

ALLIANCE DATA SYSTEMS CORP

Form 10-Q

November 07, 2016

Index

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from to

Commission File Number: 001-15749

ALLIANCE DATA SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

31-1429215

(I.R.S. Employer Identification No.)

7500 Dallas Parkway, Suite 700

Plano, Texas 75024

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(Address of principal executive office, including zip code)

(214) 494-3000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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 October 26, 2016, 57,759,199 shares of common stock were outstanding.

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ALLIANCE DATA SYSTEMS CORPORATION

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PART I

Item 1. Financial Statements.

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2016	December 31, 2015
	(In millions, except per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 1,500.5	\$ 1,168.0
Trade receivables, less allowance for doubtful accounts (\$7.3 and \$4.0 at September 30, 2016 and December 31, 2015, respectively)	687.0	706.5
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	9,928.1	10,592.4
Other credit card and loan receivables	4,687.7	3,207.1
Total credit card and loan receivables	14,615.8	13,799.5
Allowance for loan loss	(874.4)	(741.6)
Credit card and loan receivables, net	13,741.4	13,057.9
Credit card and loan receivables held for sale	525.1	95.5
Deferred tax asset, net	—	288.1
Inventories, net	278.0	228.0
Other current assets	441.1	249.8
Redemption settlement assets, restricted	428.7	456.6
Total current assets	17,601.8	16,250.4
Property and equipment, net	583.4	576.7
Deferred tax asset, net	4.6	0.6
Intangible assets, net	1,077.0	1,203.7
Goodwill	3,837.8	3,814.1
Other non-current assets	535.2	504.4
Total assets	\$ 23,639.8	\$ 22,349.9
LIABILITIES AND EQUITY		
Accounts payable	\$ 429.7	\$ 442.4
Accrued expenses	344.9	566.5
Current portion of deposits	3,911.6	2,980.3
Current portion of non-recourse borrowings of consolidated securitization entities	1,324.1	1,049.3
Current portion of long-term and other debt	421.7	369.4
Other current liabilities	379.4	294.5
Deferred revenue	628.8	699.0
Deferred tax liability, net	—	1.7
Total current liabilities	7,440.2	6,403.1
Deferred revenue	147.1	145.9
Deferred tax liability, net	294.9	631.5
Deposits	3,702.4	2,625.6
Non-recourse borrowings of consolidated securitization entities	4,575.2	5,433.4

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Long-term and other debt	5,404.3	4,648.0
Other liabilities	291.9	285.0
Total liabilities	21,856.0	20,172.5
Commitments and contingencies (Note 11)		
Redeemable non-controlling interest	—	167.4
Stockholders' equity:		
Common stock, \$0.01 par value; authorized, 200.0 shares; issued, 112.4 shares and 112.1 shares at September 30, 2016 and December 31, 2015, respectively	1.1	1.1
Additional paid-in capital	3,019.2	2,981.0
Treasury stock, at cost, 54.6 shares and 51.3 shares at September 30, 2016 and December 31, 2015, respectively	(4,620.1)	(3,927.3)
Retained earnings	3,514.2	3,092.5
Accumulated other comprehensive loss	(130.6)	(137.3)
Total stockholders' equity	1,783.8	2,010.0
Total liabilities and equity	\$ 23,639.8	\$ 22,349.9

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(In millions, except per share amounts)			
Revenues				
Transaction	\$ 72.4	\$ 83.1	\$ 223.8	\$ 263.2
Redemption	296.3	220.9	836.6	747.2
Finance charges, net	954.9	737.9	2,645.2	2,101.4
Marketing services	516.3	499.0	1,437.4	1,435.5
Other revenue	45.7	48.2	167.5	143.6
Total revenue	1,885.6	1,589.1	5,310.5	4,690.9
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	1,045.6	901.0	3,077.6	2,787.5
Provision for loan loss	251.3	171.7	651.0	461.9
General and administrative	41.0	40.9	111.4	112.0
Regulatory settlement	—	64.6	—	64.6
Depreciation and other amortization	42.6	36.5	123.5	105.0
Amortization of purchased intangibles	84.1	86.9	261.2	262.1
Total operating expenses	1,464.6	1,301.6	4,224.7	3,793.1
Operating income	421.0	287.5	1,085.8	897.8
Interest expense				
Securitization funding costs	31.1	23.1	91.5	71.5
Interest expense on deposits	22.6	13.7	60.0	37.1
Interest expense on long-term and other debt, net	54.6	45.3	159.3	132.2
Total interest expense, net	108.3	82.1	310.8	240.8
Income before income taxes	\$ 312.7	\$ 205.4	\$ 775.0	\$ 657.0
Provision for income taxes	105.2	75.0	268.0	231.7
Net income	\$ 207.5	\$ 130.4	\$ 507.0	\$ 425.3
Less: Net income attributable to non-controlling interest	—	2.0	1.8	3.0
Net income attributable to common stockholders	\$ 207.5	\$ 128.4	\$ 505.2	\$ 422.3
Net income attributable to common stockholders per share:				
Basic (Note 2)	\$ 3.56	\$ 2.09	\$ 7.15	\$ 6.55
Diluted (Note 2)	\$ 3.55	\$ 2.08	\$ 7.12	\$ 6.51
Weighted average shares:				
Basic (Note 2)	58.3	61.4	59.0	62.1
Diluted (Note 2)	58.4	61.8	59.2	62.6

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2015	2015	2015
	(In millions)			
Net income	\$ 207.5	\$ 130.4	\$ 507.0	\$ 425.3
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available-for-sale	0.2	1.1	5.3	(0.5)
Tax benefit (expense)	—	(0.7)	(1.4)	(0.6)
Unrealized gain (loss) on securities available-for-sale, net of tax	0.2	0.4	3.9	(1.1)
Unrealized gain (loss) on cash flow hedges	(0.8)	1.9	(2.6)	(1.9)
Tax benefit (expense)	0.2	(0.4)	0.7	0.5
Unrealized gain (loss) on cash flow hedges, net of tax	(0.6)	1.5	(1.9)	(1.4)
Unrealized loss on net investment hedge	(4.1)	—	(11.4)	—
Tax benefit (expense)	—	—	—	—
Unrealized loss on net investment hedge, net of tax	(4.1)	—	(11.4)	—
Foreign currency translation adjustments	5.1	4.6	16.1	(39.9)
Other comprehensive income (loss), net of tax	0.6	6.5	6.7	(42.4)
Total comprehensive income, net of tax	\$ 208.1	\$ 136.9	\$ 513.7	\$ 382.9
Less: Comprehensive income attributable to non-controlling interest	—	2.4	1.2	3.4
Comprehensive income attributable to common stockholders	\$ 208.1	\$ 134.5	\$ 512.5	\$ 379.5

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2016	2015
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 507.0	\$ 425.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	384.7	367.1
Deferred income taxes	(57.0)	(62.8)
Provision for loan loss	651.0	461.9
Non-cash stock compensation	59.5	73.3
Amortization of deferred financing costs	25.3	23.5
Change in deferred revenue	(114.1)	(34.2)
Change in contingent liability	—	(99.6)
Change in other operating assets and liabilities, net of acquisitions	(238.0)	(83.0)
Originations of credit card and loan receivables held for sale	(5,182.7)	(4,569.8)
Sales of credit card and loan receivables held for sale	5,186.6	4,556.3
Other	106.7	(26.8)
Net cash provided by operating activities	1,329.0	1,031.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	55.4	(16.4)
Change in cash collateral, restricted	2.3	18.0
Change in restricted cash	(126.8)	(0.4)
Change in credit card and loan receivables	(1,048.8)	(913.8)
Purchase of credit card portfolios	(903.4)	—
Proceeds from sale of credit card portfolios	5.9	26.9
Payments for acquired businesses, net of cash	—	(45.4)
Capital expenditures	(158.3)	(140.1)
Purchases of other investments	(13.6)	(38.8)
Maturities/sales of other investments	38.6	8.0
Other	(2.9)	(1.0)
Net cash used in investing activities	(2,151.6)	(1,103.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	3,086.5	2,426.4
Repayments of borrowings	(2,305.0)	(1,528.9)
Payment of acquisition-related contingent consideration	—	(205.9)
Acquisition of non-controlling interest	(360.7)	(87.4)
Issuances of deposits	3,727.5	2,191.9
Repayments of deposits	(1,714.4)	(1,743.0)
Non-recourse borrowings of consolidated securitization entities	2,567.5	2,570.0
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(3,150.0)	(2,788.8)
Payment of deferred financing costs	(20.7)	(16.4)
Purchase of treasury shares	(692.8)	(856.9)

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Other	12.7	31.8
Net cash provided by (used in) financing activities	1,150.6	(7.2)
Effect of exchange rate changes on cash and cash equivalents	4.5	(20.9)
Change in cash and cash equivalents	332.5	(99.9)
Cash and cash equivalents at beginning of period	1,168.0	1,077.2
Cash and cash equivalents at end of period	\$ 1,500.5	\$ 977.3
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 287.2	\$ 223.7
Income taxes paid, net	\$ 342.7	\$ 225.9
See accompanying notes to unaudited condensed consolidated financial statements.		

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation (“ADSC” or, including its consolidated subsidiaries and variable interest entities (“VIEs”), the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 25, 2016.

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

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

For purposes of comparability, certain prior period amounts have been reclassified to conform to the current year presentation in accordance with GAAP.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 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. The Company is evaluating the impact that adoption of ASU 2014-09 will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 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 No. 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.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

In February 2016, the FASB issued ASU No. 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.

In March 2016, the FASB issued ASU No. 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 is evaluating the impact that adoption of ASU 2016-09 will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 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 No. 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 is evaluating the impact that adoption of ASU 2016-15 will have on its consolidated financial statements.

Recently Adopted Accounting Standards

In February 2015, the FASB issued ASU No. 2015-02, “Amendments to the Consolidation Analysis,” which amended the consolidation requirements in Accounting Standards Codification (“ASC”) 810, “Consolidation.” ASU 2015-02 makes targeted amendments to the current consolidation guidance for VIEs. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015, with retrospective or modified retrospective application allowed. 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 No. 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. ASU 2015-03 is effective for interim and annual reporting periods beginning after December 15, 2015, with retrospective application required. The Company adopted this standard as of January 1, 2016 with retrospective application. 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.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

In April 2015, the FASB issued ASU No. 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 and is effective for interim and annual reporting periods beginning after December 15, 2015, with retrospective or prospective application allowed. 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.

In November 2015, the FASB issued ASU No. 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. ASU 2015-17 is effective for interim and annual periods beginning after December 15, 2016, with retrospective or prospective application allowed and early adoption permitted. 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 restated.

2. EARNINGS PER SHARE

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(In millions except per share amounts)			
Numerator:				
Net income attributable to common stockholders	\$ 207.5	\$ 128.4	\$ 505.2	\$ 422.3
Less: Accretion of redeemable non-controlling interest	—	—	83.5	15.2
Net income attributable to common stockholders after accretion of redeemable non-controlling interest	\$ 207.5	\$ 128.4	\$ 421.7	\$ 407.1
Denominator:				
Weighted average shares, basic	58.3	61.4	59.0	62.1
Weighted average effect of dilutive securities:				
Net effect of dilutive stock options and unvested restricted stock	0.1	0.4	0.2	0.5
Denominator for diluted calculation	58.4	61.8	59.2	62.6
Net income attributable to common stockholders per share:				
Basic	\$ 3.56	\$ 2.09	\$ 7.15	\$ 6.55
Diluted	\$ 3.55	\$ 2.08	\$ 7.12	\$ 6.51

See Note 12, “Redeemable Non-Controlling Interest,” for additional information regarding accretion of the redeemable non-controlling interest.

For each of the three and nine months ended September 30, 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 three months and nine months ended September 30, 2015.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

3. CREDIT CARD AND LOAN RECEIVABLES

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

	September 30, December 31, 2016 2015	
	(In millions)	
Principal receivables	\$ 13,898.1	\$ 13,196.4
Billed and accrued finance charges	651.5	537.8
Other credit card receivables	66.2	65.3
Total credit card and loan receivables	14,615.8	13,799.5
Less: Credit card receivables – restricted for securitization investors	9,928.1	10,592.4
Other credit card and loan receivables	\$ 4,687.7	\$ 3,207.1
Allowance for Loan Loss		

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

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

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

	Three Months Ended September 30, 2016 2015		Nine Months Ended September 30, 2016 2015	
	(In millions)			
Balance at beginning of period	\$ 782.6	\$ 623.3	\$ 741.6	\$ 570.2
Provision for loan loss	251.3	171.7	651.0	461.9
Allowance associated with credit card and loan receivables transferred to held for sale	—	—	(15.0)	—

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Change in estimate for uncollectible unpaid interest and fees	5.0	—	10.0	4.5
Recoveries	73.6	48.8	183.5	129.6
Principal charge-offs	(238.1)	(172.6)	(696.7)	(495.0)
Balance at end of period	\$ 874.4	\$ 671.2	\$ 874.4	\$ 671.2

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

The Company records the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. Actual charge-offs for unpaid interest and fees were \$126.4 million and \$88.9 million for the three months ended September 30, 2016 and 2015, respectively, and \$355.2 million and \$258.2 million for the nine months ended September 30, 2016 and 2015, respectively.

Delinquencies

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

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

	September 30, % of 2016	Total	December 31, 2015	% of Total
(In millions, except percentages)				
Receivables outstanding - principal	\$ 13,898.1	100.0 %	\$ 13,196.4	100.0 %
Principal receivables balances contractually delinquent:				
31 to 60 days	226.1	1.6 %	178.5	1.4 %
61 to 90 days	156.9	1.1	124.1	0.9
91 or more days	315.5	2.3	257.0	1.9
Total	\$ 698.5	5.0 %	\$ 559.6	4.2 %

Modified Credit Card Receivables

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

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

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The Company had \$204.4 million and \$169.2 million, respectively, as a recorded investment in impaired credit card receivables with an associated allowance for loan loss of \$46.3 million and \$36.7 million, respectively, as of September 30, 2016 and December 31, 2015. These modified credit card receivables represented less than 2% of the Company's total credit card receivables as of both September 30, 2016 and December 31, 2015.

The average recorded investment in impaired credit card receivables was \$196.1 million and \$149.2 million for the three months ended September 30, 2016 and 2015, respectively, and \$185.8 million and \$141.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Interest income on these modified credit card receivables is accounted for in the same manner as other accruing credit card receivables. Cash collections on these modified credit card receivables are allocated according to the same payment hierarchy methodology applied to credit card receivables that are not in such programs. The Company recognized \$4.8 million and \$3.8 million for the three months ended September 30, 2016 and 2015, respectively, and \$13.9 million and \$10.7 million for the nine months ended September 30, 2016 and 2015, respectively, in interest income associated with modified credit card receivables during the period that such credit card receivables were impaired.

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

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
Troubled debt restructurings – credit card receivables (Dollars in millions)	53,041	\$ 63.8	\$ 63.7	151,069	\$ 180.9	\$ 180.7
	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
Troubled debt restructurings – credit card receivables (Dollars in millions)	44,955	\$ 48.1	\$ 48.0	120,074	\$ 129.8	\$ 129.7

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

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

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Number of Restructurings (Dollars in millions)	Outstanding Balance	Number of Restructurings	Outstanding Balance
Troubled debt restructurings that subsequently defaulted – credit card receivables	20,212	\$ 21.4	55,940	\$ 58.0

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Age of Credit Card and Loan Receivable Accounts

The following tables set forth, as of September 30, 2016 and 2015, the number of active credit card and loan receivable accounts with balances and the related principal balances outstanding, based upon the age of the active credit card and loan receivable accounts from origination:

Age of Accounts Since Origination	September 30, 2016				Percentage of	
	Number of Active Accounts with Balances (In millions, except percentages)	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Principal Receivables Outstanding		
0-12 Months	6.2	28.6	% \$ 3,539.0	25.5	%	
13-24 Months	3.7	17.2	2,468.0	17.8		
25-36 Months	2.4	11.1	1,730.8	12.4		
37-48 Months	1.7	7.9	1,214.9	8.7		
49-60 Months	1.2	5.7	870.3	6.3		
Over 60 Months	6.3	29.5	4,075.1	29.3		
Total	21.5	100.0	% \$ 13,898.1	100.0	%	

Age of Accounts Since Origination	September 30, 2015				Percentage of	
	Number of Active Accounts with Balances (In millions, except percentages)	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Principal Receivables Outstanding		
0-12 Months	5.9	29.8	% \$ 2,994.1	26.5	%	
13-24 Months	3.0	15.3	1,783.8	15.8		
25-36 Months	2.1	10.6	1,266.6	11.2		
37-48 Months	1.5	7.6	917.3	8.1		
49-60 Months	1.1	5.6	676.0	6.0		
Over 60 Months	6.1	31.1	3,660.1	32.4		
Total	19.7	100.0	% \$ 11,297.9	100.0	%	

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Credit Quality

The Company uses proprietary scoring models developed specifically for the purpose of monitoring the Company's obligor credit quality. The proprietary scoring models are used as a tool in the underwriting process and for making credit decisions. The proprietary scoring models are based on historical data and require various assumptions about future performance. Information regarding customer performance is factored into these proprietary scoring models to determine the probability of an account becoming 91 or more days past due at any time within the next 12 months. Obligor credit quality is monitored at least monthly during the life of an account. The following table reflects composition of the Company's credit card and loan receivables by obligor credit quality as of September 30, 2016 and 2015:

	September 30, 2016		September 30, 2015			
	Total	Percentage of	Total	Percentage of		
Probability of an Account Becoming 91 or More Days Past Due or Becoming Charged-off (within the next 12 months)	Principal Receivables Outstanding	Principal Receivables Outstanding	Principal Receivables Outstanding	Principal Receivables Outstanding		
	(In millions, except percentages)					
No Score	\$ 220.6	1.6	%	\$ 176.4	1.6	%
27.1% and higher	1,072.5	7.7		607.9	5.4	
17.1% - 27.0%	691.1	5.0		944.3	8.3	
12.6% - 17.0%	741.9	5.3		1,140.0	10.1	
3.7% - 12.5%	5,097.3	36.7		4,413.4	39.1	
1.9% - 3.6%	3,006.3	21.6		2,405.3	21.3	
Lower than 1.9%	3,068.4	22.1		1,610.6	14.2	
Total	\$ 13,898.1	100.0	%	\$ 11,297.9	100.0	%

Transfer of Financial Assets

The Company originates loans under an agreement with one of its clients, and after origination, these loan receivables are sold to the client at par value plus accrued interest. These transfers qualify for sale treatment as they meet the conditions established in ASC 860-10, "Transfers and Servicing." Following the sale, the client owns the loan receivables, bears the risk of loss in the event of loan defaults and is responsible for all servicing functions related to the loan receivables. The loan receivables originated by the Company that have not yet been sold to the client were \$59.3 million and \$61.5 million at September 30, 2016 and December 31, 2015, respectively, and are included in credit card and loan receivables held for sale in the Company's unaudited condensed consolidated balance sheets and carried at the lower of cost or fair value. The carrying value of these loan receivables approximates fair value due to the short duration between the date of origination and sale. Originations and sales of these loan receivables held for sale are reflected as operating activities in the Company's unaudited condensed consolidated statements of cash flows.

Upon the client's purchase of the originated loan receivables, the Company is obligated to purchase a participating interest in a pool of loan receivables that includes the loan receivables originated by the Company. Such interest participates on a pro rata basis in the cash flows of the underlying pool of loan receivables, including principal

repayments, finance charges, losses and recoveries. The Company bears the risk of loss related to its participation interest in this pool.

During the nine months ended September 30, 2016 and 2015, the Company purchased \$259.2 million and \$227.7 million, respectively, of loan receivables under these agreements.

The total outstanding balance of these loan receivables was \$251.8 million and \$222.6 million as of September 30, 2016 and December 31, 2015, respectively, and was included in other credit card and loan receivables in the Company's unaudited condensed consolidated balance sheets.

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Portfolios Held for Sale

The Company has certain credit card portfolios held for sale, which are carried at the lower of cost or fair value, of \$465.8 million and \$34.0 million as of September 30, 2016 and December 31, 2015, respectively. In the first quarter of 2016, the Company transferred two credit card portfolios totaling approximately \$415.3 million into credit card and loan receivables held for sale. The portfolios were transferred at the net carrying amount, inclusive of the related reserves for losses of \$15.0 million, which approximates the lower of cost or fair value and which will be the measurement basis until the sale of the portfolios. In June 2016, the Company sold one credit card portfolio previously classified as held for sale for cash proceeds of \$5.9 million and recognized a \$0.5 million loss on the transaction.

Portfolio Acquisitions

During the nine months ended September 30, 2016, the Company acquired the credit card portfolios below.

- In January 2016, the Company acquired a private label credit card portfolio for cash consideration of \$520.3 million, which consisted of approximately \$468.3 million of credit card receivables and \$52.0 million of intangible assets.
 - In March 2016, the Company acquired a private label credit card portfolio for cash consideration of \$211.3 million, which consisted of approximately \$196.2 million of credit card receivables and \$15.1 million of intangible assets.
 - In March 2016, the Company acquired a private label credit card portfolio for cash consideration of \$17.5 million, which consisted of approximately \$17.5 million of credit card receivables and a de minimis amount of intangible assets.
 - In September 2016, the Company acquired a co-brand credit card portfolio for initial cash consideration of \$154.3 million, which consists of approximately \$141.1 million of credit card receivables, \$20.6 million of intangible assets and a rewards liability of \$7.4 million, all of which remain subject to customary purchase price adjustments.
- In October 2016, the Company acquired a private label credit card portfolio for initial cash consideration of \$107.8 million, subject to customary purchase price adjustments.

Securitized Credit Card Receivables

The Company regularly securitizes its credit card receivables through its credit card securitization trusts, consisting of the World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust (“Master Trust I”) and World Financial Network Credit Card Master Trust III (“Master Trust III”) (collectively, the “WFN Trusts”), and World Financial Capital Credit Card Master Note Trust (the “WFC Trust”). The Company continues to own and service the accounts that generate credit card receivables held by the WFN Trusts and the WFC Trust. In its capacity as a servicer, each of the respective banks earns a fee from the WFN Trusts and the WFC Trust to service and administer the credit card receivables, collect payments and charge-off uncollectible receivables. These fees are eliminated and therefore are not reflected in the Company’s unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2016 and 2015.

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

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

	September 30, 2016	December 31, 2015
	(In millions)	
Total credit card receivables – restricted for securitization investors	\$ 9,928.1	\$ 10,592.4
Principal amount of credit card receivables – restricted for securitization investors, 91 days or more past due	\$ 222.2	\$ 198.8

	Three Months Ended September 30, 2016		September 30, 2015	
	(In millions)			
Net charge-offs of securitized principal	\$ 134.6	\$ 94.1	\$ 423.7	\$ 290.6

4. INVENTORIES, NET

Inventories, net of \$278.0 million and \$228.0 million at September 30, 2016 and December 31, 2015, respectively, primarily consist of finished goods to be utilized as rewards in the Company's loyalty programs. Inventories, net are stated at the lower of cost or market and valued primarily on a first-in-first-out basis. The Company records valuation adjustments to its inventories if the cost of inventory exceeds the amount it expects to realize from the ultimate sale or disposal of the inventory. These estimates are based on management's judgment regarding future market conditions and an analysis of historical experience.

5. OTHER INVESTMENTS

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

September 30, 2016				December 31, 2015			
Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In millions)							

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Marketable securities	\$ 120.7	\$ 1.8	\$ (0.2)	\$ 122.3	\$ 121.5	\$ 0.4	\$ (1.7)	\$ 120.2
U.S. Treasury bonds	75.0	0.8	—	75.8	100.1	0.2	(0.1)	100.2
Total	\$ 195.7	\$ 2.6	\$ (0.2)	\$ 198.1	\$ 221.6	\$ 0.6	\$ (1.8)	\$ 220.4

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of September 30, 2016 and December 31, 2015, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	September 30, 2016		12 Months or Greater		Total	
	Less than 12 months	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
	(In millions)					
Marketable securities	\$ 15.9	\$ (0.1)	\$ 12.9	\$ (0.1)	\$ 28.8	\$ (0.2)
Total	\$ 15.9	\$ (0.1)	\$ 12.9	\$ (0.1)	\$ 28.8	\$ (0.2)

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	December 31, 2015		12 Months or Greater		Total	
	Less than 12 months Unrealized Fair Value	Losses	Fair Value	Losses	Fair Value	Unrealized Losses
	(In millions)					
Marketable securities	\$ 40.8	\$ (0.7)	\$ 34.6	\$ (1.0)	\$ 75.4	\$ (1.7)
U.S. Treasury bonds	50.0	(0.1)	—	—	50.0	(0.1)
Total	\$ 90.8	\$ (0.8)	\$ 34.6	\$ (1.0)	\$ 125.4	\$ (1.8)

The amortized cost and estimated fair value of the marketable securities and U.S. Treasury bonds at September 30, 2016 by contractual maturity are as follows:

	Amortized	
	Cost	Fair Value
	(In millions)	
Due in one year or less	\$ 31.9	\$ 31.9
Due after one year through five years	50.0	50.8
Due after five years through ten years	3.6	3.7
Due after ten years	110.2	111.7
Total	\$ 195.7	\$ 198.1

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the security's issuer, and the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company typically invests in highly-rated securities with low probabilities of default and has the intent and ability to hold the investments until maturity. As of September 30, 2016, the Company does not consider the investments to be other-than-temporarily impaired.

There were no realized gains or losses from the sale of investment securities for the three and nine months ended September 30, 2016 and 2015.

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6. REDEMPTION SETTLEMENT ASSETS

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

	September 30, 2016				December 31, 2015			
	Amortized Cost (In millions)	Unrealized Gains	Unrealized Losses	Unrealized Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Unrealized Fair Value
Restricted cash	\$ 80.9	\$ —	\$ —	\$ 80.9	\$ 270.3	\$ —	\$ —	\$ 270.3
Mutual funds	26.4	0.5	—	26.9	25.2	—	(0.3)	24.9
Corporate bonds	319.0	2.2	(0.3)	320.9	160.4	1.1	(0.1)	161.4
Total	\$ 426.3	\$ 2.7	\$ (0.3)	\$ 428.7	\$ 455.9	\$ 1.1	\$ (0.4)	\$ 456.6

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of September 30, 2016 and December 31, 2015, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	September 30, 2016		12 Months or Greater		Total	
	Less than 12 months Unrealized Fair Value Losses (In millions)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	\$ 48.8	\$ (0.3)	\$ —	\$ —	\$ 48.8	\$ (0.3)
Total	\$ 48.8	\$ (0.3)	\$ —	\$ —	\$ 48.8	\$ (0.3)

	December 31, 2015		12 Months or Greater		Total	
	Less than 12 months Unrealized Fair Value Losses (In millions)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	\$ 24.9	\$ (0.3)	\$ —	\$ —	\$ 24.9	\$ (0.3)
Corporate bonds	27.8	(0.1)	—	—	27.8	(0.1)
Total	\$ 52.7	\$ (0.4)	\$ —	\$ —	\$ 52.7	\$ (0.4)

The amortized cost and estimated fair value of the securities at September 30, 2016 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	\$ 104.9	\$ 105.7
Due after one year through five years	240.5	242.1
Total	\$ 345.4	\$ 347.8

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the security's issuer, and the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company typically invests in highly-rated securities with low probabilities of default and has the intent and ability to hold the investments until maturity. As of September 30, 2016, the Company does not consider the investments to be other-than-temporarily impaired.

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There were no realized gains or losses from the sale of investment securities for the three and nine months ended September 30, 2016 and 2015.

7. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	September 30, 2016			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
	(In millions)			
Finite Lived Assets				
Customer contracts and lists	\$ 1,178.0	\$ (467.3)	\$ 710.7	3-12 years—straight line
Premium on purchased credit card portfolios	344.1	(156.2)	187.9	3-10 years—straight line
Customer database	63.6	(38.4)	25.2	3 years—straight line
Collector database	53.3	(50.7)	2.6	30 years—15% declining balance
Publisher networks	140.2	(49.9)	90.3	5-7 years—straight line
Tradenames	90.4	(52.2)	38.2	3-15 years—straight line
Purchased data lists	11.6	(6.1)	5.5	1-5 years—straight line, accelerated
Favorable lease	6.9	(2.7)	4.2	3-10 years—straight line
	\$ 1,888.1	\$ (823.5)	\$ 1,064.6	
Indefinite Lived Assets				
Tradenames	12.4	—	12.4	Indefinite life
Total intangible assets	\$ 1,900.5	\$ (823.5)	\$ 1,077.0	

	December 31, 2015			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
	(In millions)			
Finite Lived Assets				
Customer contracts and lists	\$ 1,195.2	\$ (361.6)	\$ 833.6	3-12 years—straight line
Premium on purchased credit card portfolios	259.5	(114.0)	145.5	3-10 years—straight line, accelerated
Customer databases	210.3	(163.1)	47.2	3-10 years—straight line
Collector database	50.5	(47.7)	2.8	30 years—15% declining balance
Publisher networks	140.2	(29.2)	111.0	5-7 years—straight line
Tradenames	84.8	(44.1)	40.7	2-15 years—straight line

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Purchased data lists	11.9	(6.4)	5.5	1-5 years—straight line, accelerated
Favorable lease	6.9	(1.9)	5.0	3-10 years—straight line
Noncompete agreements	1.3	(1.3)	—	3 years—straight line
	\$ 1,960.6	\$ (769.3)	\$ 1,191.3	
Indefinite Lived Assets				
Tradenames	12.4	—	12.4	Indefinite life
Total intangible assets	\$ 1,973.0	\$ (769.3)	\$ 1,203.7	

With the credit card portfolio acquisitions made during the nine months ended September 30, 2016, the Company acquired \$87.7 million of intangible assets, consisting of \$26.5 million of customer relationships being amortized over a weighted average life of 3.0 years and \$61.2 million of marketing relationships being amortized over a weighted average life of 8.7 years. For more information on these portfolio acquisitions, see Note 3, “Credit Card and Loan Receivables.”

In June 2016, BrandLoyalty Group B.V. (“BrandLoyalty”) acquired a tradename for €8.0 million (\$9.0 million on September 30, 2016), with an estimated life of 8.0 years.

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

	For the Years Ending December 31, (In millions)
2016 (excluding the nine months ended September 30, 2016)	\$ 75.0
2017	273.5
2018	235.6
2019	188.0
2020	125.4
2021 & thereafter	167.1

Goodwill

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

	LoyaltyOne® Epsilon® (In millions)	Card Services	Corporate / Other	Total
January 1, 2015	\$ 713.5	\$ 2,890.3	\$ 261.7	\$ 3,865.5
Goodwill acquired during year	34.7	—	—	34.7
Effects of foreign currency translation	(84.7)	(1.4)	—	(86.1)
December 31, 2015	\$ 663.5	\$ 2,888.9	\$ 261.7	\$ 3,814.1
Effects of foreign currency translation	26.1	(2.4)	—	23.7
September 30, 2016	\$ 689.6	\$ 2,886.5	\$ 261.7	\$ 3,837.8

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8. DEBT

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

Description	September 30 / December 31,		Maturity	Interest Rate
	2016 (Dollars in millions)	2015		
Long-term and other debt:				
2013 revolving line of credit	\$ 839.0	\$ 465.0	July 2018 or December 2019	(1)
2013 term loans	2,874.3	2,703.8	Various (2)	(1)
BrandLoyalty credit facility	311.8	69.7	June 2020	(3)
Senior notes due 2017	400.0	400.0	December 2017	5.250%
Senior notes due 2020	500.0	500.0	April 2020	6.375%
Senior notes due 2022	600.0	600.0	August 2022	5.375%
Senior notes due 2023 (€300.0 million)	337.2	325.8	November 2023	5.250%
Capital lease obligations and other debt	3.9	—	Various – January 2019 – August 2019	2.89% to 3.06%
Total long-term and other debt	5,866.2	5,064.3		
Less: Unamortized discount and debt issuance costs	40.2	46.9		
Less: Current portion	421.7	369.4		
Long-term portion	\$ 5,404.3	\$ 4,648.0		
Deposits:				
Certificates of deposit	\$ 5,470.5	\$ 4,252.0	Various – October 2016 – November 2021	0.59% to 2.80%
Money market deposits	2,164.9	1,370.3	On demand	(4)
Total deposits	7,635.4	5,622.3		
Less: Unamortized discount and debt issuance costs	21.4	16.4		
Less: Current portion	3,911.6	2,980.3		
Long-term portion	\$ 3,702.4	\$ 2,625.6		
Non-recourse borrowings of consolidated securitization entities:				
Fixed rate asset-backed term note securities	\$ 3,990.7	\$ 3,458.2	Various – October 2016 – June 2021	1.26% to 4.55%
	360.0	810.0	April 2018	(5)

Floating rate asset-backed term note securities

			Various - March 2017 – December 2017	(6)
Conduit asset-backed securities	1,560.0	2,225.0		
Total non-recourse borrowings of consolidated securitization entities	5,910.7	6,493.2		
Less: Unamortized discount and debt issuance costs	11.4	10.5		
Less: Current portion	1,324.1	1,049.3		
Long-term portion	\$ 4,575.2	\$ 5,433.4		

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- (1) The interest rate is based upon the London Interbank Offered Rate (“LIBOR”) plus an applicable margin. At September 30, 2016, the weighted average interest rate was 2.53% for each of the 2013 revolving line of credit and 2013 term loans.
- (2) The maturity dates for the 2013 term loans are September 2017, July 2018 and December 2019.
- (3) The interest rate is based upon the Euro Interbank Offered Rate plus an applicable margin. At September 30, 2016, the weighted average interest rate was 1.34% and 2.25% for the BrandLoyalty revolving line of credit and term loans, respectively.
- (4) The interest rates are based on the Federal Funds rate plus an applicable margin. At September 30, 2016, the interest rates ranged from 0.50% to 1.90%.
- (5) The interest rate is based upon LIBOR plus an applicable margin. At September 30, 2016, the interest rate was 1.00%.
- (6) The interest rate is based upon LIBOR or the asset-backed commercial paper costs of each individual conduit provider plus an applicable margin. At September 30, 2016, the interest rates ranged from 1.82% to 1.88%. At September 30, 2016, the Company was in compliance with its financial covenants.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Long-term and Other Debt

2013 Credit Agreement

In the second quarter of 2016, ADSC, as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Data Management, LLC, Comenity LLC, Comenity Servicing LLC, Aspen Marketing Services, LLC, Conversant LLC and Commission Junction, LLC as guarantors, amended its credit agreement (the “2013 Credit Agreement”).

The Company extended the maturity of certain term loans with principal amount of \$200.0 million from September 2016 to September 2017. Additionally, the Company exercised the accordion feature to borrow incremental term loans in the aggregate principal amount of \$277.5 million and increased the commitments under the revolving line of credit by \$22.5 million. These borrowings bear interest at the same rates as, and are generally subject to the same terms as, the 2013 Credit Agreement.

As of September 30, 2016, the 2013 Credit Agreement provided for \$3.1 billion in term loans (the “2013 term loans”) subject to certain principal repayments and a \$1.3 billion revolving line of credit (the “2013 revolving line of credit”). Total availability under the 2013 revolving line of credit at September 30, 2016 was \$483.5 million.

BrandLoyalty Credit Agreement

In June 2016, BrandLoyalty and certain of its subsidiaries, as borrower and guarantors, amended and restated its credit agreement (as amended, the “2016 BrandLoyalty Credit Agreement”) to provide for an A-1 term loan facility of €90.0 million and an A-2 term loan facility of €100.0 million. The A-1 term loan facility provides for quarterly principal payments of €7.5 million through June 2018 and €3.75 million thereafter through June 2020. In addition, the maturity date of the committed revolving line of credit of €62.5 million and uncommitted revolving line of credit of €62.5 million was extended from August 2018 to June 2020. The 2016 BrandLoyalty Credit Agreement provides for a reduction in commitment on each of the uncommitted and committed revolving lines of credit of €25.0 million in August 2018.

The 2016 BrandLoyalty Credit Agreement is secured by the accounts receivable, inventory, fixed assets, bank accounts and shares of BrandLoyalty Group and certain of its subsidiaries.

All advances under the 2016 BrandLoyalty Credit Agreement are denominated in Euros. The interest rate fluctuates and is equal to EURIBOR, as defined in the 2016 BrandLoyalty Credit Agreement, plus an applicable margin based on BrandLoyalty’s senior net leverage ratio. The 2016 BrandLoyalty Credit Agreement contains financial covenants, including a senior net leverage ratio, as well as usual and customary negative covenants and customary events of default.

As of September 30, 2016, amounts outstanding under the revolving lines of credit and the term loans under the 2016 BrandLoyalty Credit Agreement were €87.4 million, of which €34.9 million was uncommitted, and €190.0 million (\$98.2 million and \$213.6 million), respectively.

Senior Notes due 2021

In October 2016, the Company issued \$500.0 million aggregate principal amount of 5.875% senior notes due November 1, 2021 (the "Senior Notes due 2021"). The Senior Notes due 2021 accrue interest on the principal amount at the rate of 5.875% per annum from October 27, 2016, payable semiannually in arrears, on May 1 and November 1 of each year, beginning on May 1, 2017. The Company intends to use the net proceeds to repay a portion of the outstanding indebtedness under the 2013 revolving line of credit.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Non-Recourse Borrowings of Consolidated Securitization Entities

Asset-Backed Term Notes

In February 2016, \$625.0 million of Series 2014-A asset-backed term notes, \$175.0 million of which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets, matured and were repaid.

In May 2016, \$657.9 million of Series 2013-B asset-backed term notes, \$157.9 million of which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets, matured and were repaid.

In July 2016, Master Trust I issued \$866.7 million of asset-backed term notes, which mature in June 2021. The offering consisted of \$650.0 million of Class A notes with a fixed interest rate of 2.03% per year, \$32.5 million of Class M notes with a fixed interest rate of 2.33% per year and \$184.2 million of notes which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets.

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

In October 2016, \$126.6 million of Series 2011-B asset-backed term notes, \$26.6 million of which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets, matured and were repaid. As of September 30, 2016, the Company collected \$126.1 million of principal payments made by its credit cardholders during the accumulation period for the repayment of the Series 2011-B notes. The cash is restricted to the securitization investors and is reflected in other current assets in the Company's unaudited condensed consolidated balance sheet as of September 30, 2016.

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

9. DERIVATIVE INSTRUMENTS

The Company uses derivatives to manage risks associated with certain assets and liabilities arising from the potential adverse impact of fluctuations in interest rates and foreign currency exchange rates. The Company was not a party to any interest rate derivative instruments at September 30, 2016 or December 31, 2015.

The Company enters into foreign currency derivatives to reduce the volatility of the Company's cash flows resulting from changes in foreign currency exchange rates associated with certain inventory transactions, certain of which are designated as cash flow hedges.

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

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

The following tables present the fair values of the derivative instruments included within the Company's unaudited condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015:

	September 30, 2016		Balance Sheet Location	Maturity
	Notional Amount (In millions)	Fair Value		
Designated as hedging instruments:				
Foreign currency exchange hedges	\$ 19.3	\$ 0.3	Other current assets	October 2016 to April 2017
Foreign currency exchange hedges	\$ 59.0	\$ 1.1	Other current liabilities	October 2016 to August 2017
Net investment hedge	\$ 337.2	\$ 15.2	Long-term and other debt	November 2023

	December 31, 2015		Balance Sheet Location	Maturity
	Notional Amount (In millions)	Fair Value		
Designated as hedging instruments:				