543.9
Allowance for loan loss	(1,033.8)	(948.0)
Credit card and loan receivables, net	15,406.0	15,595.9
Credit card and loan receivables held for sale	888.7	417.3
Inventories, net	257.1	271.3
Other current assets	746.0	324.0
Redemption settlement assets, restricted	576.2	324.4
Total current assets	21,969.3	19,589.3
Property and equipment, net	615.1	586.0
Deferred tax asset, net	22.9	20.1
Intangible assets, net	813.4	1,003.3
Goodwill	3,873.4	3,800.7
Other non-current assets	600.0	514.7
Total assets	$ 27,894.1	$ 25,514.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 529.8	$ 568.3
Accrued expenses	335.4	346.8
Current portion of deposits	5,823.5	4,673.0
Current portion of non-recourse borrowings of consolidated securitization entities	1,933.5	1,639.0
Current portion of long-term and other debt	538.5	814.5
Other current liabilities	384.7	399.8
Deferred revenue	847.0	788.1
Total current liabilities	10,392.4	9,229.5
Deferred revenue	119.3	143.4
Deferred tax liability, net	254.8	334.8
Deposits	4,550.5	3,718.9
Non-recourse borrowings of consolidated securitization entities	4,932.6	5,316.4
Long-term and other debt	5,704.1	4,786.9
Other liabilities	346.8	326.0
Total liabilities	26,300.5	23,855.9
Commitments and contingencies		
Stockholders’ equity:		
Common stock, $0.01 par value; authorized, 200.0 shares; issued, 112.7 shares and 112.5 shares at September 30, 2017 and December 31, 2016, respectively	1.1	1.1
Additional paid-in capital	3,080.5	3,046.1
Treasury stock, at cost, 57.4 shares and 55.1 shares at September 30, 2017 and December 31, 2016, respectively	(5,272.5)	(4,733.1)
Retained earnings	3,924.7	3,494.8
Accumulated other comprehensive loss	(140.2)	(150.7)
Total stockholders’ equity	1,593.6	1,658.2
Total liabilities and stockholders' equity	$ 27,894.1	$ 25,514.1

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In millions, except per share amounts)			
Revenues				
Services	$ 650.3	$ 634.4	$ 1,888.3	$ 1,828.7
Redemption	210.0	296.3	645.4	836.6
Finance charges, net	1,052.1	954.9	3,079.5	2,645.2
Total revenue	1,912.4	1,885.6	5,613.2	5,310.5
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	1,066.5	1,045.6	3,123.1	3,077.6
Provision for loan loss	204.7	251.3	807.9	651.0
General and administrative	38.0	41.0	124.9	111.4
Depreciation and other amortization	46.7	42.6	136.6	123.5
Amortization of purchased intangibles	77.6	84.1	237.9	261.2
Total operating expenses	1,433.5	1,464.6	4,430.4	4,224.7
Operating income	478.9	421.0	1,182.8	1,085.8
Interest expense				
Securitization funding costs	38.2	31.1	109.9	91.5
Interest expense on deposits	33.2	22.6	87.9	60.0
Interest expense on long-term and other debt, net	73.9	54.6	210.2	159.3
Total interest expense, net	145.3	108.3	408.0	310.8
Income before income taxes	333.6	312.7	774.8	775.0
Provision for income taxes	100.4	105.2	257.4	268.0
Net income	$ 233.2	$ 207.5	$ 517.4	$ 507.0
Less: Net income attributable to non-controlling interest	—	—	—	1.8
Net income attributable to common stockholders	$ 233.2	$ 207.5	$ 517.4	$ 505.2
Net income attributable to common stockholders per share:				
Basic (Note 2)	$ 4.21	$ 3.56	$ 9.27	$ 7.15
Diluted (Note 2)	$ 4.20	$ 3.55	$ 9.23	$ 7.12
Weighted average shares:				
Basic (Note 2)	55.4	58.3	55.8	59.0
Diluted (Note 2)	55.6	58.4	56.0	59.2
Dividends declared per share:	$ 0.52	$ —	$ 1.56	$ —

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
Net income	$ 233.2	$ 207.5	$ 517.4	$ 507.0
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available-for-sale	(3.0)	0.2	(5.0)	5.3
Tax benefit (expense)	(0.1)	—	(0.2)	(1.4)
Unrealized gain (loss) on securities available-for-sale, net of tax	(3.1)	0.2	(5.2)	3.9
Unrealized gain (loss) on cash flow hedges	0.8	(0.8)	(0.4)	(2.6)
Tax benefit (expense)	(0.2)	0.2	0.1	0.7
Unrealized gain (loss) on cash flow hedges, net of tax	0.6	(0.6)	(0.3)	(1.9)
Unrealized gain (loss) on net investment hedges	(19.4)	(4.1)	(63.1)	(11.4)
Tax benefit (expense)	7.4	—	23.7	—
Unrealized gain (loss) on net investment hedges, net of tax	(12.0)	(4.1)	(39.4)	(11.4)
Foreign currency translation adjustments	15.9	5.1	55.4	16.1
Other comprehensive income, net of tax	1.4	0.6	10.5	6.7
Total comprehensive income, net of tax	$ 234.6	$ 208.1	$ 527.9	$ 513.7
Less: Comprehensive income attributable to non-controlling interest	—	—	—	1.2
Comprehensive income attributable to common stockholders	$ 234.6	$ 208.1	$ 527.9	$ 512.5

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 517.4	$ 507.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	374.5	384.7
Deferred income taxes	(62.5)	(57.0)
Provision for loan loss	807.9	651.0
Non-cash stock compensation	63.5	59.5
Amortization of deferred financing costs	32.3	25.3
Change in deferred revenue	(35.5)	(114.1)
Change in other operating assets and liabilities, net of acquisitions	(20.7)	(212.2)
Originations of credit card and loan receivables held for sale	(6,012.8)	(5,182.7)
Sales of credit card and loan receivables held for sale	6,011.5	5,186.6
Other	104.0	106.7
Net cash provided by operating activities	1,779.6	1,354.8
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	(222.1)	55.4
Change in restricted cash	(418.5)	(126.8)
Change in credit card and loan receivables	(1,174.7)	(1,048.8)
Purchase of credit card portfolios	—	(903.4)
Proceeds from sale of credit card portfolios	—	5.9
Capital expenditures	(176.6)	(158.3)
Purchases of other investments	(80.2)	(13.6)
Maturities/sales of other investments	38.2	38.6
Other	(4.2)	(0.6)
Net cash used in investing activities	(2,038.1)	(2,151.6)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	6,439.6	3,086.5
Repayments of borrowings	(5,903.8)	(2,305.0)
Issuances of deposits	4,062.7	3,727.5
Repayments of deposits	(2,075.0)	(1,714.4)
Non-recourse borrowings of consolidated securitization entities	2,455.0	2,567.5
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(2,545.0)	(3,150.0)
Acquisition of non-controlling interest	—	(360.7)
Payment of deferred financing costs	(53.4)	(20.7)
Dividends paid	(86.8)	—
Purchase of treasury shares	(553.7)	(692.8)
Other	(16.5)	(13.1)
Net cash provided by financing activities	1,723.1	1,124.8
Effect of exchange rate changes on cash and cash equivalents	2.2	4.5
Change in cash and cash equivalents	1,466.8	332.5
Cash and cash equivalents at beginning of period	1,859.2	1,168.0
Cash and cash equivalents at end of period	$ 3,326.0	$ 1,500.5
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 382.2	$ 287.2
Income taxes paid, net	$ 282.0	$ 342.7

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation (“ADSC” or, including its consolidated subsidiaries and variable interest entities (“VIEs”), the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 27, 2017.

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

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

For purposes of comparability, certain prior period amounts have been reclassified to conform to the current year presentation in accordance with GAAP. Specifically, beginning in the first quarter of 2017, the Company combined its transaction, marketing services and other revenue to the financial statement line item caption “Services,” as all of these items represent revenue from services. These reclassifications had no effect on previously reported total revenue or net income.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Companies may adopt ASU 2014-09 using a full retrospective approach or report the cumulative effect as of the date of adoption. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and to permit early adoption of the standard, but not before the original effective date of December 15, 2016. ASU 2014-09 does not apply to financial instruments and other contractual rights or obligations (for example, interest income and late fees from credit card and loan receivables), and therefore, the Company’s finance charges, net will not be affected by the adoption of the standard. Management has substantially completed its initial evaluation of the impact of these updates on its consolidated financial statements and based on the evaluation of the Company's current contracts and the related revenue streams and performance obligations, most will be recorded consistently under both the current and new standard. Management is in the process of evaluating how best to apply the necessary changes, quantifying whether any of the changes have a material impact on the timing of revenue recognition, and analyzing changes to disclosure requirements. The assessment is expected to be completed by the end of 2017. The Company plans to adopt the standard on January 1, 2018 using a modified retrospective method.

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 requires that equity investments be measured at fair value with changes in fair value recognized in net income. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost adjusted for changes in observable prices minus impairment. Additionally, ASU 2016-01 requires entities that elect the fair value option for financial liabilities to recognize changes in fair value related to instrument-specific credit risk in other comprehensive income. Finally, entities must assess valuation allowances for deferred tax assets related to available-for-sale debt securities in combination with their other deferred tax assets. ASU 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the impact that adoption of ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," that replaces existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is evaluating the impact that adoption of ASU 2016-02 will have on its consolidated financial statements and expects there will be an increase in assets and liabilities on its consolidated balance sheets at adoption due to the recording of right-of-use assets and corresponding lease liabilities.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires entities to utilize a financial instrument impairment model that is based on expected losses over the life of the exposure rather than a model based on an incurred loss approach to establish an allowance. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance. In addition, ASU 2016-13 modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted beginning after December 15, 2018. The Company is evaluating the impact that adoption of ASU 2016-13 will have on its consolidated financial statements.

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

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

In August 2017, the FASB issued ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 expands and refines the hedge accounting model for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements, and makes certain targeted improvements to simplify the application of hedge accounting guidance related to the assessment of hedge effectiveness. ASU 2017-12 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is evaluating the impact that adoption of ASU 2017-12 will have on its consolidated financial statements.

Recently Adopted Accounting Standards

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." ASU 2015-11 changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company prospectively adopted this standard as of January 1, 2017. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies certain aspects of share-based transactions, including income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification in the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company adopted this standard as of January 1, 2017. The adoption of this standard did not have a material impact on the Company's provision for income taxes or diluted earnings per share for the three and nine months ended September 30, 2017. The Company's retrospective adoption of the presentation requirements for cash flows related to employee taxes paid for withheld shares resulted in an increase in cash flows from operating activities of $25.8 million and a decrease in cash flows from financing activities of $25.8 million for the nine months ended September 30, 2016. The Company prospectively adopted the presentation requirements for cash flows related to excess tax benefits, and prior period amounts were not adjusted. Further, the Company elected to continue to estimate forfeitures at each grant date.

2. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions except per share amounts)			
Numerator:				
Net income attributable to common stockholders	$ 233.2	$ 207.5	$ 517.4	$ 505.2
Less: Accretion of redeemable non-controlling interest	—	—	—	83.5
Net income attributable to common stockholders after accretion of redeemable non-controlling interest	$ 233.2	$ 207.5	$ 517.4	$ 421.7
Denominator:				
Weighted average shares, basic	55.4	58.3	55.8	59.0
Weighted average effect of dilutive securities:				
Net effect of dilutive stock options and unvested restricted stock	0.2	0.1	0.2	0.2
Denominator for diluted calculation	55.6	58.4	56.0	59.2
Net income attributable to common stockholders per share:				
Basic	$ 4.21	$ 3.56	$ 9.27	$ 7.15
Diluted	$ 4.20	$ 3.55	$ 9.23	$ 7.12

For the nine months ended September 30, 2016, the Company adjusted the carrying amount of the redeemable non-controlling interest by $83.5 million to the redemption value. Effective April 1, 2016, the Company acquired the remaining 20% interest in BrandLoyalty to bring its ownership percentage to 100%.

For the three and nine months ended September 30, 2017 and 2016, a de minimis amount of restricted stock units was excluded from each calculation of weighted average dilutive common shares as the effect would have been anti-dilutive.

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

3. CREDIT CARD AND LOAN RECEIVABLES

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

	September 30, 2017	December 31, 2016
	(In millions)	
Principal receivables	$ 15,581.6	$ 15,754.0
Billed and accrued finance charges	785.9	708.6
Other	72.3	81.3
Total credit card and loan receivables	16,439.8	16,543.9
Less: Credit card receivables – restricted for securitization investors	11,304.4	11,437.1
Other credit card and loan receivables	$ 5,135.4	$ 5,106.8

Allowance for Loan Loss

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
Balance at beginning of period	$ 1,069.3	$ 782.6	$ 948.0	$ 741.6
Provision for loan loss	204.7	251.3	807.9	651.0
Allowance associated with credit card and loan receivables transferred to held for sale	(20.6)	—	(20.6)	(15.0)
Change in estimate for uncollectible unpaid interest and fees	—	5.0	10.0	10.0
Recoveries	44.3	73.6	146.1	183.5
Principal charge-offs	(263.9)	(238.1)	(857.6)	(696.7)
Balance at end of period	$ 1,033.8	$ 874.4	$ 1,033.8	$ 874.4

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

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

The Company records the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. Actual charge-offs for unpaid interest and fees were $152.2 million and $126.4 million for the three months ended September 30, 2017 and 2016, respectively, and $469.6 million and $355.2 million for the nine months ended September 30, 2017 and 2016, respectively.

Delinquencies

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

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

	September 30, 2017	% of Total	December 31, 2016	% of Total
	(In millions, except percentages)			
Receivables outstanding - principal	$ 15,581.6	100.0 %	$ 15,754.0	100.0 %
Principal receivables balances contractually delinquent:				
31 to 60 days	269.9	1.7 %	249.8	1.6 %
61 to 90 days	186.9	1.2	169.3	1.1
91 or more days	389.5	2.5	337.8	2.1
Total	$ 846.3	5.4 %	$ 756.9	4.8 %

Modified Credit Card Receivables

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

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

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

The Company had $242.7 million and $216.5 million, respectively, as a recorded investment in impaired credit card receivables with an associated allowance for loan loss of $54.5 million and $46.4 million, respectively, as of September 30, 2017 and December 31, 2016. These modified credit card receivables represented less than 2% of the Company’s total credit card receivables as of both September 30, 2017 and December 31, 2016.

The average recorded investment in impaired credit card receivables was $233.6 million and $196.1 million for the three months ended September 30, 2017 and 2016, respectively, and $222.3 million and $185.8 million for the nine months ended September 30, 2017 and 2016, respectively.

Interest income on these modified credit card receivables is accounted for in the same manner as other accruing credit card receivables. Cash collections on these modified credit card receivables are allocated according to the same payment hierarchy methodology applied to credit card receivables that are not in such programs. The Company recognized $5.0 million and $4.8 million for the three months ended September 30, 2017 and 2016, respectively, and $14.5 million and $13.9 million for the nine months ended September 30, 2017 and 2016, respectively, in interest income associated with modified credit card receivables during the period that such credit card receivables were impaired.

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

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in millions)					
Troubled debt restructurings – credit card receivables	53,305	$ 67.2	$ 67.1	146,177	$ 186.8	$ 186.6

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in millions)					
Troubled debt restructurings – credit card receivables	53,041	$ 63.8	$ 63.7	151,069	$ 180.9	$ 180.7

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in millions)			
Troubled debt restructurings that subsequently defaulted – credit card receivables	24,267	$ 29.4	74,948	$ 91.0

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

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

Age of Credit Card and Loan Receivable Accounts

The following tables set forth, as of September 30, 2017 and December 31, 2016, the number of active credit card and loan receivable accounts with balances and the related principal balances outstanding, based upon the age of the active credit card and loan receivable accounts from origination:

	September 30, 2017			
Age of Accounts Since Origination	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
	(In millions, except percentages)			
0-12 Months	6.5	27.7 %	$ 3,434.5	22.0 %
13-24 Months	3.8	16.4	2,572.5	16.5
25-36 Months	2.9	12.5	2,255.4	14.5
37-48 Months	2.0	8.4	1,553.0	10.0
49-60 Months	1.5	6.2	1,135.9	7.3
Over 60 Months	6.7	28.8	4,630.3	29.7
Total	23.4	100.0 %	$ 15,581.6	100.0 %

	December 31, 2016			
Age of Accounts Since Origination	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
	(In millions, except percentages)			
0-12 Months	7.3	28.5 %	$ 3,896.9	24.8 %
13-24 Months	4.1	15.8	2,618.2	16.6
25-36 Months	3.0	11.6	2,050.8	13.0
37-48 Months	2.0	8.0	1,436.8	9.1
49-60 Months	1.5	5.9	1,021.7	6.5
Over 60 Months	7.7	30.2	4,729.6	30.0
Total	25.6	100.0 %	$ 15,754.0	100.0 %

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

Credit Quality

The Company uses proprietary scoring models developed specifically for the purpose of monitoring the Company's obligor credit quality. The proprietary scoring models are used as a tool in the underwriting process and for making credit decisions. The proprietary scoring models are based on historical data and require various assumptions about future performance. Information regarding customer performance is factored into these proprietary scoring models to determine the probability of an account becoming 91 or more days past due at any time within the next 12 months. Obligor credit quality is monitored at least monthly during the life of an account. The following table reflects composition of the Company's credit card and loan receivables by obligor credit quality as of September 30, 2017 and December 31, 2016:

Probability of an Account Becoming 91 or More Days Past Due or Becoming Charged-off (within the next 12 months)	September 30, 2017 Total Principal Receivables Outstanding	September 30, 2017 Percentage of Principal Receivables Outstanding	December 31, 2016 Total Principal Receivables Outstanding	December 31, 2016 Percentage of Principal Receivables Outstanding
	(In millions, except percentages)			
No Score	$ 120.2	0.8 %	$ 183.8	1.2 %
27.1% and higher	1,296.3	8.3	1,168.0	7.4
17.1% - 27.0%	799.8	5.1	761.1	4.8
12.6% - 17.0%	1,052.3	6.7	820.9	5.2
3.7% - 12.5%	6,601.5	42.4	5,770.8	36.6
1.9% - 3.6%	2,741.3	17.6	3,444.9	21.9
Lower than 1.9%	2,970.2	19.1	3,604.5	22.9
Total	$ 15,581.6	100.0 %	$ 15,754.0	100.0 %

Transfer of Financial Assets

The Company originates loans under an agreement with one of its clients, and after origination, these loan receivables are sold to the client at par value plus accrued interest. These transfers qualify for sale treatment as they meet the conditions established in ASC 860-10, "Transfers and Servicing." Following the sale, the client owns the loan receivables, bears the risk of loss in the event of loan defaults and is responsible for all servicing functions related to the loan receivables. The loan receivables originated by the Company that have not yet been sold to the client were $69.6 million and $67.6 million at September 30, 2017 and December 31, 2016, respectively, and are included in credit card and loan receivables held for sale in the Company's unaudited condensed consolidated balance sheets and carried at the lower of cost or fair value. The carrying value of these loan receivables approximates fair value due to the short duration between the date of origination and sale. Originations and sales of these loan receivables held for sale are reflected as operating activities in the Company's unaudited condensed consolidated statements of cash flows.

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

During the nine months ended September 30, 2017 and 2016, the Company purchased $300.5 million and $259.2 million, respectively of loan receivables under these agreements.

The total outstanding balance of these loan receivables was $315.7 million and $282.6 million as of September 30, 2017 and December 31, 2016, respectively, and was included in other credit card and loan receivables in the Company's unaudited condensed consolidated balance sheets.

Portfolios Held for Sale

The Company has certain credit card portfolios held for sale, which are carried at the lower of cost or fair value, of $819.1 million and $349.7 million as of September 30, 2017 and December 31, 2016, respectively.

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

In the third quarter of 2017, the Company transferred five credit card portfolios totaling approximately $532.5 million into credit card and loan receivables held for sale. The portfolios were transferred at the net carrying amount, inclusive of the related reserves for losses of $20.6 million, as the fair value was estimated to be greater than the net carrying amount, and such amount will be the measurement basis until the sale of the portfolios.

Portfolio Acquisitions

During the nine months ended September 30, 2016, the Company acquired four credit card portfolios for approximately $903.4 million, which consisted of approximately $823.1 million of credit card receivables, $87.7 million of intangible assets and a rewards liability of $7.4 million.

Securitized Credit Card Receivables

The Company regularly securitizes its credit card receivables through its credit card securitization trusts, consisting of World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust ("Master Trust I") and World Financial Network Credit Card Master Trust III ("Master Trust III") (collectively, the "WFN Trusts"), and World Financial Capital Credit Card Master Note Trust (the "WFC Trust"). The Company continues to own and service the accounts that generate credit card receivables held by the WFN Trusts and the WFC Trust. In its capacity as a servicer, each of the respective banks earns a fee from the WFN Trusts and the WFC Trust to service and administer the credit card receivables, collect payments and charge-off uncollectible receivables. These fees are eliminated and therefore are not reflected in the Company's unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2017 and 2016.

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

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

	September 30, 2017	December 31, 2016
	(In millions)	
Total credit card receivables – restricted for securitization investors	$ 11,304.4	$ 11,437.1
Principal amount of credit card receivables – restricted for securitization investors, 91 days or more past due	$ 268.7	$ 236.5

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
Net charge-offs of securitized principal	$ 179.9	$ 134.6	$ 542.3	$ 423.7

4. INVENTORIES, NET

Inventories, net of $257.1 million and $271.3 million at September 30, 2017 and December 31, 2016, respectively, primarily consist of finished goods to be utilized as rewards in the Company's loyalty programs. Inventories, net are stated at the lower of cost and net realizable value and valued primarily on a first-in-first-out basis. The Company records valuation adjustments to its inventories if the cost of inventory exceeds the amount it expects to realize from the ultimate sale or disposal of the inventory. These estimates are based on management's judgment regarding future market conditions and an analysis of historical experience.

5. OTHER INVESTMENTS

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

	September 30, 2017				December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In millions)							
Marketable securities	$ 190.7	$ 0.4	$ (1.8)	$ 189.3	$ 124.5	$ 0.2	$ (2.4)	$ 122.3
U.S. Treasury bonds	50.0	0.1	—	50.1	75.0	0.3	—	75.3
Total	$ 240.7	$ 0.5	$ (1.8)	$ 239.4	$ 199.5	$ 0.5	$ (2.4)	$ 197.6

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of September 30, 2017 and December 31, 2016, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	September 30, 2017					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Marketable securities	$ 111.1	$ (0.9)	$ 41.2	$ (0.9)	$ 152.3	$ (1.8)
Total	$ 111.1	$ (0.9)	$ 41.2	$ (0.9)	$ 152.3	$ (1.8)

	December 31, 2016					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Marketable securities	$ 75.3	$ (2.0)	$ 12.4	$ (0.4)	$ 87.7	$ (2.4)
Total	$ 75.3	$ (2.0)	$ 12.4	$ (0.4)	$ 87.7	$ (2.4)

The amortized cost and estimated fair value of the marketable securities and U.S. Treasury bonds at September 30, 2017 by contractual maturity are as follows:

	Amortized Cost	Fair Value
	(In millions)	
Due in one year or less	$ 39.2	$ 39.1
Due after one year through five years	28.0	28.1
Due after five years through ten years	—	—
Due after ten years	173.5	172.2
Total	$ 240.7	$ 239.4

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the security's issuer, and the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company typically invests in highly-rated securities with low probabilities of default and has the intent and ability to hold the investments until maturity. As of September 30, 2017, the Company does not consider the investments to be other-than-temporarily impaired.

There were no realized gains or losses from the sale of investment securities for the three and nine months ended September 30, 2017 and 2016.

6. REDEMPTION SETTLEMENT ASSETS

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

	September 30, 2017				December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In millions)							
Restricted cash	$ 71.5	$ —	$ —	$ 71.5	$ 58.1	$ —	$ —	$ 58.1
Mutual funds	27.7	—	(0.2)	27.5	25.7	—	(0.2)	25.5
Corporate bonds	483.0	—	(5.8)	477.2	241.0	0.4	(0.6)	240.8
Total	$ 582.2	$ —	$ (6.0)	$ 576.2	$ 324.8	$ 0.4	$ (0.8)	$ 324.4

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of September 30, 2017 and December 31, 2016, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	September 30, 2017					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Mutual funds	$ 27.5	$ (0.2)	$ —	$ —	$ 27.5	$ (0.2)
Corporate bonds	454.2	(5.2)	19.8	(0.6)	474.0	(5.8)
Total	$ 481.7	$ (5.4)	$ 19.8	$ (0.6)	$ 501.5	$ (6.0)

	December 31, 2016					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Mutual funds	$ 25.5	$ (0.2)	$ —	$ —	$ 25.5	$ (0.2)
Corporate bonds	111.2	(0.6)	—	—	111.2	(0.6)
Total	$ 136.7	$ (0.8)	$ —	$ —	$ 136.7	$ (0.8)

The amortized cost and estimated fair value of the securities at September 30, 2017 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$ 97.7	$ 97.4
Due after one year through five years	413.0	407.3
Total	$ 510.7	$ 504.7

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the security's issuer, and the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company typically invests in highly-rated securities with low probabilities of default and has the intent and ability to hold the investments until maturity. As of September 30, 2017, the Company does not consider the investments to be other-than-temporarily impaired.

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

There were no realized gains or losses from the sale of investment securities for the three months ended September 30, 2017, and realized gains or losses from the sale of investment securities for the nine months ended September 30, 2017 were de minimis. There were no realized gains or losses from the sale of investment securities for the three and nine months ended September 30, 2016.

7. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	September 30, 2017			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
		(In millions)		
Finite Lived Assets				
Customer contracts and lists	$ 1,147.0	$ (590.7)	$ 556.3	3-12 years—straight line
Premium on purchased credit card portfolios	271.8	(135.8)	136.0	3-13 years—straight line
Customer database	63.6	(59.6)	4.0	3 years—straight line
Collector database	56.1	(53.9)	2.2	5 years—straight line
Publisher networks	140.2	(77.5)	62.7	5-7 years—straight line
Tradenames	76.8	(45.2)	31.6	8-15 years—straight line
Purchased data lists	11.2	(6.1)	5.1	1-5 years—straight line, accelerated
Favorable lease	6.0	(2.9)	3.1	6-10 years—straight line
	$ 1,772.7	$ (971.7)	$ 801.0	
Indefinite Lived Assets				
Tradenames	12.4	—	12.4	Indefinite life
Total intangible assets	$ 1,785.1	$ (971.7)	$ 813.4	

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

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

	For the Years Ending December 31,
	(In millions)
2017 (excluding the nine months ended September 30, 2017)	$ 65.9
2018	241.1
2019	192.6
2020	128.9
2021	76.6
Thereafter	95.9

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

Goodwill

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

	LoyaltyOne®	Epsilon®	Card Services	Corporate/ Other	Total
			(In millions)		
Balance at January 1, 2016	$ 663.5	$ 2,888.9	$ 261.7	$ —	$ 3,814.1
Goodwill acquired during year	—	—	—	—	—
Effects of foreign currency translation	(10.2)	(3.2)	—	—	(13.4)
Balance at December 31, 2016	$ 653.3	$ 2,885.7	$ 261.7	$ —	$ 3,800.7
Goodwill acquired during year	—	—	—	—	—
Effects of foreign currency translation	71.2	1.5	—	—	72.7
Balance at September 30, 2017	$ 724.5	$ 2,887.2	$ 261.7	$ —	$ 3,873.4

8. DEBT

Debt consists of the following:

Description	September 30, 2017	December 31, 2016	Maturity	Interest Rate
	(Dollars in millions)			
Long-term and other debt:				
2017 revolving line of credit	$ 225.0	$ —	June 2022	(1)
2017 term loans	3,033.5	—	June 2022	(1)
2013 revolving line of credit	—	235.0	—	—
2013 term loans	—	2,837.3	—	—
BrandLoyalty credit agreement	207.7	254.3	June 2020	(2)
Senior notes due 2017	400.0	400.0	December 2017	5.250%
Senior notes due 2020	500.0	500.0	April 2020	6.375%
Senior notes due 2021	500.0	500.0	November 2021	5.875%
Senior notes due 2022	600.0	600.0	August 2022	5.375%
Senior notes due 2022 (€400.0 million)	472.6	—	March 2022	4.500%
Senior notes due 2023 (€300.0 million)	354.4	315.5	November 2023	5.250%
Capital lease obligations and other debt	9.7	6.0	Various – January 2019 – June 2021	2.24% to 3.72%
Total long-term and other debt	6,302.9	5,648.1		
Less: Unamortized discount and debt issuance costs	60.3	46.7		
Less: Current portion	538.5	814.5		
Long-term portion	$ 5,704.1	$ 4,786.9		
Deposits:				
Certificates of deposit	$ 7,200.3	$ 5,937.9	Various – Oct 2017 – Oct 2022	0.88% to 2.80%
Money market deposits	3,199.5	2,474.3	On demand	(3)
Total deposits	10,399.8	8,412.2		
Less: Unamortized discount and debt issuance costs	25.8	20.3		
Less: Current portion	5,823.5	4,673.0		
Long-term portion	$ 4,550.5	$ 3,718.9		
Non-recourse borrowings of consolidated securitization entities:				
Fixed rate asset-backed term note securities	$ 4,437.5	$ 4,262.5	Various – Oct 2017 – June 2021	1.44% to 4.55%
Floating rate asset-backed term note securities	360.0	360.0	April 2018	(4)
Conduit asset-backed securities	2,080.0	2,345.0	Various – April 2018 – Nov 2018	(5)
Total non-recourse borrowings of consolidated securitization entities	6,877.5	6,967.5		
Less: Unamortized discount and debt issuance costs	11.4	12.1		
Less: Current portion	1,933.5	1,639.0		
Long-term portion	$ 4,932.6	$ 5,316.4		

(1) The interest rate is based upon the London Interbank Offered Rate ("LIBOR") plus an applicable margin. At September 30, 2017, the weighted average interest rate was 3.23% and 3.24% for the revolving line of credit and term loans, respectively.

(2) The interest rate is based upon the Euro Interbank Offered Rate plus an applicable margin. At September 30, 2017, the weighted average interest rate was 1.10% and 1.65% for the BrandLoyalty revolving line of credit and term loans, respectively.

(3) The interest rates are based on the Federal Funds rate plus an applicable margin. At September 30, 2017, the interest rates ranged from 1.26% to 2.37%.

(4) The interest rate is based upon LIBOR plus an applicable margin. At September 30, 2017, the interest rate was 1.71%.

(5) The interest rate is based upon LIBOR or the asset-backed commercial paper costs of each individual conduit provider plus an applicable margin. At September 30, 2017, the interest rates ranged from 2.26% to 2.46%.

At September 30, 2017, the Company was in compliance with its financial covenants.

Long-term and Other Debt

Credit Agreement

In June 2017, the Company, as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Aspen Marketing Services, LLC, Commission Junction LLC, Conversant LLC, Epsilon Data Management, LLC, Comenity LLC and Comenity Servicing LLC, as guarantors, entered into a credit agreement with various agents and lenders dated June 14, 2017 (the "2017 Credit Agreement"), replacing in its entirety the Company's credit agreement dated July 10, 2013 (the "2013 Credit Agreement"), which was concurrently terminated, and amended the 2017 Credit Agreement on June 16, 2017 to increase the total amount of the borrowings.

At September 30, 2017, the 2017 Credit Agreement, as amended, provided for a $3,052.6 million term loan (the "2017 Term Loan"), subject to certain principal repayments, and a $1,572.4 million revolving credit facility (the "2017 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 2017 Credit Agreement includes an uncommitted accordion feature of up to $750.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions.

Total availability under the 2017 Credit Facility at September 30, 2017 was $1,347.4 million.

The loans under the 2017 Credit Agreement are scheduled to mature on June 14, 2022. The 2017 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, 2017. The 2017 Credit Agreement is unsecured.

The 2017 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; and make acquisitions. The negative covenants are subject to certain exceptions as specified in the 2017 Credit Agreement. The 2017 Credit Agreement also requires the Company to satisfy certain financial covenants, including a maximum total leverage ratio and a minimum ratio of consolidated operating EBITDA to consolidated interest expense, each as determined in accordance with the 2017 Credit Agreement. The 2017 Credit Agreement also includes customary events of default.

BrandLoyalty Credit Agreement

As of September 30, 2017, amounts outstanding under the revolving lines of credit and the term loans under the BrandLoyalty Credit Agreement were €23.3 million and €152.5 million ($27.5 million and $180.2 million), respectively. The entire €23.3 million ($27.5 million) outstanding under the revolving lines of credit was uncommitted.

Senior Notes due 2022 (€400.0 million)

In March 2017, the Company issued and sold €400.0 million aggregate principal amount of 4.500% senior notes due March 15, 2022 (the "Notes"). Interest is payable semiannually in arrears, on March 15 and September 15 of each year, beginning on September 15, 2017.

The Notes are governed by an indenture dated as of March 14, 2017. The indenture incudes usual and customary negative covenants and events of default for transactions of these types. The Notes are unsecured and are guaranteed on a senior unsecured basis by certain of the Company's existing and future domestic subsidiaries that guarantee the 2017 Credit Agreement.

The Company may redeem some or all of the Notes at any time at a redemption price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date and the applicable premium specified in the indenture. Prior to March 15, 2019, the applicable premium is a "make-whole" amount; on or after such date, the applicable premium is specified in a table in the indenture. In addition, upon the occurrence of certain kinds of changes of control, the Company must offer to purchase the Notes at 101% of their principal amount, plus accrued and unpaid interest to the date of purchase. In addition, at any time prior to March 15, 2019, the Company may, with an amount equal to the net cash proceeds of one or more qualified equity offerings, as defined in the indenture, redeem up to 35% of the aggregate principal amount of the outstanding Notes at a redemption price equal to 104.500% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date, provided that such redemption occurs within 90 days following the closing of such qualified equity offering.

Non-Recourse Borrowings of Consolidated Securitization Entities

Asset-Backed Term Notes

In May 2017, $389.6 million of Series 2015-C asset-backed term notes, $89.6 million of which were retained by the Company and eliminated from the Company’s unaudited condensed consolidated balance sheets, matured and were repaid.

In May 2017, Master Trust I issued $450.7 million of Series 2017-A asset-backed term notes, which mature in May 2020. The offering consisted of $400.0 million of Class A notes with a fixed interest rate of 2.12% per year and $50.7 million of notes that were retained by the Company and eliminated from the Company’s unaudited condensed consolidated balance sheets.

In July 2017, $433.3 million of Series 2012-B asset-backed term notes, $108.3 million of which were retained by the Company and eliminated from the Company’s unaudited condensed consolidated balance sheets, matured and were repaid.

In August 2017, Master Trust I issued $444.7 million of Series 2017-B asset-backed term notes, which mature in August 2019. The offering consisted of $400.0 million of Class A notes with a fixed interest rate of 1.98% per year and $44.7 million of notes that were retained by the Company and eliminated from the Company’s unaudited condensed consolidated balance sheets.

In October 2017, $427.6 million of Series 2014-C asset-backed term notes, $102.6 million of which were retained by the Company and eliminated from the Company’s unaudited condensed consolidated balance sheets, matured and were repaid. As of September 30, 2017, the Company collected $415.6 million of principal payments made by its credit cardholders during the accumulation period for the repayment of the Series 2014-C notes. The cash is restricted to the securitization investors and is reflected in other current assets in the Company’s unaudited condensed consolidated balance sheet as of September 30, 2017.

Conduit Facilities

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

In April 2017, Master Trust III renewed its 2009-VFC1 conduit facility, increasing the capacity from $900.0 million to $925.0 million and extending the maturity to April 2018.

As of September 30, 2017, total capacity under the conduit facilities was $2.9 billion, of which $2.1 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the unaudited condensed consolidated balance sheets.

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

9. DERIVATIVE INSTRUMENTS

The Company uses derivatives to manage risks associated with certain assets and liabilities arising from the potential adverse impact of fluctuations in interest rates and foreign currency exchange rates. The Company was not a party to any interest rate derivative instruments at September 30, 2017 or December 31, 2016.

The Company limits its exposure on derivatives by entering into contracts with institutions that are established dealers who maintain certain minimum credit criteria established by the Company. At September 30, 2017, the Company does not maintain any derivative instruments subject to master agreements that would require the Company to post collateral or that contain any credit-risk related contingent features.

The Company enters into foreign currency derivatives to reduce the volatility of the Company's cash flows resulting from changes in foreign currency exchange rates associated with certain inventory transactions, some of which are designated as cash flow hedges. The Company generally hedges foreign currency exchange rate risks for periods of 12 months or less. As of September 30, 2017, the maximum term over which the Company is hedging its exposure to the variability of future cash flows associated with certain inventory transactions is 12 months.

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

The following tables present the fair values of the derivative instruments included within the Company's unaudited condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016:

	September 30, 2017			
	Notional Amount	Fair Value	Balance Sheet Location	Maturity
	(In millions)			
Designated as hedging instruments:				
Foreign currency exchange hedges	$ 11.3	$ 0.4	Other current assets	November 2017 to September 2018
Foreign currency exchange hedges	$ 13.4	$ 0.5	Other current liabilities	October 2017 to March 2018
Not designated as hedging instruments:				
Foreign currency exchange forward contracts	$ 165.4	$ 13.4	Other current assets	February 2018
Foreign currency exchange forward contract	$ 66.4	$ 4.1	Other current liabilities	March 2018

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

Derivatives Designated as Hedging Instruments

Gains of $0.6 million and losses of $0.3 million, net of tax, were recognized in other comprehensive income for the three and nine months ended September 30, 2017, respectively, related to foreign currency exchange hedges designated as effective. Changes in the fair value of these hedges, excluding any ineffective portion are recorded in other comprehensive income (loss) until the hedged transactions affect net income. The ineffective portion of these cash flow hedges impacts net income when ineffectiveness occurs. For each of the three and nine months ended September 30, 2017, de minimis gains, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations), and a de minimis amount of ineffectiveness was recorded. At September 30, 2017, $0.1 million is expected to be reclassified from accumulated other comprehensive income into net income in the coming 12 months.

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

Losses of $0.6 million and $1.9 million, net of tax, were recognized in other comprehensive income for the three and nine months ended September 30, 2016, respectively, related to foreign currency exchange hedges designated as effective. For the three and nine months ended September 30, 2016, gains of $0.3 million and losses of $0.3 million, respectively, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations) and $0.1 million of ineffectiveness was recorded for each of the three and nine months ended September 30, 2016.

Derivatives Not Designated as Hedging Instruments

For the three and nine months ended September 30, 2017, gains of $2.9 million and $9.3 million, respectively, related to foreign currency exchange forward contracts not designated as hedging instruments were recognized in general and administrative expense in the Company's unaudited condensed consolidated statements of income.

For the nine months ended September 30, 2016, losses of $0.1 million related to foreign currency exchange forward contracts not designated as hedging instruments were recognized in general and administrative expense in the Company's unaudited condensed consolidated statements of income. There were no gains or losses recognized on derivatives not designated as hedging instruments for the three months ended September 30, 2016.

Net Investment Hedges

In November 2015, the Company designated its Euro-denominated Senior Notes due 2023 (€300.0 million) as a net investment hedge of its investment in BrandLoyalty, which has a functional currency of the Euro, in order to reduce the volatility in stockholders' equity caused by the changes in foreign currency exchange rates of the Euro with respect to the U.S. dollar. Additionally, in March 2017, the Company designated €200.0 million of its Euro-denominated Senior Notes due 2022 (€400.0 million) as a net investment hedge of its investment in BrandLoyalty. The change in fair value of the net investment hedges due to remeasurement of the effective portion is recorded in other comprehensive income (loss). The ineffective portion of this hedging instrument impacts net income when the ineffectiveness occurs. For the three and nine months ended September 30, 2017, losses of $12.0 million and $39.4 million, net of tax, respectively, were recognized in other comprehensive income and no ineffectiveness was recorded on the net investment hedges. For the three and nine months ended September 30, 2016, losses of $4.1 million and $11.4 million, net of tax, respectively, were recognized in other comprehensive income and no ineffectiveness was recorded on the net investment hedges.

10. DEFERRED REVENUE

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

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

	Deferred Revenue		
	Service	Redemption	Total
		(In millions)	
Balance at December 31, 2016	$ 297.7	$ 633.8	$ 931.5
Cash proceeds	135.0	251.6	386.6
Revenue recognized	(170.2)	(253.1)	(423.3)
Other	—	1.1	1.1
Effects of foreign currency translation	21.4	49.0	70.4
Balance at September 30, 2017	$ 283.9	$ 682.4	$ 966.3
Amounts recognized in the consolidated balance sheets:			
Current liabilities	$ 164.6	$ 682.4	$ 847.0
Non-current liabilities	$ 119.3	$ —	$ 119.3

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

11. STOCKHOLDERS' EQUITY

Stock Repurchase Program

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

On January 30, 2017, under the authorization of the existing 2017 repurchase program, the Company entered into a $350.0 million fixed dollar accelerated share repurchase program agreement ("ASR Agreement"), with an investment bank counterparty. Pursuant to the ASR Agreement, the Company received an initial delivery of 1.4 million shares of its common stock on February 6, 2017. The final settlement was based upon the volume weighted average price of its common stock, purchased by the counterparty during the period, less a specified discount, subject to a collar with a specified forward cap price and forward cap floor. The final settlement was on April 17, 2017 and resulted in the delivery of an additional 0.1 million shares. As a result of this transaction, the Company purchased a total of 1.5 million shares of its common stock at a settlement price per share of $238.34.

On July 25, 2017, the Company's Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2017 to acquire an additional $500.0 million of the Company's outstanding common stock through July 31, 2018, for a total authorization of $1.0 billion.

For the nine months ended September 30, 2017, the Company acquired a total of 2.3 million shares of its common stock for $553.7 million, including those amounts under the ASR Agreement. As of September 30, 2017, the Company had $446.3 million remaining under the stock repurchase program.

Stock Compensation Expense

Total stock-based compensation expense recognized in the Company's unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2017 and 2016 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
Cost of operations	$ 13.6	$ 13.2	$ 42.3	$ 43.6
General and administrative	4.7	4.8	21.2	15.9
Total	$ 18.3	$ 18.0	$ 63.5	$ 59.5

During the nine months ended September 30, 2017, the Company awarded 106,015 service-based restricted stock units with a weighted average grant date fair value per share of $233.17 as determined on the date of grant. Service-based restricted stock units typically vest ratably over three years provided that the participant is employed by the Company on each such vesting date.

During the nine months ended September 30, 2017, the Company awarded 267,171 performance-based restricted stock units with a weighted average grant date fair value per share of $230.57 as determined on the date of grant with pre-defined vesting criteria that permit a range from 0% to 150% to be earned. If the performance targets are met, the restrictions will lapse with respect to 33% of the award on February 15, 2018, an additional 33% of the award on February 15, 2019 and the final 34% of the award on February 18, 2020, provided that the participant is employed by the Company on each such vesting date.

Additionally during the nine months ended September 30, 2017, the Company awarded 15,140 performance-based restricted stock units with a weighted average grant date fair value per share of $230.57 as determined on the date of grant with pre-defined vesting criteria that permit a range from 0% to 150% to be earned. If the performance targets are met, the restrictions will lapse with respect to 50% of the award on February 15, 2018 and the remaining 50% of the award on February 15, 2019, provided that the participant is employed by the Company on each such vesting date.

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

During the nine months ended September 30, 2017, the Company also awarded 28,172 restricted stock units with a market-based condition subject to pre-defined vesting criteria that permit a range from 0% to 175% to be earned. The fair market value of these awards is $199.19 and was estimated utilizing Monte Carlo simulations of the Company's stock price correlation, projected dividend yields, expected volatility and risk-free rate over two-year time horizons matching the performance period. Upon determination of the market condition, the restrictions will lapse with respect to the entire award on February 15, 2019, provided that the participant is employed by the Company on such vesting date.

Dividends

On January 26, 2017, the Company's Board of Directors declared a quarterly cash dividend of $0.52 per share on the Company's common stock to stockholders of record at the close of business on February 15, 2017, resulting in a dividend payment of $29.0 million on March 17, 2017.

On April 20, 2017, the Company's Board of Directors declared a quarterly cash dividend of $0.52 per share on the Company's common stock, payable to stockholders of record at the close of business on May 15, 2017, resulting in a dividend payment of $29.0 million on June 19, 2017.

On July 20, 2017, the Company's Board of Directors declared a quarterly cash dividend of $0.52 per share on the Company's common stock, payable to stockholders of record at the close of business on August 14, 2017, resulting in a dividend payment of $28.8 million on September 19, 2017.

On October 19, 2017, the Company's Board of Directors declared a quarterly cash dividend of $0.52 per share on our common stock, payable on December 19, 2017, to stockholders of record at the close of business on November 14, 2017.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

Three Months Ended September 30, 2017	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedges	Foreign Currency Translation Adjustments [1]	Accumulated Other Comprehensive Income (Loss)
			(In millions)		
Balance at June 30, 2017	$ (3.7)	$ (0.5)	$ (23.3)	$ (114.1)	$ (141.6)
Changes in other comprehensive income (loss) before reclassifications	(3.1)	0.6	(12.0)	15.9	1.4
Amounts reclassified from other comprehensive income (loss)	—	—	—	—	—
Changes in other comprehensive income (loss)	(3.1)	0.6	(12.0)	15.9	1.4
Balance at September 30, 2017	$ (6.8)	$ 0.1	$ (35.3)	$ (98.2)	$ (140.2)

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

Three Months Ended September 30, 2016	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments (1)	Accumulated Other Comprehensive Income (Loss)
			(In millions)		
Balance at June 30, 2016	$ 3.6	$ —	$ (11.1)	$ (123.7)	$ (131.2)
Changes in other comprehensive income (loss) before reclassifications	0.2	(0.7)	(4.1)	5.1	0.5
Amounts reclassified from other comprehensive income (loss)	—	0.1	—	—	0.1
Changes in other comprehensive income (loss)	0.2	(0.6)	(4.1)	5.1	0.6
Balance at September 30, 2016	$ 3.8	$ (0.6)	$ (15.2)	$ (118.6)	$ (130.6)

Nine Months Ended September 30, 2017	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedges	Foreign Currency Translation Adjustments (1)	Accumulated Other Comprehensive Income (Loss)
			(In millions)		
Balance at December 31, 2016	$ (1.6)	$ 0.4	$ 4.1	$ (153.6)	$ (150.7)
Changes in other comprehensive income (loss) before reclassifications	(5.2)	(0.3)	(39.4)	55.4	10.5
Amounts reclassified from other comprehensive income (loss)	—	—	—	—	—
Changes in other comprehensive income (loss)	(5.2)	(0.3)	(39.4)	55.4	10.5
Balance at September 30, 2017	$ (6.8)	$ 0.1	$ (35.3)	$ (98.2)	$ (140.2)

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

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

13. FINANCIAL INSTRUMENTS

In accordance with ASC 825, “Financial Instruments,” the Company is required to disclose the fair value of financial instruments for which it is practical to estimate fair value. To obtain fair values, observable market prices are used if available. In some instances, observable market prices are not readily available and fair value is determined using present value or other techniques appropriate for a particular financial instrument. These techniques involve judgment and as a result are not necessarily indicative of the amounts the Company would realize in a current market exchange. The use of different assumptions or estimation techniques may have a material effect on the estimated fair value amounts.

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

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

	September 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Financial assets				
Credit card and loan receivables, net	$ 15,406.0	$ 16,214.2	$ 15,595.9	$ 16,423.2
Credit card and loan receivables held for sale	888.7	959.5	417.3	428.7
Redemption settlement assets, restricted	576.2	576.2	324.4	324.4
Other investments	239.4	239.4	197.6	197.6
Derivative instruments	13.8	13.8	1.2	1.2
Financial liabilities				
Derivative instruments	4.6	4.6	0.9	0.9
Deposits	10,374.0	10,415.9	8,391.9	8,432.2
Non-recourse borrowings of consolidated securitization entities	6,866.1	6,885.7	6,955.4	6,973.8
Long-term and other debt	6,242.6	6,392.0	5,601.4	5,641.0

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

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

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

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

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

Deposits — The fair value is estimated based on the current observable market rates available to the Company for similar deposits with similar remaining maturities.

Non-recourse borrowings of consolidated securitization entities — The fair value is estimated based on the current observable market rates available to the Company for similar debt instruments with similar remaining maturities or quoted market prices for the same transaction.

Long-term and other debt — The fair value is estimated based on the current observable market rates available to the Company for similar debt instruments with similar remaining maturities or quoted market prices for the same transaction.

Derivative instruments — The Company's foreign currency cash flow hedges are recorded at fair value based on a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs. The fair value of the foreign currency forward contracts is estimated based on published quotations of spot foreign currency rates and forward points which are converted into implied foreign currency rates.

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

Financial Assets and Financial Liabilities Fair Value Hierarchy

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

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

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

The following tables provide information for the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2017 and December 31, 2016:

	Balance at September 30, 2017	Fair Value Measurements at September 30, 2017 Using		
		Level 1	Level 2	Level 3
		(In millions)		
Mutual funds [1]	$ 27.5	$ 27.5	$ —	$ —
Corporate bonds [1]	477.2	—	477.2	—
Marketable securities [2]	189.3	10.1	179.2	—
U.S. Treasury bonds [2]	50.1	50.1	—	—
Derivative instruments [3]	13.8	—	13.8	—
Total assets measured at fair value	$ 757.9	$ 87.7	$ 670.2	$ —
Derivative instruments [3]	$ 4.6	$ —	$ 4.6	$ —
Total liabilities measured at fair value	$ 4.6	$ —	$ 4.6	$ —

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

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

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

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

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

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the three and nine months ended September 30, 2017 and 2016, respectively.

Financial Instruments Disclosed but Not Carried at Fair Value

The following tables provide assets and liabilities disclosed but not carried at fair value as of September 30, 2017 and December 31, 2016:

	Fair Value Measurements at September 30, 2017			
	Total	Level 1	Level 2	Level 3
	(In millions)			
Financial assets:				
Credit card and loan receivables, net	$ 16,214.2	$ —	$ —	$ 16,214.2
Credit card and loan receivables held for sale	959.5	—	—	959.5
Total	$ 17,173.7	$ —	$ —	$ 17,173.7
Financial liabilities:				
Deposits	$ 10,415.9	$ —	$ 10,415.9	$ —
Non-recourse borrowings of consolidated securitization entities	6,885.7	—	6,885.7	—
Long-term and other debt	6,392.0	—	6,392.0	—
Total	$ 23,693.6	$ —	$ 23,693.6	$ —

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

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

14. INCOME TAXES

For the three and nine months ended September 30, 2017, the Company utilized an effective tax rate of 30.1% and 33.2%, respectively, to calculate its provision for income taxes. For the three and nine months ended September 30, 2016, the Company utilized an effective tax rate of 33.6% and 34.6%, respectively. The effective tax rate for the three and nine months ended September 30, 2017 reflects additional stock-based compensation deductions and generation of foreign tax credits.

15. SEGMENT INFORMATION

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

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

- LoyaltyOne provides coalition and short-term loyalty programs through the Company's Canadian AIR MILES Reward Program and BrandLoyalty;
- Epsilon provides end-to-end, integrated marketing solutions that leverage rich data, analytics, creativity and technology to help clients more effectively acquire, retain and grow relationships with their customers; and
- Card Services provides risk management solutions, account origination, funding, transaction processing, customer care, collections and marketing services for the Company's private label and co-brand credit card programs.

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

Three Months Ended September 30, 2017	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
			(In millions)			
Revenues	$ 305.2	$ 558.7	$ 1,055.4	$ —	$ (6.9)	$ 1,912.4
Income (loss) before income taxes	$ 35.7	$ 38.6	$ 371.4	$ (112.1)	$ —	$ 333.6
Interest expense, net	1.7	0.1	71.4	72.1	—	145.3
Operating income (loss)	37.4	38.7	442.8	(40.0)	—	478.9
Depreciation and amortization	21.4	77.9	22.9	2.1	—	124.3
Stock compensation expense	2.2	8.4	3.0	4.7	—	18.3
Adjusted EBITDA [(1)]	61.0	125.0	468.7	(33.2)	—	621.5
Less: Securitization funding costs	—	—	38.2	—	—	38.2
Less: Interest expense on deposits	—	—	33.2	—	—	33.2
Less: Adjusted EBITDA attributable to non-controlling interest	—	—	—	—	—	—
Adjusted EBITDA, net [(1)]	$ 61.0	$ 125.0	$ 397.3	$ (33.2)	$ —	$ 550.1

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

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

Nine Months Ended September 30, 2017	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
			(In millions)			
Revenues	$ 918.3	$ 1,631.8	$ 3,083.6	$ —	$ (20.5)	$ 5,613.2
Income (loss) before income taxes	$ 105.6	$ 56.9	$ 949.3	$ (337.0)	$ —	$ 774.8
Interest expense, net	3.8	0.2	197.8	206.2	—	408.0
Operating income (loss)	109.4	57.1	1,147.1	(130.8)	—	1,182.8
Depreciation and amortization	60.1	233.7	74.8	5.9	—	374.5
Stock compensation expense	6.9	26.0	9.4	21.2	—	63.5
Adjusted EBITDA [(1)]	176.4	316.8	1,231.3	(103.7)	—	1,620.8
Less: Securitization funding costs	—	—	109.9	—	—	109.9
Less: Interest expense on deposits	—	—	87.9	—	—	87.9
Less: Adjusted EBITDA attributable to non-controlling interest	—	—	—	—	—	—
Adjusted EBITDA, net [(1)]	$ 176.4	$ 316.8	$ 1,033.5	$ (103.7)	$ —	$ 1,423.0

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

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

(1) Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable financial measure based on GAAP plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization and amortization of purchased intangibles. Adjusted EBITDA, net is also a non-GAAP financial measure equal to adjusted EBITDA less securitization funding costs, interest expense on deposits and adjusted EBITDA attributable to the non-controlling interest. Adjusted EBITDA and adjusted EBITDA, net are presented in accordance with ASC 280 as they are the primary performance metrics utilized to assess performance of the segments.

16. SUBSEQUENT EVENTS

In October 2017, Master Trust III renewed its 2009-VFC1 conduit facility, increasing the capacity from $925.0 million to $1,680.0 million and extending the maturity to January 2019.

In October 2017, the Company acquired credit card receivables and the associated accounts from Signet Jewelers Limited (“Signet”) for preliminary consideration of $960.2 million, subject to customary purchase price adjustments. The Company acquired a portion of Signet’s existing customer care operations in Ohio, including a facility sublease agreement and approximately 250 employees, as part of the transaction. In addition, the two companies entered into a long-term agreement under which Alliance Data became the primary issuer of private-label credit cards and related marketing services for Signet. The Company has not yet finalized the purchase price allocation for the acquisition.

Caution Regarding Forward-Looking Statements

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

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

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements contained in this Form 10-Q speak only as of the date made, and we undertake no obligation, other than as required by applicable law, to update or revise any forward-looking statements, whether as a result of new information, subsequent events, anticipated or unanticipated circumstances or otherwise.

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes thereto presented in this quarterly report and the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission, or SEC, on February 27, 2017.

2017 Highlights and Recent Developments

- For the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016:
  - Revenue increased 6% to $5.6 billion.
  - Net income increased 2% to $517.4 million.
  - Earnings per share increased 30% to $9.23. Excluding $83.5 million in accretion charges related to the acquisitions of the remaining interests in BrandLoyalty in the prior year period, earnings per share increased 8%.
  - Adjusted EBITDA, net increased 4% to $1,423.0 million.
- In January 2017, we entered into a $350.0 million fixed dollar accelerated share repurchase agreement with final settlement in April. As a result of this transaction, we purchased a total of 1.5 million shares of our common stock at a settlement price per share of $238.34.
- In March 2017, we issued and sold €400.0 million aggregate principal amount of 4.500% senior notes due March 15, 2022.
- In June 2017, we entered into a new credit agreement with various agents and lenders, replacing our credit agreement dated July 10, 2013 in its entirety. The new credit agreement provides for a $3,052.6 million term loan and a $1,572.4 million revolving line of credit.
- We paid three quarterly dividends of $0.52 per share each during the nine months ended September 30, 2017 for a total of $86.8 million.

2017 Outlook

Within our LoyaltyOne segment, our AIR MILES Reward Program continued to be impacted by the change in the breakage rate from 26% to 20%. As LoyaltyOne implements program changes, our adjusted EBITDA margins have improved and are trending to a mid-20% range for the year. Sponsor and collector engagement has been steadily improving in 2017, and AIR MILES reward miles issuance growth is expected in the fourth quarter of 2017. We expect the burn rate, measured in each period as AIR MILES reward miles redeemed divided by AIR MILES reward miles issued, to approximate 80% for 2017. With respect to BrandLoyalty, timing of programs in market can impact our quarterly financial results, and BrandLoyalty results have been soft for the nine months ended September 30, 2017. We expect major programs to launch in the fourth quarter of 2017 with double-digit revenue and adjusted EBITDA growth expected for the quarter, but we anticipate BrandLoyalty to have a negative impact on both our segment and consolidated operating results for the full year 2017.

Within our Epsilon segment, we continue to expect 4% growth in revenue and adjusted EBITDA. In the third quarter of 2017, our technology platform, which represents approximately 25% of Epsilon's revenue, returned to growth after four consecutive quarterly declines, which is expected to continue to positively impact the overall growth of the segment.

Within our Card Services segment, for the full year 2017, we expect double-digit growth for revenue and adjusted EBITDA, net. We expect delinquencies to be at least flat to the prior year, with gross losses expected to improve in the fourth quarter. In the third quarter of 2017, our credit sales and gross yields were depressed due to recent hurricane activity, as we provided a two-month leniency period for affected cardholders in FEMA-designated disaster areas that we expect to continue into the fourth quarter. In October 2017, we acquired credit card receivables and the associated accounts from Signet Jewelers Limited for preliminary consideration of $960.2 million, subject to customary purchase price adjustments.

Consolidated Results of Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
	(in millions, except percentages)					
Revenues						
Services	$ 650.3	$ 634.4	3 %	$ 1,888.3	$ 1,828.7	3 %
Redemption	210.0	296.3	(29)	645.4	836.6	(23)
Finance charges, net	1,052.1	954.9	10	3,079.5	2,645.2	16
Total revenue	1,912.4	1,885.6	1	5,613.2	5,310.5	6
Operating expenses						
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	1,066.5	1,045.6	2	3,123.1	3,077.6	1
Provision for loan loss	204.7	251.3	(19)	807.9	651.0	24
General and administrative	38.0	41.0	(7)	124.9	111.4	12
Depreciation and other amortization	46.7	42.6	9	136.6	123.5	11
Amortization of purchased intangibles	77.6	84.1	(8)	237.9	261.2	(9)
Total operating expenses	1,433.5	1,464.6	(2)	4,430.4	4,224.7	5
Operating income	478.9	421.0	14	1,182.8	1,085.8	9
Interest expense						
Securitization funding costs	38.2	31.1	23	109.9	91.5	20
Interest expense on deposits	33.2	22.6	47	87.9	60.0	46
Interest expense on long-term and other debt, net	73.9	54.6	35	210.2	159.3	32
Total interest expense, net	145.3	108.3	34	408.0	310.8	31
Income before income tax	333.6	312.7	7	774.8	775.0	—
Provision for income taxes	100.4	105.2	(5)	257.4	268.0	(4)
Net income	$ 233.2	$ 207.5	12 %	$ 517.4	$ 507.0	2 %
Key Operating Metrics:						
Credit card statements generated	74.2	69.0	8 %	217.8	204.2	7 %
Credit sales	$ 7,352.4	$ 6,985.6	5 %	$ 21,447.0	$ 20,262.6	6 %
Average credit card and loan receivables	$ 15,949.8	$ 13,995.1	14 %	$ 15,791.7	$ 13,679.0	15 %
AIR MILES reward miles issued	1,325.6	1,431.5	(7)%	3,984.1	4,150.2	(4)%
AIR MILES reward miles redeemed	1,062.7	1,851.2	(43)%	3,365.5	4,367.3	(23)%

Three months ended September 30, 2017 compared to the three months ended September 30, 2016

Revenue. Total revenue increased $26.8 million, or 1%, to $1,912.4 million for the three months ended September 30, 2017 from $1,885.6 million for the three months ended September 30, 2016. The net increase was due to the following:

- *Services*. Revenue increased $15.9 million, or 3%, to $650.3 million for the three months ended September 30, 2017 as a result of an increase in services provided to our Epsilon clients, driven by double-digit growth in the automotive vertical as a result of new client signings and strength in existing client relationships. This increase was offset in part by a $11.9 million decline in Card Services merchant fees as a result of increased royalty payments associated with higher volumes and new clients.

- *Redemption*. Revenue decreased $86.3 million, or 29%, to $210.0 million for the three months ended September 30, 2017 as our coalition loyalty program was negatively impacted by the change in breakage rate in December 2016 and a 43% decrease in AIR MILES reward miles redeemed due to greater redemptions in the prior year period as a result of the then-planned expiration of AIR MILES reward miles on December 31, 2016. Additionally, revenue from our short-term loyalty programs decreased 5% due to the timing of programs in market.

- *Finance charges, net*. Revenue increased $97.2 million, or 10%, to $1,052.1 million for the three months ended September 30, 2017, driven by higher average credit card and loan receivables, which impacted revenue by $143.9 million through a combination of recent credit card portfolio acquisitions and a 5% increase in credit sales. This increase was offset in part by an approximate 110 basis point decline in yield, primarily due to providing a two-month leniency period for cardholders in FEMA-designated disaster areas impacted by recent hurricanes.

Cost of operations. Cost of operations increased $20.9 million, or 2%, to $1,066.5 million for the three months ended September 30, 2017 as compared to $1,045.6 million for the three months ended September 30, 2016. The net increase was due to the following:

- Within the LoyaltyOne segment, cost of operations decreased $57.5 million due to a $62.7 million decrease in cost of redemptions associated with the decrease in redemption revenue.

- Within the Epsilon segment, cost of operations increased $26.6 million due to an increase in direct costs associated with the increase in revenue.

- Within the Card Services segment, cost of operations increased $51.5 million due to higher payroll and benefit expenses and higher credit card processing costs due to increases in volume associated with growth in credit card and loan receivables.

Provision for loan loss. Provision for loan loss decreased $46.6 million, or 19%, to $204.7 million for the three months ended September 30, 2017 as compared to $251.3 million for the three months ended September 30, 2016 due to a sequential decline in principal loss rates.

General and administrative. General and administrative expenses decreased $3.0 million, or 7%, to $38.0 million for the three months ended September 30, 2017, as compared to $41.0 million for the three months ended September 30, 2016, due to lower payroll and benefit costs.

Depreciation and other amortization. Depreciation and other amortization increased $4.1 million, or 9%, to $46.7 million for the three months ended September 30, 2017, as compared to $42.6 million for the three months ended September 30, 2016, due to additional assets placed into service from recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles decreased $6.5 million, or 8%, to $77.6 million for the three months ended September 30, 2017 as compared to $84.1 million for the three months ended September 30, 2016. The decrease is driven by fully amortized tradenames, customer contracts and intangible assets from portfolio acquisitions.

Interest expense, net. Total interest expense, net increased $37.0 million, or 34%, to $145.3 million for the three months ended September 30, 2017 as compared to $108.3 million for the three months ended September 30, 2016. The increase was due to the following:

- *Securitization funding costs*. Securitization funding costs increased $7.1 million due to higher average borrowings and higher average interest rates.

- *Interest expense on deposits*. Interest expense on deposits increased $10.6 million due to higher average borrowings and higher average interest rates.

- *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net increased $19.3 million primarily due to the issuance of new senior notes in October 2016 and March 2017, which increased interest expense by $12.6 million. Additionally, interest expense on term debt increased $6.6 million due to higher average borrowings and higher average interest rates due to increases in the LIBOR rate.

Taxes. Income tax expense decreased $4.8 million to $100.4 million for the three months ended September 30, 2017 from $105.2 million for the three months ended September 30, 2016 due to a decrease in the effective tax rate as a result of additional stock-based compensation deductions and generation of foreign tax credits, offset in part by an increase in taxable income. The effective tax rate for the current year quarter was 30.1% as compared to 33.6% for the prior year quarter.

Nine months ended September 30, 2017 compared to the nine months ended September 30, 2016

Revenue. Total revenue increased $302.7 million, or 6%, to $5,613.2 million for the nine months ended September 30, 2017 from $5,310.5 million for the nine months ended September 30, 2016. The net increase was due to the following:

- *Services*. Revenue increased $59.6 million, or 3%, to $1,888.3 million for the nine months ended September 30, 2017 as a result of an increase in services provided to our Epsilon clients, driven by double-digit growth in the automotive, agency and CRM offerings as a result of new client signings and strength in existing client relationships. This increase was offset in part by a $32.8 million decline in Card Services merchant fees as a result of increased royalty payments associated with higher volumes and new clients.

- *Redemption*. Revenue decreased $191.2 million, or 23%, to $645.4 million for the nine months ended September 30, 2017 as our coalition loyalty program was negatively impacted by the change in breakage rate in December 2016 and a 23% decrease in AIR MILES reward miles redeemed due to greater redemptions in the prior year period as a result of the then-planned expiration of AIR MILES reward miles on December 31, 2016. Additionally, our short-term loyalty programs were negatively impacted by the number and timing of programs in market.

- *Finance charges, net*. Revenue increased $434.3 million, or 16%, to $3,079.5 million for the nine months ended September 30, 2017, driven by higher average credit card and loan receivables, which impacted revenue by $427.6 million. The increase in average credit card and loan receivables was a result of a combination of recent credit card portfolio acquisitions and a 6% increase in credit sales.

Cost of operations. Cost of operations increased $45.5 million, or 1%, to $3,123.1 million for the nine months ended September 30, 2017 as compared to $3,077.6 million for the nine months ended September 30, 2016. The net increase was due to the following:

- Within the LoyaltyOne segment, cost of operations decreased $108.7 million due to a decrease in cost of redemptions associated with the decrease in redemption revenue.

- Within the Epsilon segment, cost of operations increased $78.8 million due to a 9% increase in direct processing expenses associated with the increase in revenue as well as a 4% increase in payroll and benefit expenses.

- Within the Card Services segment, cost of operations increased by $73.3 million. Payroll and benefit expenses increased $37.9 million due to an increase in the number of associates to support growth, and other operating expenses increased $35.4 million as a result of higher data processing expenses and credit card processing costs due to increases in volume associated with growth in credit card and loan receivables.

Provision for loan loss. Provision for loan loss increased $156.9 million, or 24%, to $807.9 million for the nine months ended September 30, 2017 as compared to $651.0 million for the nine months ended September 30, 2016. The increase in the provision for loan loss was driven by higher principal loss rates as well as an increase in credit card and loan receivables.

General and administrative. General and administrative expenses increased $13.5 million, or 12%, to $124.9 million for the nine months ended September 30, 2017, as compared to $111.4 million for the nine months ended September 30, 2016, due an increase in net foreign currency exchange losses recognized of $7.8 million and a 6% increase in payroll and benefit costs.

Depreciation and other amortization. Depreciation and other amortization increased $13.1 million, or 11%, to $136.6 million for the nine months ended September 30, 2017, as compared to $123.5 million for the nine months ended September 30, 2016, due to additional assets placed into service from recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles decreased $23.3 million, or 9%, to $237.9 million for the nine months ended September 30, 2017 as compared to $261.2 million for the nine months ended September 30, 2016, as the amortization associated with the intangible assets from recent portfolio acquisitions was more than offset by certain fully amortized intangible assets.

Interest expense, net. Total interest expense, net increased $97.2 million, or 31%, to $408.0 million for the nine months ended September 30, 2017 as compared to $310.8 million for the nine months ended September 30, 2016. The increase was due to the following:

- *Securitization funding costs*. Securitization funding costs increased $18.4 million due to higher average borrowings and higher average interest rates.
- *Interest expense on deposits*. Interest expense on deposits increased $27.9 million due to higher average borrowings and higher average interest rates.
- *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net increased $50.9 million primarily due to the issuance of new senior notes in October 2016 and March 2017, which increased interest expense by $33.2 million. Additionally, interest expense on term debt increased $12.4 million due to higher average borrowings and higher average interest rates due to increases in the LIBOR rate, and amortization of debt issuance costs increased $3.9 million.

Taxes. Income tax expense decreased $10.6 million to $257.4 million for the nine months ended September 30, 2017 from $268.0 million for the nine months ended September 30, 2016 due to a decrease in the effective tax rate as a result of additional stock-based compensation deductions and generation of foreign tax credits. The effective tax rate for the nine months ended September 30, 2017 was 33.2% as compared to 34.6% for the nine months ended September 30, 2016.

Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable financial measure based on accounting principles generally accepted in the United States of America, or GAAP, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization and amortization of purchased intangibles. Adjusted EBITDA, net is also a non-GAAP financial measure equal to adjusted EBITDA less securitization funding costs, interest expense on deposits and adjusted EBITDA attributable to the non-controlling interest.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
Net income	$ 233.2	$ 207.5	$ 517.4	$ 507.0
Stock compensation expense	18.3	18.0	63.5	59.5
Provision for income taxes	100.4	105.2	257.4	268.0
Interest expense, net	145.3	108.3	408.0	310.8
Depreciation and other amortization	46.7	42.6	136.6	123.5
Amortization of purchased intangibles	77.6	84.1	237.9	261.2
Adjusted EBITDA	621.5	565.7	1,620.8	1,530.0
Less: Securitization funding costs	38.2	31.1	109.9	91.5
Less: Interest expense on deposits	33.2	22.6	87.9	60.0
Less: Adjusted EBITDA attributable to non-controlling interest	—	—	—	5.5
Adjusted EBITDA, net	$ 550.1	$ 512.0	$ 1,423.0	$ 1,373.0

Segment Revenue and Adjusted EBITDA, net

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
	(in millions, except percentages)					
Revenue:						
LoyaltyOne	$ 305.2	$ 383.8	(20)%	$ 918.3	$ 1,090.7	(16)%
Epsilon	558.7	543.2	3	1,631.8	1,555.3	5
Card Services	1,055.4	965.8	9	3,083.6	2,687.1	15
Corporate/Other	—	0.1	nm*	—	0.2	nm*
Eliminations	(6.9)	(7.3)	nm*	(20.5)	(22.8)	nm*
Total	$ 1,912.4	$ 1,885.6	1 %	$ 5,613.2	$ 5,310.5	6 %
Adjusted EBITDA, net [(1)]:						
LoyaltyOne	$ 61.0	$ 82.3	(26)%	$ 176.4	$ 235.3	(25)%
Epsilon	125.0	134.8	(7)	316.8	318.2	—
Card Services	397.3	330.9	20	1,033.5	914.9	13
Corporate/Other	(33.2)	(36.0)	(8)	(103.7)	(95.4)	9
Total	$ 550.1	$ 512.0	7 %	$ 1,423.0	$ 1,373.0	4 %

(1) For a definition of and reconciliation of adjusted EBITDA, net to net income, the most directly comparable GAAP financial measure, see "Use of Non-GAAP Financial Measures" included in this report.

* not meaningful

Three months ended September 30, 2017 compared to the three months ended September 30, 2016

Revenue. Total revenue increased $26.8 million, or 1%, to $1,912.4 million for the three months ended September 30, 2017 from $1,885.6 million for the three months ended September 30, 2016. The net increase was due to the following:

- *LoyaltyOne*. Revenue decreased $78.6 million, or 20%, to $305.2 million for the three months ended September 30, 2017 as revenue from our coalition loyalty program declined $71.7 million, impacted by the change in breakage rate in December 2016 and a 43% decrease in AIR MILES reward miles redeemed due to greater redemptions in the prior year period as a result of the then-planned expiration of AIR MILES reward miles on December 31, 2016. Additionally, revenue from our short-term loyalty programs decreased $6.9 million related to the timing of programs in market.

- *Epsilon*. Revenue increased $15.5 million, or 3%, to $558.7 million for the three months ended September 30, 2017 driven by double-digit growth in the automotive vertical from a combination of new clients and strength in existing client relationships, as well as a return to technology platform revenue growth. These increases were offset in part by softness in our digital media and agency product offerings as compared to the prior year period.

- *Card Services*. Revenue increased $89.6 million, or 9%, to $1,055.4 million for the three months ended September 30, 2017, driven by a $97.2 million increase in finance charges, net as a result of an increase in average credit card and loan receivables due to recent portfolio acquisitions and strong cardholder spending. This increase was offset in part by a $7.6 million decrease in servicing fees due to lower merchant fees as a result of increased royalty payments associated with higher volumes and new clients.

Adjusted EBITDA, net. Adjusted EBITDA, net increased $38.1 million, or 7%, to $550.1 million for the three months ended September 30, 2017 from $512.0 million for the three months ended September 30, 2016. The net increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA, net decreased $21.3 million, or 26%, to $61.0 million for the three months ended September 30, 2017 primarily due to the decrease in revenue discussed above as well as an approximate 1% decrease in adjusted EBITDA margins.

- *Epsilon*. Adjusted EBITDA, net decreased $9.8 million, or 7%, to $125.0 million for the three months ended September 30, 2017 due to an unfavorable revenue mix toward lower margin product offerings in the current year quarter as compared to the prior year quarter.

- *Card Services*. Adjusted EBITDA, net increased $66.4 million, or 20%, to $397.3 million for the three months ended September 30, 2017. Adjusted EBITDA, net was positively impacted by an increase in finance charges, net and a decrease in the provision for loan loss but offset in part by an increase in operating expenses due to higher volumes.

- *Corporate/Other*. Adjusted EBITDA, net increased $2.8 million to a loss of $33.2 million for the three months ended September 30, 2017 due to lower payroll and benefit costs.

Nine months ended September 30, 2017 compared to the nine months ended September 30, 2016

Revenue. Total revenue increased $302.7 million, or 6%, to $5,613.2 million for the nine months ended September 30, 2017 from $5,310.5 million for the nine months ended September 30, 2016. The net increase was due to the following:

- *LoyaltyOne*. Revenue decreased $172.4 million, or 16%, to $918.3 million for the nine months ended September 30, 2017 as revenue from our coalition loyalty program declined $107.7 million due to the change in breakage rate in December 2016 and a 23% decrease in AIR MILES reward miles redeemed due to greater redemptions in the prior year period as a result of the then-planned expiration of AIR MILES reward miles on December 31, 2016. Additionally, our short-term loyalty programs decreased $64.7 million as a result of softness due to the number and timing of campaigns.

- *Epsilon*. Revenue increased $76.5 million, or 5%, to $1,631.8 million for the nine months ended September 30, 2017 driven by double-digit growth in the automotive, agency and CRM offerings from a combination of new clients and strength in existing client relationships, offset in part by a 3% decline in technology platform revenue as compared to the prior year period.

- *Card Services*. Revenue increased $396.5 million, or 15%, to $3,083.6 million for the nine months ended September 30, 2017, driven by a $434.3 million increase in finance charges, net as a result of an increase in average credit card and loan receivables due to recent portfolio acquisitions and strong cardholder spending. Servicing fees decreased $37.8 million, as merchant fees declined $32.8 million due to increased royalty payments associated with higher volumes and new clients, and other servicing fees declined $5.0 million.

Adjusted EBITDA, net. Adjusted EBITDA, net increased $50.0 million, or 4%, to $1,423.0 million for the nine months ended September 30, 2017 from $1,373.0 million for the nine months ended September 30, 2016. The net increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA, net decreased $58.9 million, or 25%, to $176.4 million for the nine months ended September 30, 2017 primarily due to the decrease in revenue discussed above, offset in part by the associated decrease in cost of redemptions. In the prior year period, adjusted EBITDA, net was reduced by $5.5 million of adjusted EBITDA attributable to the non-controlling interest. Effective April 1, 2016, we acquired the remaining 20% interest in BrandLoyalty to bring our ownership percentage to 100%.

- *Epsilon*. Adjusted EBITDA, net decreased $1.4 million to $316.8 million for the nine months ended September 30, 2017 as a result of a 1% decrease in adjusted EBITDA margin due to an unfavorable shift in product mix offsetting the revenue increases discussed above.

- *Card Services*. Adjusted EBITDA, net increased $118.6 million, or 13%, to $1,033.5 million for the nine months ended September 30, 2017. Adjusted EBITDA, net was positively impacted by an increase in finance charges, net, which was offset primarily by an increase in the provision for loan loss resulting from higher principal loss rates as well as an increase in credit card and loan receivables and an increase in operating expenses due to higher volumes.

- *Corporate/Other*. Adjusted EBITDA, net decreased $8.3 million to a loss of $103.7 million for the nine months ended September 30, 2017, due to higher payroll and benefit costs, an increase in charitable contributions, and higher net foreign currency exchange losses recognized in the current year period.

Asset Quality

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

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

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

	September 30, 2017	% of Total	December 31, 2016	% of Total
	(In millions, except percentages)			
Receivables outstanding - principal	$ 15,581.6	100.0 %	$ 15,754.0	100.0 %
Principal receivables balances contractually delinquent:				
31 to 60 days	269.9	1.7 %	249.8	1.6 %
61 to 90 days	186.9	1.2	169.3	1.1
91 or more days	389.5	2.5	337.8	2.1
Total	$ 846.3	5.4 %	$ 756.9	4.8 %

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions, except percentages)			
Average credit card and loan receivables	$ 15,949.8	$ 13,995.1	$ 15,791.7	$ 13,679.0
Net charge-offs of principal receivables	219.6	164.5	711.5	513.2
Net charge-offs as a percentage of average credit card and loan receivables	5.5 %	4.7 %	6.0 %	5.0 %

See Note 3, "Credit Card and Loan Receivables," of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information related to the securitization of our credit card receivables.

Liquidity and Capital Resources

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

Quantitative measures established by regulations to ensure capital adequacy require Comenity Bank and Comenity Capital Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Tier 1 and total capital to risk weighted assets and of Tier 1 capital to average assets. As of September 30, 2017, Comenity Bank's Common Equity Tier 1 capital ratio was 15.6%, Tier 1 capital ratio was 15.6%, total capital ratio was 16.9% and leverage ratio was 14.4%. As of September 30, 2017, Comenity Capital Bank's Common Equity Tier 1 capital ratio was 13.9%, Tier 1 capital ratio was 13.9%, total capital ratio was 15.2% and leverage ratio was 12.9%. Comenity Bank and Comenity Capital Bank are considered well capitalized.

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

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

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

Cash Flow Activity

Operating Activities. We generated cash flow from operating activities of $1,779.6 million and $1,354.8 million for the nine months ended September 30, 2017 and 2016, respectively. The increase in operating cash flows of $424.8 million during the nine months ended September 30, 2017 as compared to the prior year period was due to an increase in profitability as well as non-cash charges to income, including an increase in the provision for loan loss, as well as an increase in cash provided by working capital during the current year period as compared to the prior year period.

Investing Activities. Cash used in investing activities was $2,038.1 million and $2,151.6 million for the nine months ended September 30, 2017 and 2016, respectively. Significant components of investing activities are as follows:

- *Redemption settlement assets*. During the nine months ended September 30, 2017, cash decreased $222.1 million as we increased funding to the redemption settlement assets as a result of the breakage rate change in December 2016.

- *Restricted cash*. During the nine months ended September 30, 2017 and 2016, we collected principal accumulation of $415.6 million and $126.1 million, respectively, for the repayment of non-recourse borrowings of consolidated securitized debt that was repaid in October 2017 and 2016, respectively.

- *Credit card and loan receivables, net.* Cash decreased $1,174.7 million and $1,048.8 million for the nine months ended September 30, 2017 and 2016, respectively, due to growth in credit card and loan receivables and strong cardholder spending in both periods.

- *Purchase of credit card portfolios.* During the nine months ended September 30, 2016, we paid $903.4 million to acquire four credit card portfolios.

Financing Activities. Cash provided by financing activities was $1,723.1 million and $1,124.8 million for the nine months ended September 30, 2017 and 2016, respectively. Significant components of financing activities are as follows:

- *Debt.* Cash increased $535.8 million for the nine months ended September 30, 2017, primarily due to the issuance of €400.0 million senior notes due 2022 and net borrowings under the revolving line of credit. Cash increased $781.5 million for the nine months ended September 30, 2016, primarily driven by net borrowings under the revolving line of credit.

- *Deposits.* Cash provided by net issuances of deposits increased $1,987.7 million and $2,013.1 million for the nine months ended September 30, 2017 and 2016, respectively.

- *Non-recourse borrowings of consolidated securitization entities.* Cash decreased $90.0 million and $582.5 million for the nine months ended September 30, 2017 and 2016, respectively, due to net repayments and maturities under the asset-backed term notes and conduit facilities.

- *BrandLoyalty non-controlling interest.* During the nine months ended September 30, 2016, we paid $360.7 million to acquire the remaining ownership interests in BrandLoyalty.

- *Dividends paid.* During the nine months ended September 30, 2017, we paid a total of $86.8 million for three quarterly dividends on our common stock.

- *Treasury shares.* Cash paid for treasury shares was $553.7 million and $692.8 million for the nine months ended September 30, 2017 and 2016, respectively.

Debt

Long-term and Other Debt

On June 14, 2017, we entered in a credit agreement with various agents and lenders, or the 2017 Credit Agreement. On June 16, 2017, we entered into a first amendment to the 2017 Credit Agreement to increase borrowings. The 2017 Credit Agreement replaced in its entirety our credit agreement dated July 10, 2013, or the 2013 Credit Agreement. The 2017 Credit Agreement includes an uncommitted accordion feature of up to $750.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions. These borrowings bear interest at the same rates as, and are generally subject to the same terms, as the 2013 Credit Agreement. The loans under the 2017 Credit Agreement are scheduled to mature on June 14, 2022. At September 30, 2017, the 2017 Credit Agreement, as amended, provided for a $3,052.6 million term loan, subject to certain repayments, and a $1,572.4 million revolving line of credit.

As of September 30, 2017, we had $225.0 million outstanding under our revolving line of credit and total availability of $1,347.4 million. Our total leverage ratio, as defined in our credit agreement, was 2.9 to 1 at September 30, 2017, as compared to the maximum covenant ratio of 3.5 to 1.

In March 2017, we issued and sold €400.0 million aggregate principal amount of 4.500% senior notes due March 15, 2022. Interest is payable semiannually in arrears, on March 15 and September 15 of each year, beginning on September 15, 2017.

As of September 30, 2017, we were in compliance with our debt covenants.

Deposits

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

As of September 30, 2017, we had $3.2 billion in money market deposits outstanding with interest rates ranging from 1.26% to 2.37%. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

As of September 30, 2017, we had $7.2 billion in certificates of deposit outstanding with interest rates ranging from 0.88% to 2.80% and maturities ranging from October 2017 to October 2022. Certificate of deposit borrowings are subject to regulatory capital requirements.

Securitization Program

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

As of September 30, 2017, the WFN Trusts and the WFC Trust had approximately $11.3 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits, additional receivables and subordinated classes. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and the WFC Trust and by the performance of the credit card receivables in these credit card securitization trusts.

At September 30, 2017, we had $6.9 billion of non-recourse borrowings of consolidated securitization entities, of which $1.9 billion is due within the next 12 months. As of September 30, 2017, total capacity under the conduit facilities was $2.9 billion, of which $2.1 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the unaudited condensed consolidated balance sheets.

In April 2017, Master Trust III renewed its 2009-VFC1 conduit facility, increasing the capacity from $900.0 million to $925.0 million and extending the maturity to April 2018.

In May 2017, Master Trust I issued $450.7 million of Series 2017-A asset-backed term notes, which mature in May 2020. The offering consisted of $400.0 million of Class A notes with a fixed interest rate of 2.12% per year and $50.7 million of notes that were retained by us and eliminated from the unaudited condensed consolidated balance sheets.

In May 2017, $389.6 million of Series 2015-C asset-backed term notes, $89.6 million of which were retained by us and eliminated from the unaudited condensed consolidated balance sheets, matured and were repaid.

In July 2017, $433.3 million of Series 2012-B asset-backed term notes, $108.3 million of which were retained by us and eliminated from the unaudited condensed consolidated balance sheets, matured and were repaid.

In August 2017, Master Trust I issued $444.7 million of Series 2017-B asset-backed term notes, which mature in August 2019. The offering consisted of $400.0 million of Class A notes with a fixed interest rate of 1.98% per year and $44.7 million of notes that were retained by us and eliminated from the unaudited condensed consolidated balance sheets.

In October 2017, $427.6 million of Series 2014-C asset-backed term notes, $102.6 million of which were retained by us and eliminated from the unaudited condensed consolidated balance sheets, matured and were repaid.

In October 2017, Master Trust III again renewed its 2009-VFC1 conduit facility, increasing the capacity from $925.0 million to $1,680.0 million and extending the maturity to January 2019.

The following table shows the maturities of borrowing commitments as of September 30, 2017 for the WFN Trusts and the WFC Trust by year:

	2017	2018	2019	2020	Thereafter	Total
			(In millions)			
Term notes	$ 325.0	$ 1,341.0	$ 1,574.0	$ 875.0	$ 682.5	$ 4,797.5
Conduit facilities (1)	—	2,885.0	—	—	—	2,885.0
Total (2)	$ 325.0	$ 4,226.0	$ 1,574.0	$ 875.0	$ 682.5	$ 7,682.5

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

(2) Total amounts do not include $2.0 billion of debt issued by the credit card securitization trusts that was retained by us and eliminated in the unaudited condensed consolidated financial statements.

See Note 8, “Debt,” of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding our debt.

Stock Repurchase Programs

On January 1, 2017, our Board of Directors authorized a stock repurchase program to acquire up to $500.0 million of our outstanding common stock through December 31, 2017.

On January 30, 2017, under the authorization of the existing 2017 repurchase program, we entered into a $350.0 million fixed dollar accelerated share repurchase program agreement, or the ASR Agreement, with an investment bank counterparty. Pursuant to the ASR Agreement, we received an initial delivery of 1.4 million shares of our common stock on February 6, 2017. The final settlement was based upon the volume weighted average price of our common stock, purchased by the counterparty during the period, less a specified discount, subject to a collar with a specified forward cap price and forward cap floor. The final settlement was on April 17, 2017 and resulted in the delivery of an additional 0.1 million shares. As a result of this transaction, we purchased a total of 1.5 million shares of our common stock at a settlement price per share of $238.34.

On July 25, 2017, our Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2017 to acquire an additional $500.0 million of our outstanding common stock through July 31, 2018, for a total authorization of $1.0 billion.

For the nine months ended September 30, 2017, we acquired a total of 2.3 million shares of our common stock for $553.7 million, including those amounts under the ASR Agreement. As of September 30, 2017, we had $446.3 million remaining under the stock repurchase program.

Dividends

On January 26, 2017, our Board of Directors declared a quarterly cash dividend of $0.52 per share on our common stock to stockholders of record at the close of business on February 15, 2017, resulting in a dividend payment of $29.0 million on March 17, 2017.

On April 20, 2017, our Board of Directors declared a quarterly cash dividend of $0.52 per share on our common stock to stockholders of record at the close of business on May 15, 2017, resulting in a dividend payment of $29.0 million on June 19, 2017.

On July 20, 2017, our Board of Directors declared a quarterly cash dividend of $0.52 per share on our common stock to stockholders of record at the close of business on August 14, 2017, resulting in a dividend payment of $28.8 million on September 19, 2017.

On October 19, 2017, our Board of Directors declared a quarterly cash dividend of $0.52 per share on our common stock, payable on December 19, 2017, to stockholders of record at the close of business on November 14, 2017.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report filed on Form 10-K for the fiscal year ended December 31, 2016.

Recently Issued Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

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

There has been no material change from our Annual Report on Form 10-K for the year ended December 31, 2016 related to our exposure to market risk from interest rate risk, credit risk, and foreign currency exchange rate risk.

Item 4. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of September 30, 2017, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2017 (the end of our third fiscal quarter), our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our third quarter 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes to the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016 or our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.

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

The following table presents information with respect to purchases of our common stock made during the three months ended September 30, 2017:

Period	Total Number of Shares Purchased [(1)]		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [(2)]
						(Dollars in millions)
During 2017:						
July 1-31	3,999	$	246.69	—	$	500.1
August 1-31	243,091		223.94	240,000		446.3
September 1-30	2,846		217.25	—		446.3
Total	249,936	$	224.23	240,000	$	446.3

(1) During the period represented by the table, 9,936 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Savings Plan for the benefit of the employees who participated in that portion of the plan.

(2) On January 1, 2017, our Board of Directors authorized a stock repurchase program to acquire up to $500.0 million of our outstanding common stock from January 1, 2017 through December 31, 2017. On July 25, 2017, our Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2017 to acquire an additional $500.0 million of our outstanding common stock through July 31, 2018, for a total authorization of $1.0 billion. Both authorizations are subject to any restrictions pursuant to the terms of our credit agreements, indentures, and applicable securities laws or otherwise.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

(a) None
(b) None

Item 6. Exhibits.

(a) *Exhibits:*

EXHIBIT INDEX

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
3.1	(a)	Third Amended and Restated Certificate of Incorporation of the Registrant.	8-K	3.2	6/10/16
3.2	(a)	Fifth Amended and Restated Bylaws of the Registrant.	8-K	3.1	2/1/16
4	(a)	Specimen Certificate for shares of Common Stock of the Registrant.	10-Q	4	8/8/03
10.1	(b) (c) (d)	Omnibus Amendment, dated as of July 10, 2017, among World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A	8-K	4.1	7/11/17
10.2	(a)	First Amendment to Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of July 10, 2017, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A., formerly known as Union Bank, N.A.	10-Q	10.8	8/7/17
10.3	(b) (c) (d)	Series 2017-B Indenture Supplement, dated as of August 16, 2017, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	8/22/17
*10.4	(a)	First Amendment to Third Amended and Restated Series 2009-VFC1 Supplement, dated as of October 19, 2017, among WFN Credit Company, LLC, Comenity Bank and U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas).			
*10.5	(a)	First Amendment to Fifth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of November 1, 2017, between World Financial Capital Master Note Trust and U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas).			
31.1	(a)	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
31.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			

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

* Filed herewith

\+ Management contract, compensatory plan or arrangement

(a) Alliance Data Systems Corporation

(b) WFN Credit Company

(c) World Financial Network Credit Card Master Trust

(d) World Financial Network Credit Card Master Note Trust

SIGNATURES

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

ALLIANCE DATA SYSTEMS CORPORATION

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

Date: November 8, 2017

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

Date: November 8, 2017

FIRST AMENDMENT TO
THIRD AMENDED AND RESTATED SERIES 2009-VFC1 SUPPLEMENT

This **FIRST AMENDMENT TO THIRD AMENDED AND RESTATED SERIES 2009-VFC1 SUPPLEMENT**, dated as of October 19, 2017 (this "*Amendment*"), is made among Comenity Bank (formerly known as World Financial Network Bank), a Delaware state chartered bank (the "*Bank*"), as Servicer ("*Servicer*"), WFN Credit Company, LLC, a Delaware limited liability company ("*WFN Credit*"), as Transferor ("*Transferor*"), and U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas), not in its individual capacity but solely as Trustee ("*Trustee*") under the Amended and Restated Pooling and Servicing Agreement, dated as of January 30, 1998, as amended and restated as of September 28, 2001 (as further amended as of April 7, 2004, March 23, 2005, October 26, 2007, March 30, 2010, September 30, 2011 and September 1, 2017, and as modified by a Trust Combination Agreement dated as of April 26, 2005, and as further amended, restated or otherwise modified from time to time, the "*Agreement*"). Capitalized terms used and not otherwise defined in this Amendment are used as defined in the Agreement, as supplemented by that certain Third Amended and Restated Series 2009-VFC1 Supplement, dated as of April 28, 2017, among the Servicer, the Transferor and the Trustee (as amended, restated or otherwise modified from time to time, the "*Series Supplement*").

Background

A. The parties hereto have entered into the Agreement and the Series Supplement.

B. The parties hereto wish to amend the Series Supplement as set forth in this Amendment.

Agreement

1. *Amendment of the Series Supplement*. Section 2 of the Series Supplement is hereby amended as follows:

(a) the definition of "Class A Pro Rata Percentage" is modified by replacing "72.50%" where it appears therein with "70.50%"; and

(b) the definition of "Class C Pro Rata Percentage" is modified by replacing "10.00%" where it appears therein with "12.00%".

2. *Incremental Funding*. For the avoidance of doubt, the increase in the Class C Pro Rata Percentage pursuant to Section 1(b) constitutes an Incremental Funding and, accordingly, the date hereof is a Reset Date under the Series Supplement.

3. *Binding Effect; Ratification*. (a) This Amendment shall become effective, as of the date first set forth above, when counterparts hereof shall have been executed and delivered by the parties hereto, and thereafter shall be binding on the parties hereto and their respective successors and assigns.

(b) On and after the execution and delivery hereof, this Amendment shall be a part of the Series Supplement and each reference in the Series Supplement to “this Series Supplement” or “hereof”, “hereunder” or words of like import, and each reference in any other Transaction Document to the Series Supplement shall mean and be a reference to such Series Supplement as amended hereby.

(c) Except as expressly amended hereby, the Series Supplement shall remain in full force and effect and is hereby ratified and confirmed by the parties hereto.

4. *Miscellaneous*. (a) THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS.

(b) Headings used herein are for convenience of reference only and shall not affect the meaning of this Amendment.

(c) This Amendment may be executed in any number of counterparts, and by the parties hereto on separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same agreement. Counterparts of this Amendment may be delivered by facsimile or electronic transmission.

(d) The Trustee shall not be responsible for the validity or sufficiency of this Amendment, nor for the recitals contained herein.

[*Signature Pages Follow*]

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

COMENITY BANK, as Servicer

By: /s/ Randy J. Redcay
Name: Randy J. Redcay
Title: Chief Financial Officer

WFN CREDIT COMPANY, LLC, as Transferor

By: /s/ Michael Blackham
Name: Michael Blackham
Title: Treasurer

U.S. BANK NATIONAL ASSOCIATION, not in its individual capacity, but solely as Trustee

By: /s/ Edwin J. Janis
Name: Edwin J. Janis
Title: Vice President

Acknowledged and consented to in their respective capacities as Class M Holder, as Class B Holder and as Class C Holder.

COMENITY BANK, as Class M Holder and as Class B Holder

By: /s/ Randy J. Redcay
Name: Randy J. Redcay
Title: Chief Financial Officer

WFN CREDIT COMPANY, LLC, as Class C Holder

By: /s/ Michael Blackham
Name: Michael Blackham
Title: Treasurer

FIRST AMENDMENT TO
FIFTH AMENDED AND RESTATED SERIES 2009-VFN INDENTURE SUPPLEMENT

This **FIRST AMENDMENT TO FIFTH AMENDED AND RESTATED SERIES 2009-VFN INDENTURE SUPPLEMENT**, dated as of November 1, 2017 (this "*Amendment*"), is made between World Financial Capital Master Note Trust, a Delaware statutory trust, as issuer (the "*Issuer*"), and U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas), not in its individual capacity but solely as indenture trustee (the "*Indenture Trustee*") under the Master Indenture, dated as of September 29, 2008, as supplemented by Supplemental Indenture No. 1 to Master Indenture, dated as of August 17, 2012, Supplemental Indenture No. 2 to Master Indenture, dated as January 4, 2013, and Supplemental Indenture No. 3 to Master Indenture, dated as of September 1, 2017, each between the Issuer and the Indenture Trustee, and as further amended, restated or otherwise modified from time to time (the "*Master Indenture*"). Capitalized terms used and not otherwise defined in this Amendment are used as defined in the Master Indenture, as supplemented by that certain Fifth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of November 1, 2016, between the Issuer and the Indenture Trustee (as amended, restated or otherwise modified from time to time, the "*Indenture Supplement*").

Background

A. The parties hereto have entered into the Master Indenture and the Indenture Supplement.

B. The parties hereto wish to amend the Indenture Supplement as set forth in this Amendment.

Agreement

1. *Amendment of the Indenture Supplement*. (a) Section 2.1 of the Indenture Supplement is hereby amended by inserting the following definitions in appropriate alphabetical order:

> "<u>Regulation RR</u>" means Regulation RR (Credit Risk Retention) promulgated by the Commission to implement the credit risk retention requirements of Section 15G of the Securities Exchange Act.
>
> "<u>Required Seller's Interest</u>" means as of any date of determination, the product of (i) 5% and (ii) the aggregate of the principal balances of all outstanding Notes other than Risk Retention Retained Notes as of such date of determination.
>
> "<u>Risk Retention Retained Note</u>" means any Note that is retained by Comenity Capital Bank, as sponsor, or a Wholly-owned Affiliate thereof upon initial issuance thereof and at all times thereafter; *provided* that no Note shall be a Risk Retention Retained Note unless such Note has been designated as a Risk Retention Retained Note pursuant to the related Indenture Supplement; and

provided further that the Class M Notes, Class B Notes and Class C Notes issued hereunder shall be Risk Retention Retained Notes.

"RR Measurement Date" is defined in Section 9.8(h).

"Securities Exchange Act" means the provisions of the Securities Exchange Act of 1934 15 U.S.C. Sections 78a et seq., and any regulations promulgated thereunder.

"Seller's Interest" means, as of any date of determination, the result of (a) the aggregate amount of Principal Receivables as of such date of determination, plus (b) the aggregate amount of Principal Collections on deposit in the Collection Account as of such date of determination, minus (c) the aggregate of the principal balances of all outstanding Notes as of such date of determination.

"Wholly-owned Affiliate" has the meaning specified in Rule 2 of Regulation RR.

(b) Section 9.8 of the Indenture Supplement is hereby amended by inserting the following new clauses (h), (i) and (j) immediately following clause (g) thereof:

(h) To the extent that the sum of (i) the Seller's Interest and (ii) amounts on deposit in the Excess Funding Account (excluding any investment earnings on deposit therein) is less than the Required Seller's Interest as of the last day of any Monthly Period (each, an "RR Measurement Date"), the Transferor shall cause the Seller's Interest to be increased to an amount such that the sum of (i) the Seller's Interest and (ii) amounts on deposit in the Excess Funding Account (excluding any investment earnings on deposit therein) will be equal to or greater than the Required Seller's Interest on or before the following RR Measurement Date; *provided*, that this Section 9.8(h) shall not be applicable if Regulation RR shall no longer be in effect; and provided, further, that failure to satisfy the foregoing covenant shall not constitute a breach of this Agreement if at the time of such failure, the transaction contemplated by the Transaction Documents shall otherwise be in compliance with the requirements of Regulation RR.

(i) For the avoidance of doubt, in no event shall the Indenture Trustee or the Owner Trustee have any responsibility to monitor or enforce compliance with, or be charged with knowledge of Regulation RR or any rules or regulations promulgated in connection therewith, nor shall either be liable to any investor, Noteholder, Note Owner or any other party whatsoever for any violation of Regulation RR or any rules or regulations promulgated in connection therewith or any similar provisions in effect or the breach of any related term of the Agreement, any other Transaction Document, or any other document made or delivered pursuant hereto or thereto.

(j) The Servicer will include the amount of the Seller's Interest as of the most recent RR Measurement Date (or, with respect to the first such statement following the date hereof, as of the date hereof) on each statement delivered pursuant to Section 5.4(b) of the Transfer and Servicing Agreement.

2. *Binding Effect; Ratification*. (a) This Amendment shall become effective, as of the date first set forth above, when counterparts hereof shall have been executed and delivered by the parties hereto, and thereafter shall be binding on the parties hereto and their respective successors and assigns.

(b) On and after the execution and delivery hereof, this Amendment shall be a part of the Indenture Supplement and each reference in the Indenture Supplement to “this Indenture Supplement” or “hereof”, “hereunder” or words of like import, and each reference in any other Transaction Document to the Indenture Supplement shall mean and be a reference to such Indenture Supplement as amended hereby.

(c) Except as expressly amended hereby, the Indenture Supplement shall remain in full force and effect and is hereby ratified and confirmed by the parties hereto.

3. *Miscellaneous*. (a) THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS.

(b) Headings used herein are for convenience of reference only and shall not affect the meaning of this Amendment.

(c) This Amendment may be executed in any number of counterparts, and by the parties hereto on separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same agreement. Counterparts of this Amendment may be delivered by facsimile or electronic transmission.

(d) By acknowledging this Amendment, the Class M Purchaser hereby consents to an increase in the Class M Maximum Principal Balance to $186,824,323.70, the Class B Purchaser hereby consents to an increase in the Class B Maximum Principal Balance to $266,891,891.61 and the Class C Purchaser hereby consents to an increase in the Class C Maximum Principal Balance to $240,202,703.72 as of the date hereof.

(e) Neither the Indenture Trustee nor the Owner Trustee shall be responsible for the validity or sufficiency of this Amendment, nor for the recitals contained herein.

(f) Each of the parties hereto acknowledges and agrees that this Amendment is being executed and delivered by BNY Mellon Trust of Delaware not individually but solely and exclusively in its capacity as Owner Trustee on behalf of the Issuer for the purpose and with the intention of binding Issuer. No obligations or liabilities hereunder shall run against BNY Mellon Trust of Delaware in its individual capacity or against its properties or assets. Under no circumstances shall BNY Mellon Trust of Delaware be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents.

[*Signature Pages Follow*]

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

WORLD FINANCIAL CAPITAL MASTER NOTE TRUST, as Issuer

By: BNY Mellon Trust of Delaware, not in its individual capacity, but solely as Owner Trustee

By: /s/ JoAnn C. DiOssi
Name: JoAnn C. DiOssi
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION, not in its individual capacity, but solely as Indenture Trustee

By: /s/ Mirtza J. Escobar
Name: Mirtza J. Escobar
Title: Vice President

Acknowledged and consented to in their respective capacities as Class M Purchaser, as Class B Purchaser and as Class C Purchaser.

WORLD FINANCIAL CAPITAL CREDIT COMPANY, LLC, as Class M Purchaser, Class B Purchaser and Class C Purchaser

By: /s/ Jeff Coon
Name: Jeff Coon
Title: Chief Financial Officer and Treasurer

Exhibit 31.1

CERTIFICATION OF THE
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

I, Edward J. Heffernan, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Edward J. Heffernan

Edward J. Heffernan
Chief Executive Officer

Date: November 8, 2017

Exhibit 31.2

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

I, Charles L. Horn, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Charles L. Horn

Charles L. Horn
Chief Financial Officer

Date: November 8, 2017

Exhibit 32.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended September 30, 2017 (the "Form 10-Q") of Alliance Data Systems Corporation (the "Registrant").

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

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

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

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

Date: November 8, 2017

Subscribed and sworn to before me
this 8th day of November, 2017.

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

My commission expires:
October 23, 2020

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

Exhibit 32.2

CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended September 30, 2017 (the “Form 10-Q”) of Alliance Data Systems Corporation (the “Registrant”).

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

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

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

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

Date: November 8, 2017

Subscribed and sworn to before me
this 8th day of November, 2017.

/s/ Jane Baedke
Name: Jane Baedke
Title: Notary Public

My commission expires:
October 23, 2020

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