

ALLIANCE DATA SYSTEMS CORP
Form 10-K
February 27, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-15749

ALLIANCE DATA SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

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

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7500 Dallas Parkway, Suite 700 75024
Plano, Texas (Zip Code)
(Address of principal
executive offices)

(214) 494-3000

(Registrant's telephone number, including area code)

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

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

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

None

(Title of class)

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this

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chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

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

Documents Incorporated By Reference

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

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Caution Regarding Forward-Looking Statements

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

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

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

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PART I

Item 1. Business.

Our Company

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

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

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

Our Market Opportunity and Growth Strategy

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

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

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- Continue to Expand our Global Footprint. Global reach is increasingly important as our clients grow into new markets, and we are well positioned to cost-effectively increase our global presence. We believe continued international expansion will provide us with strong revenue growth opportunities. In 2014, with our acquisition of our interests in BrandLoyalty Group B.V., or BrandLoyalty, and the acquisition of Conversant Inc., or Conversant, we expanded our presence in Europe, Asia, and Latin America, which provides an opportunity to leverage our core competencies in these markets. In 2015, we acquired Edison International Concept & Agencies B.V., or Edison, and Max Holding B.V., or Merison, two Netherlands-based loyalty marketers, which expands BrandLoyalty’s short term loyalty programs into new markets and introduces new brands to existing markets. We also own approximately 37% of CBSM-Companhia Brasileira De Servicos De Marketing, the operator of the dotz coalition loyalty program, or dotz, which continues to expand its presence in Brazil with dotz operating in 13 markets as of December 31, 2016.
- Optimize our Business Portfolio. We intend to continue to evaluate our products and services given our strategic direction and demand trends. While we are focused on realizing organic revenue growth and margin expansion, we will consider select acquisitions of complementary businesses that would enhance our product portfolio, market positioning or geographic presence.

Products and Services

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

Segment	Products and Services
LoyaltyOne	<ul style="list-style-type: none"> • AIR MILES Reward Program • Short-term Loyalty Programs • Loyalty Services <ul style="list-style-type: none"> —Loyalty consulting —Customer analytics —Creative services —Mobile solutions
Epsilon	<ul style="list-style-type: none"> • Marketing Services <ul style="list-style-type: none"> —Agency services —Marketing technology services —Data services —Strategy and insights services —Traditional and digital marketing —Affiliate marketing services
Card Services	<ul style="list-style-type: none"> • Receivables Financing <ul style="list-style-type: none"> —Underwriting and risk management

—Receivables funding

- Processing Services
 - New account processing
 - Bill processing
 - Remittance processing
 - Customer care

- Marketing Services

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LoyaltyOne

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

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

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

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

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

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

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

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

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Epsilon

Epsilon is a leading marketing services firm providing end-to-end, integrated marketing solutions that leverage rich data, analytics, creativity and technology to help clients more effectively acquire, retain and grow relationships with their customers. Services include strategic consulting, customer database technologies, omnichannel marketing, loyalty management, proprietary data, predictive modeling, permission-based email marketing, personalized digital marketing, affiliate marketing and a full range of direct and digital agency services. On behalf of our clients, we develop marketing programs for individual consumers with highly targeted offers and personalized communications via our digital media practice, Conversant®, to create better customer experiences. Since these communications are more relevant to the consumer, the consumer is more likely to be responsive to these offers, resulting in a measurable return on our clients' marketing investments. We distribute marketing campaigns and communications through all marketing channels based on the consumer's preference, including direct mail and digital platforms such as email, mobile, display and social media. Epsilon has over 1,400 clients, operating primarily in the financial services, insurance, media and entertainment, automotive, consumer packaged goods, retail, travel and hospitality, pharmaceutical/healthcare and telecommunications industries.

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

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

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

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

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

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

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Card Services

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

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

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

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

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

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

Disaster and Contingency Planning

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

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Protection of Intellectual Property and Other Proprietary Rights

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

Competition

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

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

Epsilon. Our Epsilon segment generally competes with a variety of niche providers as well as large media/digital agencies. For the niche provider competitors, their focus has primarily been on one or two services within the marketing value chain, rather than the full spectrum of data-driven marketing services used for both traditional and online advertising and promotional marketing programs. For the larger media/digital agencies, most offer the breadth of services but typically do not have the internal integration of offerings to deliver a seamless "one stop shop" solution, from strategy to execution across traditional as well as digital and emerging technologies. In addition, Epsilon competes against internally developed products and services created by our existing clients and others. We expect

competition to intensify as more competitors enter our market. For our targeted direct marketing services offerings, our ability to continue to capture detailed customer transaction data is critical in providing effective marketing and loyalty strategies for our clients. Our ability to differentiate the mix of products and services that we offer, together with the effective delivery of those products and services, are also important factors in meeting our clients' objective to continually improve their return on marketing investment.

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

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Regulation

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

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

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

We are required to monitor and report unusual or suspicious account activity as well as transactions involving amounts in excess of prescribed limits under the Bank Secrecy Act, Internal Revenue Service, or IRS, rules, and other regulations. Congress, the IRS and the bank regulators have focused their attention on banks’ monitoring and reporting

of suspicious activities. Additionally, Congress and the bank regulators have proposed, adopted or passed a number of new laws and regulations that may increase reporting obligations of banks. We are also subject to numerous laws and regulations that are intended to protect consumers, including state laws, the Truth in Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act, as amended by the Credit Card Accountability, Responsibility and Disclosure Act of 2009, or the CARD Act. These laws and regulations mandate various disclosure requirements and regulate the manner in which we may interact with consumers. These and other laws also limit finance charges or other fees or charges earned in our lending activities. We conduct our operations in a manner that we believe excludes us from regulation as a consumer reporting agency under the Fair Credit Reporting Act. If we were deemed a consumer reporting agency, however, we would be subject to a number of additional complex regulatory requirements and restrictions.

A number of privacy laws and regulations have been enacted in the United States, Canada, the European Union, China and other international markets in which we operate. These laws and regulations place many restrictions on our ability to collect and disseminate customer information. In addition, the enactment of new or amended legislation around the world could place additional restrictions on our ability to utilize customer information. For example, Canada has enacted privacy legislation known as the Personal Information Protection and Electronic Documents Act. Among its principles, this act requires organizations to obtain a consumer's consent to collect, use or disclose personal information. Under this act, which took effect on January 1, 2001, the nature of the required consent depends on the sensitivity of the

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personal information, and the act permits personal information to be used only for the purposes for which it was collected. Some Canadian provinces have enacted substantially similar privacy legislation. We believe we have taken appropriate steps within LoyaltyOne to comply with these laws.

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

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

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

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

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

These amendments to the Ontario Consumer Protection Act became effective upon receipt of Royal Assent on December 8, 2016, but have retroactive effect in that any rewards points that expired on or after October 1, 2016 must be

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credited back to the consumer by December 23, 2016, or 15 days following the date on which the amendments became effective. We currently anticipate that similar legislation may be enacted in some or all other Canadian provinces.

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

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

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

Employees

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

Available Information

We file or furnish annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy, for a fee, any document we file or furnish at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our SEC filings are also available to the public at the SEC's website at www.sec.gov. You

may also obtain copies of our annual, quarterly and current reports, proxy statements and certain other information filed or furnished with the SEC, as well as amendments thereto, free of charge from our website, www.AllianceData.com. No information from this website is incorporated by reference herein. These documents are posted to our website as soon as reasonably practicable after we have filed or furnished these documents with the SEC. We post our audit committee, compensation committee, nominating and corporate governance committee, and executive committee charters, our corporate governance guidelines, and our code of ethics, code of ethics for Senior Financial Officers, and code of ethics for Board Members on our website. These documents are available free of charge to any stockholder upon request.

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Item 1A.Risk Factors.

RISK FACTORS

Strategic Business Risk and Competitive Environment

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

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

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

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

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

expires in 2019 and our contracts with Ascena Retail Group, Inc. and its retail affiliates expire in 2019 and 2021.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity, Market and Credit Risk

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

Interest rate risk affects us directly in our borrowing activities. Our interest expense, net was \$428.5 million for the year ended December 31, 2016. To manage our risk from market interest rates, we actively monitor the interest rates and the interest sensitive components to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. In 2016, a 1% increase in interest rates would have resulted in an increase to interest expense of approximately \$85 million. Conversely, a corresponding decrease in interest rates would have resulted in a decrease to

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interest expense of approximately \$62 million. In addition, we may enter into derivative instruments on related financial instruments or to lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes.

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

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

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

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

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

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

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

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

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

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

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

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

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

amount, not to repurchase shares or to repurchase shares at reduced levels compared to historical levels, any or all of which could reduce returns to our stockholders.

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

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

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Regulatory Environment

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

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

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

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

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

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

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

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effect on our ability to collect our receivables and generate fees on the receivables, thereby adversely affecting our profitability.

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

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

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

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

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

companies formed and operating in foreign jurisdictions that may be subject to additional or more stringent legislation and regulations regarding consumer or private sector privacy.

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

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

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comply with these regulations could have a negative impact on our reputation and subject us to significant penalties. Further, the Federal Communications Commission has approved interpretations of rules related to the Telephone Consumer Protection Act defining robo-calls broadly, which may affect our ability to contact customers and may increase our litigation exposure.

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

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

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

In the European Union, the Directive 95/46/EC of the EU Parliament and of the Council of 24 October 1995 requires member states to implement and enforce a comprehensive data protection law that is based on principles designed to safeguard personal data, defined as any information relating to an identified or identifiable natural person. The Directive frames certain requirements for transfer outside of the European Economic Area and individual rights such as consent requirements. In January 2012, the European Commission proposed the General Data Protection Regulation, or GDPR, a new European Union-wide legal framework to govern data sharing and collection and related consumer privacy rights. In December 2015, the EU Parliament and the EU Council reached informal agreement on the text of the GDPR, and in April 2016 both the EU Council and the EU Parliament adopted the GDPR. The new rules will go into effect on May 25, 2018. The GDPR will replace the Directive and, because it is a regulation rather than a directive, will directly apply to and bind the 28 EU Member States. Compared to the Directive, GDPR may result in greater compliance obligations, including the implementation of a number of processes and policies around our data collection and use. These and other terms of the GDPR could limit our ability to provide services and

information to our customers. In addition, the GDPR includes significant new penalties for non-compliance, with fines up to the higher of €20 million (\$21 million as of December 31, 2016) or 4% of total annual worldwide revenue. Further, the European Union has also released a draft of the proposed reforms to the ePrivacy Directive that governs the use of technologies to collect consumer information. In general, GDPR, and other local privacy laws, could also lead to adaptation of our technologies or practices to satisfy local privacy requirements and standards that may be more stringent than in the U.S.

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

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

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

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

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

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

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

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

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

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

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

Technologies have been developed, and will likely continue to be developed, that can block the display of ads we serve for our clients, particularly advertising displayed on personal computers. Ad blockers, cookie blocking, and tracking protection lists (TPLs) are being offered by browser agents and device manufacturers to prevent ads from being displayed to consumers. We generate revenue from online advertising, including revenue resulting from the display of ads on personal computers. Revenue generated from the display of ads on personal computers has been impacted by

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these technologies from time to time. If these technologies continue to proliferate, in particular with respect to mobile platforms, our product offerings may be limited and our future financial results may be harmed.

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

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

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

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

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

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

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

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Operational and Other Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Item 1B.Unresolved Staff Comments.

None.

Item 2.Properties.

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

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

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

Item 3.Legal Proceedings.

From time to time we are involved in various claims and lawsuits arising in the ordinary course of our business that we believe will not have a material effect on our business or financial condition, including claims and lawsuits alleging breaches of our contractual obligations. See Note 14, "Commitments and Contingencies," of the Notes to Consolidated Financial Statements for additional information.

Item 4.Mine Safety Disclosures.

Not applicable.

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PART II

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

Market Information

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

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

Holders

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

Dividends

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

million on December 16, 2016.

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

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

Issuer Purchases of Equity Securities

On January 1, 2016, our Board of Directors authorized a stock repurchase program to acquire up to \$500.0 million of our outstanding common stock from January 1, 2016 through December 31, 2016. On February 15, 2016, our Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2016 to acquire an additional \$500.0 million of our outstanding common stock through December 31, 2016, for a total authorization of \$1.0 billion.

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

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The following table presents information with respect to purchases of our common stock made during the three months ended December 31, 2016:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) (Dollars in millions)
During 2016:				
October 1-31	94,955	\$ 203.69	90,000	\$ 288.9
November 1-30	160,957	211.40	158,200	255.5
December 1-31	271,219	228.15	268,231	194.3
Total	527,131	\$ 218.63	516,431	\$ 194.3

- (1) During the period represented by the table, 10,700 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Saving Plan for the benefit of the employees who participated in that portion of the plan.
- (2) On January 1, 2016, our Board of Directors authorized a stock repurchase program to acquire up to \$500.0 million of our outstanding common stock from January 1, 2016 through December 31, 2016. On February 15, 2016, our Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2016 to acquire an additional \$500.0 million of our outstanding common stock through December 31, 2016, for a total authorization of \$1.0 billion. On January 1, 2017, our Board of Directors authorized a stock repurchase program to acquire up to \$500.0 million of our outstanding common stock from January 1, 2017 through December 31, 2017, subject to any restrictions pursuant to the terms of our credit agreements, indentures, and applicable securities laws or otherwise.

Performance Graph

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

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

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

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

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

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

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Item 6. Selected Financial Data.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

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

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

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	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(In millions)				
Adjusted EBITDA and Adjusted EBITDA, net (2)					
Adjusted EBITDA	\$ 2,095.8	\$ 1,909.9	\$ 1,597.2	\$ 1,374.2	\$ 1,191.7
Adjusted EBITDA, net	\$ 1,880.0	\$ 1,728.3	\$ 1,425.5	\$ 1,249.8	\$ 1,073.7
Other financial data					
Cash flows from operating activities	\$ 2,088.4	\$ 1,705.8	\$ 1,344.2	\$ 1,003.5	\$ 1,134.2
Cash flows from investing activities	\$ (4,063.0)	\$ (3,362.6)	\$ (4,737.1)	\$ (1,619.4)	\$ (2,671.4)
Cash flows from financing activities	\$ 2,663.4	\$ 1,772.9	\$ 3,516.1	\$ 704.2	\$ 2,209.0
Segment operating data					
Credit card statements generated	279.4	242.3	212.0	192.5	166.1
Credit sales	\$ 29,271.3	\$ 24,736.1	\$ 18,948.2	\$ 15,252.3	\$ 12,523.6
Average credit card and loan receivables	\$ 14,085.8	\$ 11,364.6	\$ 8,750.1	\$ 7,212.7	\$ 5,927.6
AIR MILES reward miles issued	5,772.3	5,743.1	5,500.9	5,420.7	5,222.9
AIR MILES reward miles redeemed	7,071.6	4,406.3	4,100.7	4,017.5	4,040.9
	As of December 31,				
	2016	2015	2014	2013	2012
	(In millions)				
Balance sheet data (3)					
Credit card and loan receivables, net	\$ 15,595.9	\$ 13,057.9	\$ 10,673.7	\$ 8,069.7	\$ 6,697.7
Redemption settlement assets, restricted	324.4	456.6	520.3	510.3	492.7
Total assets	25,514.1	22,349.9	20,188.2	13,197.8	11,952.0
Deferred revenue	931.5	844.9	1,013.2	1,137.2	1,249.1
Deposits	8,391.9	5,605.9	4,759.4	2,806.8	2,219.6
Non-recourse borrowings of consolidated securitization entities	6,955.4	6,482.7	5,181.1	4,581.5	4,121.6
Long-term and other debt, including current maturities	5,601.4	5,017.4	4,158.4	2,773.7	2,825.0
Total liabilities	23,855.9	20,172.5	17,556.2	12,342.0	11,423.5
Redeemable non-controlling interest	—	167.4	235.6	—	—
Total stockholders' equity	1,658.2	2,010.0	2,396.4	855.8	528.5

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

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

(3) Adjusted to reflect the retrospective adoption of Accounting Standards Update, or ASU, 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The effect of the adoption of the standard was to reduce other assets and debt by \$72.0 million, \$75.8 million, \$46.5 million and \$48.1 million as of December 31, 2015, 2014, 2013 and 2012,

respectively. See “Recently Adopted Accounting Standards” under Note 2, “Summary of Significant Accounting Policies,” of the Notes to Consolidated Financial Statements for a discussion of accounting standards adopted prospectively.

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

Overview

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

2016 Highlights and Recent Developments

- Total revenue increased 11% to \$7.1 billion in 2016 compared to \$6.4 billion in 2015.
- Adjusted EBITDA, net increased 9% to \$1.9 billion in 2016 compared to \$1.7 billion in 2015.
- We repurchased approximately 3.8 million shares for \$805.7 million in 2016.
- We acquired 10% ownership interest in BrandLoyalty Group B.V., or BrandLoyalty, for approximately \$102.0 million, which brought our ownership interest to 80%, effective January 1, 2016. We acquired the remaining 20% ownership interest in BrandLoyalty for approximately \$258.8 million, which brought our ownership interest to 100%, effective April 1, 2016.
- We purchased five credit card portfolios for total consideration paid of \$1.0 billion.
- We sold three private label credit card portfolios for total consideration received of \$486.0 million.
- In October 2016, our Board of Directors voted to expand the size of the Board to nine directors and appointed Timothy J. Theriault as a director.
- We paid a quarterly dividend of \$30.0 million, or \$0.52 per share, in December 2016.
- In December 2016, we cancelled the AIR MILES Reward Program's five-year expiry policy due to the anticipated adoption of a new law in Ontario, Canada.

LoyaltyOne

LoyaltyOne generates revenue primarily from our coalition and short-term loyalty programs through our AIR MILES Reward Program and BrandLoyalty.

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

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

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

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

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

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

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

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

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

On December 1, 2016, with anticipated passage of the then-pending legislative changes in Ontario and the likelihood of changes in similar laws in some or all other Canadian provinces, LoyaltyOne cancelled its five-year expiry policy,

which was implemented by our AIR MILES Reward Program on December 31, 2011 and expected to take effect on December 31, 2016. As a result of the cancellation of the expiry policy, coupled with increased redemption activity in the third and fourth quarter of 2016, we changed our estimate of breakage from 26% to 20%. As a result of this change in estimate, we increased the deferred redemption liability by \$284.5 million with a corresponding reduction of redemption revenue. Of that, we estimated \$241.7 million was attributable to the cancellation of the expiry policy.

Epsilon

Epsilon is a leading marketing services firm providing end-to-end, integrated marketing solutions that leverage rich data, analytics, creativity and technology to help clients more effectively acquire, retain and grow relationships with their customers. Services include strategic consulting, customer database technologies, omnichannel marketing, loyalty management, proprietary data, predictive modeling, permission-based email marketing, personalized digital marketing and a full range of direct and digital agency services.

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Revenue increased 1% to \$2.2 billion and adjusted EBITDA, net decreased 6% to \$480.2 million for the year ended December 31, 2016 as compared to the prior year. Digital and technology platforms revenue increased 7%, driven by strength in CRM services and our automotive vertical. These strengths were offset in part by weakness in our agency offerings, specifically in the telecommunications, consumer packaged goods and retail verticals. Adjusted EBITDA was negatively impacted by increased payroll costs for the year ended December 31, 2016. For 2017, we expect revenue and adjusted EBITDA to grow approximately 4%.

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

- Lamps Plus, a national lighting retailer, to provide targeted email marketing services;
- Amica Mutual Insurance Company, a national insurer, to provide targeted email marketing services;
- Shire plc, a global biotechnology company, to build and host a database platform and provide database marketing services;
- Del Monte Foods, a national food producer and distributor, to develop a multi-channel creative campaign and communications plan and provide marketing services; in addition, Epsilon was named the agency of record;
- Brookdale Senior Living, a national provider of senior living communities, to provide strategic creative, account management and analytics services;
- CNO Financial Group, Inc., a national holding company to insurers, to build a database platform and provide database marketing services;
- Red Roof, a leading economy hotel chain in the United States, to provide email services; and
- Gemological Institute of America, an independent nonprofit organization recognized as the world's foremost authority in gemology, to develop an integrated campaign to increase consumer awareness; in addition, Epsilon was named the agency of record.

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

Card Services

Card Services provides risk management solutions, account origination, funding services, transaction processing, marketing, customer care and collection services for our more than 160 private label retail and co-brand credit card programs.

Revenue, generated primarily from finance charges and late fees as well as other servicing fees, increased 24% to \$3.7 billion and adjusted EBITDA, net increased 14% to \$1.2 billion for the year ended December 31, 2016 as compared to the prior year. These increases were driven by higher average credit card and loan receivables. Credit sales and average credit card and loan receivables increased 18% and 24%, respectively, for the year ended December 31, 2016 as compared to the prior year as a result of recent client signings and credit card portfolio acquisitions. For 2017, we

expect credit card and loan receivables to grow approximately 15%, gross yields to remain stable, and adjusted EBITDA, net to increase 8% to 10%.

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

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

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

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

Use of Non-GAAP Financial Measures

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

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

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

We use adjusted EBITDA and adjusted EBITDA, net as an integral part of our internal reporting to measure the performance of our reportable segments and to evaluate the performance of our senior management, and we believe it provides useful information to our investors regarding our performance and overall results of operations. Adjusted EBITDA and adjusted EBITDA, net are each considered an important indicator of the operational strength of our businesses. Adjusted EBITDA eliminates the uneven effect across all business segments of considerable amounts of non-cash depreciation of tangible assets and amortization of intangible assets, including certain intangible assets that

were recognized in business combinations. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Management evaluates the costs of such tangible and intangible assets, such as capital expenditures, investment spending and return on capital and therefore the effects are excluded from adjusted EBITDA. Adjusted EBITDA also eliminates the non-cash effect of stock compensation expense.

Adjusted EBITDA and adjusted EBITDA, net are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, either operating income or net income as indicators of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, adjusted EBITDA and adjusted EBITDA, net are not intended to represent funds available for dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

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

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

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- (1) Represents the impact of the cancellation of the AIR MILES Reward Program's five-year expiry policy on December 1, 2016.
- (2) Represents costs associated with the consent orders with the FDIC to provide restitution to eligible customers and \$2.5 million in civil penalties.
- (3) Represents additional contingent consideration as a result of the earn-out obligation associated with the acquisition of our 60 percent ownership interest in BrandLoyalty in 2014.
- (4) Represents expenditures directly associated with the acquisition of Conversant in 2014.

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Consolidated Results of Operations

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

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

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

- Transaction. Revenue decreased \$58.4 million, or 17%, to \$278.4 million for the year ended December 31, 2016 primarily due to a reduction in other servicing fees charged to our credit cardholders, which decreased \$54.5 million due to changes in program fee structures, as well as a \$21.8 million reduction in merchant fees, which are transaction fees charged to the retailer, due to increased royalty payments associated with new clients. These decreases were offset in part by an \$8.8 million increase in AIR MILES reward miles issuance fees, for which we provide marketing and administrative services.
- Redemption. Revenue decreased \$34.8 million, or 3%, to \$993.6 million for the year ended December 31, 2016. Revenue from our coalition loyalty program decreased \$77.7 million due to the impact of the change in breakage from 26% to 20%, which reduced revenue by \$284.5 million. The decrease in redemption revenue was offset in part by a 60% increase in AIR MILES reward miles redeemed. Additionally, redemption revenue for our short-term loyalty programs increased \$42.9 million with strong growth from existing and new markets, as North American expansion efforts continue to progress.
- Finance charges, net. Revenue increased \$768.4 million, or 27%, to \$3.6 billion for the year ended December 31, 2016. This increase was driven by an increase in average credit card and loan receivables, which increased revenue \$771.3 million through a combination of recent credit card portfolio acquisitions and strong cardholder spending. Our net finance charge yield was comparable year-over-year.

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- Marketing services. Revenue increased \$13.2 million, or 1%, to \$2.0 billion for the year ended December 31, 2016 as growth in our CRM services was offset by weakness in our agency offerings.
- Other revenue. Revenue increased \$9.9 million, or 5%, to \$206.7 million for the year ended December 31, 2016 due to additional consulting services provided by Epsilon.

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

- Within the LoyaltyOne segment, cost of operations increased \$213.3 million primarily due to an increase in cost of redemptions of \$192.2 million associated with the 60% increase in AIR MILES reward miles redeemed and the increase in redemption revenue for our short-term loyalty programs.
- Within the Epsilon segment, cost of operations increased \$28.1 million with a \$26.5 million increase in payroll and benefit expenses due in part to duplicative cost of our India operations, and severance costs.
- Within the Card Services segment, cost of operations increased by \$223.0 million. Payroll and benefit expenses increased \$72.4 million due to an increase in the number of associates to support growth, and marketing expenses increased \$19.8 million due to growth in credit sales. Other operating expenses increased \$130.8 million as a result of higher data processing expenses and credit card processing costs due to increases in volume associated with growth in credit card and loan receivables.

Provision for loan loss. Provision for loan loss increased \$272.3 million, or 41%, to \$940.5 million for the year ended December 31, 2016 as compared to \$668.2 million for the year ended December 31, 2015. The increase in the provision for loan loss was driven by higher credit card and loan receivables as well as an increase in net losses. The net charge-off rate was 5.1% for the year ended December 31, 2016 as compared to 4.5% for the year ended December 31, 2015. Delinquency rates were 4.8% of principal credit card and loan receivables at December 31, 2016 as compared to 4.2% at December 31, 2015.

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

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

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

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

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

- Securitization funding costs. Securitization funding costs increased \$28.5 million due to an 18% increase in average borrowings with a 20 basis point increase in average interest rates as compared to the prior year.
- Interest expense on deposits. Interest expense on deposits increased \$31.1 million due to higher average deposits and higher average interest rates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

in the Epsilon segment.

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

- Securitization funding costs. Securitization funding costs increased \$6.0 million, as an increase in average borrowings in 2015 as compared to 2014 was offset in part by a 30 basis point decrease in average interest rates over the same periods.
- Interest expense on deposits. Interest on deposits increased \$16.1 million due to an increase in average borrowings in 2015 as compared to 2014. Average interest rates remained relatively consistent for both periods.
- Interest expense on long-term and other debt, net. Interest expense on long-term and other debt, net increased \$47.6 million due primarily to an increase of \$33.2 million related to term loans associated with the \$1.4 billion incremental term loan borrowed in December 2014 in connection with the Conversant acquisition as well as an increase in interest associated with our revolving line of credit and amortization of debt issuance costs of \$7.6 million. Interest associated with our senior notes increased \$20.7 million with the \$600.0 million senior notes due 2022 issued in July 2014 and the €300.0 million senior notes due 2023 issued in November 2015. These

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increases were offset by a decrease in interest expense of \$17.5 million associated with the convertible senior notes that were repaid at maturity in May 2014.

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

Segment Revenue and Adjusted EBITDA, net

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

(1) Adjusted EBITDA, net is equal to net income, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and amortization, amortization of purchased intangibles, impact of expiry, regulatory settlement, business acquisition costs and the earn-out obligation related to the BrandLoyalty acquisition less securitization funding costs, interest expense on deposits and adjusted EBITDA attributable to the non-controlling interest. For a reconciliation of adjusted EBITDA, net to net income, the most directly comparable GAAP financial measure, see "Use of Non-GAAP Financial Measures" included in this report.

*not meaningful

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

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

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

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

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

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

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

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

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

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

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- by growth in services for existing clients and database builds completed and placed in production for new clients.
- Card Services. Adjusted EBITDA, net increased \$147.8 million, or 16%, to \$1.1 billion for the year ended December 31, 2015. Adjusted EBITDA, net was positively impacted by the increase in finance charges, net, but offset in part by both an increase in operating expenses due to increased volumes and an increase in the provision for loan loss due to the increase in credit card and loan receivables.
 - Corporate/Other. Adjusted EBITDA, net decreased \$7.4 million to a loss of \$119.4 million for the year ended December 31, 2015 due primarily to an increase in payroll and benefits.

Asset Quality

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

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

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

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

Net Charge-Offs. Our net charge-offs include the principal amount of losses from cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased credit cardholders, less recoveries and exclude

charged-off interest, fees and fraud losses. Charged-off interest and fees reduce finance charges, net while fraud losses are recorded as an expense. Credit card and loan receivables, including unpaid interest and fees, are charged-off in the month during which an account becomes 180 days contractually past due, except in the case of customer bankruptcies or death. Credit card and loan receivables, including unpaid interest and fees, associated with customer bankruptcies or death are charged-off in each month subsequent to 60 days after the receipt of notification of the bankruptcy or death, but in any case, not later than the 180-day contractual time frame.

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

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

Liquidity and Capital Resources

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

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

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

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

Cash Flow Activity

Operating Activities. We generated cash flow from operating activities of \$2.1 billion and \$1.7 billion for the years ended December 31, 2016 and 2015, respectively. The increase in operating cash flows of \$382.6 million during the year ended December 31, 2016 as compared to the prior year was due to non-cash charges to income, such as the increase in the provision for loan loss and impact of expiry, offset in part by lower net income and an increase in cash used in working capital, due primarily to decreases in deferred revenue and increases in trade receivables during the current year. Additionally, the settlement of the contingent liability associated with the BrandLoyalty acquisition in February 2015 negatively impacted our operating cash flow in the prior year.

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

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

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

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

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

Debt

Long-term and Other Debt

During the year ended December 31, 2016, we extended the maturity of certain term loans with principal amount of \$200.0 million from September 2016 to September 2017. In addition, we exercised the accordion feature to borrow incremental term loans in the aggregate principal amount of \$277.5 million and increased the commitments under our revolving line of credit by \$22.5 million. These borrowings bear interest at the same rates as, and are generally subject to the same terms as, the credit facility.

As of December 31, 2016, we had \$235.0 million outstanding under our revolving line of credit and total availability of \$1.1 billion. Our total leverage ratio, as defined in our credit agreement, was 2.7 to 1 at December 31, 2016, as

compared to the maximum covenant ratio of 3.5 to 1.

In June 2016, BrandLoyalty amended its credit agreement. The BrandLoyalty credit agreement, as amended, provides for €190.0 million in term loans and extends the maturity of the €62.5 million committed revolving line of credit and €62.5 million uncommitted revolving line of credit. The credit agreement matures on June 10, 2020, with reductions in commitments for each of the revolving lines of credit of €25.0 million in August 2018. As of December 31, 2016, the amount outstanding under the revolving lines of credit is €66.9 million (\$70.3 million).

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

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

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

Deposits

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

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

Comenity Bank and Comenity Capital Bank issue certificates of deposit in denominations of at least \$100,000 and \$1,000, respectively, in various maturities ranging between January 2017 and November 2021 and with effective annual interest rates ranging from 0.60% to 2.80%. As of December 31, 2016, we had \$5.9 billion of certificates of deposit outstanding. Certificate of deposit borrowings are subject to regulatory capital requirements.

Securitization Program

We sell a majority of the credit card receivables originated by Comenity Bank to WFN Credit Company, LLC, which in turn sells them to World Financial Network Credit Card Master Trust, or Master Trust I, World Financial Network Credit Card Master Note Trust and World Financial Network Credit Card Master Trust III, or Master Trust III, or collectively, the WFN Trusts, as part of our credit card securitization program, which has been in existence since January 1996. We also sell our credit card receivables originated by Comenity Capital Bank to World Financial Capital Credit Company, LLC, which in turn sells them to World Financial Capital Master Note Trust, or the WFC Trust. These securitization programs are a principal vehicle through which we finance Comenity Bank’s and Comenity Capital Bank’s credit card receivables. Historically, we have used both public and private term asset-backed securitization transactions as well as private conduit facilities as sources of funding for our credit card receivables. Private conduit facilities have been used to accommodate seasonality needs and to bridge to completion of asset-backed securitization transactions.

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

As of December 31, 2016, the WFN Trusts and the WFC Trust had approximately \$11.4 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits, additional receivables and subordinated classes. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and the WFC Trust and by the performance of the credit card receivables in these credit card securitization trusts. We have secured and continue to secure the necessary commitments to fund our portfolio of securitized credit card receivables originated by Comenity Bank and Comenity Capital Bank. However, certain of these commitments are short-term in nature and subject to renewal. There is not a guarantee that these funding sources, when they mature, will be renewed on similar terms or at all as they are dependent on the asset-backed securitization markets at the time.

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

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

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

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

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

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

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

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

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

Stock Repurchase Programs

On January 1, 2016, our Board of Directors authorized a stock repurchase program to acquire up to \$500.0 million of our outstanding common stock from January 1, 2016 through December 31, 2016. On February 15, 2016, our Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2016 to acquire an additional \$500.0 million of our outstanding common stock through December 31, 2016, for a total authorization of \$1.0 billion. During the year ended December 31, 2016, we repurchased approximately 3.8 million shares of our common stock for an aggregate amount of \$805.7 million.

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

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

Dividends

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

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

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Contractual Obligations

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

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

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

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

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

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

Inflation and Seasonality

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

Legislative and Regulatory Matters

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

Quantitative measures established by regulations to ensure capital adequacy require Comenity Bank and Comenity Capital Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Tier 1 and total capital to risk weighted assets and of Tier 1 capital to average assets. Under the regulations, a “well capitalized” institution must have a Common Equity Tier 1 capital ratio of at least 6.5%, a Tier 1 capital ratio of at least 8%, a total capital ratio of at least

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

On September 8, 2015, Comenity Bank and Comenity Capital Bank each entered into a consent order with the FDIC in settlement of the FDIC’s review of Comenity Bank and Comenity Capital Bank’s practices regarding the marketing, promotion and sale of certain add-on products. Comenity Bank and Comenity Capital Bank entered into the consent orders for the purpose of resolving these matters without admitting or denying any violations of law or regulation set forth in the orders.

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

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

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

Discussion of Critical Accounting Estimates

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

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Allowance for Loan Loss.

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

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

Revenue Recognition.

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

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

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

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

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

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

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

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amount of redemption revenue recognized is subject to our estimate of breakage, or those AIR MILES reward miles that we estimate will remain unredeemed by the collector base. Additionally, the estimated life of an AIR MILES reward mile impacts the timing of revenue recognition.

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

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

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

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

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

Goodwill.

We test goodwill for impairment annually, as of July 31, or when events and circumstances change that would indicate the carrying amount may not be recoverable. In evaluating goodwill for impairment, we must estimate the fair value of the reporting units to which the goodwill relates. As of December 31, 2016, we had goodwill of

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approximately \$3.8 billion. The following table presents the December 31, 2016 goodwill by reporting unit as well as the percentage by which fair value of the reporting units exceeded carrying value as of the 2016 annual impairment test:

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

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

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

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

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

Income Taxes.

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

Recent Accounting Pronouncements

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

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

Market Risk

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

Interest Rate Risk. Interest rate risk affects us directly in our borrowing activities. Our interest expense, net was \$428.5 million for 2016. To manage our risk from market interest rates, we actively monitor interest rates and other interest sensitive components to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. To achieve this objective, we manage our exposure to fluctuations in market interest rates through the use of fixed-rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. In addition, we may enter into derivative instruments such as interest rate swaps and interest rate caps to mitigate our

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interest rate risk on related financial instruments or to lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes.

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

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

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

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A.Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2016, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2016, our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

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

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

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

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

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

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

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

Item 11. Executive Compensation.

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

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

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

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

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

Item 14. Principal Accounting Fees and Services.

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

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

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

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

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
3.1	(a)	Third Amended and Restated Certificate of Incorporation of the Registrant.	8-K	3.2	6/10/16
3.2	(a)	Fifth Amended and Restated Bylaws of the Registrant.	8-K	3.1	2/1/16
4	(a)	Specimen Certificate for shares of Common Stock of the Registrant.	10-Q	4	8/8/03
+10.1	(a)	Alliance Data Systems Corporation Amended and Restated Executive Deferred Compensation Plan effective January 1, 2008.	10-Q	10.1	5/11/09
+10.2	(a)	Alliance Data Systems Corporation 2005 Long-Term Incentive Plan.	DEF 14A	A	4/29/05
+10.3	(a)	Amendment Number One to the Alliance Data Systems Corporation 2005 Long Term Incentive Plan, dated as of September 24, 2009.	10-Q	10.8	11/9/09
+10.4	(a)	Alliance Data Systems Corporation 2010 Omnibus Incentive Plan.	DEF 14A	A	4/20/10
+10.5	(a)	Alliance Data Systems Corporation 2015 Omnibus Incentive Plan.	DEF 14A	B	4/20/15
+10.6	(a)	Form of Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan.	8-K	10.1	2/20/14
+10.7	(a)		8-K	10.2	2/19/15

Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2015 grant).

+10.8	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2016 grant).	8-K	10.2	2/17/16
+10.9	(a)	Form of Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan.	8-K	10.1	2/17/17
+10.10	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2017 grant EBT).	8-K	10.2	2/17/17
+10.11	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2017 grant rTSR).	8-K	10.3	2/17/17

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

Canada Inc. (assigned by Air Miles International Holdings N.V. to Air Miles International Trading B.V. by a novation agreement dated as of July 18, 2001).

10.26	(a)	Amended and Restated License to Use and Exploit the Air Miles Scheme in Canada, dated July 24, 1998, by and between Air Miles International Trading B.V. and Loyalty Management Group Canada Inc.	S-1	10.44	1/13/00
10.27	(b)	Second Amended and Restated Pooling and Servicing Agreement, dated as of January 17, 1996 as amended and restated as of	8-K	4.6	8/31/01
	(c)	September 17, 1999 and August 1, 2001, by and among WFN Credit Company, LLC, World Financial Network National Bank, and BNY Midwest Trust Company.			

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

	(c)	Financial Network Bank, WFN Credit Company, LLC, and The Bank of New York Mellon Trust Company, N.A.			
	(d)				
10.37	(b)	Ninth Amendment to Second Amended and Restated Pooling and Servicing Agreement, dated as of December 1, 2016, among	8-K	4.1	12/2/16
	(c)	Comenity Bank, WFN Credit Company, LLC, and MUFG Union Bank, N.A.			
	(d)				
10.38	(b)	Collateral Series Supplement to Second Amended and Restated Pooling and Servicing Agreement, dated as of August 21, 2001,	8-K	4.7	8/31/01
	(c)	among WFN Credit Company, LLC, World Financial Network National Bank and BNY Midwest Trust Company.			

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

	(d)				
10.47	(b)	Seventh Amendment to Transfer and Servicing Agreement, dated as of June 28, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust.	8-K	4.4	6/30/10
	(d)				
10.48	(b)	Supplemental Agreement to Transfer and Servicing Agreement, dated as of August 9, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust.	8-K	4.3	8/12/10
	(d)				
10.49	(b)	Eighth Amendment to Transfer and Servicing Agreement, dated as of June 15, 2011, among World Financial Network National Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust.	8-K	4.1	6/15/11
	(c)				
	(d)				
10.50	(b)	Ninth Amendment to Transfer and Servicing Agreement, dated as of November 9, 2011, among World Financial Network Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust.	8-K	4.3	11/14/11
	(c)				
	(d)				

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Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
10.51	(b) (c) (d)	Tenth Amendment to the Transfer and Servicing Agreement, dated as of July 6, 2016, among Comenity Bank, WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust.	8-K	4.4	7/8/16
10.52	(b) (c)	Receivables Purchase Agreement, dated as of August 1, 2001, between World Financial Network National Bank and WFN Credit Company, LLC.	8-K	4.8	8/31/01
10.53	(b) (d)	First Amendment to Receivables Purchase Agreement, dated as of June 28, 2010, between World Financial Network National Bank and WFN Credit Company, LLC.	8-K	4.3	6/30/10
10.54	(b) (d)	Supplemental Agreement to Receivables Purchase Agreement, dated as of August 9, 2010, between World Financial Network National Bank and WFN Credit Company, LLC.	8-K	4.2	8/12/10
10.55	(b) (c) (d)	Second Amendment to Receivables Purchase Agreement, dated as of November 9, 2011, between World Financial Network Bank and WFN Credit Company, LLC.	8-K	4.2	11/14/11
10.56	(b) (c) (d)	Third Amendment to Receivables Purchase Agreement, dated as of July 6, 2016, between Comenity Bank and WFN Credit Company, LLC.	8-K	4.2	7/8/16
10.57	(b) (c)	Master Indenture, dated as of August 1, 2001, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company.	8-K	4.1	8/31/01
10.58	(b) (c)	Supplemental Indenture No. 1, dated as of August 13, 2003, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company.	8-K	4.2	8/28/03
10.59	(b) (d)	Supplemental Indenture No. 2, dated as of June 13, 2007, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company.	8-K	4.3	6/15/07
10.60	(b) (d)	Supplemental Indenture No. 3, dated as of May 27, 2008, between World Financial Network Credit Card Master Note Trust and The Bank of New York Trust Company, N.A.	8-K	4.2	5/29/08

10.61	(b)	Supplemental Indenture No. 4, dated as of June 28, 2010, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A..	8-K	4.1	6/30/10
	(d)				
10.62	(b)	Supplemental Indenture No. 5, dated as of February 20, 2013, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.2	2/22/13
	(c)				
	(d)				
10.63	(b)	Supplemental Indenture No. 6 to Master Indenture, dated as of July 6, 2016, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.3	7/8/16
	(c)				
	(d)				

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

	(d)				
10.72	(b)	Series 2015-A Indenture Supplement, dated as of April 17, 2015,	8-K	4.1	4/21/15
	(c)	between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.			
	(d)				
10.73	(b)	Series 2015-B Indenture Supplement, dated as of August 21, 2015,	8-K	4.1	8/25/15
	(c)	between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.			
	(d)				
10.74	(b)	Series 2015-C Indenture Supplement, dated as of October 27, 2015,	8-K	4.1	10/29/15
	(c)	between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.			
	(d)				
10.75	(b)	Series 2016-A Indenture Supplement, dated as of July 27, 2016,	8-K	4.1	7/28/16
	(c)	between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.			
	(d)				
10.76	(b)	Series 2016-B Indenture Supplement, dated as of September 22, 2016,	8-K	4.1	9/23/16
	(c)	between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.			
	(d)				

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Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
10.77	(b) (c) (d)	Series 2016-C Indenture Supplement, dated as of November 3, 2016, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	11/4/16
10.78	(b) (c)	Amended and Restated Trust Agreement, dated as of August 1, 2001, between WFN Credit Company, LLC and Chase Manhattan Bank USA, National Association.	8-K	4.4	8/31/01
10.79	(b) (c)	Administration Agreement, dated as of August 1, 2001, between World Financial Network Credit Card Master Note Trust and World Financial Network National Bank.	8-K	4.5	8/31/01
10.80	(b) (d)	First Amendment to Administration Agreement, dated as of July 31, 2009, between World Financial Network Credit Card Master Note Trust and World Financial Network National Bank.	8-K	4.1	7/31/09
10.81	(b) (c) (d)	Second Amended and Restated Service Agreement, dated as of May 10, 2016, between Comenity Servicing LLC and Comenity Bank.	8-K	99.1	5/16/16
10.82	(b) (c) (d)	Asset Representations Review Agreement, dated as of July 6, 2016, among Comenity Bank, WFN Credit Company, LLC, World Financial Network Credit Card Master Note Trust and FTI Consulting, Inc.	8-K	10.1	7/8/16
10.83	(a)	Receivables Purchase Agreement, dated as of September 28, 2001, between World Financial Network National Bank and WFN Credit Company, LLC.	10-Q	10.5	11/7/08
10.84	(a)	First Amendment to Receivables Purchase Agreement, dated as of June 24, 2008, between World Financial Network National Bank and WFN Credit Company, LLC..	10-K	10.94	3/2/09
10.85	(a)	Second Amendment to Receivables Purchase Agreement, dated as of March 30, 2010, between World Financial Network National Bank and WFN Credit Company, LLC..	10-K	10.127	2/28/11
10.86	(a)		10-K	10.128	2/28/11

Supplemental Agreement to Receivables Purchase Agreement, dated as of August 9, 2010, between World Financial Network National Bank and WFN Credit Company, LLC.

10.87	(a)	Third Amendment to Receivables Purchase Agreement, dated as of September 30, 2011, between World Financial Network Bank and WFN Credit Company, LLC.	10-Q	10.4	11/7/11
10.88	(a)	World Financial Network Credit Card Master Trust III Amended and Restated Pooling and Servicing Agreement, dated as of September 28, 2001, among WFN Credit Company, LLC, World Financial Network National Bank, and The Chase Manhattan Bank, USA, National Association.	10-Q	10.6	11/7/08

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

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Transfer and Servicing Agreement, dated as of September 29, 2008, among World Financial Capital Credit Company, LLC, World Financial Capital Bank and World Financial Capital Master Note Trust.

10.99	(a)	Amendment No. 1 to Transfer and Servicing Agreement, dated as of June 4, 2010, among World Financial Capital Credit Company, LLC, World Financial Capital Bank and World Financial Capital Master Note Trust.	10-Q	10.12	8/9/10
10.100	(a)	Second Amended and Restated Series 2009-VFC1 Supplement, dated as of September 25, 2013, among WFN Credit Company, LLC, Comenity Bank and Deutsche Bank Trust Company Americas.	10-Q	10.4	11/5/13

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Exhibit No.	Filer	Description	Incorporated by Reference Filing		
			Form	Exhibit	Date
10.101	(a)	First Amendment to Second Amended and Restated Series 2009-VFC1 Supplement, dated as of May 1, 2015, among Comenity Bank, WFN Credit Company, LLC, and Deutsche Bank Trust Company Americas.	10-Q	10.5	5/7/15
*10.102	(a)	Fifth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of November 1, 2016, between World Financial Capital Master Note Trust and Deutsche Bank Trust Company Americas.			
10.103	(a)	Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of February 28, 2014, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	10-K	10.129	2/27/15
10.104	(a)	Amendment and Restatement Agreement, dated as of June 9, 2016, including Amended and Restated Facilities Agreement, by and among Brand Loyalty Group B.V. and certain subsidiaries parties thereto, as borrowers and guarantors, Deutsche Bank AG, Amsterdam Branch (as Arranger), ING Bank N.V. (as Arranger, Agent and Security Agent), Coöperatieve Rabobank U.A. (as Arranger) and NIBC Bank N.V. (as Arranger).	8-K	10.1	6/15/16
10.105	(a)	Credit Agreement, dated as of July 10, 2013, by and among Alliance Data Systems Corporation, as borrower, and certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, N.A., as Administrative Agent, and various other agents and lenders.	8-K	10.1	7/16/13
10.106	(a)	First Amendment to Credit Agreement, dated as of December 8, 2014, by and among Alliance Data Systems Corporation, as borrower, and certain of its subsidiaries as guarantors, Wells Fargo Bank, N.A., as Administrative Agent and Letter of Credit Issuer, and various other lenders.	8-K	10.1	12/10/14
10.107	(a)	Second Amendment to Credit Agreement, dated as of September 25, 2015, by and among Alliance Data Systems Corporation, as borrower, and certain of its subsidiaries as guarantors, Wells Fargo Bank, N.A., as Administrative Agent and Letter of Credit Issuer, and various other lenders.	8-K	10.1	9/29/15
10.108	(a)	Incremental Term Loan Extension Request, dated as of April 15, 2016, by and among Alliance Data Systems Corporation, Wells Fargo Bank, N.A., as Administrative Agent, and Bank of America, N.A.	8-K	10.1	4/21/16
10.109	(a)		8-K	4.1	4/2/12

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Indenture, dated March 29, 2012, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as Trustee (including the form of the Company's 6.375% Senior Note due April 1, 2020).

10.110	(a)	Indenture, dated November 20, 2012, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as Trustee (including the form of the Company's 5.250% Senior Note due December 1, 2017).	8-K	4.1	11/27/12
10.111	(a)	Indenture, dated July 29, 2014, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as trustee (including the form of the Company's 5.375% Senior Note due August 1, 2022).	8-K	4.1	7/30/14

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

*101.LAB (a) XBRL Taxonomy Extension Label Linkbase Document

*101.PRE (a) XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

+ Management contract, compensatory plan or arrangement

(a) Alliance Data Systems Corporation

(b) WFN Credit Company

(c) World Financial Network Credit Card Master Trust

(d) World Financial Network Credit Card Master Note Trust

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Alliance Data Systems Corporation

Plano, Texas

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

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

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

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

/s/ Deloitte & Touche LLP

Dallas, Texas

February 27, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Alliance Data Systems Corporation

Plano, Texas

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

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or

detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

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

/s/ Deloitte & Touche LLP

Dallas, Texas

February 27, 2017

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ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2016	2015
	(In millions, except per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 1,859.2	\$ 1,168.0
Trade receivables, less allowance for doubtful accounts (\$4.5 and \$4.0 at December 31, 2016 and 2015, respectively)	797.2	706.5
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	11,437.1	10,592.4
Other credit card and loan receivables	5,106.8	3,207.1
Total credit card and loan receivables	16,543.9	13,799.5
Allowance for loan loss	(948.0)	(741.6)
Credit card and loan receivables, net	15,595.9	13,057.9
Credit card and loan receivables held for sale	417.3	95.5
Deferred tax asset, net	—	288.1
Inventories, net	271.3	228.0
Other current assets	324.0	249.8
Redemption settlement assets, restricted	324.4	456.6
Total current assets	19,589.3	16,250.4
Property and equipment, net	586.0	576.7
Deferred tax asset, net	20.1	0.6
Intangible assets, net	1,003.3	1,203.7
Goodwill	3,800.7	3,814.1
Other non-current assets	514.7	504.4
Total assets	\$ 25,514.1	\$ 22,349.9
LIABILITIES AND EQUITY		
Accounts payable	\$ 568.3	\$ 442.4
Accrued expenses	346.8	566.5
Current portion of deposits	4,673.0	2,980.3
Current portion of non-recourse borrowings of consolidated securitization entities	1,639.0	1,049.3
Current portion of long-term and other debt	814.5	369.4
Other current liabilities	399.8	294.5
Deferred revenue	788.1	699.0
Deferred tax liability, net	—	1.7
Total current liabilities	9,229.5	6,403.1
Deferred revenue	143.4	145.9
Deferred tax liability, net	334.8	631.5
Deposits	3,718.9	2,625.6
Non-recourse borrowings of consolidated securitization entities	5,316.4	5,433.4
Long-term and other debt	4,786.9	4,648.0
Other liabilities	326.0	285.0

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Total liabilities	23,855.9	20,172.5
Commitments and contingencies (Note 14)		
Redeemable non-controlling interest	—	167.4
Stockholders' equity:		
Common stock, \$0.01 par value; authorized, 200.0 shares; issued, 112.5 shares and 112.1 shares at December 31, 2016 and 2015, respectively	1.1	1.1
Additional paid-in capital	3,046.1	2,981.1
Treasury stock, at cost, 55.1 shares and 51.3 shares at December 31, 2016 and 2015, respectively	(4,733.1)	(3,927.4)
Retained earnings	3,494.8	3,092.5
Accumulated other comprehensive loss	(150.7)	(137.3)
Total stockholders' equity	1,658.2	2,010.0
Total liabilities and equity	\$ 25,514.1	\$ 22,349.9

See accompanying notes to consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

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

See accompanying notes to consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes to consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

interest							
Other comprehensive							
loss	—	—	—	—	—	(13.4)	(13.4)
Stock-based							
compensation	—	—	76.5	—	—	—	76.5
Repurchases of							
common stock	—	—	—	(805.7)	—	—	(805.7)
Dividends	—	—	—	—	(30.0)	—	(30.0)
Other	0.4	—	(11.5)	—	—	—	(11.5)
December 31, 2016	112.5	\$ 1.1	\$ 3,046.1	\$ (4,733.1)	\$ 3,494.8	\$ (150.7)	\$ 1,658.2

See accompanying notes to consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2016	2015	2014
	(In millions)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 517.6	\$ 605.4	\$ 516.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	512.1	492.2	313.1
Deferred income taxes	(30.8)	(121.3)	(13.4)
Provision for loan loss	940.5	668.2	425.2
Non-cash stock compensation	76.5	91.3	72.5
Amortization of deferred financing costs	34.7	31.5	24.0
Change in breakage rate estimate	284.5	—	—
Earn-out obligation	—	—	105.9
Change in other operating assets and liabilities, net of acquisitions:			
Change in deferred revenue	(222.7)	(6.3)	(27.8)
Change in trade receivables	(95.6)	8.3	(156.0)
Change in accounts payable and accrued expenses	(35.6)	67.2	125.9
Change in other assets	(171.0)	(113.0)	(128.7)
Change in other liabilities	138.5	37.1	89.9
Change in contingent liability	—	(99.6)	—
Originations of credit card and loan receivables held for sale	(7,366.3)	(6,579.9)	(5,271.7)
Sales of credit card and loan receivables held for sale	7,362.8	6,567.1	5,284.9
Other	143.2	57.6	(15.7)
Net cash provided by operating activities	2,088.4	1,705.8	1,344.2
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in redemption settlement assets	148.7	(22.4)	(59.7)
Change in cash collateral, restricted	7.3	15.8	12.7
Change in credit card and loan receivables	(3,505.4)	(2,872.0)	(2,260.7)
Purchase of credit card portfolios	(1,008.1)	(243.2)	(953.2)
Proceeds from sale of credit card portfolios	486.0	26.9	—
Payments for acquired businesses, net of cash	—	(45.4)	(1,195.8)
Capital expenditures	(207.0)	(191.7)	(158.7)
Purchases of other investments	(18.4)	(38.8)	(125.7)
Maturities/sales of other investments	39.2	11.8	7.2
Other	(5.3)	(3.6)	(3.2)
Net cash used in investing activities	(4,063.0)	(3,362.6)	(4,737.1)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under debt agreements	3,823.7	3,087.4	3,431.1
Repayments of borrowings	(3,222.8)	(2,228.3)	(1,835.2)
Proceeds from convertible note hedge counterparties	—	—	1,519.8
Settlement of convertible note borrowings	—	—	(1,864.8)

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Payment of acquisition-related contingent consideration	—	(205.9)	—
Acquisition of non-controlling interest	(360.7)	(87.4)	—
Issuances of deposits	4,866.8	3,252.2	3,820.9
Repayments of deposits	(2,076.9)	(2,403.4)	(1,863.7)
Non-recourse borrowings of consolidated securitization entities	4,404.4	4,675.0	2,670.0
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(3,930.0)	(3,373.8)	(2,070.0)
Payment of deferred financing costs	(33.9)	(29.5)	(55.1)
Excess tax benefits from stock-based compensation	4.1	20.2	34.1
Proceeds from issuance of common stock	18.4	18.0	17.1
Dividends paid	(30.0)	—	—
Purchase of treasury shares	(798.8)	(951.6)	(286.6)
Other	(0.9)	—	(1.5)
Net cash provided by financing activities	2,663.4	1,772.9	3,516.1
Effect of exchange rate changes on cash and cash equivalents	2.4	(25.3)	(15.8)
Change in cash and cash equivalents	691.2	90.8	107.4
Cash and cash equivalents at beginning of year	1,168.0	1,077.2	969.8
Cash and cash equivalents at end of year	\$ 1,859.2	\$ 1,168.0	\$ 1,077.2
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	\$ 405.1	\$ 311.4	\$ 221.2
Income taxes paid, net	\$ 466.6	\$ 304.2	\$ 256.0

See accompanying notes to consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

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

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

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

realized gain or loss reflected in earnings during the period of sale.

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

In estimating the allowance for principal loan losses, management utilizes a migration analysis of delinquent and current credit card and loan receivables. Migration analysis is a technique used to estimate the likelihood that a credit card or loan receivable will progress through the various stages of delinquency and to charge-off. The allowance is maintained through an adjustment to the provision for loan loss. Charge-offs of principal amounts, net of recoveries are deducted from the allowance.

In estimating the allowance for uncollectible unpaid interest and fees, the Company utilizes historical charge-off trends, analyzing actual charge-offs for the prior three months. The allowance is maintained through an adjustment to finance charges, net.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

In evaluating the allowance for loan loss for both principal and unpaid interest and fees, management also considers factors that may impact loan loss experience, including seasoning and growth, account collection strategies, economic conditions, bankruptcy filings, policy changes, payment rates and forecasting uncertainties.

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

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

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

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

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

ranges from one to five years.

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

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

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

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

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

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

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

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

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

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

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

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

Redemption revenue is recognized as the AIR MILES reward miles are redeemed; service revenue is recognized over the estimated life of an AIR MILES reward mile, or 42 months. The brand element is recognized as AIR MILES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

reward miles are issued. Revenue associated with both the service and brand element is included in transaction revenue in the Company's consolidated statements of income.

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

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

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

Finance charges, net—Finance charges, net represents revenue earned on customer accounts serviced by the Company, and is recognized in the period in which it is earned. The Company recognizes earned finance charges, interest income and fees on credit card and loan receivables in accordance with the contractual provisions of the credit arrangements. As discussed in Note 4, "Credit Card and Loan Receivables," interest and fees continue to accrue on all credit card accounts beyond 90 days, except in limited circumstances, until the credit card account balance and all related interest and other fees are paid or charged-off, typically at 180 days delinquent. Charge-offs for unpaid interest and fees as well as any adjustments to the allowance associated with unpaid interest and fees are recorded as a reduction to finance charges, net. Pursuant to ASC 310-20, "Receivables - Nonrefundable Fees and Other Costs," direct loan origination costs on credit card and loan receivables are deferred and amortized on a straight-line basis over a one-year period and recorded as a reduction to finance charges, net. As of December 31, 2016 and 2015, the remaining unamortized deferred costs related to loan origination were \$47.0 million and \$44.5 million, respectively.

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

the licensing of data for which the Company is obligated to provide future updates is recognized on a straight-line basis over the license term.

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

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

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

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

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

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

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

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

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

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

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

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

Stock Compensation Expense—The Company accounts for stock-based compensation in accordance with ASC 718, “Compensation – Stock Compensation.” Under the fair value recognition provisions, stock-based

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

compensation expense is measured at the grant date based on the fair value of the award and is recognized ratably over the requisite service period.

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

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Companies may adopt ASU 2014-09 using a full retrospective approach or report the cumulative effect as of the date of adoption. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and to permit early adoption of the standard, but not before the original effective date of December 15, 2016. Management is currently in the process of evaluating ASU 2014-09, including the expected impact on the Company’s business processes, systems and controls, and potential differences in the timing and/or method of revenue recognition for the Company’s contracts. Management has reviewed representative samples of contracts and other forms of agreements with the Company’s customers in both U.S. and international locations and is evaluating the provisions contained therein and applied the five-step model specified by the new guidance. That five-step model includes: (1) determination of whether a contract, an agreement between two or more parties that creates legally enforceable rights and obligations, exists; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when (or as) the performance obligation is satisfied. The Company has not yet determined the impact of this standard on its financial statements or whether it will adopt on a prospective or retrospective basis.

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

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 requires that equity investments be measured at fair value with changes in fair value recognized in net income. For equity investments without readily determinable fair values, entities have the option to

either measure these investments at fair value or at cost adjusted for changes in observable prices minus impairment. Additionally, ASU 2016-01 requires entities that elect the fair value option for financial liabilities to recognize changes in fair value related to instrument-specific credit risk in other comprehensive income. Finally, entities must assess valuation allowances for deferred tax assets related to available-for-sale debt securities in combination with their other deferred tax assets. ASU 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the impact that adoption of ASU 2016-01 will have on its consolidated financial statements.

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

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In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 simplifies certain aspects of share-based transactions, including income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification in the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company does not expect the adoption of this new guidance in fiscal 2017 to materially impact its reported provision for income taxes and cash flows from operating activities; however, the impact is dependent upon the underlying vesting or exercise activity and related future stock prices. Further, the Company will continue to estimate forfeitures at each grant date.

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

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

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

Recently Adopted Accounting Standards

In February 2015, the FASB issued ASU 2015-02, “Amendments to the Consolidation Analysis,” which amended the consolidation requirements in ASC 810, “Consolidation.” ASU 2015-02 makes targeted amendments to the current consolidation guidance for VIEs. The Company adopted this standard as of January 1, 2016 with modified retrospective application. The adoption of this standard did not have an impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Subsequently, in August 2015, the FASB issued ASU 2015-15, "Imputation of Interest," which adds SEC staff guidance on the presentation of debt issuance costs related to line-of-credit arrangements, allowing for the deferral and presentation of debt issuance costs as an asset and subsequent amortization of the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company maintained the deferral and presentation of these line-of-credit debt issuance costs as an asset. The Company adopted this standard as of January 1, 2016. Under ASU 2015-03 and ASU 2015-15, unamortized debt issuance costs of \$72.0 million were reclassified from other non-current assets to a reduction of debt as of December 31, 2015 in the consolidated balance sheets.

In April 2015, the FASB issued ASU 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." ASU 2015-05 provides guidance about whether a cloud computing arrangement includes a software license. The Company adopted this standard as of January 1, 2016 with prospective application. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes.” ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The Company’s prospective adoption of this standard resulted in a reduction in current deferred tax assets of \$288.1 million, a reduction in current deferred tax liabilities of \$1.7 million, an increase in non-current deferred tax assets of \$0.2 million and a reduction in non-current deferred tax liabilities of \$286.2 million as of January 1, 2016. Prior period amounts were not adjusted.

3. ACQUISITIONS

2015 Acquisitions:

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

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

2014 Acquisitions:

Brand Loyalty Group B.V.

On January 2, 2014, the Company acquired a 60% ownership interest in BrandLoyalty Group B.V. (“BrandLoyalty”), a Netherlands-based, data-driven loyalty marketer. BrandLoyalty designs, organizes, implements and evaluates innovative and tailor-made loyalty programs for food retailers worldwide. The acquisition expanded the Company’s

presence across Europe, Asia and Latin America. The initial cash consideration was approximately \$259.5 million in addition to the assumption of debt. The goodwill resulting from the acquisition was not deductible for tax purposes. The results of BrandLoyalty have been included since the date of acquisition and are reflected in the Company's LoyaltyOne segment.

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

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

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

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

their 10% ownership interest for the respective year.

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

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

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

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

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Conversant, Inc.

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

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

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