



2019

Annual Report

2019 Highlights



\$5.58B
Revenue



\$1.27B
Adjusted EBITDA, net



\$572.6M
Income from continuing operations



Winning “W” Company
for Women on Boards



41%
Women leaders across
Alliance Data



~\$10M
Community investments



FTSE4Good
Index Series



Bloomberg
Gender-Equality Index



Fortune 100
Best Companies
to Work For

Message from the CEO

Dear Stockholders,

2019 was a both a challenging and a transformational year for Alliance Data. While financial results fell below original expectations, we took several strategic actions to strengthen our financial position and structure the organization for future success.

As Alliance Data's new president and chief executive officer, I am focused on returning Alliance Data to consistent and predictable growth. To do so, we will build upon a strategy of simplification, focus and investment in key strategic areas — with the support of an engaged and committed workforce. Let me briefly review 2019, and then provide perspective about our focus heading into 2020.



Ralph Andretta
President and CEO

A YEAR IN REVIEW

The Board and leadership of Alliance Data made a number of critical decisions last year that streamlined the Company, setting us up for improved performance and a return to measured growth moving forward.

In 2019, we simplified our business significantly with the completion of the Epsilon sale on July 1, 2019, followed by the sale of LoyaltyOne's Precima business in January 2020. Our former three segments had contributed to balanced growth in the past, but increasingly competed for internal investment dollars in a rapidly evolving business climate. The sale of Epsilon allowed us to focus our investment in Card Services, our biggest driver of revenue and growth opportunity, but also required us to reduce our capital structure to match the smaller organization.

We streamlined the cost structure throughout the Alliance Data enterprise, reducing run rate expenses entering 2020 and improving our balance sheet, to give us greater financial flexibility. We reduced corporate debt by \$2.9 billion, while extending the debt maturity ladder. In addition, a portion of the Epsilon sale proceeds funded \$976 million in share repurchases, \$750 million of which were acquired through a "modified Dutch Auction" tender offer completed in August.

Our cost-containment and other strategic initiatives extended throughout the organization, including at our LoyaltyOne® businesses. At Netherlands-based BrandLoyalty, we significantly reduced our workforce, made key senior leadership changes, reduced inventory levels and secured key supplier relationships for the long term, collectively lifting profitability and revenue growth toward the latter part of the year. At our AIR MILES® Reward Program in Canada, we reallocated non-core project investments to the coalition program, made substantive workforce and leadership changes, and enhanced critical technical and digital capabilities that improved engagement across the program's Collectors and Partners.

Message from the CEO

Even as Alliance Data underwent significant transition during the year, we maintained our commitment to an ethical and diverse workplace culture with sustainable business practices.

We also made changes at Card Services, positioning the business to compete more effectively within the changing retail landscape and setting the stage for improved performance. Over the past several years, we have been deliberately moving away from focusing on traditional mall-based retailers as consumer shopping behavior evolved toward digital and mobile channels, and we accelerated our ongoing transition toward more diverse clients and verticals during the year. We also finalized the sale of \$3.2 billion of income-producing non-core receivables, a process initiated in 2017. The sales negatively impacted 2019 revenue, but moved us toward a much healthier client base long-term. The downsizing actions undertaken in late 2019 better aligned our operating cost structure with our slower growth rate.

OUR STRONG CULTURE

Even as Alliance Data underwent significant transition during the year, we maintained our commitment to an ethical and diverse workplace culture with sustainable business practices. For the second consecutive year, Alliance Data was one of 230 companies selected for the annual Bloomberg Gender-Equality Index, which distinguishes companies committed to transparency in gender reporting and advancing women's equality. We were also recognized by Great Place to Work and FORTUNE as a 2019 Best Companies to Work For and a 2019 Best Workplaces for Women. And also for the second consecutive year, Alliance Data was included in the FTSE4GOOD Index Series, which measures the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices — an index used by global investors interested in companies' ESG-related performance and disclosures.

While external recognition provides validation of the way we build and nurture our culture, we also celebrate individual associates across the business who embody our company values by giving back to their communities every day. In 2019, we continued to focus our community investments — from both a financial and volunteerism perspective — on education, children, hunger and the environment. In addition, we prioritize investments that connect associates, align with our expertise, are geographically inclusive, and enhance our brand and reputation.

COMMENTS REGARDING CORONAVIRUS (COVID-19)

Having started my tenure with Alliance Data in February 2020, I continue to spend time understanding the nuances of the business and meeting the people who make up this great organization. Just over one month in, at the time of this annual report's publishing in April 2020, the World Health Organization recently declared the coronavirus (COVID-19) a global pandemic, the effects of which have resulted in substantial challenges to the world's social and economic ecosystems. Our thorough and tested business continuity strategies are activated, with the goal of protecting the health and well-being of our global workforce and achieving minimal business disruption. As a services organization, our workforce is mobile-enabled in all locations, and our dedicated teams have quickly adapted to temporary work-from-home arrangements. Alliance Data is financially strong, and we are committed to working in tandem with our clients and all of our stakeholders to strive for the best possible outcome in these difficult times.

Message from the CEO

Looking forward, and with the support of the Board and our strong senior leadership team, we are already making progress in areas that I believe will enable Alliance Data to drive improved performance.

OUTLOOK

Looking forward, and with the support of the Board and our strong senior leadership team, we are already making progress in areas that I believe will enable Alliance Data to drive improved performance across key areas of our operations, including:

- Responsible finance;
- Prudent risk management;
- Sound regulatory compliance;
- Targeted investments in digital products and capabilities that align with client and customer needs; and
- Effective corporate governance.

Our key priorities in Card Services will be to expand our offerings to include new digital initiatives that meet the needs and expectations of the changing consumer and retailer. This, along with an improved sales cycle approach, will accelerate our speed to market, enabling us to onboard new clients more efficiently as we continue to diversify our client base. In addition, we will lean more heavily into our recently introduced consumer deposit product as a source of funding.

LoyaltyOne is also set up for 2020. The AIR MILES Reward Program is a mature, well-established business generating solid, consistent cash flow. We will remain committed to enhancing the Program's digital and marketing technology capabilities to further engage our high- and mid-frequency Partners. Additionally, we remain focused on developing new and innovative reward options for our diverse Collector base across Canada. Our BrandLoyalty business, which predominantly provides campaign-based loyalty programs for the grocery segment, will remain focused on supporting grocers with relevant strategies that align with grocers' needs and evolving consumer shopping behaviors. 2019

saw the start of a nice turnaround for this business, with solid cost controls in place that better position BrandLoyalty moving into 2020.

IN CLOSING

When I accepted the position with Alliance Data, it was with eyes wide open. And, the more I get to know the Company and its people, the more I like what I see. This is an organization with solid fundamentals in place and adroit operational, strategic and leadership strengths. Only a bold company with these attributes could make the tough decisions that 2019 demanded in order to lay the groundwork for future success.

Moving forward, Alliance Data is a leaner, more efficient and formidable company. We intend to execute on where we differentiate from our competitors. At our core, we know how to successfully use data to drive performance for our valued clients, so we need to invest in and build new capabilities around that expertise. We also need to meet the evolving expectations of a broad range of stakeholders, demonstrating to all of them that we operate ethically, responsibly, and with full transparency. While we work toward improved long-term results and strengthening the business, we are also intentionally focusing on social and environmental awareness as part of our sustainability strategy, reporting annually on our progress and performance.

I am confident that, with the support of our stakeholders, we can shape a new, more promising path forward for Alliance Data as a company worthy of your investment. Thank you for your support.



Ralph Andretta
President and CEO

**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, 2019**

or

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

Commission file number 001-15749

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



AllianceData

Delaware
(State or other jurisdiction of
incorporation or organization)

3075 Loyalty Circle
Columbus, Ohio
(Address of principal executive offices)

31-1429215
(I.R.S. Employer
Identification No.)

43219
(Zip Code)

(614) 729-4000

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of each exchange on which registered</u>
Common stock, par value \$0.01 per share	ADS	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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

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

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

As of June 30, 2019, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$7.0 billion, based upon the closing price of \$140.13 per share on the New York Stock Exchange on June 28, 2019, which was the last business day of the registrant's most recently completed second fiscal quarter.

As of February 20, 2020, 47,627,611 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 2019 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2019.

ALLIANCE DATA SYSTEMS CORPORATION

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Caution Regarding Forward-Looking Statements

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

- loss of, or reduction in demand for services from, significant clients;
- increases in net charge-offs in credit card and loan receivables and increases in the allowance for loan loss that may result from the application of the current expected credit loss model;
- failure to identify, complete or successfully integrate or disaggregate business acquisitions or divestitures;
- continued financial responsibility with respect to a divested business, including required equity ownership, guarantees, indemnities or other financial obligations;
- failure to realize expected cost savings from restructuring plans;
- increases in the cost of doing business, including market interest rates;
- inability to access the asset-backed securitization funding market or deposits market;
- loss of active AIR MILES® Reward Program collectors;
- continuing impacts related to COVID-19, including reduction in demand from clients, supply chain disruption for our reward suppliers and disruptions in the airline or travel industries;
- increased redemptions by AIR MILES Reward Program collectors;
- unfavorable fluctuations in foreign currency exchange rates;
- limitations on consumer credit, loyalty or marketing services from new legislative or regulatory actions related to consumer protection and consumer privacy;
- increases in Federal Deposit Insurance Corporation (“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. Further risks and uncertainties include, but are not limited to, the impact of strategic initiatives on us or our business if any transactions are undertaken, and whether the anticipated benefits of such transactions can be realized.

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.

PART I

Item 1. Business.

We are a leading global provider of data-driven marketing and loyalty solutions serving large, consumer-based industries. We create and deploy customized solutions, enhancing the critical customer marketing experience and measurably changing consumer behavior while driving business growth and profitability for some of today's most recognizable brands. We help our clients create and increase customer loyalty through solutions that engage millions of customers each day across multiple touch points using traditional, digital, mobile and emerging technologies. Our LoyaltyOne® business owns and operates the AIR MILES Reward Program, Canada's most recognized loyalty program, and Netherlands-based BrandLoyalty, a global provider of tailor-made loyalty programs for grocers. Our Card Services business is a provider of market-leading private label, co-brand, and business credit card programs.

Our client base of more than 400 companies consists primarily of large consumer-based businesses, including well-known brands such as Victoria's Secret, Signet, IKEA, Ulta, Caesars Entertainment, Sephora, Bank of Montreal, Amex Bank of Canada, Sobeys Inc., Shell Canada Products, Rewe and Albert Heijn. Our client base is diversified across a broad range of end-markets, including financial services, specialty retail, grocery and drugstore chains, petroleum retail, home furnishings and hardware, beauty and jewelry, hospitality and travel and telecommunications. 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.

Segments

Beginning with the first quarter of 2019, our products and services are reported under two segments—LoyaltyOne and Card Services, and are listed below. Effective March 31, 2019, our former Epsilon segment was treated as a discontinued operation, and was subsequently sold on July 1, 2019. Financial information about our segments and geographic areas appears in Note 25, "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
Card Services	<ul style="list-style-type: none">• Receivables Financing<ul style="list-style-type: none">—Underwriting and risk management—Receivables funding• Processing Services<ul style="list-style-type: none">—New account processing—Bill processing—Remittance processing—Customer care• Marketing Services

LoyaltyOne

Our LoyaltyOne clients are focused on acquiring and retaining loyal and profitable customers. We use the information gathered through our loyalty programs to help our clients design and implement effective marketing programs. Our clients within this segment include financial services providers, 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 coalition 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 140 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, supplier platforms 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. Hundreds of brands use the AIR MILES Reward Program as an additional distribution channel for these 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. 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.

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, 2019, we had \$18.4 billion in principal receivables from 40.5 million active accounts, with an average balance for the year ended December 31, 2019 of approximately \$811 for accounts with outstanding balances. L Brands and its retail affiliates accounted for approximately 10% of our average credit card and loan receivables for the year ended December 31, 2019. We process millions of credit card applications each year using automated proprietary scoring technology and verification procedures to make risk-based origination decisions when approving new credit card accountholders and establishing their credit limits. Credit quality is monitored at least monthly during the life of an account. We augment these procedures with credit risk scores provided by credit bureaus. This information helps us segment prospects into narrower risk ranges, allowing us to better evaluate individual credit risk.

Our accountholder base consists primarily of middle- to upper-income individuals, including 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 securitization and deposit programs as principal funding vehicles 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. We have three master trusts that 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 2019, for the fourteenth 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-brand 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.

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 Diversified Royalty Corp., 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 and credit card issuers, 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 and suppliers that are desirable to consumers and to offer rewards that are both attainable and attractive to consumers.

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-brand 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. As the payments industry continues to evolve, in the future we expect increasing competition with emerging payment technologies from financial technology firms and payment networks.

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; as an industrial bank, Comenity Capital Bank is subject to overlapping supervision by the FDIC and the State of Utah. 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—who 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 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, as amended by the Credit Card Accountability, Responsibility and Disclosure Act of 2009, or the CARD Act, Equal Credit Opportunity Act and Fair Credit Reporting 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.

Data protection and consumer privacy laws and regulations continue to evolve. 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 or industry regulations pertaining to consumer, public or private sector privacy issues may impact our marketing services, including placing restrictions upon the collection, sharing and use of information that is currently legally available. There are also a number of specific laws and regulations governing the collection and use of certain types of consumer data primarily in connection with financial services transactions that are relevant to our various businesses and services. In the United States, federal laws such as the Gramm-Leach-Bliley Act, or GLBA, and the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003, as well as similar and applicable state laws, 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. These laws give bank customers, including cardholders and depositors, the ability to “opt out” of having certain information generated by their applicable financial services transactions shared with other affiliated and unaffiliated parties or the public. Our ability to gather, share and utilize this data will be adversely affected if a significant percentage of the consumers whose purchasing behavior we track elect to “opt out,” thereby precluding us and our affiliates from using their data.

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

In the United States, California enacted the California Consumer Privacy Act, or CCPA, which went into effect on January 1, 2020. The CCPA creates new individual privacy rights for California consumers and places increased privacy and security obligations on entities handling certain personal data of consumers and households. The CCPA includes new and expanded disclosure requirements to consumers about companies’ data collection, use and sharing practices; provides consumers new ways to opt-out of certain sales or transfers of personal information; and provides consumers with additional causes of action. The CCPA prohibits companies from discriminating against consumers who have opted out of the sale of their personal information, subject to a narrow exception. The CCPA provides for certain monetary penalties and for enforcement of the statute by the California Attorney General or by consumers whose rights under the law are not observed. It also provides for damages, as well as injunctive or declaratory relief, if there has been unauthorized access, theft or disclosure of personal information due to failure to implement reasonable security procedures. The CCPA contains several exemptions, including a provision to the effect that the CCPA does not apply where the information is collected, processed, sold or disclosed pursuant to the GLBA if the GLBA is in conflict with the CCPA. It remains unclear what, if any, modifications will be made to the CCPA or how it will be interpreted.

Further, many other state governments are reviewing or proposing the need for greater regulation of the collection, processing, sharing and use of consumer data for marketing purposes or otherwise. This may result in new laws or regulations imposing additional compliance requirements.

In Canada, the Personal Information Protection and Electronic Documents Act, or PIPEDA, 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, or CASL, 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. CASL 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.

On May 25, 2018, The General Data Protection Regulation, or GDPR, a European Union-wide legal framework to govern data collection, use and sharing and related consumer privacy rights came into force. The GDPR replaced the European Union Directive 95/46/EC and applies to and binds the 27 EU Member States. The GDPR details greater compliance obligations on organizations, including the implementation of a number of processes and policies around 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.

In general, GDPR, and other European Union and Member State specific privacy and data governance 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. Similarly, it is possible that in the future, U.S. and foreign jurisdictions may adopt legislation or regulations that impair our ability to effectively track consumers' use of our advertising services, such as the FTC's proposed "Do-Not-Track" standard or other legislation or regulations similar to EU Directive 2009/136/EC, commonly referred to as the "Cookie Directive," which directs EU Member States to ensure that accessing information on an internet user's computer, such as through a cookie, is allowed only if the internet user has given his or her consent. On January 31, 2020, the United Kingdom left the European Union and entered into a Brexit transition period. During this period, which runs until the end of December 2020, the GDPR will continue to apply to the United Kingdom. It is not yet known what the data protection landscape will look like at the end of the transition period.

There is also rapid development of new privacy laws and regulations 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 all 50 U.S. states and the District of Columbia have enacted data breach notification laws, there is no such U.S. federal law generally applicable to our businesses. Data breach notification legislation and regulations relating to mandatory reporting came into force in Canada on November 1, 2018. Data breach notification laws have been proposed widely and exist in other specific countries and jurisdictions in which we conduct business. Legislative and regulatory measures, such as mandatory breach notification provisions, impose, among other elements, strict requirements on reporting time frames and providing notice to individuals.

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.

Ontario's Protecting Rewards Points Act (Consumer Protection Amendment), 2016, and additional related regulations effective January 2018, prohibit suppliers from entering into or amending consumer agreements to provide for the expiry of rewards points due to the passage of time alone, while permitting the expiry of rewards points if the underlying consumer agreement is terminated and that agreement provides that reward points expire upon termination. Similar legislation pertaining to the expiry of rewards points due to the passage of time alone was passed in Quebec in 2017, with regulations taking effect in 2018 and 2019.

Employees

As of December 31, 2019, we had over 8,500 employees. We believe our relations with our employees are good. We have no collective bargaining agreements with our employees.

Other Information

Our corporate headquarters are located at 3075 Loyalty Circle, Columbus, Ohio 43219, where our telephone number is 614-729-4000.

We file or furnish annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are 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 and nominating and corporate governance 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.

Item 1A. Risk Factors.

RISK FACTORS

Strategic Business Risk and Competitive Environment

Our 10 largest clients represented 44% and 41%, respectively, of our consolidated revenue for the years ended December 31, 2019 and 2018, 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 44% and 41%, respectively, of our consolidated revenue during the years ended December 31, 2019 and 2018. L Brands and its retail affiliates represented approximately 11% of our consolidated revenue during both of these same respective 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. For example, the contract for one of our 10 largest clients, representing approximately 3% of our consolidated revenue for the year ended December 31, 2019, is effective through September 2020 and is not expected to renew.

Card Services. Card Services represents 81% of our consolidated revenue for both of the years ended December 31, 2019 and 2018, respectively. Our 10 largest clients in this segment represented approximately 54% and 49%, respectively, of our Card Services revenue for the years ended December 31, 2019 and 2018. L Brands and its retail affiliates represented approximately 13% of this segment's revenue for both of the years ended December 31, 2019 and 2018, respectively. Our contract with L Brands and its retail affiliates expires in 2026, subject to contract terms.

LoyaltyOne. LoyaltyOne represents 19% of our consolidated revenue for both of the years ended December 31, 2019 and 2018, respectively. Our 10 largest clients in this segment represented approximately 54% and 56%, respectively, of our LoyaltyOne revenue on a gross basis for the years ended December 31, 2019 and 2018. Bank of Montreal represented approximately 19% of this segment's revenue on a gross basis for both of the years ended December 31, 2019 and 2018, respectively. Sobeys Inc. and its retail affiliates represented approximately 12% of this segment's revenue on a gross basis for both of the years ended December 31, 2019 and 2018, respectively. Our contract with Bank of Montreal expires in 2023, subject to further automatic renewals. Our contract with Sobeys Inc. and its retail affiliates expires in 2024, subject to contract terms.

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-brand 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 2019, our net

charge-off rate was 6.1%, compared to 6.1% and 6.0% for 2018 and 2017, respectively. Delinquency rates were 5.8% of principal credit card and loan receivables at December 31, 2019, compared to 5.7% and 5.1% at December 31, 2018 and 2017, respectively.

A new accounting standard will require us to increase our allowance for loan loss and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board has adopted a new accounting standard that became effective for us January 1, 2020. This standard, referred to as Current Expected Credit Loss, or CECL, requires us to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan loss. The adoption of this standard resulted in an increase in our allowance for loan loss of \$644.0 million. For additional information regarding the impact of the adoption of CECL, see “Recently Issued Accounting Standards” under Note 2, “Summary of Significant Accounting Policies,” of the Notes to Consolidated Financial Statements. The ongoing impact of CECL will be significantly influenced by the composition, characteristics and quality of our credit card and loan portfolio, as well as the prevailing economic conditions and forecasts utilized. The CECL model may create more volatility in the level of our allowance for loan loss. If we are required to materially increase our level of allowance for loan loss, such increase could adversely affect our business, financial condition and results of operations.

If we fail to identify suitable acquisitions, dispositions or new business opportunities, or to effectively integrate the businesses we acquire or disaggregate the businesses we divest, 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.

Similarly, we may evaluate the potential disposition of, or elect to divest, assets or businesses that no longer complement our long-term strategic objectives. When a determination is made to sell assets or businesses, we may encounter difficulty attaining buyers or effecting desired exit strategies in a timely manner or on acceptable terms and may be subject to market forces leading to a divestiture on less than optimal price or other terms.

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

- the difficulty and expense that we incur in connection with the acquisition, disposition or new business opportunity;
- the inability to satisfy pre-closing conditions preventing consummation of the acquisition, disposition 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, disposition or new business implementation or the failure of the acquired or new business to meet operating expectations;
- the acceptance of continued financial responsibility with respect to a divested business, including required equity ownership, guarantees, indemnities or other financial obligations;
- the assumption of unknown liabilities of the acquired company;
- the uncertainty of achieving expected benefits of an acquisition or disposition, including revenue, human resources, technological or other cost savings, operating efficiencies or synergies;
- the reduction of cash available for operations, stock repurchase programs or other uses and potentially dilutive issuances of equity securities or incurrence of debt;
- the requirement to provide transition services in connection with a disposition resulting in the diversion of resources and focus; and
- the difficulty retaining and motivating key personnel from acquisitions or in connection with dispositions.

For example, upon the sale of the Epsilon segment in July 2019, we have agreed to indemnify Publicis Groupe S.A. for the matter included in Note 18, “Commitments and Contingencies,” of the Notes to Consolidated Financial Statements. If adversely determined, the financial impact of our indemnification obligation may be substantial.

Furthermore, 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 to impair the value of some or all of the assets of the acquired or new business.

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.

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 \$31.6 million for the year ended December 31, 2019.

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 collectors 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. 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 or other travel arrangements, if available, could be more expensive than a comparable airline ticket under our current supply agreements with existing suppliers, and the routes offered by other airlines or travel services 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, including, but not limited to, the current impacts of COVID-19, 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.

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.

We may be unable to realize some or all of the anticipated benefits of restructuring initiatives and restructuring may adversely affect our business.

In response to changes in industry and market conditions, we may undertake restructuring, reorganization, or other strategic initiatives to realign our resources with our growth strategies, operate more efficiently, and control costs. The successful implementation of these initiatives may require us to effect business and asset dispositions, workforce reductions, management restructurings, decisions to limit investments in or otherwise exit businesses, office consolidations and closures, and other actions, each of which depend on a number of factors that may not be within our control.

Any such effort to realign the organization may result in the recording of restructuring or other charges, such as asset impairment charges, contract and lease termination costs, inventory write-offs, exit costs, termination benefits, and other restructuring costs. Further, as a result of restructuring initiatives, we may experience a loss of continuity, loss of accumulated knowledge and/or inefficiency, adverse effects on employee morale, loss of key employees and/or other retention issues during transitional periods. Reorganization and restructuring can impact a significant amount of management and other employees' time and focus, which may divert attention from operating and growing our business.

We have undertaken, and may undertake in the future, restructuring initiatives to simplify our business structure as well as focus capital on the highest earning and growth assets. The implementation of any restructuring initiatives may be costly and disruptive to our business, and following their completion, our business may not be more efficient or effective than prior to implementation of the plan. Although designed to deliver long-term sustainable growth, our restructuring activities, including any related charges, could present significant potential risks that may impair our ability to achieve anticipated operating enhancements or cost reductions, or otherwise have a material adverse effect on our business, competitive position, operating results, and financial condition. For more information about our restructuring initiatives taken in 2019, see Note 14, "Restructuring and Other Charges" of the Notes to Consolidated Financial Statements.

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

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 with or without 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.

Regulations adopted by the FDIC, the SEC, the Federal Reserve and certain other federal regulators mandate a minimum five percent risk retention requirement for securitizations 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; we intend to satisfy such risk retention requirements by maintaining a seller's interest calculated in accordance with Regulation RR.

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 one or more retailers. Deteriorating economic conditions and increased competition in the retail industry, among other factors, may lead to an increase in bankruptcies among retailers who have entered into credit card programs with us. The bankruptcy of one or more retailers could lead to a decline in the amount of new receivables and could lead to increased delinquencies and defaults on the associated receivables. Any of these effects of a retailer bankruptcy could result in the commencement of an early amortization for one or more series of such funding securities, particularly if such an event were to occur with respect to a retailer relating to a large percentage of such securitization trust's assets. 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.

Inability to grow our deposits in the future could have a material adverse effect on our liquidity, ability to grow our business and profitability.

We obtain deposits directly from retail and commercial customers or through brokerage firms that offer our deposit products to their customers. Our funding strategy includes continued growth of our liquidity through deposits. The deposit business is highly competitive, with intense competition in attracting and retaining deposits. We compete on the basis of the rates we pay on deposits, the quality of our customer service and the competitiveness of our digital banking capabilities. Our ability to originate and maintain retail deposits is also highly dependent on the strength of our bank subsidiaries and the perceptions of consumers and others of our business practices and our financial health. Adverse perceptions regarding our lending practices, regulatory compliance, protection of customer information or sales and marketing practices, or actions taken by regulators or others with respect to our bank subsidiaries, could impede our competitive position in the deposits market.

The demand for the deposit products we offer may also be reduced due to a variety of factors, including changes in consumers' preferences, demographics or discretionary income, regulatory actions that decrease consumer access to

particular products or the development or availability of competing products. Competition from other financial services firms and others that use deposit funding products may affect deposit renewal rates, costs or availability. Adjustments we make to the rates offered on our deposit products to remain competitive may adversely affect either our liquidity or our profitability.

The Federal Deposit Insurance Act, or FDIA, prohibits an insured bank from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is "well capitalized," or it is "adequately capitalized" and receives a waiver from the FDIC. A bank that is "adequately capitalized" and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. There are no such restrictions under the FDIA on a bank that is "well capitalized" and at December 31, 2019, each of our bank subsidiaries met or exceeded all applicable requirements to be deemed "well capitalized" for purposes of the FDIA. However, there can be no assurance that our bank subsidiaries will continue to meet those requirements. Limitations on our bank subsidiaries' ability to accept brokered deposits for any reason (including regulatory limitations on the amount of brokered deposits in total or as a percentage of total assets) in the future could materially adversely impact our liquidity, funding costs and profitability. Any limitation on the interest rates our bank subsidiaries can pay on deposits may competitively disadvantage us in attracting and retaining deposits, resulting in a material adverse effect on our business.

At December 31, 2019, we had \$12.2 billion in deposits, with approximately \$3.6 billion in money market deposits that are redeemable on demand and approximately \$8.6 billion in certificates of deposit.

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;
- 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.

Restrictions imposed by the indenture governing our senior notes, our credit agreement and our other outstanding or future indebtedness may limit our ability to operate our business and to finance our future operations or capital needs or to engage in other business activities.

The terms of the indenture governing our senior notes, our credit agreement and agreements governing our other debt instruments limit us and our subsidiaries from engaging in specified types of transactions. These covenants limit our and our subsidiaries' ability, among other things, to:

- incur additional debt;
- declare or pay dividends, redeem stock or make other distributions to stockholders;
- make investments;
- create liens or use assets as security in other transactions;
- merge or consolidate, or sell, transfer, lease or dispose of substantially all of our assets;
- enter into transactions with affiliates;
- sell or transfer certain assets; and
- enter into any consensual encumbrance or restriction on the ability of certain of our subsidiaries to pay dividends or make loans or sell assets to us.

As a result of these covenants and restrictions, we may be limited in how we conduct our business and we may be unable to raise additional indebtedness to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include more restrictive covenants. We cannot assure you that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the lenders and/or amend the covenants.

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

We have both fixed-rate and variable-rate debt, and are subject to interest rate risk in connection with the issuance of variable-rate debt. Our interest expense, net was \$569.0 million for the year ended December 31, 2019, treating our former Epsilon segment as a discontinued operation. 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 2019, a 1% increase or decrease in interest rates on our variable-rate debt would have resulted in a change to our interest expense of approximately \$83 million.

Our variable-rate indebtedness bears interest at fluctuating interest rates, primarily based on the London interbank offered rate (LIBOR) for deposits of U.S. dollars. LIBOR tends to fluctuate based on multiple factors, including general short-term interest rates, rates set by the U.S. Federal Reserve and other central banks, the supply of and demand for credit in the London interbank market and general economic conditions. At this time, we have not hedged our interest rate exposure with respect to our floating rate debt. Accordingly, our interest expense for any particular period will fluctuate based on LIBOR and other variable interest rates.

On July 27, 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established or if LIBOR continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index. These changes may have a negative impact on our interest expense and profitability.

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

As of February 20, 2020, we had an aggregate of 79,212,386 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 6,573,861 shares of our common stock for issuance under our employee stock purchase plan and our long-term incentive plans, of which 1,278,642 shares have been issued and 596,822 shares are issuable upon vesting of restricted stock awards and restricted stock units. We have reserved for issuance 1,500,000 shares of our common stock, 462,101 of which remain issuable, under our 401(k) and Retirement Savings Plan as of December 31, 2019. 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 in the 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.

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 July 2019 for the repurchase of up to \$1.1 billion of our common stock through June 30, 2020. 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. For the year ended December 31, 2019, foreign currency movements relative to the U.S. dollar negatively impacted our revenue by approximately \$45 million and negatively impacted our income from continuing operations before income taxes by approximately \$1 million.

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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (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 not yet known because some of the final implementing regulations have not yet been issued by the requisite federal agencies. 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.

Since October 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, including with respect to deferred interest products. 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 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. Further, 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. While the CFPB has taken public positions on certain matters, it is unclear what additional changes may 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, as implemented by regulations issued under the Truth in Lending 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 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.

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 banks' business, which could subject the banks 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 in settlement of the FDIC's review regarding the marketing, promotion and sale of certain add-on products; these consent orders were terminated in August 2018.

The effect of the Dodd-Frank Act on our business and operations, which will depend upon final implementing regulations, the actions of our competitors, the behavior of other marketplace participants and its interpretation and

enforcement by federal or state officials or regulators, could be significant. In addition, we may be required to invest significant management time and resources to address the provisions of the Dodd-Frank Act and the regulations that are required to be issued under it. The Dodd-Frank Act and any related legislation or regulations and their interpretation and enforcement 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 primarily in connection with financial services transactions that are relevant to our various businesses and services. In the United States, federal laws such as the Gramm-Leach-Bliley Act, or GLBA, and the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003, as well as similar and applicable state laws, 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. These laws give bank customers, including cardholders and depositors, the ability to "opt out" of having certain information generated by their applicable financial services transactions shared with other affiliated and unaffiliated parties or the public. Our ability to gather, share and utilize this data will be adversely affected if a significant percentage of the consumers whose purchasing behavior we track elect to "opt out," thereby precluding us and our affiliates from using their data.

In the United States, the federal Do-Not-Call Implementation Act makes it more difficult to telephonically communicate with prospective and existing customers. Similar measures were implemented in Canada beginning September 1, 2008. Regulations in both the United States and Canada give consumers the ability to "opt out," through a national do-not-call registry and state do-not-call registries, of having telephone solicitations placed to them by companies that do not have an existing business relationship with the consumer. In addition, regulations require companies to maintain an internal do-not-call list for those who do not want the companies to solicit them through telemarketing. These regulations could limit our ability to provide services and information to our clients. Failure to comply with these regulations could have a negative impact on our reputation and subject us to significant penalties. 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 the United States, California enacted the California Consumer Privacy Act, or CCPA, which went into effect on January 1, 2020. The CCPA creates new individual privacy rights for California consumers and places increased privacy and security obligations on entities handling certain personal data of consumers and households. The CCPA includes new and expanded disclosure requirements to consumers about companies' data collection, use and sharing practices; provides consumers new ways to opt-out of certain sales or transfers of personal information; and provides consumers with additional causes of action. The CCPA prohibits companies from discriminating against consumers who have opted out of the sale of their personal information, subject to a narrow exception. The CCPA provides for certain monetary

penalties and for enforcement of the statute by the California Attorney General or by consumers whose rights under the law are not observed. It also provides for damages, as well as injunctive or declaratory relief, if there has been unauthorized access, theft or disclosure of personal information due to failure to implement reasonable security procedures. The CCPA contains several exemptions, including a provision to the effect that the CCPA does not apply where the information is collected, processed, sold or disclosed pursuant to the GLBA if the GLBA is in conflict with the CCPA. It remains unclear what, if any, modifications will be made to the CCPA or how it will be interpreted.

Further, many other state governments are reviewing or proposing the need for greater regulation of the collection, processing, sharing and use of consumer data for marketing purposes or otherwise. This may result in new laws or regulations imposing additional compliance requirements.

In Canada, the Personal Information Protection and Electronic Documents Act, or PIPEDA, 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, or CASL, 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. CASL 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 CASL could have a negative impact on our reputation and subject us to significant monetary penalties.

On May 25, 2018, The General Data Protection Regulation, or GDPR, a European Union-wide legal framework to govern data collection, use and sharing and related consumer privacy rights came into force. The GDPR replaced the European Union Directive 95/46/EC and applies to and binds the 27 EU Member States. The GDPR details greater compliance obligations on organizations, including the implementation of a number of processes and policies around 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 (\$22 million as of December 31, 2019) or 4% of total annual worldwide revenue.

In general, GDPR, and other European Union and Member State specific privacy and data governance 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. Similarly, it is possible that in the future, U.S. and foreign jurisdictions may adopt legislation or regulations that impair our ability to effectively track consumers' use of our advertising services, such as the FTC's proposed "Do-Not-Track" standard or other legislation or regulations similar to EU Directive 2009/136/EC, commonly referred to as the "Cookie Directive," which directs EU Member States to ensure that accessing information on an internet user's computer, such as through a cookie, is allowed only if the internet user has given his or her consent. On January 31, 2020, the United Kingdom left the European Union and entered into a Brexit transition period. During this period, which runs until the end of December 2020, the GDPR will continue to apply to the United Kingdom. It is not yet known what the data protection landscape will look like at the end of the transition period.

There is also rapid development of new privacy laws and regulations 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 all 50 U.S. states and the District of Columbia have enacted data breach notification laws, there is no such U.S. federal law generally applicable to our businesses. Data breach notification legislation and regulations relating to mandatory reporting came into force in Canada on November 1, 2018. Data breach notification laws have been proposed widely and exist in other specific countries and jurisdictions in which we conduct business. Legislative and regulatory measures, such as mandatory breach notification provisions, impose, among other elements, strict requirements on reporting time frames and providing notice to individuals.

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, or any failure to comply with such changes, could have a material adverse impact on our loyalty and marketing services. Such changes could result in a negative impact to our reputation, an adverse effect on our profitability or an increase in our litigation exposure.

For example, Ontario's Protecting Rewards Points Act (Consumer Protection Amendment), 2016, and additional related regulations effective January 2018, prohibit suppliers from entering into or amending consumer agreements to provide for the expiry of rewards points due to the passage of time alone, while permitting the expiry of rewards points if the underlying consumer agreement is terminated and that agreement provides that reward points expire upon termination. Similar legislation pertaining to the expiry of rewards points due to the passage of time alone was passed in Quebec in 2017, with regulations taking effect in 2018 and 2019.

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;
- it does not accept any savings or time deposits of less than \$100,000, except for deposits pledged as collateral for its extensions of credit;
- it maintains only one office that accepts deposits; and
- it does not engage in the business of making commercial loans (except small business loans).

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

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

Operational and Other Risk

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

The failure of our suppliers to deliver products and services in sufficient quantities and in a timely manner could adversely affect our business, including, but not limited to, supply chain disruptions resulting from the current impacts of COVID-19. 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. Information security risks for large financial institutions have increased with the adoption of new technologies, including those used on mobile devices, to conduct financial and other business transactions, and the increased sophistication and activity level of threat actors. 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 network links 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 performance degradation from fire, power loss, network failure, cyber-attacks, including ransomware or denial of service attacks, 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 technology capabilities. Any damage to our data centers, or those of our third-party service providers, any failure of our network 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. Further, our competitors or other third parties may independently design around or develop similar technology, or otherwise duplicate our services or products in a way that would preclude us from asserting our intellectual property rights against them. In addition, our contractual arrangements may not effectively prevent disclosure of our intellectual property or confidential and proprietary information or provide an adequate remedy in the event of an unauthorized disclosure.

Our international operations, acquisitions and personnel subject us to complex U.S. and international laws and regulations, which if violated could subject us to penalties and other adverse consequences.

Our operations, acquisitions and employment of personnel outside the United States require us to comply with numerous complex laws and regulations of the U.S. government and the various international jurisdictions where we do business. These laws and regulations may apply to our company, or our individual directors, officers, employees or agents, and may restrict our operations, investment decisions or other activities. Specifically, we are subject to anti-corruption and anti-bribery laws and regulations, including, but not limited to, the U.S. Foreign Corrupt Practices Act, or FCPA; the U.K. Bribery Act 2010, or UKBA; and Canada's Corruption of Foreign Public Officials Act, or CFPOA. These 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 books and records that fairly and accurately reflect transactions and maintain an adequate system of internal accounting controls. 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 U.S. and international laws and regulations with which we are required to comply. Violations of such laws and regulations could subject us to penalties that could adversely affect our reputation, business, financial condition or results of operations. In addition, some international jurisdictions in which we operate could subject us to other obstacles, including lack of a developed legal system, elevated levels of corruption, strict currency controls, adverse tax consequences or foreign ownership requirements, difficult or lengthy regulatory approvals, or lack of enforcement for non-compete agreements.

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, including those relating to our Board's authority to issue series of preferred stock without further stockholder approval, our bylaws and our existing and future debt instruments, could discourage unsolicited proposals to acquire us, even though such proposals may be beneficial to our stockholders.

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

As of December 31, 2019, we lease approximately 50 general office properties worldwide, comprised of approximately three million square feet. These facilities are used to carry out our operational, sales and administrative functions. Our principal facilities are as follows:

<u>Location</u>	<u>Segment</u>	<u>Approximate Square Footage</u>	<u>Lease Expiration Date</u>
Plano, Texas	Corporate	67,274	June 30, 2026
Columbus, Ohio	Corporate, Card Services	567,006	September 12, 2032
Toronto, Ontario, Canada	LoyaltyOne	205,525	March 31, 2033
Mississauga, Ontario, Canada	LoyaltyOne	50,908	February 29, 2020
Den Bosch, Netherlands	LoyaltyOne	132,482	December 31, 2033
Maasbree, Netherlands	LoyaltyOne	668,923	September 1, 2033
Draper, Utah	Card Services	134,903	May 31, 2031
Columbus, Ohio	Card Services	103,161	December 31, 2027
Westminster, Colorado	Card Services	120,132	June 30, 2028
Couer D’Alene, Idaho	Card Services	114,000	July 31, 2038
Westerville, Ohio	Card Services	100,800	July 31, 2024
Wilmington, Delaware	Card Services	5,198	November 30, 2020

We believe our current 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 *Indemnification* in Note 18, “Commitments and Contingencies,” of the Notes to Consolidated Financial Statements.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information

Our common stock is listed on the New York Stock Exchange, or NYSE, and trades under the symbol “ADS.”

Holder

As of February 20, 2020, the closing price of our common stock was \$103.06 per share, there were 47,627,611 shares of our common stock outstanding, and there were 97 holders of record of our common stock.

Dividends

We paid cash dividends per share during the periods presented as follows:

	<u>Dividends Per Share</u>	<u>Amount (in millions)</u>
Year Ended December 31, 2019		
First quarter	\$ 0.63	\$ 33.9
Second quarter	0.63	33.1
Third quarter	0.63	30.4
Fourth quarter	0.63	30.0
Total cash dividends paid	<u>\$ 2.52</u>	<u>\$ 127.4</u>
Year Ended December 31, 2018		
First quarter	\$ 0.57	\$ 31.7
Second quarter	0.57	31.6
Third quarter	0.57	31.2
Fourth quarter	0.57	30.7
Total cash dividends paid	<u>\$ 2.28</u>	<u>\$ 125.2</u>

On January 30, 2020 our Board of Directors declared a quarterly cash dividend of \$0.63 per share on our common stock, payable on March 19, 2020 to stockholders of record at the close of business on February 14, 2020.

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

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

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
(Dollars in millions)				
During 2019:				
October 1-31	3,403	\$ 116.83	—	\$ 347.8
November 1-30	2,564	106.27	—	347.8
December 1-31	3,650	109.35	—	347.8
Total	9,617	\$ 111.18	—	\$ 347.8

⁽¹⁾ During the period represented by the table, 9,617 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⁾ In 2019, our Board of Directors authorized a new stock repurchase program to acquire up to \$1.1 billion of our outstanding common stock from July 5, 2019 through June 30, 2020. Our authorization is subject to any restrictions pursuant to the terms of our credit agreements and applicable securities laws or otherwise.

Performance Graph

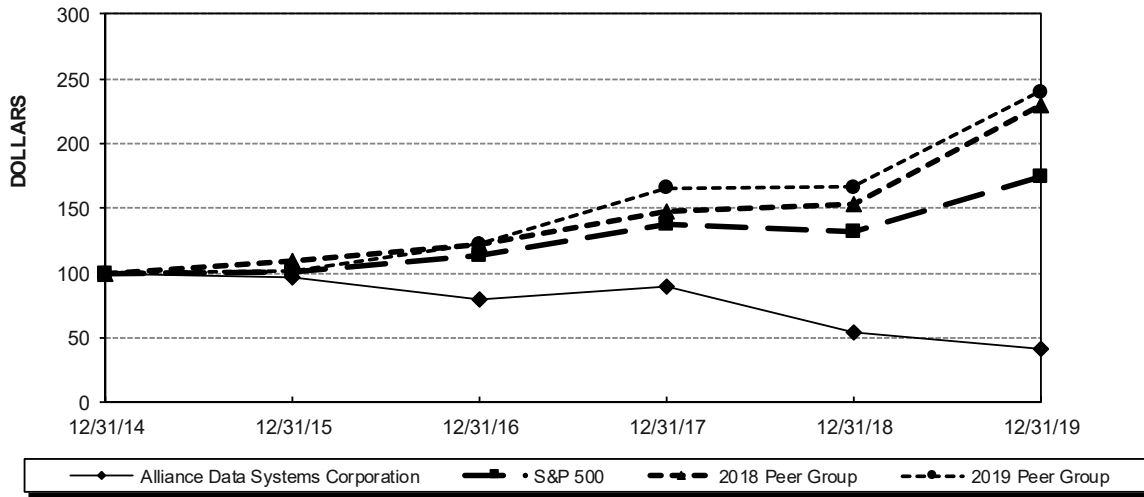
The following graph compares the yearly percentage change in cumulative total stockholder return on our common stock since December 31, 2014, with the cumulative total return over the same period of (1) the S&P 500 Index and (2) a peer group of sixteen companies selected by us and utilized in our prior Annual Report on Form 10-K, which we will refer to as the 2018 Peer Group Index, and (3) a new peer group of fifteen companies selected by us, which we will refer to as the 2019 Peer Group Index.

The sixteen companies in the 2018 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.

The fifteen companies in the 2019 Peer Group Index are PayPal Holdings, Inc., MasterCard Incorporated, Synchrony Financial, Discover Financial Services, Fifth Third Bancorp, Key Corp, Citizens Financial Group, Inc., Ally Financial Inc., M&T Bank Corporation, Regions Financial Corporation, Huntington Bancshares Incorporated, Santander Consumer USA Holdings Inc., Comerica Incorporated, SVB Financial Group and Popular, Inc. Management believes the new peer group taken as a whole provides a more meaningful comparison subsequent to the sale of Epsilon in July 2019.

Pursuant to rules of the SEC, the comparison assumes \$100 was invested on December 31, 2014 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.

**COMPARISON OF CUMULATIVE TOTAL RETURN*
AMONG ALLIANCE DATA SYSTEMS CORPORATION,
S&P 500 INDEX, 2018 PEER GROUP AND 2019 PEER GROUP**



*\$100 invested on 12/31/14 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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	<u>Alliance Data Systems Corporation</u>	<u>S&P 500</u>	<u>2018 Peer Group Index</u>	<u>2019 Peer Group Index</u>
December 31, 2014.	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
December 31, 2015.	96.69	101.38	109.78	101.61
December 31, 2016.	80.09	113.51	122.61	122.77
December 31, 2017.	89.65	138.29	147.82	165.75
December 31, 2018.	53.78	132.23	153.09	166.66
December 31, 2019.	40.98	173.86	230.35	240.21

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

Item 6. Selected Financial Data.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following table sets forth our summary historical consolidated financial information for the periods ended and as of the dates indicated. You should read the following historical consolidated financial information along with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this Form 10-K. The fiscal year financial information included in the table below for the year ended December 31, 2015 and as of December 31, 2015 has been recast to present our former Epsilon business as a discontinued operation and was derived from our audited consolidated financial statements.

	Years Ended December 31,				
	2019	2018	2017	2016	2015
	(in millions, except per share amounts)				
Income statement data					
Total revenue	\$ 5,581.3	\$ 5,666.6	\$ 5,474.7	\$ 5,013.2	\$ 4,327.3
Cost of operations (exclusive of amortization and depreciation disclosed separately below)	2,687.8	2,537.2	2,469.5	2,600.3	2,164.0
Provision for loan loss	1,187.5	1,016.0	1,140.1	940.5	668.2
General and administrative	150.6	162.5	159.3	135.6	132.7
Regulatory settlement	—	—	—	—	64.6
Depreciation and other amortization	79.9	80.7	73.7	67.3	60.3
Amortization of purchased intangibles	96.2	112.9	114.2	119.6	104.8
Loss on extinguishment of debt	71.9	—	—	—	—
Total operating expenses	<u>4,273.9</u>	<u>3,909.3</u>	<u>3,956.8</u>	<u>3,863.3</u>	<u>3,194.6</u>
Operating income	1,307.4	1,757.3	1,517.9	1,149.9	1,132.7
Interest expense, net	569.0	542.3	455.4	370.9	294.3
Income from continuing operations before income taxes	738.4	1,215.0	1,062.5	779.0	838.4
Provision for income taxes	165.8	269.5	293.3	298.8	294.1
Income from continuing operations	\$ 572.6	\$ 945.5	\$ 769.2	\$ 480.2	\$ 544.3
(Loss) income from discontinued operations, net of taxes	(294.6)	17.6	19.5	37.4	61.1
Net income	\$ 278.0	\$ 963.1	\$ 788.7	\$ 517.6	\$ 605.4
Less: Net income attributable to non-controlling interest	—	—	—	1.8	8.9
Net income attributable to common stockholders	<u>\$ 278.0</u>	<u>\$ 963.1</u>	<u>\$ 788.7</u>	<u>\$ 515.8</u>	<u>\$ 596.5</u>
Basic income attributable to common stockholders per share:					
Income from continuing operations	\$ 11.25	\$ 17.24	\$ 13.82	\$ 6.73	\$ 7.93
(Loss) income from discontinued operations	\$ (5.89)	\$ 0.32	\$ 0.35	\$ 0.64	\$ 0.98
Net income attributable to common stockholders per share	<u>\$ 5.36</u>	<u>\$ 17.56</u>	<u>\$ 14.17</u>	<u>\$ 7.37</u>	<u>\$ 8.91</u>
Diluted income attributable to common stockholders per share:					
Income from continuing operations	\$ 11.24	\$ 17.17	\$ 13.75	\$ 6.71	\$ 7.87
(Loss) income from discontinued operations	\$ (5.78)	\$ 0.32	\$ 0.35	\$ 0.63	\$ 0.98
Net income attributable to common stockholders per share	<u>\$ 5.46</u>	<u>\$ 17.49</u>	<u>\$ 14.10</u>	<u>\$ 7.34</u>	<u>\$ 8.85</u>
Weighted average shares:					
Basic	<u>50.0</u>	<u>54.9</u>	<u>55.7</u>	<u>58.6</u>	<u>61.9</u>
Diluted	<u>50.9</u>	<u>55.1</u>	<u>55.9</u>	<u>58.9</u>	<u>62.3</u>
Dividends declared per share:	<u>\$ 2.52</u>	<u>\$ 2.28</u>	<u>\$ 2.08</u>	<u>\$ 0.52</u>	<u>\$ —</u>

	As of December 31,				
	2019	2018	2017 (in millions)	2016	2015
Balance sheet data					
Credit card and loan receivables, net	\$ 18,292.0	\$ 16,816.7	\$ 17,494.5	\$ 15,595.9	\$ 13,057.9
Redemption settlement assets, restricted	600.8	558.6	589.5	324.4	456.6
Total assets	26,494.8	30,387.7	30,684.8	25,514.1	22,349.9
Deferred revenue	922.0	875.3	966.9	931.5	844.9
Deposits	12,151.7	11,793.7	10,930.9	8,391.9	5,605.9
Non-recourse borrowings of consolidated securitization entities	7,284.0	7,651.7	8,807.3	6,955.4	6,482.7
Long-term and other debt, including current maturities	2,849.9	5,725.4	6,070.9	5,595.4	5,017.4
Total liabilities	24,906.5	28,055.6	28,829.5	23,855.9	20,172.5
Redeemable non-controlling interest	—	—	—	—	167.4
Total stockholders' equity	1,588.3	2,332.1	1,855.3	1,658.2	2,010.0
Years Ended December 31,					
	2019	2018	2017 (in millions)	2016	2015
Cash flow data					
Cash flows from operating activities	\$ 1,217.7	\$ 2,754.9	\$ 2,599.1	\$ 2,127.2	\$ 1,761.4
Cash flows from investing activities	\$ 2,860.8	\$ (1,872.0)	\$ (4,268.1)	\$ (4,291.5)	\$ (3,298.7)
Cash flows from financing activities	\$ (4,091.7)	\$ (1,217.9)	\$ 4,004.9	\$ 2,637.4	\$ 1,718.9
Other financial data ⁽¹⁾					
Adjusted EBITDA	\$ 1,710.3	\$ 1,995.3	\$ 1,747.1	\$ 1,620.0	\$ 1,404.9
Adjusted EBITDA, net	\$ 1,271.3	\$ 1,609.4	\$ 1,465.4	\$ 1,404.2	\$ 1,223.3
Segment operating data					
Credit card statements generated	281.1	300.7	296.7	279.4	242.3
Credit sales	\$ 30,986.9	\$ 30,702.3	\$ 31,001.6	\$ 29,271.3	\$ 24,736.1
Average credit card and loan receivables	\$ 17,298.2	\$ 17,412.1	\$ 16,185.5	\$ 14,085.8	\$ 11,364.6
AIR MILES reward miles issued	5,511.1	5,500.0	5,524.2	5,772.3	5,743.1
AIR MILES reward miles redeemed	4,415.7	4,482.0	4,552.1	7,071.6	4,406.3

⁽¹⁾ 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 income from continuing operations, the most directly comparable GAAP financial measure.

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

Overview

We are a leading global provider of data-driven marketing and loyalty solutions serving large, consumer-based industries. We create and deploy customized solutions, enhancing the critical customer marketing experience and measurably changing consumer behavior while driving business growth and profitability for some of today’s most recognizable brands. We help our clients create and increase customer loyalty through solutions that engage millions of customers each day across multiple touch points using traditional, digital, mobile and emerging technologies. We operate under two segments—LoyaltyOne and Card Services. Our LoyaltyOne business owns and operates the AIR MILES Reward Program, Canada’s most recognized loyalty program, and Netherlands-based BrandLoyalty, a global provider of tailor-made loyalty programs for grocers. Our Card Services business is a provider of private label, co-brand, and business credit card programs. Effective March 31, 2019, our Epsilon segment was treated as a discontinued operation, and was subsequently sold on July 1, 2019.

Year in Review

While our financial results did not meet original expectations, we made several strategic changes and achieved certain objectives during the year ended December 31, 2019.

Organizational Changes

On June 5, 2019, the Board of Directors of Alliance Data appointed Melisa A. Miller, who led Alliance Data’s Card Services business, as Alliance Data’s President and Chief Executive Officer as well as a Director of the Company. She succeeded Ed Heffernan who announced his resignation as President and Chief Executive Officer and as a Director of the Company.

On November 18, 2019, we announced that Ralph Andretta had been selected Alliance Data’s President and Chief Executive Officer as well as a Director of the Company, which appointment became effective February 3, 2020. Melisa Miller stepped down from those positions in November 2019 but continued to serve the Company in an advisory capacity through February 16, 2020. Charles Horn, Executive Vice President, served as acting Chief Executive Officer until the effective date of Mr. Andretta’s appointment and will continue to focus his attention on international operations, operating efficiencies and strategic initiatives.

Additionally, during 2019, executive management and the Board of Directors evaluated the cost structure and potential cost saving initiatives throughout the organization. As a result, we incurred \$118.1 million in restructuring and other charges in 2019 to streamline our cost structure, as described in more detail in Note 14, “Restructuring and Other Charges,” of the Notes to Consolidated Financial Statements.

Capital Transactions

On July 1, 2019, we sold our former Epsilon segment to Publicis Groupe S.A. for \$4.4 billion in cash. We incurred approximately \$79.0 million in transaction costs for the year ended December 31, 2019 and recorded a \$512.2 million pre-tax gain (\$252.1 million after-tax loss) on sale.

In July 2019, proceeds from the sale of Epsilon were used to extinguish all of our outstanding senior notes of \$1.9 billion and to make a mandatory payment of \$500.0 million on our revolving credit facility, which reduced available credit commitments in the same amount.

During 2019, we repurchased approximately 6.3 million shares of our common stock for aggregate consideration of \$976.1 million and paid dividends and dividend equivalent rights of \$127.4 million.

During 2019, we purchased four credit card portfolios for aggregate cash consideration of \$924.8 million and sold 13 credit card portfolios for aggregate cash consideration of \$2,061.8 million.

In December 2019, we issued and sold \$850.0 million aggregate principal amount of 4.750% senior notes due December 15, 2024. The net proceeds of \$833.0 million were used to make a prepayment of our term debt under the credit agreement. We also amended our credit agreement, extending the maturity date from June 14, 2021 to December 31, 2022. As amended, our credit agreement provides for a \$2,028.8 million term loan and a \$750.0 million revolving line of credit.

Consolidated Results of Operations

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 to 2018	2018 to 2017
	(in millions, except percentages)				
Revenues					
Services	\$ 215.5	\$ 295.4	\$ 367.5	(27)%	(20)%
Redemption, net	637.3	676.3	935.3	(6)	(28)
Finance charges, net	4,728.5	4,694.9	4,171.9	1	13
Total revenue	5,581.3	5,666.6	5,474.7	(2)	4
Operating expenses					
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	2,687.8	2,537.2	2,469.5	6	3
Provision for loan loss	1,187.5	1,016.0	1,140.1	17	(11)
General and administrative	150.6	162.5	159.3	(7)	2
Depreciation and other amortization	79.9	80.7	73.7	(1)	10
Amortization of purchased intangibles	96.2	112.9	114.2	(15)	(1)
Loss on extinguishment of debt	71.9	—	—	100	—
Total operating expenses	4,273.9	3,909.3	3,956.8	9	(1)
Operating income	1,307.4	1,757.3	1,517.9	(26)	16
Interest expense					
Securitization funding costs	213.4	220.2	156.6	(3)	41
Interest expense on deposits	225.6	165.7	125.1	36	32
Interest expense on long-term and other debt, net	130.0	156.4	173.7	(17)	(10)
Total interest expense, net	569.0	542.3	455.4	5	19
Income from continuing operations before income taxes	738.4	1,215.0	1,062.5	(39)	14
Provision for income taxes	165.8	269.5	293.3	(38)	(8)
Income from continuing operations	572.6	945.5	769.2	(39)	23
(Loss) income from discontinued operations, net of taxes	(294.6)	17.6	19.5	nm*	(10)
Net income	\$ 278.0	\$ 963.1	\$ 788.7	(71)%	22%
Key Operating Metrics:					
Credit card statements generated	281.1	300.7	296.7	(7)%	1%
Credit sales	\$ 30,986.9	\$ 30,702.3	\$ 31,001.6	1%	(1)%
Average credit card and loan receivables	\$ 17,298.2	\$ 17,412.1	\$ 16,185.5	(1)%	8%
AIR MILES reward miles issued	5,511.1	5,500.0	5,524.2	—%	—%
AIR MILES reward miles redeemed	4,415.7	4,482.0	4,552.1	(1)%	(2)%

* not meaningful

Year ended December 31, 2019 compared to the year ended December 31, 2018

Revenue. Total revenue decreased \$85.3 million, or 2%, to \$5,581.3 million for the year ended December 31, 2019 from \$5,666.6 million for the year ended December 31, 2018. The net decrease was due to the following:

- **Services.** Revenue decreased \$79.9 million, or 27%, to \$215.5 million for the year ended December 31, 2019 primarily as a result of a \$109.0 million decrease in merchant fee revenue due to increased royalty payments to our retailers, including new clients, and a \$10.0 million decrease in other servicing fees charged to cardholders due to a decline in revenue from certain payment protection products. These decreases were offset in part by a \$35.5 million increase in other servicing revenue, resulting from fees generated from servicing certain third-party credit card receivables.
- **Redemption.** Revenue decreased \$39.0 million, or 6%, to \$637.3 million for the year ended December 31, 2019. Redemption revenue from our coalition loyalty program decreased \$46.4 million due to the net presentation of \$43.0 million of revenue from the outsourcing of additional rewards inventory during the year ended December 31, 2019. Redemption revenue from our short-term loyalty programs increased \$7.4 million due to strong performance in Europe, Asia and Brazil, offset in part by the decline in the Euro relative to the U.S. dollar.
- **Finance charges, net.** Revenue increased \$33.6 million, or 1%, to \$4,728.5 million for the year ended December 31, 2019. The increase was driven by a 1% increase in normalized average receivables, which includes receivables held for sale that increased revenue by \$53.3 million, offset in part by an approximate 10 basis point decrease in finance charge yield, which decreased revenue by \$19.7 million.

Cost of operations. Cost of operations increased \$150.6 million, or 6%, to \$2,687.8 million for the year ended December 31, 2019 as compared to \$2,537.2 million for the year ended December 31, 2018. The net increase was due to the following:

- Within the LoyaltyOne segment, cost of operations increased \$23.4 million due primarily to \$50.8 million of restructuring and other charges incurred during the year ended December 31, 2019. See Note 14, “Restructuring and Other Charges,” of the Notes to Consolidated Financial Statements. Additionally, data processing expense increased \$21.2 million driven by an increase in outsourced technology costs. These increases were offset in part by the net presentation of \$43.0 million in cost of redemptions within our coalition loyalty program as discussed in revenue above.
- Within the Card Services segment, cost of operations increased \$127.2 million due primarily to an \$88.1 million increase in valuation adjustments to certain portfolios within credit card receivables held for sale and \$29.4 million of restructuring and other charges incurred during the year ended December 31, 2019. See Note 14, “Restructuring and Other Charges,” of the Notes to Consolidated Financial Statements.

Provision for loan loss. Provision for loan loss increased \$171.5 million, or 17%, to \$1,187.5 million for the year ended December 31, 2019 as compared to \$1,016.0 million for the year ended December 31, 2018, as principal loss rates stabilized in 2019 as compared to improved in 2018. Additionally, end of period credit card and loan receivables increased in the current year as compared to the prior year.

General and administrative. General and administrative expenses decreased \$11.9 million, or 7%, to \$150.6 million for the year ended December 31, 2019 as compared to \$162.5 million for the year ended December 31, 2018, driven by cost saving initiatives implemented in the first half of 2019, which among other items included reduced headcount, office space, charitable contributions and overall corporate overhead costs. These declines were offset in part by the \$37.9 million in restructuring costs and \$10.7 million in strategic transaction costs incurred in the current year. See Note 14, “Restructuring and Other Charges,” of the Notes to Consolidated Financial Statements.

Depreciation and other amortization. Depreciation and other amortization decreased \$0.8 million, or 1%, to \$79.9 million for the year ended December 31, 2019, as compared to \$80.7 million for the year ended December 31, 2018, due to certain fully depreciated property and equipment at LoyaltyOne, offset in part by additional assets placed into service from recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles decreased \$16.7 million, or 15%, to \$96.2 million for the year ended December 31, 2019, as compared to \$112.9 million for the year ended December 31, 2018, primarily due to certain fully amortized intangible assets, including portfolio premiums and customer contracts.

Loss on extinguishment of debt. For the year ended December 31, 2019, we recorded a \$71.9 million loss on extinguishment of debt resulting from the \$49.9 million redemption price of the senior notes and the write-off of \$22.0 million deferred issuance costs related to the July 2019 early extinguishment of \$1.9 billion outstanding senior notes and the amendment to the credit agreement, which was effective upon the consummation of the sale of Epsilon.

Interest expense, net. Total interest expense, net increased \$26.7 million, or 5%, to \$569.0 million for the year ended December 31, 2019 as compared to \$542.3 million for the year ended December 31, 2018. The net increase was due to the following:

- *Securitization funding costs.* Securitization funding costs decreased \$6.8 million due to lower average borrowings, which decreased funding costs by approximately \$30.5 million, offset in part by higher average interest rates, which increased funding costs by approximately \$23.7 million.
- *Interest expense on deposits.* Interest expense on deposits increased \$59.9 million due to higher average interest rates, which increased interest expense by approximately \$49.4 million, and higher average borrowings, which increased interest expense by approximately \$10.5 million.
- *Interest expense on long-term and other debt, net.* Interest expense on long-term and other debt, net decreased \$26.4 million primarily due to a \$9.5 million increase in interest income earned on the excess proceeds from the Epsilon sale on July 1, 2019 and a \$6.9 million decrease in interest expense due to the early redemption of senior notes due in 2020 in April 2018, offset in part by the issuance of senior notes in December 2019. Additionally, interest expense on the revolving line of credit decreased \$4.3 million due to lower average

borrowings in the current year, while interest expense on the BrandLoyalty credit agreement decreased \$1.8 million due to the September 2019 repayment and amortization of debt issuance costs decreased \$2.2 million due to the redemption of senior notes in 2019.

Taxes. Provision for income taxes decreased \$103.7 million, or 38%, to \$165.8 million for the year ended December 31, 2019 from \$269.5 million for the year ended December 31, 2018, primarily related to a decrease in taxable income. The effective tax rate for the current year period was 22.5% as compared to 22.2% for the prior year period.

(Loss) income from discontinued operations, net of taxes. Loss from discontinued operations, net of taxes was (\$294.6) million for the year ended December 31, 2019 as compared to income from discontinued operations of \$17.6 million for the year ended December 31, 2018, due to the after-tax loss on the sale of Epsilon completed July 1, 2019 and a loss contingency as described in Note 18, "Commitments and Contingencies," of the Notes to Consolidated Financial Statements. For the year ended December 31, 2018, loss from discontinued operations, net of taxes represents results of operations from our former Epsilon segment, as well as certain direct costs identifiable to the Epsilon segment and allocations of interest expense on corporate debt.

Year ended December 31, 2018 compared to the year ended December 31, 2017

Revenue. Total revenue increased \$191.9 million, or 4%, to \$5,666.6 million for the year ended December 31, 2018 from \$5,474.7 million for the year ended December 31, 2017. The net increase was due to the following:

- *Services.* Revenue decreased \$72.1 million, or 20%, to \$295.4 million for the year ended December 31, 2018 primarily due to a \$75.2 million decrease in merchant fee revenue due to increased royalty payments to our retailers associated with higher volumes and new clients.
- *Redemption.* Revenue decreased \$259.0 million, or 28%, to \$676.3 million for the year ended December 31, 2018. Upon adoption of ASC 606, certain redemption revenue for which we do not control the good or service prior to transferring it to the collector is recorded on a net basis, which reduced both redemption revenue and cost of operations by \$283.4 million for the year ended December 31, 2018. This decrease was partially offset by an increase of \$38.3 million in redemption revenue from our short-term loyalty programs due to an increase in the number of active programs in market as compared to the prior year.
- *Finance charges, net.* Revenue increased \$523.0 million, or 13%, to \$4,694.9 million for the year ended December 31, 2018. This increase was driven by an 8% increase in average credit card and loan receivables, which impacted revenue by \$485.9 million through a combination of recent credit card portfolio acquisitions and new client signings, and an increase in net finance charge yield of approximately 20 basis points, which increased revenue by \$37.1 million.

Cost of operations. Cost of operations increased \$67.7 million, or 3%, to \$2,537.2 million for the year ended December 31, 2018 as compared to \$2,469.5 million for the year ended December 31, 2017. The net increase resulted from the following:

- Within the LoyaltyOne segment, cost of operations decreased \$230.6 million due to a \$237.7 million decrease in cost of redemptions. This decrease in cost of redemptions was driven by a \$283.4 million decrease related to the adoption of ASC 606 as discussed above, offset in part by the increase in cost of redemptions related to our short-term loyalty programs due to the increase in revenue.
- Within the Card Services segment, cost of operations increased \$298.3 million due to \$101.6 million in valuation adjustments to certain portfolios within credit card receivables held for sale, a \$67.4 million increase in payroll and benefit expenses to support in-house collections and operational initiatives, and higher credit card processing costs attributable to increases in volume.

Provision for loan loss. Provision for loan loss decreased \$124.1 million, or 11%, to \$1,016.0 million for the year ended December 31, 2018 as compared to \$1,140.1 million for the year ended December 31, 2017, due to the change in credit card and loan receivables in each respective period, including the impact of the classification of credit card receivables held for sale, offset in part by an increase in net charge-offs.

General and administrative. General and administrative expenses increased \$3.2 million, or 2%, to \$162.5 million for the year ended December 31, 2018 as compared to \$159.3 million for the year ended December 31, 2017, due to an increase in professional fees, medical benefits and charitable contributions, which were offset in part by a decrease in net foreign currency exchange losses realized and a decrease in incentive compensation driven by bonuses in 2017 to our non-executive associates resulting from tax reform benefits.

Depreciation and other amortization. Depreciation and other amortization increased \$7.0 million, or 10%, to \$80.7 million for the year ended December 31, 2018, as compared to \$73.7 million for the year ended December 31, 2017, due to additional assets placed into service from capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles decreased \$1.3 million, or 1%, to \$112.9 million for the year ended December 31, 2018, as compared to \$114.2 million for the year ended December 31, 2017, primarily due to certain fully amortized intangible assets, including portfolio premiums.

Interest expense, net. Total interest expense, net increased \$86.9 million, or 19%, to \$542.3 million for the year ended December 31, 2018 as compared to \$455.4 million for the year ended December 31, 2017. The net increase was due to the following:

- *Securitization funding costs.* Securitization funding costs increased \$63.6 million due to higher average interest rates, which increased funding costs by approximately \$36.6 million, and higher average borrowings, which increased funding costs by approximately \$27.0 million.
- *Interest expense on deposits.* Interest expense on deposits increased \$40.6 million due to higher average borrowings, which increased interest expense by approximately \$21.8 million, and higher average interest rates, which increased interest expense by approximately \$18.8 million.
- *Interest expense on long-term and other debt, net.* Interest expense on long-term and other debt, net decreased \$17.3 million due to a \$42.7 million decrease in interest expense on senior notes primarily due to the repayment of senior notes due 2017 in December 2017 and senior notes due 2020 in April 2018, offset in part by a \$26.5 million increase in interest expense on term debt due to higher average interest rates due to increases in the LIBOR rate.

Taxes. Provision for income taxes decreased \$23.8 million, or 8%, to \$269.5 million for the year ended December 31, 2018 from \$293.3 million for the year ended December 31, 2017, due to the reduction in the federal statutory rate pursuant to tax reform enacted in December 2017. The effective tax rate for the year ended December 31, 2018 decreased to 22.2% as compared to 27.6% for the year ended December 31, 2017. Additionally, income tax expense in 2018 was positively impacted by a tax benefit associated with a foreign restructuring.

Income from discontinued operations, net of taxes. Income from discontinued operations, net of taxes decreased \$1.9 million, or 10%, to \$17.6 million for the year ended December 31, 2018 from \$19.5 million the year ended December 31, 2017. Income from discontinued operations, net of taxes represents results of operations from our former Epsilon segment, as well as certain direct costs identifiable to the Epsilon segment and allocations of interest expense on corporate debt.

Use of Non-GAAP Financial Measures

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

In 2019, adjusted EBITDA excluded costs for professional services associated with strategic initiatives, restructuring and other charges as detailed in Note 14, "Restructuring and Other Charges," of the Notes to Consolidated Financial Statements, and loss related to the extinguishment of debt in July 2019. 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. 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. Effective April 1, 2016, we acquired the remaining 20% interest in BrandLoyalty, which increased our ownership percentage to 100%.

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

The adjusted EBITDA and adjusted EBITDA, net measures presented in this 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,				
	2019	2018	2017	2016	2015
	(in millions)				
Income from continuing operations	\$ 572.6	\$ 945.5	\$ 769.2	\$ 480.2	\$ 544.3
Stock compensation expense	25.1	44.4	41.3	41.5	42.5
Provision for income taxes	165.8	269.5	293.3	298.8	294.1
Interest expense, net	569.0	542.3	455.4	370.9	294.3
Depreciation and other amortization	79.9	80.7	73.7	67.3	60.3
Amortization of purchased intangibles	96.2	112.9	114.2	119.6	104.8
Impact of expiry ⁽¹⁾	—	—	—	241.7	—
Regulatory settlement ⁽²⁾	—	—	—	—	64.6
Strategic transaction costs ⁽³⁾	11.7	—	—	—	—
Restructuring and other charges ⁽⁴⁾	118.1	—	—	—	—
Loss on extinguishment of debt ⁽⁵⁾	71.9	—	—	—	—
Adjusted EBITDA	<u>\$ 1,710.3</u>	<u>\$ 1,995.3</u>	<u>\$ 1,747.1</u>	<u>\$ 1,620.0</u>	<u>\$ 1,404.9</u>
Less: Securitization funding costs	213.4	220.2	156.6	125.6	97.1
Less: Interest expense on deposits	225.6	165.7	125.1	84.7	53.6
Less: Adjusted EBITDA attributable to non-controlling interest	—	—	—	5.5	30.9
Adjusted EBITDA, net	<u>\$ 1,271.3</u>	<u>\$ 1,609.4</u>	<u>\$ 1,465.4</u>	<u>\$ 1,404.2</u>	<u>\$ 1,223.3</u>

- (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 costs for professional services associated with strategic initiatives.
- (4) Represents costs associated with restructuring or other exit activities. See Note 14, "Restructuring and Other Charges," of the Notes to Consolidated Financial Statements for more information.
- (5) Represents loss on extinguishment of debt resulting from the redemption price of senior notes and the write-off of deferred issuance costs related to the July 2019 early extinguishment of \$1.9 billion outstanding senior notes and the amendment to the

credit agreement, which was effective upon the consummation of the sale of Epsilon. See Note 16, “Debt,” of the Notes to Consolidated Financial Statements for more information.

Segment Revenue and Adjusted EBITDA, net

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 to 2018	2018 to 2017
	(in millions, except percentages)				
Revenue:					
LoyaltyOne	\$ 1,033.1	\$ 1,068.4	\$ 1,303.5	(3)%	(18)%
Card Services	4,547.8	4,597.6	4,170.6	(1)	10
Corporate/Other	0.4	0.6	0.6	nm *	nm *
Total	\$ 5,581.3	\$ 5,666.6	\$ 5,474.7	(2)%	4 %
Adjusted EBITDA, net:					
LoyaltyOne	\$ 244.5	\$ 254.2	\$ 256.7	(4)%	(1)%
Card Services	1,119.7	1,496.0	1,344.9	(25)	11
Corporate/Other	(92.9)	(140.8)	(136.2)	(34)	3
Total	\$ 1,271.3	\$ 1,609.4	\$ 1,465.4	(21)%	10 %

* not meaningful

Year ended December 31, 2019 compared to the year ended December 31, 2018

Revenue. Total revenue decreased \$85.3 million, or 2%, to \$5,581.3 million for the year ended December 31, 2019 from \$5,666.6 million for the year ended December 31, 2018. The decrease was due to the following:

- **LoyaltyOne.** Revenue decreased \$35.3 million, or 3%, to \$1,033.1 million for the year ended December 31, 2019, impacted by the decline in both the Euro and the Canadian dollar relative to the U.S. dollar, which resulted in a \$45.0 million decrease in revenue, and by a \$43.0 million decrease in revenue related to the outsourcing of additional rewards inventory recorded on a net basis. The declines were partially offset by strong performance in Europe, Asia and Brazil related to our short-term loyalty programs.
- **Card Services.** Revenue decreased \$49.8 million, or 1%, to \$4,547.8 million for the year ended December 31, 2019, driven by a \$109.0 million decrease in merchant fees as a result of increased payments associated with new clients and a \$10.0 million decrease in other servicing fees charged to cardholders related to certain payment protection products. These decreases were offset in part by a \$35.5 million increase in other servicing revenue related to fees generated from servicing certain third-party credit card receivables and a \$33.6 million increase in finance charges, net due to an increase in normalized average receivables for the year ended December 31, 2019.

Adjusted EBITDA, net. Adjusted EBITDA, net decreased \$338.1 million, or 21%, to \$1,271.3 million for the year ended December 31, 2019 from \$1,609.4 million for the year ended December 31, 2018. The net decrease was due to the following:

- **LoyaltyOne.** Adjusted EBITDA, net decreased \$9.7 million, or 4%, to \$244.5 million for the year ended December 31, 2019, as a result of an unfavorable foreign exchange rate impact due to the decline in both the Euro and the Canadian dollar relative to the U.S. dollar, which resulted in an \$8.3 million decrease in adjusted EBITDA, net. Restructuring and other charges of \$50.8 million and strategic transaction costs of \$1.0 million were excluded from adjusted EBITDA, net for the year ended December 31, 2019.
- **Card Services.** Adjusted EBITDA, net decreased \$376.3 million, or 25%, to \$1,119.7 million for the year ended December 31, 2019 primarily due to a \$171.5 million increase in provision for loan loss, an \$88.1 million increase in valuation adjustments to certain portfolios within credit card receivables held for sale and a \$53.1 million increase in funding costs in the current year. Restructuring and other charges of \$29.4 million were excluded from adjusted EBITDA, net for the year ended December 31, 2019.
- **Corporate/Other.** Adjusted EBITDA, net improved \$47.9 million to a loss of \$92.9 million for the year ended December 31, 2019 due to cost saving initiatives implemented in the first half of 2019, which among other

items included reduced headcount, office space, charitable contributions and overall corporate overhead costs. Loss on extinguishment of debt of \$71.9 million, restructuring costs of \$37.9 million and strategic transaction costs of \$10.7 million were excluded from adjusted EBITDA, net for the year ended December 31, 2019.

Year ended December 31, 2018 compared to the year ended December 31, 2017

Revenue. Total revenue increased \$191.9 million, or 4%, to \$5,666.6 million for the year ended December 31, 2018 from \$5,474.7 million for the year ended December 31, 2017. The net increase was due to the following:

- *LoyaltyOne.* Revenue decreased \$235.1 million, or 18%, to \$1,068.4 million for the year ended December 31, 2018 primarily due to the adoption of ASC 606, which negatively impacted revenue by \$283.4 million. This decrease was offset in part by a 12% increase in revenue from our short-term loyalty programs primarily due to an increase in the number of active programs in market.
- *Card Services.* Revenue increased \$427.0 million, or 10%, to \$4,597.6 million for the year ended December 31, 2018, driven by a \$523.0 million increase in finance charges, net as a result of an 8% increase in average credit card and loan receivables. This increase was offset in part by a decrease in servicing fees of \$96.0 million, as merchant fee revenue declined \$75.2 million due to increased royalty payments to our retailers associated with higher volumes and new clients, and other servicing fees charged to cardholders declined \$19.2 million due in part to a decline in revenue from certain payment protection products.

Adjusted EBITDA, net. Adjusted EBITDA, net increased \$144.0 million, or 10%, to \$1,609.4 million for the year ended December 31, 2018 from \$1,465.4 million for the year ended December 31, 2017. The net increase was due to the following:

- *LoyaltyOne.* Adjusted EBITDA, net decreased \$2.5 million, or 1%, to \$254.2 million for the year ended December 31, 2018, as a result of lower margin programs in key markets within our short-term loyalty programs and weakened performance in Asia.
- *Card Services.* Adjusted EBITDA, net increased \$151.1 million, or 11%, to \$1,496.0 million for the year ended December 31, 2018. Adjusted EBITDA, net was positively impacted by an increase in finance charges, net and a decrease in the provision for loan loss, but offset in part by valuation adjustments to certain portfolios within credit card receivables held for sale, higher funding costs, and an increase in payroll and benefit expenses to support in-house collections and operational initiatives.
- *Corporate/Other.* Adjusted EBITDA, net decreased \$4.6 million to a loss of \$140.8 million for the year ended December 31, 2018 due to an increase in professional fees, medical benefits and charitable contributions, which were offset by a decrease in net foreign currency exchange losses realized and a decrease in incentive compensation driven by bonuses in 2017 to our non-executive associates resulting from tax reform 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 if 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:

	<u>December 31,</u> <u>2019</u>	<u>% of</u> <u>Total</u>	<u>December 31,</u> <u>2018</u>	<u>% of</u> <u>Total</u>
	(in millions, except percentages)			
Receivables outstanding - principal	\$ 18,413.1	100.0 %	\$ 16,869.9	100.0 %
Principal receivables balances contractually delinquent:				
31 to 60 days	\$ 337.4	1.8 %	\$ 303.2	1.8 %
61 to 90 days	233.6	1.3	207.9	1.3
91 or more days	496.5	2.7	443.4	2.6
Total	<u>\$ 1,067.5</u>	<u>5.8 %</u>	<u>\$ 954.5</u>	<u>5.7 %</u>

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

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

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in millions, except percentages)		
Average credit card and loan receivables	\$ 17,298.2	\$ 17,412.1	\$ 16,185.5
Net charge-offs of principal receivables	1,054.7	1,067.2	970.9
Net charge-offs as a percentage of average credit card and loan receivables	6.1 %	6.1 %	6.0 %

Liquidity and Capital Resources

Our primary sources of liquidity include cash generated from operating activities, our credit agreements and issuances of debt or equity securities, our credit card securitization program and deposits issued by Comenity Bank and Comenity Capital Bank. In addition to our efforts to renew and expand our current liquidity sources, we continue to seek new funding sources. In April 2019, Comenity Capital Bank launched a consumer retail deposit platform, Comenity Direct™, to the public; retail deposits comprised approximately \$1.2 billion of our \$12.2 billion deposits outstanding at December 31, 2019.

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, and may be funded through the issuance of debt securities. The amounts involved may be material.

On July 1, 2019, we sold our former Epsilon segment to Publicis Groupe S.A. for \$4.4 billion in cash. Proceeds were used for the repayment of corporate debt, share repurchases, and payment of taxes associated with the sale.

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

Cash Flow Activity

Operating Activities. We generated cash flow from operating activities of \$1,217.7 million and \$2,754.9 million for the years ended December 31, 2019 and 2018, respectively. The decrease in operating cash flows of \$1,537.2 million during the year ended December 31, 2019 was primarily due to lower profitability and the sale of Epsilon in July 2019.

Investing Activities. Cash provided by investing activities was \$2,860.8 million for the year ended December 31, 2019, and cash used in investing activities was \$1,872.0 million for the year ended December 31, 2018. Significant components of investing activities are as follows:

- *Credit card and loan receivables.* Cash decreased \$2,586.8 million and \$2,749.6 million for the years ended December 31, 2019 and 2018, respectively, due to growth in credit card and loan receivables in each respective year.
- *Proceeds from sale of business.* Cash increased \$4,409.7 million for the year ended December 31, 2019 due to the sale of Epsilon on July 1, 2019.
- *Purchase of credit card portfolios.* During the year ended December 31, 2019, we paid cash consideration of \$924.8 million to acquire four credit card portfolios. No credit card portfolios were acquired in 2018.
- *Proceeds from sale of credit card portfolios.* During the year ended December 31, 2019, we received cash consideration of \$2,061.8 million from the sale of 13 credit card portfolios. During the year ended December 31, 2018, we received cash consideration of \$1,153.5 million from the sale of six credit card portfolios.
- *Capital expenditures.* Cash paid for capital expenditures was \$142.3 million and \$199.8 million for the years ended December 31, 2019 and 2018, respectively. We anticipate capital expenditures to continue to be less than 3% of annual revenue.

Financing Activities. Cash used in financing activities was \$4,091.7 million and \$1,217.9 million for the years ended December 31, 2019 and 2018, respectively. Significant components of financing activities are as follows:

- *Debt.* Cash decreased \$2,870.5 million as a result of net repayments for the year ended December 31, 2019, primarily due to the July 2019 early extinguishment of \$1.9 billion outstanding senior notes upon consummation of the sale of Epsilon and the mandatory payment of \$500.0 million on our revolving credit facility. In December 2019, we issued \$850.0 million in senior notes, of which the net proceeds of \$833.0 million were used to make a prepayment of our term debt under the credit agreement. Cash decreased \$317.7 million in net repayments for the year ended December 31, 2018, primarily due to the redemption of \$500.0 million senior notes due in 2020.
- *Non-recourse borrowings of consolidated securitization entities.* Cash decreased \$367.2 million in net repayments for the year ended December 31, 2019 primarily due to net repayments under the conduit facilities. Cash decreased \$1,156.4 million in net repayments for the year ended December 31, 2018 due to \$985.0 million in net repayments under the conduit facilities and \$171.4 million in net maturities under the asset-backed term notes.
- *Deposits.* Cash increased \$355.6 million and \$864.1 million for the years ended December 31, 2019 and 2018, respectively, due to new issuances, offset in part by timing of maturities.
- *Dividends.* Cash paid for quarterly dividends and dividend equivalents was \$127.4 million and \$125.2 million for the years ended December 31, 2019 and 2018, respectively.
- *Treasury shares.* Cash paid for treasury shares was \$976.1 million and \$443.2 million for the years ended December 31, 2019 and 2018, respectively.

Debt

Credit Agreement

At December 31, 2018, our credit agreement, as amended, provided for \$3,052.6 million in term loans subject to certain principal repayments and a \$1,572.4 million revolving line of credit.

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

In July 2019, we made a mandatory payment of \$500.0 million on our revolving credit facility, with the aggregate revolving credit commitments reduced to \$1,072.4 million.

On December 20, 2019, we amended our credit agreement to extend the maturity date from June 14, 2021 to December 31, 2022, reduce the aggregate revolving credit commitments from \$1,072.4 million to \$750.0 million, add a consolidated minimum tangible net worth covenant upon certain triggering events and make certain other amendments. The amendment also required us to prepay the term loans to \$2,028.8 million upon consummation of the offering of the Senior Notes due 2024, which obligation was satisfied in full with a prepayment of \$833.0 million, representing the net proceeds from the offering of the Senior Notes due 2024.

At December 31, 2019, our credit agreement, as amended, provided for \$2,028.8 million in term loans subject to certain principal repayments and a \$750.0 million revolving line of credit. As of December 31, 2019, there were no amounts outstanding under our revolving line of credit and the total availability was \$750.0 million. Our total leverage ratio, as defined in our credit agreement, was 1.6 to 1 at December 31, 2019, as compared to the maximum covenant ratio of 3.5 to 1.

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

BrandLoyalty Credit Agreement

In September 2019, we repaid the €115.0 million in term loans outstanding under the BrandLoyalty credit agreement, originally scheduled to mature in June 2020, and repaid the €32.5 million amount outstanding under the revolving line of credit.

Senior Notes

In July 2019, with the proceeds from the Epsilon transaction, we extinguished all of our senior notes, which had an outstanding balance of \$1.9 billion.

In December 2019, we issued and sold \$850.0 million aggregate principal amount of 4.750% senior notes due December 15, 2024. The Senior Notes due 2024 accrue interest on the principal amount at the rate of 4.750% per annum from December 20, 2019, payable semi-annually in arrears, on June 15 and December 15 of each year, beginning on June 15, 2020. The Senior Notes due 2024 will mature on December 15, 2024, subject to earlier repurchase or redemption.

See Note 16, "Debt," of the Notes to Consolidated Financial Statements for additional information regarding our debt.

Funding Sources

Deposits

We utilize money market deposits and certificates of deposit to finance the operating activities, including funding for our non-securitized credit card receivables, and fund securitization enhancement requirements of our bank subsidiaries, Comenity Bank and Comenity Capital Bank.

Comenity Bank and Comenity Capital Bank offer non-maturity deposit programs through contractual arrangements with various financial counterparties. As of December 31, 2019, Comenity Bank and Comenity Capital Bank had \$3.6 billion in money market deposits outstanding with interest rates ranging from 1.84% to 3.50%. 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 2020 and December 2024 and with effective annual interest rates ranging from 1.33% to 4.00%. As of December 31, 2019, we had \$8.6 billion of certificates of deposit outstanding. Certificate of deposit borrowings are subject to regulatory capital requirements.

Securitization Program

We sell a majority of the credit card receivables originated by Comenity Bank to WFN Credit Company, LLC, which in turn sells them to World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust, or Master Trust I, and World Financial Network Credit Card Master Trust III, or Master Trust III, or collectively, the WFN Trusts, as part of our credit card securitization program, which has been in existence since January 1996. We also sell our credit card receivables originated by Comenity Capital Bank to World Financial Capital Credit Company, LLC, which in turn sells them to World Financial Capital Master Note Trust, or the WFC Trust. These securitization programs are a principal vehicle through which we finance Comenity Bank's and Comenity Capital Bank's credit card receivables. 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 securitized 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, 2019, Master Trust I issued \$1.6 billion of asset-backed term notes with various maturities ranging between February 2022 and September 2022, of which \$74.1 million were retained by us and eliminated from the consolidated balance sheets. Additionally, \$1.9 billion of asset-backed term notes matured and were repaid, of which \$347.9 million were retained by us and eliminated from the consolidated balance sheets.

As of December 31, 2019, the WFN Trusts and the WFC Trust had approximately \$13.5 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 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, 2019, total capacity under the conduit facilities was \$4.7 billion, of which \$2.4 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 September 2020 to April 2021 with variable interest rates ranging from 2.79% to 2.96% as of December 31, 2019.

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

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>	<u>Total</u>
	(in millions)					
Term notes	\$ 1,467.2	\$ 1,852.1	\$ 1,571.7	\$ —	\$ —	\$ 4,891.0
Conduit facilities ⁽¹⁾	<u>2,480.0</u>	<u>2,175.0</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,655.0</u>
Total ⁽²⁾	<u>\$ 3,947.2</u>	<u>\$ 4,027.1</u>	<u>\$ 1,571.7</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,546.0</u>

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

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

Early amortization events as defined within each asset-backed securitization transaction are generally driven by asset performance. We do not believe it is reasonably likely 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.

We have secured and continue to secure the necessary commitments to fund our portfolio of 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 availability of the asset-backed securitization and deposit markets at the time.

See Note 16, “Debt,” of the Notes to Consolidated Financial Statements for additional information regarding our securitized debt.

Stock Repurchase Programs

We had an authorized stock repurchase program to acquire up to \$500.0 million of our outstanding common stock from August 1, 2018 through July 31, 2019. At December 31, 2018 we had \$222.8 million remaining under the stock repurchase program. For the six months ended June 30, 2019, we acquired a total of 1.3 million shares of our common stock for \$222.8 million. At June 30, 2019, we did not have any amounts remaining under our authorization.

In July 2019, our Board of Directors authorized a new stock repurchase program to acquire up to \$1.1 billion of our outstanding common stock from July 5, 2019 through June 30, 2020.

In August 2019, we repurchased approximately 5.1 million shares of our outstanding common stock for an aggregate cost of approximately \$750.0 million as part of a “modified Dutch Auction” tender offer, as described in more detail in Note 19, “Stockholders’ Equity,” of the Notes to Consolidated Financial Statements.

As of December 31, 2019, we had \$347.8 million remaining under our authorized stock repurchase program.

Dividends

For the year ended December 31, 2019, we paid quarterly cash dividends of \$0.63 per share of \$126.3 million and \$1.1 million in cash related to dividend equivalent rights, for a total of \$127.4 million.

For the year ended December 31, 2018, we paid quarterly cash dividends of \$0.57 per share of \$124.9 million and \$0.3 million in cash related to dividend equivalent rights, for a total of \$125.2 million.

On January 30, 2020, our Board of Directors declared a quarterly cash dividend of \$0.63 per share on our common stock, payable on March 19, 2020 to stockholders of record at the close of business on February 14, 2020.

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, 2019 are summarized below:

	2020	2021	2022	2023	2024	Thereafter	Total
	(in millions)						
Deposits ⁽¹⁾	\$ 7,189.8	\$ 2,303.7	\$ 1,638.1	\$ 964.0	\$ 532.9	\$ —	\$ 12,628.5
Non-recourse borrowings of consolidated securitization entities ⁽¹⁾	3,202.0	2,766.7	1,588.7	—	—	—	7,557.4
Long-term and other debt ⁽¹⁾	209.6	206.2	1,924.9	40.4	888.7	—	3,269.8
Operating leases	38.4	39.6	38.6	36.8	35.6	237.4	426.4
Software licenses	13.8	14.9	10.5	7.6	—	—	46.8
ASC 740 obligations ⁽²⁾	—	—	—	—	—	—	—
Purchase obligations ⁽³⁾	438.2	171.9	101.9	39.9	12.3	—	764.2
Total	<u>\$ 11,091.8</u>	<u>\$ 5,503.0</u>	<u>\$ 5,302.7</u>	<u>\$ 1,088.7</u>	<u>\$ 1,469.5</u>	<u>\$ 237.4</u>	<u>\$ 24,693.1</u>

- (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, 2019, applied to the contractual repayment period.
- (2) ASC 740 obligations do not reflect unrecognized tax benefits of \$278.6 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 sponsor 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, technology and expansion in lower cost jurisdictions in select circumstances, as well as decreases in technology and communication costs, to offset increased costs of employee compensation and other operating expenses. With respect to seasonality, our revenues, earnings and cash flows are affected by increased consumer spending patterns leading up to and including the holiday shopping period in the fourth quarter and, to a lesser extent, during the first quarter as credit card and loan 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.

On September 10, 2019, Comenity Capital Bank submitted a bank merger application to the FDIC seeking the FDIC's approval to merge Comenity Bank with and into Comenity Capital Bank as the surviving bank entity. On the same date, Comenity Capital Bank and Comenity Bank each submitted counterpart bank merger applications to the Utah

Department of Financial Institutions and the Delaware Office of the State Bank Commissioner, respectively, in connection with the proposed merger. The merger application remains subject to regulatory review and approval and no guarantee can be provided as to the outcome or timing of such review.

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

	<u>Actual Ratio</u>	<u>Minimum Ratio for Capital Adequacy Purposes</u>	<u>Minimum Ratio to be Well Capitalized under Prompt Corrective Action Provisions</u>
Comenity Bank			
Tier 1 capital to average assets	12.9 %	4.0 %	5.0 %
Common Equity Tier 1 capital to risk-weighted assets . .	14.6	4.5	6.5
Tier 1 capital to risk-weighted assets	14.6	6.0	8.0
Total capital to risk-weighted assets	15.9	8.0	10.0
Comenity Capital Bank			
Tier 1 capital to average assets	11.9 %	4.0 %	5.0 %
Common Equity Tier 1 capital to risk-weighted assets . .	14.4	4.5	6.5
Tier 1 capital to risk-weighted assets	14.4	6.0	8.0
Total capital to risk-weighted assets	15.7	8.0	10.0

In September 2015, each bank entered into a consent order with the FDIC in settlement of the FDIC’s review regarding the marketing, promotion and sale of certain add-on products; these consent orders were terminated in August 2018.

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. 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 2014 but may be implemented by the SEC in the future with or without modifications. The SEC has also issued an advance notice of proposed rulemaking relating to the exemptions that our credit card securitization trusts rely on in our credit card securitization program to avoid registration as investment companies.

Regulations adopted by the FDIC, the SEC, the Federal Reserve and certain other federal regulators mandate a minimum five percent risk retention requirement for securitizations issued on and after December 24, 2016, known as Regulation RR. 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; we intend to satisfy such risk retention requirements by maintaining a seller’s interest calculated in accordance with Regulation RR.

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.

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 as well as unpaid 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 future likelihood that a credit card or loan receivable will progress through the various stages of delinquency and to charge-off based on historical performance. In evaluating the allowance for loan loss for both principal and unpaid interest and fees, past and current credit card and loan performance is considered in addition to 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. Given the same information, others may reach different reasonable estimates.

If we used different assumptions in estimating net charge-offs 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 \$186 million in the allowance for loan loss at December 31, 2019, with a corresponding change in the provision for loan loss.

Effective January 1, 2020, we adopted ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." For additional information regarding the impact of this standard, see "Recently Issued Accounting Standards" under Note 2, "Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements.

Revenue Recognition.

We recognize revenue when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. In that determination, under ASC 606, we follow a five-step model that 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.

We enter into contracts with customers that may include multiple performance obligations. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. If the standalone selling price is not directly observable, we estimate the standalone selling price based on either the adjusted market assessment or cost plus a margin approach.

Certain of our contracts may provide for variable consideration. We estimate these amounts based on either the expected amount or most likely amount to be provided to the customer to determine the transaction price for the contract. The estimation method is consistent for contracts with similar terms and is applied consistently throughout each contract. The estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the anticipated performance and all information that is reasonably available.

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.

Total consideration from the issuance of AIR MILES reward miles is allocated to three performance obligations: redemption, service, and brand, based on a relative standalone selling price basis.

The estimated standalone selling price for the redemption and the service performance obligations are based on cost plus a reasonable margin. The estimated standalone selling price of the brand performance obligation is determined using a relief from royalty approach. Accordingly, management determines the estimated standalone 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. The number of AIR MILES reward miles issued and redeemed are factored into the estimates, as management estimates the standalone selling prices and volumes over the term of the respective agreements in order to determine the allocation of consideration to each performance obligation delivered. The redemption performance obligation incorporates the expected number of AIR MILES reward miles to be redeemed, and therefore, the amount of redemption revenue recognized is subject to management's estimate of breakage, or those AIR MILES reward miles estimated to be 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.

Throughout 2018 and 2019, our estimated breakage rate remained 20%. Our cumulative redemption rate, which represents program to date redemptions divided by program to date issuance, is 70% as of December 31, 2019. We expect the ultimate redemption rate will approximate 80% based on our historical redemption patterns, statistical regression models, and consideration of enacted program changes, as applicable.

Throughout 2018 and 2019, our estimated life of an AIR MILES reward mile remained 38 months. 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.

Any future changes in collector behavior could result in further changes in our estimates of breakage or life of an AIR MILES reward mile.

As of December 31, 2019, we had \$922.0 million in deferred revenue related to the AIR MILES Reward Program that will be recognized in the future. Further information is provided in Note 3, "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. ASC 350, "Intangibles – Goodwill and Other," permits the assessment of qualitative factors to determine whether events and circumstances lead to the conclusion that it is necessary to perform the two-step quantitative goodwill impairment test required under ASC 350. ASC 350 also allows the option to skip the qualitative assessment and proceed directly to a quantitative assessment.

For our qualitative analysis, we consider the totality of relevant events and circumstances that affect the fair value or carrying value of the reporting unit. These events and circumstances include macroeconomic conditions, industry and competitive environment conditions, overall financial performance, reporting unit specific events and market considerations. We may also consider recent valuations of the reporting unit, including the magnitude of the difference between the most recent fair value estimate and the carrying value, as well as both positive and adverse events and circumstances, and the extent to which each of the events and circumstances identified may affect the comparison of a reporting unit's fair value with its carrying value. If the qualitative assessment results in a conclusion that it is more likely than not that the fair value of a reporting unit exceeds the carrying value, then no further testing is performed for that reporting unit.

For our quantitative analysis, the fair value of the reporting units is estimated 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 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.

For the 2019 annual impairment test, we performed a qualitative analysis for the Card Services reporting unit and determined that it was more likely than not that there was no impairment of goodwill. We performed a quantitative analysis for the reporting units within the LoyaltyOne segment, identified as BrandLoyalty and LoyaltyOne excluding BrandLoyalty. We determined there was no impairment of goodwill on these reporting units.

As of December 31, 2019, we had goodwill of approximately \$954.9 million. The following table presents the December 31, 2019 goodwill by reporting unit as well as the percentage by which fair value of the reporting units exceeded carrying value as of the 2019 annual impairment test:

Reporting Unit	Goodwill	Approximate Excess Fair Value %
	(in millions, except percentages)	
BrandLoyalty	\$ 498.1	≤ 10%
LoyaltyOne excluding BrandLoyalty	192.8	360 - 400%
Card Services	264.0	(1)
Total	\$ 954.9	

(1) In 2019, the Company elected to perform a qualitative analysis for Card Services. In 2018, the fair value of Card Services exceeded carrying value by approximately 390 to 460 percent.

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. 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 22, “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. We have both fixed-rate and variable-rate debt, and are subject to interest rate risk in connection with the issuance of variable-rate debt. Our interest expense, net was \$569.0 million for 2019, treating our former Epsilon segment as a discontinued operation. 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 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 or decrease in interest rates of 1%. In 2019, a 1% increase or decrease in interest rates on our variable-rate debt would have resulted in a change to our interest expense of approximately \$83 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 charge-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, 2019, 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 income of approximately \$13 million and \$3 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, 2019, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2019, our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

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

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

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (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, 2019.

The effectiveness of internal control over financial reporting as of December 31, 2019 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-6.

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, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to the Proxy Statement for the 2020 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2019.

Item 11. Executive Compensation.

Incorporated by reference to the Proxy Statement for the 2020 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2019.

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

Incorporated by reference to the Proxy Statement for the 2020 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2019.

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

Incorporated by reference to the Proxy Statement for the 2020 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2019.

Item 14. Principal Accounting Fees and Services.

Incorporated by reference to the Proxy Statement for the 2020 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2019.

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)	Certificate of Designations of Series A Preferred Non-Voting Convertible Preferred Stock of the Registrant	8-K	3.1	4/29/19
3.3	(a)	Fifth Amended and Restated Bylaws of the Registrant.	8-K	3.1	2/1/16
4.1	(a)	Specimen Certificate for shares of Common Stock of the Registrant.	10-Q	4	8/8/03
*4.2	(a)	Description of Registrant's Common Stock			
+10.1	(a)	Alliance Data Systems Corporation Executive Deferred Compensation Plan, amended and restated effective January 1, 2018.	8-K	10.1	11/24/17
+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 2015 Omnibus Incentive Plan.	8-K	10.1	2/20/18
+10.7	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2018 grant EBT).	8-K	10.2	2/20/18
+10.8	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2019 grant rTSR).	8-K	10.2	2/20/19
+10.9	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2020 grant EBT).	8-K	10.1	2/20/20
+10.10	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2020 grant rTSR).	8-K	10.2	2/20/20

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
+10.11	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan (2020 grant Strategic)	8-K	10.3	2/20/20
+10.12	(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
+10.13	(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
+10.14	(a)	Form of Non-employee Director Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan.	10-Q	10.6	8/7/17
+10.15	(a)	Alliance Data Systems Corporation Non-Employee Director Deferred Compensation Plan.	8-K	10.1	6/9/06
+10.16	(a)	Form of Alliance Data Systems Associate Confidentiality Agreement.	10-K	10.18	2/27/17
+10.17	(a)	Form of Alliance Data Systems Corporation Indemnification Agreement for Officers and Directors.	8-K	10.1	6/5/15
+10.18	(a)	Alliance Data Systems Corporation 2015 Employee Stock Purchase Plan, effective July 1, 2015.	DEF 14A	C	4/20/15
+10.19	(a)	LoyaltyOne, Inc. Registered Retirement Savings Plan, as amended.	10-Q	10.1	5/7/10
+10.20	(a)	LoyaltyOne, Inc. Deferred Profit Sharing Plan, as amended.	10-Q	10.2	5/7/10
+10.21	(a)	LoyaltyOne, Inc. Canadian Supplemental Executive Retirement Plan, effective as of January 1, 2009.	10-Q	10.3	5/7/10
+10.22	(a)	Retirement Agreement, dated as of June 5, 2019, by and between Alliance Data Systems Corporation, ADS Alliance Data Systems, Inc. and Edward J. Heffernan.	8-K	10.1	6/7/19
+10.23	(a)	Executive Transition and Separation Agreement, dated as of December 20, 2019, by and among Alliance Data Systems Corporation, ADS Alliance Data Systems, Inc. and Melisa A. Miller.	8-K	10.1	1/3/20
10.24	(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 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 and further assigned to AM Royalties Limited Partnership, a wholly owned subsidiary of Diversified Royalty Corp., in connection with an asset purchase agreement dated August 25, 2017).	S-1	10.43	1/13/00

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
10.25	(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. as assigned by Air Miles International Trading B.V. to AM Royalties Limited Partnership, a wholly owned subsidiary of Diversified Royalty Corp., in connection with an asset purchase agreement dated August 25, 2017.	S-1	10.44	1/13/00
*#10.26	(a)	Private Label Credit Card Program Agreement, dated as of June 1, 2018, by and between Victoria's Secret Stores, LLC, Lone Mountain Factoring, LLC, L Brands Direct Marketing, Inc., L Brands Direct Fulfillment, Inc., Far West Factoring, LLC, Puerto Rico Store Operations LLC, and Comenity Bank.			
*10.27	(a)	First Amendment to Private Label Credit Card Program Agreement, dated as of July 1, 2019, by and between Victoria's Secret Stores, LLC, Lone Mountain Factoring, LLC, L Brands Direct Marketing, Inc., L Brands Direct Fulfillment, Inc., Far West Factoring, LLC, Puerto Rico Store Operations LLC, and Comenity Bank.			
10.28	(b) (c)	Second Amended and Restated Pooling and Servicing Agreement, dated as of January 17, 1996 as amended and restated as of September 17, 1999 and August 1, 2001, by and among WFN Credit Company, LLC, World Financial Network National Bank, and BNY Midwest Trust Company.	8-K	4.6	8/31/01
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	4/5/05
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

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
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) (c) (d)	Eighth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of November 9, 2011, among World Financial Network Bank, WFN Credit Company, LLC, and The Bank of New York Mellon Trust Company, N.A.	8-K	4.1	11/14/11
10.37	(b) (c) (d)	Ninth Amendment to Second Amended and Restated Pooling and Servicing Agreement, dated as of December 1, 2016, among Comenity Bank, WFN Credit Company, LLC, and MUFG Union Bank, N.A.	8-K	4.1	12/2/16
10.38	(b) (c) (d)	Tenth Amendment to Second Amended and Restated Pooling and Servicing Agreement, dated as of August 16, 2018, among Comenity Bank, WFN Credit Company, LLC, and MUFG Union Bank, N.A.	8-K	4.1	8/20/18
10.39	(b) (c)	Collateral Series Supplement to Second Amended and Restated Pooling and Servicing Agreement, dated as of August 21, 2001, among WFN Credit Company, LLC, World Financial Network National Bank and BNY Midwest Trust Company.	8-K	4.7	8/31/01
10.40	(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
10.41	(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
10.42	(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
10.43	(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
10.44	(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
10.45	(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	4/5/05

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
10.46	(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
10.47	(b) (c) (d)	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
10.48	(b) (d)	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
10.49	(b) (d)	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
10.50	(b) (c) (d)	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
10.51	(b) (c) (d)	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
10.52	(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
10.53	(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
10.54	(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
10.55	(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
10.56	(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
10.57	(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

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
10.58	(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
10.59	(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
10.60	(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
10.61	(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
10.62	(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
10.63	(b) (d)	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
10.64	(b) (c) (d)	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
10.65	(b) (c) (d)	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
10.66	(b) (c) (d)	Omnibus Amendment, dated as of July 10, 2017, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	7/11/17
10.67	(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
10.68	(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
10.69	(b) (c) (d)	Series 2015-B Indenture Supplement, dated as of August 21, 2015, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	8/25/15
10.70	(b) (c) (d)	Series 2016-A Indenture Supplement, dated as of July 27, 2016, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	7/28/16

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
10.71	(b) (c) (d)	Series 2017-A Indenture Supplement, dated as of May 22, 2017, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	5/24/17
10.72	(b) (c) (d)	Series 2017-C Indenture Supplement, dated as of November 15, 2017, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	11/17/17
10.73	(b) (c) (d)	Series 2018-A Indenture Supplement, dated as of February 28, 2018, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	3/5/18
10.74	(b) (c) (d)	Omnibus Amendment, dated as of May 3, 2018, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	5/4/18
10.75	(b) (c) (d)	Series 2018-B Indenture Supplement, dated as of September 27, 2018, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	9/28/18
10.76	(b) (c) (d)	First Amendment to Series 2018-B Indenture Supplement, dated as of November 7, 2018, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.2	11/8/18
10.77	(b) (c) (d)	Series 2018-C Indenture Supplement, dated as of November 7, 2018, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	11/8/18
10.78	(b) (c) (d)	Series 2019-A Indenture Supplement, dated as of February 20, 2019, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	2/21/19
10.79	(b) (c) (d)	Series 2019-B Indenture Supplement, dated as of June 26, 2019, between World Financial Network Credit Card Master Note Trust and MUFG Bank, N.A.	8-K	4.1	6/28/19
10.80	(b) (c) (d)	Series 2019-C Indenture Supplement, dated as of September 18, 2019, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	9/20/19
10.81	(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
10.82	(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
10.83	(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

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
10.84	(b) (c) (d)	Third Amended and Restated Service Agreement, dated as of April 23, 2019, between Comenity Servicing LLC and Comenity Bank.	8-K	99.1	4/23/19
10.85	(b) (c) (d)	First Addendum to Appendix A of Third Amended and Restated Service Agreement, dated as of September 19, 2019 between Comenity Servicing LLC and Comenity Bank.	8-K	99.1	11/1/19
10.86	(b) (c) (d)	Second Addendum to Appendix A of Third Amended and Restated Service Agreement, dated as of October 16, 2019, between Comenity Servicing LLC and Comenity Bank.	8-K	99.2	11/1/19
10.87	(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
10.88	(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
10.89	(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
10.90	(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
10.91	(a)	Supplemental Agreement to Receivables Purchase Agreement, dated as of August 9, 2010, between World Financial Network National Bank and WFN Credit Company, LLC.	10-K	10.128	2/28/11
10.92	(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
10.93	(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
10.94	(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
10.95	(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
10.96	(a)	Third Amendment to the Amended and Restated Pooling and Servicing Agreement, dated as of October 26, 2007, among WFN Credit Company,	10-Q	10.9	11/7/08

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
		LLC, World Financial Network National Bank, and Union Bank of California, N.A. (successor to JPMorgan Chase Bank, N.A.).			
10.97	(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
10.98	(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
10.99	(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-K	10.94	2/27/17
10.100	(a)	Seventh Amendment to Amended and Restated Pooling and Servicing Agreement, dated as of September 1, 2017, among WFN Credit Company, LLC, Comenity Bank, and U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas).	10-K	10.96	2/27/18
10.101	(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
10.102	(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
10.103	(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
10.104	(a)	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-Q	10.4	11/7/08
10.105	(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
10.106	(a)	Master Indenture, dated as of September 29, 2008, between World Financial Capital Master Note Trust and U.S. Bank National Association, together with Supplemental Indenture Nos. 1 - 3.	10-K	10.104	2/27/18
10.107	(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
10.108	(a)	First Amendment to Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of July 10, 2017, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A., formerly known as Union Bank, N.A.	10-Q	10.8	8/7/17

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
10.109	(a)	Second Amendment to Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of December 1, 2017, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A., formerly known as Union Bank, N.A.	10-K	10.109	2/27/18
10.110	(a)	Third Amendment to Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of May 3, 2018, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A., formerly known as Union Bank, N.A.	10-K	10.110	2/26/19
10.111	(a)	Fourth Amendment to Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of August 31, 2018, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A., formerly known as Union Bank, N.A.	10-K	10.111	2/26/19
10.112	(a)	Fifth Amendment to Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of February 1, 2019, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A., formerly known as Union Bank, N.A.	10-K	10.112	2/26/19
10.113	(a)	Third Amended and Restated Series 2009-VFC1 Supplement, dated as of April 28, 2017, among WFN Credit Company, LLC, Comenity Bank and Deutsche Bank Trust Company Americas.	10-Q	10.7	8/7/17
10.114	(a)	First Amendment to Third Amended and Restated Series 2009-VFC1 Supplement, dated as of October 19, 2017, among WFN Credit Company, LLC, Comenity Bank and U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas).	10-Q	10.4	11/8/17
10.115	(a)	Second Amendment to Third Amended and Restated Series 2009-VFC1 Supplement, dated as of August 31, 2018, among WFN Credit Company, LLC, Comenity Bank and U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas).	10-K	10.115	2/26/19
10.116	(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-K	10.102	2/27/17
10.117	(a)	First Amendment to Fifth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of November 1, 2017, between World Financial Capital Master Note Trust and U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas).	10-Q	10.5	11/8/17
10.118	(a)	Second Amendment to Fifth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of September 28, 2018, between World Financial Capital Master Note Trust and U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas).	10-Q	10.3	11/6/18
10.119	(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	8-K	10.1	6/15/16

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
		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).			
10.120	(a)	Amended and Restated Credit Agreement, dated as of June 14, 2017, by and among Alliance Data Systems Corporation, certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, National Association, as Administrative Agent, and various other agents and lenders.	8-K	10.1	6/19/17
10.121	(a)	First Amendment to Amended and Restated Credit Agreement and Incremental Amendment, dated as of June 16, 2017, by and among Alliance Data Systems Corporation, and certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, National Association, as Administrative Agent, and various other lenders.	8-K	10.2	6/19/17
10.122	(a)	Second Amendment to Amended and Restated Credit Agreement, dated as of July 5, 2018, by and among Alliance Data Systems Corporation, and certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, National Association, as Administrative Agent, and various other lenders.	10-Q	10.2	8/7/18
10.123	(a)	Third Amendment to Amended and Restated Credit Agreement, dated as of April 30, 2019, by and among Registrant, and certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, National Association, as Administrative Agent, and various other lenders.	10-Q	10.7	5/6/19
10.124	(a)	Fourth Amendment to Amended and Restated Credit Agreement, dated as of December 20, 2019, by and among Alliance Data Systems Corporation, certain of its subsidiaries as guarantors, Wells Fargo Bank, National Association, as administrative agent, and various other agents and lenders.	8-K	10.2	12/23/19
*10.125	(a)	Fifth Amendment to Amended and Restated Credit Agreement, dated as of February 13, 2020, by and among Alliance Data Systems Corporation, certain of its subsidiaries as guarantors, Wells Fargo Bank, National Association, as administrative agent, and various other agents and lenders.			
10.126	(a)	Indenture, dated as of December 20, 2019, among Alliance Data Systems Corporation, certain of its subsidiaries as guarantors and MUFG Union Bank, N.A., as trustee (including the form of the Company's 4.750% Senior Note due December 15, 2024).	8-K	4.1	12/23/19
#10.127	(a)	Securities Purchase Agreement, dated as of April 12, 2019, by and among Alliance Data Systems Corporation, the other sellers party thereto, Publicis Groupe, S.A. and certain subsidiaries thereof	8-K	2.1	4/15/19
*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.			

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
*31.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
*32.1	(a)	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.			
*32.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.			
*101	(a)	The following financial information from Alliance Data Systems Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements.			
*104	(a)	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).			

* Filed herewith

+ Management contract, compensatory plan or arrangement

Pursuant to Item 601(b)(10)(iv) of Regulation S-K, certain identified information has been excluded from this exhibit because it is both not material and would likely cause competitive harm to the registrant if publicly disclosed. Schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. Registrant hereby undertakes to furnish supplementally an unredacted copy of the exhibit or a copy of any omitted schedule upon request by the U.S. Securities and Exchange Commission.

(a) Alliance Data Systems Corporation

(b) WFN Credit Company

(c) World Financial Network Credit Card Master Trust

(d) World Financial Network Credit Card Master Note Trust

Item 16. Form 10-K Summary.

None.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ALLIANCE DATA SYSTEMS CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Alliance Data Systems Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Alliance Data Systems Corporation and subsidiaries (the “Company”) as of December 31, 2019 and 2018, 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, 2019, and the related notes and the schedule listed in the index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company adopted Accounting Standards Codification (ASC) 606, “Revenue from Contracts with Customers,” using the modified retrospective approach on January 1, 2018, and adopted ASC 842, “Leases,” using the modified retrospective approach on January 1, 2019.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the Company’s financial statements have been presented with its former Epsilon segment as a discontinued operation.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Loss — Refer to Notes 2 and 7 to the financial statements

Critical Audit Matter Description

Management's methodology for assessing the appropriateness of the allowance for loan loss (ALL) consists of a migration analysis of delinquent and current credit card and loan receivables, along with analyzing and considering several other relevant internal and external factors. The estimate of the ALL covers uncollectible principal as well as unpaid interest and fees. Migration analysis is the technique used to estimate the future likelihood that a credit card or loan receivable will progress through the various stages of delinquency and to charge-off based on historical performance. In evaluating the ALL 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. Based on management's review of these relevant factors, they evaluate the reasonableness of the ALL on an ongoing basis and whether any changes need to be made to the ALL methodology.

Given the significant judgments made by management when developing the migration analysis and considering the additional relevant factors, performing audit procedures to evaluate the reasonableness of the estimated ALL required a high degree of auditor judgment and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the ALL included the following, among others:

- We tested the effectiveness of controls over management's ALL calculation, including those related to the migration analysis of delinquent and current credit card and loan receivables used to estimate future net charge-offs and those related to 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.
- We tested the completeness and accuracy of the data inputs to the migration analysis of delinquent and current credit card and loan receivables and evaluated the relevance of historical data as inputs.
- We tested the mathematical accuracy of the historical charge-off trends and evaluated the relevance of historical data as input to the historical charge-off trends.
- We evaluated the 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 for the ALL by comparing to historical results, internal communications with management and the Board of Directors, and information included in Company press releases, as well as analyst and industry reports regarding the Company and selected companies in its peer group.
- We evaluated the completeness of factors that may impact loan loss experience considered by management and compared such factors to our independent research of external information, including publicly available information for its peer group.

Goodwill — BrandLoyalty Reporting Unit — Refer to Notes 2 and 13 to the financial statements

Critical Audit Matter Description

The Company tests goodwill of the BrandLoyalty reporting unit for impairment annually, as of July 31, or when events and circumstances change that would indicate the carrying amount may not be recoverable. The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company estimated the fair value of its reporting units using both an income and market-based approach. The Company's income approach utilizes a discounted cash flow model 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. 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. The fair value of the BrandLoyalty reporting unit exceeded its carrying value as of the measurement date by less than 10% and, therefore, no impairment was recognized.

Given the significant judgments made by management to estimate the fair value, and the difference between the fair value over carrying value of the BrandLoyalty reporting unit, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the forecasts of revenue growth and profit performance, the selection of the discount rate, and the selection of a market multiple required a high degree of auditor judgment and an increased extent of effort, including involvement of our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

- We tested the effectiveness of controls over goodwill, including those over the forecasts of future revenue growth and profit performance, the selection of the discount rate, and the selection of a market multiple.
- We evaluated management's ability to accurately forecast by comparing actual results to management's historical forecasts.
- We evaluated the reasonableness of management's forecasts of future revenues and profit performance including operating margins, earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortization (EBITDA) by comparing the forecasts to:
 - Historical results,
 - Internal communications to management and the Board of Directors,
 - Forecasted information included in Company press releases, as well as analyst and industry reports for the Company and certain peer companies.
- We evaluated the impact of actual results of revenues, operating margins, EBIT, and EBITDA from the measurement date through year-end to the forecasted amounts.
- With the assistance of our fair value specialists, we evaluated the valuation methodologies, the discount rate, and the market multiple by:
 - Testing the source information underlying the determination of both the discount rate and the market multiple,
 - Testing the mathematical accuracy of the calculations,
 - Developing a range of independent estimates and comparing those to the discount rate and market multiple selected by management.

Disclosure of ASU 2016-13 Adoption — Refer to Note 2 to the financial statements

Critical Audit Matter Description

On January 1, 2020, the Company adopted ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," which introduces a forward-looking "expected loss" model (the "Current Expected Credit Losses (CECL)" model) to estimate credit losses over the remaining expected life of the Company's loan portfolio upon adoption, rather than the incurred loss model under current accounting principles generally accepted in the United States of America. Estimates of expected credit losses under the CECL model are based on relevant information about past events, current conditions, and reasonable and supportable forward-looking forecasts regarding the collectability of the loan portfolio.

The Company formed a cross-functional implementation team to oversee the implementation of the standard, the loss forecasting models, and the processes and controls necessary to satisfy the requirements of ASU 2016-13. Management expects an increase in the ALL at adoption of \$644 million, which will be recorded through a cumulative-effect adjustment to retained earnings—net of taxes.

Given the estimation of credit losses significantly changes under the CECL model due to the application of new accounting policies, the use of new subjective judgments, and changes made to the loss forecasting models, performing audit procedures to evaluate the disclosure of ASU 2016-13 adoption involved a high degree of auditor judgment and required significant effort, including the need to involve our credit-modeling specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the disclosure of ASU 2016-13 adoption included the following, among others:

- We tested the effectiveness of management's controls over the implementation of the CECL standard including the controls over the loss forecasting models.
- We evaluated the Company's accounting policies, methodologies, and elections involved in the adoption of the CECL models.
- We evaluated the completeness of the Company's disclosure related to the adoption of ASU 2016-13.
- We used our credit-modeling specialists to assist us in evaluating the appropriateness of the models used to determine the CECL estimate and examine logic for selected components of the models.
- We used our credit-modeling specialists to assist us in evaluating the reasonableness of the economic assumptions and the portfolio segmentation used in the models.
- We used our credit-modeling specialists to assist us in evaluating the reasonableness of the forecast period over which the key economic assumptions are applied, by evaluating management's support for the reasonable and supportable forecast period used.
- We evaluated the assumption of how expected credit card payments are applied to existing credit card balances to determine if it is reasonable and consistent with the CECL standard. We used our credit-modeling specialists to evaluate the conceptual soundness of the approach and its implementation within the CECL modeling framework.

/s/ Deloitte & Touche LLP

Dallas, Texas

February 28, 2020

We have served as the Company's auditor since 1998.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Alliance Data Systems Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Alliance Data Systems Corporation and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 28, 2020, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company’s adoption of new accounting standards and an emphasis of matter paragraph regarding the discontinued operations presentation.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process 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. 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 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 of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 28, 2020

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2019	2018
	(in millions, except per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 3,874.4	\$ 3,817.4
Accounts receivable, net, less allowance for doubtful accounts (\$3.4 and \$0.4 at December 31, 2019 and December 31, 2018, respectively)	451.1	404.0
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	13,504.2	13,418.3
Other credit card and loan receivables	5,958.9	4,436.7
Total credit card and loan receivables	19,463.1	17,855.0
Allowance for loan loss	(1,171.1)	(1,038.3)
Credit card and loan receivables, net	18,292.0	16,816.7
Credit card receivables held for sale	408.0	1,951.6
Inventories, net	218.0	248.0
Other current assets	268.4	293.2
Redemption settlement assets, restricted	600.8	558.6
Current assets of discontinued operations	—	622.2
Total current assets	24,112.7	24,711.7
Property and equipment, net	282.3	288.2
Right of use assets - operating	264.3	—
Deferred tax asset, net	45.2	44.0
Intangible assets, net	153.3	217.4
Goodwill	954.9	954.8
Other non-current assets	682.1	636.4
Long-term assets of discontinued operations	—	3,535.2
Total assets	\$ 26,494.8	\$ 30,387.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 300.8	\$ 486.2
Accrued expenses	327.8	322.2
Current operating lease liabilities	22.6	—
Current portion of deposits	6,942.4	6,537.7
Current portion of non-recourse borrowings of consolidated securitization entities	3,030.8	2,717.6
Current portion of long-term and other debt	101.4	138.9
Other current liabilities	338.3	291.8
Deferred revenue	807.9	766.1
Current liabilities of discontinued operations	—	223.5
Total current liabilities	11,872.0	11,484.0
Deferred revenue	114.1	109.2
Deferred tax liability, net	80.0	256.5
Long-term operating lease liabilities	291.7	—
Deposits	5,209.3	5,256.0
Non-recourse borrowings of consolidated securitization entities	4,253.2	4,934.1
Long-term and other debt	2,748.5	5,586.5
Other liabilities	337.7	392.4
Long-term liabilities of discontinued operations	—	36.9
Total liabilities	24,906.5	28,055.6
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Common stock, \$0.01 par value; authorized, 200.0 shares; issued, 115.0 shares and 113.0 shares at December 31, 2019 and December 31, 2018, respectively	1.1	1.1
Additional paid-in capital	3,257.7	3,172.4
Treasury stock, at cost, 67.4 shares and 59.6 shares at December 31, 2019 and December 31, 2018, respectively	(6,733.9)	(5,715.7)
Retained earnings	5,163.3	5,012.4
Accumulated other comprehensive loss	(99.9)	(138.1)
Total stockholders' equity	1,588.3	2,332.1
Total liabilities and stockholders' equity	\$ 26,494.8	\$ 30,387.7

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2019	2018	2017
	(in millions, except per share amounts)		
Revenues			
Services	\$ 215.5	\$ 295.4	\$ 367.5
Redemption, net	637.3	676.3	935.3
Finance charges, net	4,728.5	4,694.9	4,171.9
Total revenue	5,581.3	5,666.6	5,474.7
Operating expenses			
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	2,687.8	2,537.2	2,469.5
Provision for loan loss	1,187.5	1,016.0	1,140.1
General and administrative	150.6	162.5	159.3
Depreciation and other amortization	79.9	80.7	73.7
Amortization of purchased intangibles	96.2	112.9	114.2
Loss on extinguishment of debt	71.9	—	—
Total operating expenses	4,273.9	3,909.3	3,956.8
Operating income	1,307.4	1,757.3	1,517.9
Interest expense			
Securitization funding costs	213.4	220.2	156.6
Interest expense on deposits	225.6	165.7	125.1
Interest expense on long-term and other debt, net	130.0	156.4	173.7
Total interest expense, net	569.0	542.3	455.4
Income from continuing operations before income taxes	738.4	1,215.0	1,062.5
Provision for income taxes	165.8	269.5	293.3
Income from continuing operations	572.6	945.5	769.2
(Loss) income from discontinued operations, net of taxes	(294.6)	17.6	19.5
Net income	\$ 278.0	\$ 963.1	\$ 788.7
Basic income (loss) per share (Note 4):			
Income from continuing operations	\$ 11.25	\$ 17.24	\$ 13.82
(Loss) income from discontinued operations	\$ (5.89)	\$ 0.32	\$ 0.35
Net income per share	\$ 5.36	\$ 17.56	\$ 14.17
Diluted income (loss) per share (Note 4):			
Income from continuing operations	\$ 11.24	\$ 17.17	\$ 13.75
(Loss) income from discontinued operations	\$ (5.78)	\$ 0.32	\$ 0.35
Net income per share	\$ 5.46	\$ 17.49	\$ 14.10
Weighted average shares (Note 4):			
Basic	50.0	54.9	55.7
Diluted	50.9	55.1	55.9

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2019	2018 (in millions)	2017
Net income	\$ 278.0	\$ 963.1	\$ 788.7
Other comprehensive income:			
Unrealized gain (loss) on securities available-for-sale	15.5	(3.1)	(7.3)
Tax benefit (expense)	(2.3)	1.1	0.2
Unrealized gain (loss) on securities available-for-sale, net of tax	13.2	(2.0)	(7.1)
Unrealized gain (loss) on cash flow hedges	0.1	(0.1)	(0.7)
Tax benefit	—	—	0.2
Unrealized gain (loss) on cash flow hedges, net of tax	0.1	(0.1)	(0.5)
Unrealized gain (loss) on net investment hedge	6.5	39.1	(72.3)
Tax benefit (expense)	(1.6)	(9.5)	26.2
Unrealized gain (loss) on net investment hedge, net of tax	4.9	29.6	(46.1)
Foreign currency translation adjustments (inclusive of deconsolidation of \$26.8 million related to sale of business for the year ended December 31, 2019)	20.0	(25.4)	64.2
Other comprehensive income, net of tax	38.2	2.1	10.5
Total comprehensive income, net of tax	\$ 316.2	\$ 965.2	\$ 799.2

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-In Capital (in millions)	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
January 1, 2017	112.5	\$ 1.1	—	\$ —	\$ 3,046.1	\$ (4,733.1)	\$ 3,494.8	\$ (150.7)	\$ 1,658.2
Net income	—	—	—	—	—	—	788.7	—	788.7
Other comprehensive income	—	—	—	—	—	—	—	10.5	10.5
Stock-based compensation	—	—	—	—	75.1	—	—	—	75.1
Repurchases of common stock	—	—	—	—	(14.3)	(539.4)	—	—	(553.7)
Dividends and dividend equivalent rights declared (\$0.52 per common share)	—	—	—	—	—	—	(116.4)	—	(116.4)
Other	0.3	—	—	—	(7.1)	—	—	—	(7.1)
December 31, 2017	112.8	\$ 1.1	—	\$ —	\$ 3,099.8	\$ (5,272.5)	\$ 4,167.1	\$ (140.2)	\$ 1,855.3
Net income	—	—	—	—	—	—	963.1	—	963.1
Other comprehensive income	—	—	—	—	—	—	—	2.1	2.1
Stock-based compensation	—	—	—	—	80.8	—	—	—	80.8
Repurchases of common stock	—	—	—	—	—	(443.2)	—	—	(443.2)
Dividends and dividend equivalent rights declared (\$0.57 per common share)	—	—	—	—	—	—	(125.9)	—	(125.9)
Cumulative effect adjustment to retained earnings in accordance with ASC 606	—	—	—	—	—	—	9.6	—	9.6
Cumulative effect adjustment to retained earnings in accordance with ASU 2016-01	—	—	—	—	—	—	(1.5)	—	(1.5)
Other	0.2	—	—	—	(8.2)	—	—	—	(8.2)
December 31, 2018	113.0	\$ 1.1	—	\$ —	\$ 3,172.4	\$ (5,715.7)	\$ 5,012.4	\$ (138.1)	\$ 2,332.1
Net income	—	—	—	—	—	—	278.0	—	278.0
Other comprehensive income	—	—	—	—	—	—	—	38.2	38.2
Stock-based compensation	—	—	—	—	54.5	—	—	—	54.5
Issuance of preferred stock	—	—	0.2	—	42.1	(42.1)	—	—	—
Conversion of preferred stock to common stock	1.5	—	(0.2)	—	—	—	—	—	—
Repurchases of common stock	—	—	—	—	—	(976.1)	—	—	(976.1)
Dividends and dividend equivalent rights declared (\$0.63 per common share)	—	—	—	—	—	—	(127.1)	—	(127.1)
Other	0.5	—	—	—	(11.3)	—	—	—	(11.3)
December 31, 2019	115.0	\$ 1.1	—	\$ —	\$ 3,257.7	\$ (6,733.9)	\$ 5,163.3	\$ (99.9)	\$ 1,588.3

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2019	2018 (In millions)	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 278.0	\$ 963.1	\$ 788.7
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	249.3	487.3	497.6
Deferred income taxes	(186.1)	16.3	(113.8)
Provision for loan loss	1,187.5	1,016.0	1,140.1
Non-cash stock compensation	54.8	80.8	75.1
Amortization of deferred financing costs	43.4	47.3	44.0
Gain on sale of business	(512.2)	—	—
Loss on extinguishment of debt	71.9	—	—
Asset impairment charges	52.0	—	—
Change in other operating assets and liabilities, net of sale of business:			
Change in deferred revenue	2.9	(17.5)	(27.0)
Change in accounts receivable	4.1	(93.0)	(10.3)
Change in accounts payable and accrued expenses	(255.0)	(93.7)	167.4
Change in other assets	(46.8)	(29.8)	(20.9)
Change in other liabilities	32.9	49.8	(24.9)
Originations of credit card and loan receivables held for sale	—	(4,799.0)	(8,709.4)
Sales of credit card and loan receivables held for sale	—	4,928.8	8,651.9
Other	241.0	198.5	140.6
Net cash provided by operating activities	<u>1,217.7</u>	<u>2,754.9</u>	<u>2,599.1</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in redemption settlement assets	(9.5)	(42.2)	(231.3)
Change in credit card and loan receivables	(2,586.8)	(2,749.6)	(3,600.2)
Proceeds from sale of business	4,409.7	—	—
Purchase of credit card portfolios	(924.8)	—	—
Proceeds from sale of credit card portfolios	2,061.8	1,153.5	797.7
Proceeds from sale of real estate	15.1	—	—
Payments for acquired businesses, net of cash	(6.7)	—	(945.6)
Capital expenditures	(142.3)	(199.8)	(225.4)
Purchases of other investments	(20.2)	(89.5)	(101.4)
Maturities/sales of other investments	60.0	47.4	42.5
Other	4.5	8.2	(4.4)
Net cash provided by (used in) investing activities	<u>2,860.8</u>	<u>(1,872.0)</u>	<u>(4,268.1)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under debt agreements	3,111.3	4,575.3	7,696.7
Repayments of borrowings	(5,981.8)	(4,893.0)	(7,341.4)
Non-recourse borrowings of consolidated securitization entities	4,851.8	3,714.6	5,172.5
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(5,219.0)	(4,871.0)	(3,320.3)
Net increase in deposits	355.6	864.1	2,543.2
Payment of debt extinguishment costs	(46.1)	—	—
Payment of deferred financing costs	(45.4)	(25.8)	(65.7)
Proceeds from issuance of common stock	12.4	17.6	18.4
Dividends paid	(127.4)	(125.2)	(115.5)
Purchase of treasury shares	(976.1)	(443.2)	(553.7)
Other	(27.0)	(31.3)	(29.3)
Net cash (used in) provided by financing activities	<u>(4,091.7)</u>	<u>(1,217.9)</u>	<u>4,004.9</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	3.6	(12.0)	10.3
Change in cash, cash equivalents and restricted cash	(9.6)	(347.0)	2,346.2
Cash, cash equivalents and restricted cash at beginning of year	3,967.7	4,314.7	1,968.5
Cash, cash equivalents and restricted cash at end of year	<u>\$ 3,958.1</u>	<u>\$ 3,967.7</u>	<u>\$ 4,314.7</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	<u>\$ 671.9</u>	<u>\$ 719.8</u>	<u>\$ 551.4</u>
Income taxes paid, net	<u>\$ 1,070.6</u>	<u>\$ 234.0</u>	<u>\$ 344.1</u>

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

See accompanying notes to consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of the Business—Alliance Data Systems Corporation (“ADSC” or, including its 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. 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 two reportable segments: LoyaltyOne® and Card Services. LoyaltyOne provides coalition and short-term loyalty programs through the Canadian AIR MILES® Reward Program and BrandLoyalty Group B.V. (“BrandLoyalty”). 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 and other funding of certain credit card and loan 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”). The Company’s consolidated financial statements have been presented with its former Epsilon® segment as a discontinued operation. See Note 6, “Discontinued Operations,” for more information.

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 financial interest. Controlling financial interest is determined by a majority ownership interest and the absence of substantive third party participating rights. All intercompany transactions have been eliminated.

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 these trusts, has the power to direct the activities that most significantly impact the economic performance of such trusts, and the obligation (or right) to absorb losses (or receive benefits) of the trusts that could potentially be significant. As such, the Company consolidates these trusts in its consolidated financial statements.

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.

Accounts Receivable, net—Accounts receivable, net consist primarily of amounts receivable from customers, which are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable. The Company analyzes the appropriateness of its allowance for doubtful accounts based on its 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.

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

Credit Card and Loan Receivables— Credit card and loan receivables consist of credit card and loan receivables held for investment. 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 certain of 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. 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. 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 income 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 estimate of the allowance for loan loss covers uncollectible principal as well as unpaid interest and fees. The allowance for loan loss is evaluated monthly for appropriateness.

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

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

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

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

Effective January 1, 2020, the Company adopted Accounting Standards Update (“ASU”) 2016-13, “Measurement of Credit Losses on Financial Instruments.” For additional information regarding the impact of the new standard, see “Recently Issued Accounting Standards” below.

Inventories, net—Inventories, net are stated at the lower of cost and net realizable value and valued primarily on a first-in-first-out basis. The Company records valuation adjustments to its inventories if the cost of inventory exceeds the amount it expects to realize from the ultimate sale or disposal of the inventory. These estimates are based on management’s judgment regarding future market conditions and an analysis of historical experience.

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. Investments in equity securities are stated at fair value, with holding gains and losses recognized through net income. Investments in debt securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income (loss), as the investments are classified as available-for-sale.

Property and Equipment—Furniture, equipment, computer software and development, buildings and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Land is carried at cost and is not depreciated. Depreciation and amortization for furniture, equipment and buildings are computed on a straight-line basis, using estimated lives ranging from one to twenty-one years. Software development is capitalized in accordance with ASC 350-40, “Intangibles – Goodwill and Other – Internal-Use Software,” and is amortized on a straight-line basis over the expected benefit period, which ranges from one 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 qualitative or quantitative analysis. Separable intangible assets that have finite useful lives are amortized over their respective useful lives.

Income Taxes— Income tax returns are filed in federal, state, local and foreign jurisdictions as applicable. Provisions for current income tax liabilities are calculated and accrued on income and expense amounts expected to be included in the income tax returns for the current year. Income taxes reported in earnings also include deferred income tax provisions and provisions for uncertain tax positions.

Deferred income tax assets and liabilities are computed on differences between the financial statement bases and tax bases of assets and liabilities at the enacted tax rates. Changes in deferred income tax assets and liabilities associated with components of other comprehensive income are charged or credited directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense. The effect on deferred income tax assets and liabilities attributable to changes in enacted tax rates are charged or credited to income tax expense in the period of enactment. Valuation allowances are established for certain deferred tax assets when realization is less than more likely than not.

Liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions, in our judgment, do not meet a more-likely-than-not threshold based on the technical merits of the positions. Additionally, liabilities may be established for uncertain tax positions when, in our judgement, the more-likely-than-not threshold is met, but the position does not rise to the level of highly certain based upon the technical merits of the position. Estimated interest and penalties related to uncertain tax positions are included as a component of income tax expense.

Derivative Instruments—The Company uses derivatives to manage its exposure to various financial risks. The Company does not enter into derivatives for trading or other speculative purposes. Certain derivatives used to manage

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

the Company's exposure to 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 the hedge's inception and on an ongoing basis, whether the derivatives that are used in the hedging transaction, including net investment hedges, 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 the 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.

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

Net Investment Hedges—The Company used Euro-denominated debt to hedge a portion of its net investment in foreign subsidiaries against adverse movements in exchange rates. The effective portion of the foreign currency gains and losses related to the Euro-denominated debt is reported in accumulated other comprehensive income (loss) in the Company's consolidated balance sheets. The gains or losses will be subsequently reclassified into net income when the hedged net investment is either sold or substantially liquidated.

Other Investments—Other investments consist of marketable securities and U.S. Treasury bonds and are included in other current assets and other non-current assets in the Company's consolidated balance sheets. Investments in equity securities are stated at fair value, with holding gains and losses recognized through net income. Investments in debt securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income (loss), as the investments are classified as available-for-sale.

Revenue Recognition—Effective January 1, 2018, the Company adopted ASC 606, "Revenue from Contracts with Customers," applying the modified retrospective method to those contracts that were not completed as of January 1, 2018. The Company recognizes revenues when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. In that determination, under ASC 606, the Company follows a five-step model that 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.

Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with the Company's historic accounting under ASC 605. ASC 606 does not apply to financial instruments and other contractual rights or obligations.

See Note 3, "Revenue," for more information about the Company's revenue and the associated timing and basis of revenue recognition.

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 is based on the weighted average number of common and potentially dilutive common shares (dilutive stock options, unvested

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

restricted stock units and other dilutive securities outstanding during the year), pursuant to the treasury stock method. For periods with participating securities, the Company computes earnings per share using the two-class method, which is an allocation of earnings between the holders of common stock and a company's participating security holders.

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 net foreign transaction gains of \$1.3 million for the year ended December 31, 2019, gains of \$0.6 million for the year ended December 31, 2018, and losses of \$9.1 million for the year ended December 31, 2017.

Leases—The Company determines if an arrangement is a lease or contains a lease at inception. Operating lease right-of-use assets and lease liabilities are recognized at commencement based on the present value of lease payments over the lease term. As the implicit rate is typically not readily determinable in the Company's lease agreements, the Company uses its incremental borrowing rate as of the lease commencement date to determine the present value of the lease payments. The incremental borrowing rate is based on the Company's specific rate of interest to borrow on a collateralized basis, over a similar term and in a similar economic environment as the lease. Lease expense is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recognized on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. Additionally, the Company accounts for lease and nonlease components as a single lease component for its identified asset classes. As of December 31, 2019, the Company does not have any finance leases.

Marketing and Advertising Costs—The Company participates in various marketing and advertising programs, including collaborative arrangements with certain clients. The cost of marketing and advertising programs is expensed in the period incurred. The Company has recognized marketing and advertising expenses, including on behalf of its clients, of \$229.4 million, \$244.5 million and \$236.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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

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

Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires entities to utilize a financial instrument impairment model to establish an allowance based on expected losses over the life of the exposure rather than a model based on an incurred loss approach. Estimates of expected credit losses under the current expected credit loss model are based on relevant information about past events, current conditions, and reasonable and supportable forward-looking forecasts regarding the collectability of the loan portfolio. 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 formed a cross-functional implementation team to oversee the implementation of the standard, developed loss forecasting models and processes to satisfy the requirements of ASU 2016-13. The Company adopted the standard effective January 1, 2020. Management expects an increase in the allowance for loan loss at adoption of \$644.0 million,

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

which will be recorded through a cumulative-effect adjustment to retained earnings, net of taxes. The scope of this standard also impacts the Company's accounts receivable and available-for-sale debt securities, for which the Company's adoption did not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 modifies the disclosure requirements on fair value measurements from Accounting Standards Codification ("ASC") 820, "Fair Value Measurement." ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The effect of the adoption of ASU 2018-13 will be a change to the disclosure requirements for certain fair value measurements.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." ASU 2018-15 requires customers in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40, "Intangibles—Goodwill and Other—Internal-Use Software," to determine which implementation costs may be capitalized. ASU 2018-15 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The amendments in ASU 2018-15 can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company does not expect the adoption of ASU 2018-15 to have a material impact on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes." ASU 2019-12 eliminates certain exceptions within ASC 740, "Income Taxes," and clarifies certain aspects of ASC 740 to promote consistency among reporting entities. ASU 2019-12 is effective for interim and annual reporting periods beginning after December 15, 2020, with early adoption permitted. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The Company is evaluating the impact that adoption of ASU 2019-12 will have on its consolidated financial statements.

Recently Adopted Accounting Standards

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

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

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

The cumulative effect of the changes made to the consolidated January 1, 2019 balance sheet for the adoption of ASC 842 established operating lease liabilities of approximately \$324.5 million and corresponding right-of-use assets of approximately \$269.9 million, based upon the operating lease liabilities adjusted for deferred rent and lease incentives,

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

which resulted in the reclassification of approximately \$54.6 million in liabilities to the right-of-use asset. There was no cumulative-effect adjustment to retained earnings as a result of the adoption of ASC 842.

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

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

ASC 842 also requires expanded qualitative and quantitative disclosure regarding the Company's leasing activities. See Note 11, "Leases," for the Company's ASC 842 disclosures.

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

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

3. REVENUE

Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company's contracts with its customers state the terms of sale, including the description, quantity, and price of the product or service purchased. Payment terms can vary by contract, but the period between invoicing and when payment is due is not significant. Taxes assessed on revenue-producing transactions are excluded from revenues.

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

The Company's products and services are reported under two segments—LoyaltyOne and Card Services, as shown below. The following tables present revenue disaggregated by major source, as well as geographic region based on the location of the subsidiary that generally correlates with the location of the customer:

<u>Year Ended December 31, 2019</u>	<u>LoyaltyOne</u>	<u>Card Services</u>	<u>Corporate/ Other</u>	<u>Total</u>
	(in millions)			
Disaggregation of Revenue by Major Source:				
Coalition loyalty program	\$ 290.1	\$ —	\$ —	\$ 290.1
Short-term loyalty programs	635.5	—	—	635.5
Servicing fees, net	—	(180.7)	—	(180.7)
Other	94.9	—	0.4	95.3
Revenue from contracts with customers	<u>\$ 1,020.5</u>	<u>\$ (180.7)</u>	<u>\$ 0.4</u>	<u>\$ 840.2</u>
Finance charges, net	—	4,728.5	—	4,728.5
Investment income	12.6	—	—	12.6
Total	<u>\$ 1,033.1</u>	<u>\$ 4,547.8</u>	<u>\$ 0.4</u>	<u>\$ 5,581.3</u>

<u>Year Ended December 31, 2018</u>	<u>LoyaltyOne</u>	<u>Card Services</u>	<u>Corporate/ Other</u>	<u>Total</u>
	(in millions)			
Disaggregation of Revenue by Major Source:				
Coalition loyalty program	\$ 352.3	\$ —	\$ —	\$ 352.3
Short-term loyalty programs	613.8	—	—	613.8
Servicing fees, net	—	(97.3)	—	(97.3)
Other	90.7	—	0.6	91.3
Revenue from contracts with customers	<u>\$ 1,056.8</u>	<u>\$ (97.3)</u>	<u>\$ 0.6</u>	<u>\$ 960.1</u>
Finance charges, net	—	4,694.9	—	4,694.9
Investment income	11.6	—	—	11.6
Total	<u>\$ 1,068.4</u>	<u>\$ 4,597.6</u>	<u>\$ 0.6</u>	<u>\$ 5,666.6</u>

<u>Year Ended December 31, 2019</u>	<u>LoyaltyOne</u>	<u>Card Services</u>	<u>Corporate/ Other</u>	<u>Total</u>
	(in millions)			
Disaggregation of Revenue by Geographic Region:				
United States	\$ 40.1	\$ 4,547.8	\$ 0.4	\$ 4,588.3
Canada	352.2	—	—	352.2
Europe, Middle East and Africa	449.1	—	—	449.1
Asia Pacific	121.7	—	—	121.7
Other	70.0	—	—	70.0
Total	<u>\$ 1,033.1</u>	<u>\$ 4,547.8</u>	<u>\$ 0.4</u>	<u>\$ 5,581.3</u>

<u>Year Ended December 31, 2018</u>	<u>LoyaltyOne</u>	<u>Card Services</u>	<u>Corporate/ Other</u>	<u>Total</u>
	(in millions)			
Disaggregation of Revenue by Geographic Region:				
United States	\$ 23.1	\$ 4,597.6	\$ 0.6	\$ 4,621.3
Canada	411.3	—	—	411.3
Europe, Middle East and Africa	463.2	—	—	463.2
Asia Pacific	122.0	—	—	122.0
Other	48.8	—	—	48.8
Total	<u>\$ 1,068.4</u>	<u>\$ 4,597.6</u>	<u>\$ 0.6</u>	<u>\$ 5,666.6</u>

ALLIANCE DATA SYSTEMS CORPORATION
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LoyaltyOne

LoyaltyOne provides coalition and short-term loyalty programs through the Company's Canadian AIR MILES Reward Program and BrandLoyalty. The AIR MILES Reward Program is a coalition loyalty program for sponsors, who pay LoyaltyOne a fee per AIR MILES reward mile issued, in return for which LoyaltyOne provides all marketing, customer service, rewards and redemption management. BrandLoyalty designs, implements, conducts and evaluates innovative and tailor-made short-term loyalty programs for grocers worldwide.

Total consideration from the issuance of AIR MILES reward miles is allocated to three performance obligations: redemption, service, and brand, based on a relative standalone selling price basis. Because the standalone selling price is not directly observable for the three performance obligations, the Company estimates the standalone selling price for the redemption and the service performance obligations based on cost plus a reasonable margin. The Company estimates the standalone selling price of the brand performance obligation using a relief from royalty approach. Accordingly, management determines the estimated standalone 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. The number of AIR MILES reward miles issued and redeemed are factored into the estimates, as management estimates the standalone selling prices and volumes over the term of the respective agreements in order to determine the allocation of consideration to each performance obligation delivered. The redemption performance obligation incorporates the expected number of AIR MILES reward miles to be redeemed, and therefore, the amount of redemption revenue recognized is subject to management's estimate of breakage, or those AIR MILES reward miles estimated to be unredeemed by the collector base.

Redemption revenue is recognized at a point in time, as the AIR MILES reward miles are redeemed. For the fulfillment of certain rewards where the AIR MILES Reward Program does not control the goods or services before they are transferred to the collector, revenue is recorded on a net basis. Service revenue is recognized over time using a time-elapsed output method, the estimated life of an AIR MILES reward mile. Revenue from the brand is recognized over time, using an output method, when an AIR MILES reward mile is issued. Revenue associated with both the service and brand is included in service 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 2017, 2018 and 2019, the Company's breakage rate was 20%. During 2017, the Company changed its estimated life of an AIR MILES reward mile from 42 months to 38 months. Throughout 2018 and 2019, the Company's estimated life of a mile was 38 months.

The short-term loyalty programs typically last between 12 and 20 weeks, depending on the nature of the program, with contract terms usually less than one year in length. These programs are tailored for the specific retailer client and are designed to reward key customer segments based on their spending levels during defined campaign periods. Revenue is recognized at the point in time control passes from BrandLoyalty to the retailer.

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

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

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

	Deferred Revenue		
	Service	Redemption	Total
	(in millions)		
Balance at January 1, 2018	\$ 283.8	\$ 683.1	\$ 966.9
Cash proceeds	194.7	324.8	519.5
Revenue recognized ⁽¹⁾	(209.2)	(328.4)	(537.6)
Other	—	0.7	0.7
Effects of foreign currency translation	(21.3)	(52.9)	(74.2)
Balance at December 31, 2018	<u>248.0</u>	<u>627.3</u>	<u>875.3</u>
Cash proceeds	192.0	313.3	505.3
Revenue recognized ⁽¹⁾	(193.7)	(309.2)	(502.9)
Other	—	0.6	0.6
Effects of foreign currency translation	12.3	31.4	43.7
Balance at December 31, 2019	<u>\$ 258.6</u>	<u>\$ 663.4</u>	<u>\$ 922.0</u>
Amounts recognized in the consolidated balance sheets:			
Deferred revenue (current)	<u>\$ 144.5</u>	<u>\$ 663.4</u>	<u>\$ 807.9</u>
Deferred revenue (non-current)	<u>\$ 114.1</u>	<u>\$ —</u>	<u>\$ 114.1</u>

⁽¹⁾ Reported on a gross basis herein.

The deferred redemption obligation associated with the AIR MILES Reward Program is effectively due on demand from the collector base, thus the timing of revenue recognition is based on the redemption by the collector. Service revenue is amortized over the expected life of a mile, with the deferred revenue balance expected to be recognized into revenue in the amount of \$144.5 million in 2020, \$79.5 million in 2021, \$33.5 million in 2022, and \$1.1 million in 2023.

Additionally, contract liabilities for the Company's short-term loyalty programs are recognized in other current liabilities in the Company's consolidated balance sheets. In 2019, the beginning balance as of January 1, 2019 was \$110.2 million and the closing balance as of December 31, 2019 was \$122.8 million, with the change due to cash payments received in advance of program performance, offset in part by revenue recognized of approximately \$526.6 million during the year ended December 31, 2019. In 2018, the beginning balance as of January 1, 2018 was \$87.5 million and the closing balance as of December 31, 2018 was \$110.2 million, with the change due to cash payments received in advance of program performance revenue, offset in part by revenue recognized of approximately \$506.5 million during the year ended December 31, 2018.

Card Services

Card Services is a provider of branded credit card programs, both private label and co-brand, that drive sales for its brand partners. For these private label and co-brand programs, Card Services provides risk management solutions, account origination, funding, transaction processing, customer care, collections and marketing services.

Finance charges, net. Finance charges, net represents revenue earned on customer accounts owned 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, which are within the scope of ASC 310, "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, in the month during which an account becomes 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

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

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, 2019 and 2018, the remaining unamortized deferred costs related to loan origination were \$47.1 million and \$40.6 million, respectively.

Servicing fees, net. Servicing fees, net represents revenue earned from retailers and cardholders from processing and servicing accounts, and is recognized as such services are performed.

Revenue earned from retailers primarily consists of merchant and interchange fees, which are transaction fees charged to the merchant for the processing of credit card transactions. Merchant and interchange fees are recognized at a point in time upon the cardholder purchase.

Our credit card program agreements may also provide for payments to the retailer based on purchased volume or if certain contractual incentives are met, such as if the economic performance of the program exceeds a contractually defined threshold. These amounts are recorded as a reduction of revenue.

Revenue earned from cardholders primarily consists of monthly fees from the purchase of certain payment protection products purchased by our cardholders. The fees are based on the average cardholder account balance, and these products can be cancelled at any time by the cardholder. Revenue is recognized over time using a time-elapsed output method.

Contract Costs. The Company recognizes an asset for the incremental costs of obtaining or fulfilling a contract with the retailer for a credit card program agreement to the extent it expects to recover those costs, in accordance with ASC 340-40. Contract costs are deferred and amortized on a straight-line basis over the respective term of the agreement, which represents the period of service. Depending on the nature of the contract costs, the amortization is recorded as a reduction to revenue, or costs of operations, in the Company's consolidated statements of income. As of December 31, 2019 and 2018, the remaining unamortized contract costs were \$406.8 million and \$372.5 million, respectively, and are included in other current assets and other non-current assets in the Company's consolidated balance sheets.

For the year ended December 31, 2019, amortization of contract costs recorded as a reduction to revenue totaled \$71.8 million and amortization of contract costs recorded to cost of operations expense totaled \$11.9 million. For the year ended December 31, 2018, amortization of contract costs recorded as a reduction to revenue totaled \$68.7 million and amortization of contract costs recorded to cost of operations expense totaled \$9.8 million. No impairment was recognized during the periods presented.

Practical Expedients

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which the Company has the right to invoice for services performed.

The Company has elected the practical expedient from ASC 340-40 with respect to contract costs, and expenses the incremental costs as incurred for those costs that would otherwise be recognized with an amortization period of one year or less. These costs are recorded to cost of operations expense in the Company's consolidated statements of income.

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

4. EARNINGS PER SHARE

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

	Years Ended December 31,		
	2019	2018	2017
	(in millions, except per share amounts)		
Basic income per share:			
Numerator:			
Income from continuing operations	\$ 572.6	\$ 945.5	\$ 769.2
Less: Dividends declared on preferred stock	2.8	—	—
Less: Allocation of undistributed earnings	6.8	—	—
Income from continuing operations - basic	563.0	945.5	769.2
(Loss) income from discontinued operations, net of tax	(294.6)	17.6	19.5
Net income - basic	\$ 268.4	\$ 963.1	\$ 788.7
Denominator:			
Weighted average shares, basic	50.0	54.9	55.7
Basic income (loss) attributable to common stockholders per share:			
Income from continuing operations	\$ 11.25	\$ 17.24	\$ 13.82
(Loss) income from discontinued operations	\$ (5.89)	\$ 0.32	\$ 0.35
Net income per share	\$ 5.36	\$ 17.56	\$ 14.17
Diluted income per share ⁽¹⁾:			
Numerator:			
Income from continuing operations	\$ 572.6	\$ 945.5	\$ 769.2
(Loss) income from discontinued operations, net of tax	(294.6)	17.6	19.5
Net income	\$ 278.0	\$ 963.1	\$ 788.7
Denominator:			
Weighted average shares, basic	50.0	54.9	55.7
Weighted average effect of dilutive securities:			
Shares from assumed conversion of preferred stock	0.8	—	—
Net effect of dilutive stock options and unvested restricted stock ⁽²⁾	0.1	0.2	0.2
Denominator for diluted calculation	50.9	55.1	55.9
Diluted income (loss) attributable to common stockholders per share:			
Income from continuing operations	\$ 11.24	\$ 17.17	\$ 13.75
(Loss) income from discontinued operations	\$ (5.78)	\$ 0.32	\$ 0.35
Net income per share	\$ 5.46	\$ 17.49	\$ 14.10

⁽¹⁾ Computed using the if-converted method, as the result was more dilutive.

⁽²⁾ For the years ended December 31, 2019, 2018 and 2017, a de minimis amount of restricted stock units was excluded from each calculation of weighted average dilutive common shares as the effect would have been anti-dilutive.

On April 25, 2019, the Company entered into an exchange agreement with ValueAct Holdings, L.P. pursuant to which ValueAct exchanged an aggregate of 1,500,000 shares of the Company’s common stock for an aggregate of 150,000 shares of Series A Non-Voting Convertible Preferred Stock (“preferred stock”). In October 2019, ValueAct exchanged all 150,000 shares of preferred stock back to common stock. See Note 19, “Stockholders’ Equity,” for more information. At December 31, 2019, the Company did not have any shares of preferred stock outstanding.

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

For the year ended December 31, 2019, the Company’s calculation of basic and diluted EPS was computed using the two-class method for those periods in which participating securities were outstanding. The two-class method is an earnings allocation that determines EPS for each class of common stock and participating securities according to dividends declared and participation rights in undistributed earnings.

5. ACQUISITIONS

2019 Acquisitions:

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

2017 Acquisitions:

On October 20, 2017, the Company acquired credit card receivables and the associated accounts and assumed a portion of an existing customer care operation, including a facility sublease agreement and approximately 250 employees, from Signet Jewelers Limited (“Signet”) for cash consideration of approximately \$945.6 million. This acquisition increases the Company’s presence in the jewelry vertical. The Company determined these acquired activities and assets constituted a business under ASC 805, “Business Combinations,” based on the nature of the inputs, processes and outputs acquired from the transaction. In addition, the parties entered into a long-term agreement under which the Company became the primary issuer of private-label credit cards and related marketing services for Signet. The Company obtained control of the assets and assumed the liabilities on October 20, 2017, and the results of operations have been included since the date of acquisition in the Company’s Card Services segment.

The Company engaged a third party specialist to assist it in the measurement of the fair value of the assets acquired. The fair value of the assets acquired exceeded the cost of the acquisition. Consequently, the Company reassessed the recognition and measurement of the identifiable assets acquired and liabilities assumed and concluded that the valuation procedures and resulting measures were appropriate. The excess value of the net assets acquired over the purchase price of \$7.9 million was recorded as a bargain purchase gain, which was included in cost of operations in the Company’s consolidated statement of income for the year ended December 31, 2017.

The following table summarizes the fair values of the assets acquired and the liabilities assumed in the Signet acquisition as of October 20, 2017:

	As of October 20, 2017 (in millions)
Credit card receivables	\$ 906.3
Intangible assets.	52.3
Total assets acquired	958.6
Other liabilities	0.2
Deferred tax liability	4.9
Total liabilities assumed.	5.1
Net assets acquired	\$ 953.5
Total consideration paid	945.6
Gain on business combination	\$ 7.9

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

6. DISCONTINUED OPERATIONS

Effective April 12, 2019, the Company entered into a definitive agreement to sell its Epsilon segment to Publicis Groupe S.A. for \$4.4 billion in cash, subject to certain specified adjustments. Beginning in the first quarter of 2019, Epsilon met the criteria set forth in ASC 205-20, “Presentation of Financial Statements — Discontinued Operations.”

The sale of Epsilon was completed on July 1, 2019, and the pre-tax gain is shown in the table below.

	<u>July 1, 2019</u> (in millions)
Consideration received ⁽¹⁾	\$ 4,451.9
Net carrying value of assets and liabilities (including other comprehensive income)	<u>3,939.7</u>
Pre-tax gain on deconsolidation	<u>\$ 512.2</u>

⁽¹⁾ Consideration as defined included cash associated with the sold Epsilon entities, which was \$42.2 million.

The Company recorded transaction costs of approximately \$79.0 million for the year ended December 31, 2019 and recorded an after-tax loss on sale of \$252.1 million, which is included in loss from discontinued operations, net of taxes. Following the sale of Epsilon, Card Services has continued its existing contractual relationships with Epsilon for digital marketing services.

The following table summarizes the results of discontinued operations for the periods presented:

	Years Ended December 31,		
	2019	2018 (in millions)	2017
Revenue	\$ 999.6	\$ 2,175.1	\$ 2,272.1
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	993.9	1,744.4	1,834.8
Depreciation and other amortization	29.7	115.4	109.4
Amortization of purchased intangibles	43.5	178.3	200.3
Interest expense ⁽¹⁾	64.1	128.3	109.0
Gain on sale of Epsilon	<u>(512.2)</u>	<u>—</u>	<u>—</u>
Income before provision (benefit) from income taxes	380.6	8.7	18.6
Provision (benefit) for income taxes	<u>675.2</u>	<u>(8.9)</u>	<u>(0.9)</u>
(Loss) income from discontinued operations, net of taxes ⁽²⁾	<u>\$ (294.6)</u>	<u>\$ 17.6</u>	<u>\$ 19.5</u>

⁽¹⁾ The Company’s credit agreement, as amended, provided that upon consummation of the sale of Epsilon, a mandatory payment of \$500.0 million of the revolving credit facility was required and all of the Company’s outstanding senior notes were required to be redeemed. As such, interest expense has been allocated to discontinued operations on the basis of the Company’s \$500.0 million mandatory repayment of its revolving line of credit and redemption of its \$1.9 billion in senior notes outstanding.

⁽²⁾ Reflects the results of operations of the Company’s former Epsilon segment, direct costs identifiable to the Epsilon segment including a loss contingency associated with indemnification issues with the purchaser as described in Note 18, “Commitments and Contingencies,” and the allocation of interest expense on corporate debt.

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

The following table summarizes the assets and liabilities of discontinued operations at December 31, 2018:

	<u>December 31, 2018</u> (in millions)
Assets:	
Cash and cash equivalents	\$ 45.7
Accounts receivable, net	519.9
Other current assets	56.6
Property and equipment, net	306.9
Intangible assets, net	322.3
Goodwill	2,886.2
Other assets	19.8
Total assets of discontinued operations	<u>\$ 4,157.4</u>
Liabilities:	
Accounts payable	\$ 72.2
Accrued expenses	98.8
Other current liabilities	52.5
Other liabilities	36.9
Total liabilities of discontinued operations	<u>\$ 260.4</u>

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

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u> (in millions)	<u>2017</u>
Depreciation and amortization	<u>\$ 73.2</u>	<u>\$ 293.7</u>	<u>\$ 309.7</u>
Capital expenditures	<u>\$ 55.8</u>	<u>\$ 106.5</u>	<u>\$ 107.2</u>

7. 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:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	<u>(in millions)</u>	
Principal receivables	\$ 18,413.1	\$ 16,869.9
Billed and accrued finance charges	977.3	898.3
Other	72.7	86.8
Total credit card and loan receivables	<u>19,463.1</u>	<u>17,855.0</u>
Less: Credit card receivables – restricted for securitization investors	<u>13,504.2</u>	<u>13,418.3</u>
Other credit card and loan receivables	<u>\$ 5,958.9</u>	<u>\$ 4,436.7</u>

Allowance for Loan Loss

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

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

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

	Years Ended December 31,		
	2019	2018	2017
		(in millions)	
Balance at beginning of year	\$ 1,038.3	\$ 1,119.3	\$ 948.0
Provision for loan loss	1,187.5	1,016.0	1,140.1
Allowance associated with credit card and loan receivables transferred to held for sale	—	(54.8)	(27.9)
Change in estimate for uncollectible unpaid interest and fees	—	25.0	30.0
Recoveries	234.5	214.2	196.6
Principal charge-offs	(1,289.2)	(1,281.4)	(1,167.5)
Balance at end of year	<u>\$ 1,171.1</u>	<u>\$ 1,038.3</u>	<u>\$ 1,119.3</u>

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

The Company records the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. For the years ended December 31, 2019, 2018 and 2017, actual charge-offs for unpaid interest and fees were \$808.6 million, \$803.1 million and \$653.2 million, 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:

	December 31, 2019	% of Total	December 31, 2018	% of Total
	(in millions, except percentages)			
Receivables outstanding - principal	\$ 18,413.1	100.0 %	\$ 16,869.9	100.0 %
Principal receivables balances contractually delinquent:				
31 to 60 days	\$ 337.4	1.8 %	\$ 303.2	1.8 %
61 to 90 days	233.6	1.3	207.9	1.3
91 or more days	496.5	2.7	443.4	2.6
Total	<u>\$ 1,067.5</u>	<u>5.8 %</u>	<u>\$ 954.5</u>	<u>5.7 %</u>

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

The practice of re-aging an account may affect credit card loan delinquencies and charge-offs. A re-age of an account is intended to assist delinquent cardholders who have experienced financial difficulties but who demonstrate both an ability and willingness to repay the amounts due. Accounts meeting specific defined criteria are re-aged when the cardholder makes one or more consecutive payments aggregating a certain pre-defined amount of their account balance. With re-aging, the outstanding balance of a delinquent account is returned to a current status. For the years ended December 31, 2019, 2018 and 2017, the Company's re-aged accounts represented 2.4%, 2.1% and 1.4%, respectively, of total credit card and loan receivables for each period and thus do not have a significant impact on the Company's delinquencies or net charge-offs. The Company's re-aging practices comply with regulatory guidelines.

Modified Credit Card Receivables

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

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

The Company had \$308.7 million and \$292.4 million, respectively, as a recorded investment in impaired credit card receivables with an associated allowance for loan loss of \$75.4 million and \$101.3 million, respectively, as of December 31, 2019 and 2018. These modified credit card receivables represented less than 2% of the Company's total credit card receivables as of both December 31, 2019 and 2018.

The average recorded investment in the impaired credit card receivables was \$295.4 million and \$340.9 million for the years ended December 31, 2019 and 2018, respectively.

Interest income on these modified credit card receivables is accounted for in the same manner as other accruing credit card receivables. Cash collections on these modified credit card receivables are allocated according to the same payment hierarchy methodology applied to credit card receivables that are not in such programs. The Company recognized \$22.6 million, \$27.9 million and \$19.7 million for the years ended December 31, 2019, 2018 and 2017, respectively, in interest income associated with modified credit card receivables during the period that such credit card receivables were impaired.

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

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:

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	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 . . .	259,311	\$ 381.4	\$ 380.8	501,906	\$ 621.4	\$ 620.7

(Dollars in millions)

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:

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
Troubled debt restructurings that subsequently defaulted – credit card receivables	126,476	\$ 170.8	293,591	\$ 340.5

(Dollars in millions)

Age of Credit Card and Loan Receivable Accounts

The following tables set forth, as of December 31, 2019 and 2018, the number of active credit card and loan receivable accounts with balances and the related principal balances outstanding, based upon the age of the active credit card and loan receivable accounts from origination:

Age of Accounts Since Origination	December 31, 2019			
	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
0-12 Months	7.1	27.8 %	\$ 4,585.1	24.9 %
13-24 Months	3.9	15.3	2,826.6	15.4
25-36 Months	3.2	12.6	2,423.1	13.2
37-48 Months	2.5	9.7	2,051.7	11.1
49-60 Months	1.8	7.0	1,509.7	8.2
Over 60 Months	7.0	27.6	5,016.9	27.2
Total	25.5	100.0 %	\$ 18,413.1	100.0 %

(in millions, except percentages)

Age of Accounts Since Origination	December 31, 2018			
	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
0-12 Months	6.5	26.7 %	\$ 4,099.9	24.3 %
13-24 Months	4.2	17.1	2,887.8	17.1
25-36 Months	3.1	13.0	2,428.9	14.4
37-48 Months	2.2	9.1	1,795.0	10.7
49-60 Months	1.7	7.1	1,367.2	8.1
Over 60 Months	6.5	27.0	4,291.1	25.4
Total	24.2	100.0 %	\$ 16,869.9	100.0 %

(in millions, except percentages)

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

Credit Quality

The Company uses proprietary scoring models developed specifically for the purpose of monitoring the Company’s obligor credit quality. The proprietary scoring models are used as a tool in the underwriting process and for making credit decisions. The proprietary scoring models are based on historical data and require various assumptions about future performance, which the Company updates periodically. Information regarding customer performance is factored into these proprietary scoring models to determine the probability of an account becoming 91 or more days past due at any time within the next 12 months. Obligor credit quality is monitored at least monthly during the life of an account. The following table reflects the composition of the Company’s credit card and loan receivables by obligor credit quality as of December 31, 2019 and 2018:

<u>Probability of an Account Becoming 91 or More Days Past Due or Becoming Charged-off (within the next 12 months)</u>	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Total Principal Receivables Outstanding</u>	<u>Percentage of Principal Receivables Outstanding</u>	<u>Total Principal Receivables Outstanding</u>	<u>Percentage of Principal Receivables Outstanding</u>
	(in millions, except percentages)			
No Score.....	\$ 290.0	1.6 %	\$ 249.0	1.5 %
27.1% and higher.....	1,591.4	8.6	1,394.0	8.2
17.1% - 27.0%.....	1,065.4	5.8	770.1	4.6
12.6% - 17.0%.....	1,127.7	6.1	1,047.6	6.2
3.7% - 12.5%.....	7,985.8	43.4	6,877.6	40.8
1.9% - 3.6%.....	3,285.3	17.8	3,060.7	18.1
Lower than 1.9%.....	3,067.5	16.7	3,470.9	20.6
Total	<u>\$ 18,413.1</u>	<u>100.0 %</u>	<u>\$ 16,869.9</u>	<u>100.0 %</u>

Transfer of Financial Assets

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

Portfolios Held for Sale

The Company has certain credit card portfolios held for sale, which are carried at the lower of cost or fair value, of \$408.0 million and \$1,951.6 million as of December 31, 2019 and 2018, respectively.

During the year ended December 31, 2019, the Company transferred one credit card portfolio totaling approximately \$510.3 million into credit card receivables held for sale, and sold 13 credit card portfolios for cash consideration of approximately \$2.1 billion and recognized approximately \$43.9 million in net gains on the transactions. The Company recorded portfolio valuation adjustments, which are reflected in cost of operations expense, of \$189.8 million for the year ended December 31, 2019.

For the year ended December 31, 2019, the portfolio sales were as follows:

- In April 2019, the Company sold one credit card portfolio for final cash consideration of approximately \$356.6 million and recognized a \$0.4 million loss on the transaction.
- In June 2019, the Company sold three credit card portfolios for final cash consideration of approximately \$217.7 million and recognized approximately \$2.9 million in gains on the transactions.
- In August 2019, the Company sold one credit card portfolio for final cash consideration of approximately \$70.4 million and recognized a \$1.7 million gain on the transaction.

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

- In September 2019, the Company sold one credit card portfolio for final cash consideration of approximately \$334.7 million and recognized a \$15.2 million gain on the transaction.
- In December 2019, the Company sold seven credit card portfolios for preliminary cash consideration of approximately \$1,082.4 million, subject to customary sale price adjustments, and recognized approximately \$24.5 million in net gains on the transactions.

During the year ended December 31, 2018, the Company transferred 11 credit card portfolios totaling approximately \$2.3 billion into credit card receivables held for sale, and sold six credit card portfolios for cash consideration of approximately \$1.2 billion and recognized approximately \$29.2 million in net gains on the transactions. The Company recorded portfolio valuation adjustments of \$101.6 million for the year ended December 31, 2018.

In February 2020, the Company sold one credit card portfolio, subject to certain conditions as defined in the purchase and sale agreement. At December 31, 2019, the carrying value of this portfolio was \$313.9 million and included in credit card receivables held for sale in the Company's consolidated December 31, 2019 balance sheet.

Portfolio Acquisitions

During the year ended December 31, 2019, the Company acquired four credit card portfolios for cash consideration of approximately \$924.8 million, which consisted of approximately \$843.5 million of credit card receivables, \$35.7 million of intangible assets and \$45.6 million of other non-current assets, subject to customary purchase price adjustments.

During the year ended December 31, 2017, the Company acquired approximately \$906.3 million of credit card receivables in connection with the Signet acquisition. For more information, see Note 5, "Acquisitions."

Securitized Credit Card Receivables

The Company regularly securitizes its credit card receivables through its credit card securitization trusts, consisting of the WFN Trusts and the WFC Trust. The Company continues to own and service the accounts that generate credit card receivables held by the WFN Trusts and the WFC Trust. In its capacity as a servicer, each of the respective banks earns a fee from the WFN Trusts and the WFC Trust to service and administer the credit card receivables, collect payments and charge-off uncollectible receivables. These fees are eliminated and therefore are not reflected in the consolidated statements of income for the years ended December 31, 2019, 2018 and 2017.

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

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

The Company is required to maintain minimum interests ranging from 4% to 10% of the securitized credit card receivables. This requirement is met through transferor's interest and is supplemented through excess funding deposits. Excess funding deposits represent cash amounts deposited with the trustee of the securitizations. Cash collateral, restricted deposits are generally released proportionately as investors are repaid, although some cash collateral, restricted deposits are released only when investors have been paid in full. No cash collateral, restricted deposits were required to be used to cover losses on securitized credit card receivables in the years ended December 31, 2019, 2018 and 2017.

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

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

	December 31, 2019	December 31, 2018	
	(in millions)		
Total credit card receivables – restricted for securitization investors	\$ 13,504.2	\$ 13,418.3	
Principal amount of credit card receivables – restricted for securitization investors, 91 days or more past due	\$ 321.8	\$ 301.6	
	Years Ended December 31,		
	2019	2018	2017
	(in millions)		
Net charge-offs of securitized principal	\$ 907.7	\$ 927.0	\$ 741.1

8. INVENTORIES, NET

Inventories, net of \$218.0 million and \$248.0 million at December 31, 2019 and 2018, respectively, primarily consist of finished goods to be utilized as rewards in the Company’s loyalty programs. For the year ended December 31, 2019, the Company recorded an inventory write-down of \$18.4 million on certain discontinued product lines. See Note 14, “Restructuring and Other Charges,” for more information.

9. OTHER INVESTMENTS

Other investments consist of marketable securities and U.S. Treasury bonds and are included in other current assets and other non-current assets in the Company’s consolidated balance sheets. Marketable securities include available for sale debt securities, mutual funds and domestic certificate of deposit investments. The principal components of other investments, which are carried at fair value, are as follows:

	December 31, 2019				December 31, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)							
Marketable securities	\$ 257.2	\$ 3.0	\$ (0.4)	\$ 259.8	\$ 272.8	\$ 0.1	\$ (6.5)	\$ 266.4
U.S. Treasury bonds	—	—	—	—	25.0	—	(0.1)	24.9
Total	\$ 257.2	\$ 3.0	\$ (0.4)	\$ 259.8	\$ 297.8	\$ 0.1	\$ (6.6)	\$ 291.3

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

	December 31, 2019					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Marketable securities	\$ 18.8	\$ (0.2)	\$ 13.1	\$ (0.2)	\$ 31.9	\$ (0.4)
Total	\$ 18.8	\$ (0.2)	\$ 13.1	\$ (0.2)	\$ 31.9	\$ (0.4)

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

	December 31, 2018					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Marketable securities	\$ 57.3	\$ (0.5)	\$ 164.0	\$ (6.0)	\$ 221.3	\$ (6.5)
U.S. Treasury bonds	—	—	24.9	(0.1)	24.9	(0.1)
Total	<u>\$ 57.3</u>	<u>\$ (0.5)</u>	<u>\$ 188.9</u>	<u>\$ (6.1)</u>	<u>\$ 246.2</u>	<u>\$ (6.6)</u>

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

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due in one year or less	\$ 31.3	\$ 31.3
Due after one year through five years	1.7	1.7
Due after five years through ten years	—	—
Due after ten years	224.2	226.8
Total	<u>\$ 257.2</u>	<u>\$ 259.8</u>

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

There were no realized gains or losses from the sale of investment securities for the years ended December 31, 2019, 2018 and 2017.

10. 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:

	December 31, 2019				December 31, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)							
Restricted cash	\$ 39.3	\$ —	\$ —	\$ 39.3	\$ 43.9	\$ —	\$ —	\$ 43.9
Mutual funds	25.1	—	—	25.1	23.2	—	—	23.2
Corporate bonds	536.0	2.4	(2.0)	536.4	497.5	0.1	(6.1)	491.5
Total	<u>\$ 600.4</u>	<u>\$ 2.4</u>	<u>\$ (2.0)</u>	<u>\$ 600.8</u>	<u>\$ 564.6</u>	<u>\$ 0.1</u>	<u>\$ (6.1)</u>	<u>\$ 558.6</u>

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

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

	December 31, 2019					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Corporate bonds	\$ 166.6	\$ (1.3)	\$ 155.1	\$ (0.7)	\$ 321.7	\$ (2.0)
Total	<u>\$ 166.6</u>	<u>\$ (1.3)</u>	<u>\$ 155.1</u>	<u>\$ (0.7)</u>	<u>\$ 321.7</u>	<u>\$ (2.0)</u>

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

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

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due in one year or less	\$ 129.5	\$ 129.4
Due after one year through five years	427.8	428.2
Due after five year through ten years	3.8	3.9
Total	<u>\$ 561.1</u>	<u>\$ 561.5</u>

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

For the years ended December 31, 2019, 2018, and 2017, realized gains and losses from the sale of investment securities were de minimis.

11. LEASES

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

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

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

The components of lease expense were as follows:

	Year Ended December 31, 2019
	(in millions)
Operating lease cost	\$ 41.1
Short-term lease cost	2.7
Variable lease cost	6.8
Total	\$ 50.6

Lease expense was \$47.5 million and \$67.3 million for the years ended December 31, 2018 and 2017, respectively.

Other information related to leases was as follows:

	December 31, 2019
Weighted-average remaining lease term (in years):	
Operating leases	11.5
Weighted-average discount rate:	
Operating leases	5.2%

Supplemental cash flow information related to leases was as follows:

	Year Ended December 31, 2019
	(in millions)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 46.6
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 28.4

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

Year	Operating Leases
	(in millions)
2020	\$ 38.4
2021	39.6
2022	38.6
2023	36.8
2024	35.6
Thereafter	237.4
Total undiscounted lease liabilities	426.4
Less: Amount representing interest	(112.1)
Total present value of minimum lease payments	\$ 314.3

Amounts recognized in the December 31, 2019 consolidated balance sheet:

Current operating lease liabilities	\$ 22.6
Long-term operating lease liabilities	291.7
Total	\$ 314.3

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

Under ASC 840, future annual minimum rental payments required under noncancellable operating leases as of December 31, 2018 were as follows:

<u>Year</u>	<u>Operating Leases (in millions)</u>
2019	\$ 42.0
2020	39.9
2021	37.7
2022	36.8
2023	35.6
Thereafter	256.4
Total	<u>\$ 448.4</u>

12. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(in millions)	
Computer software and development	\$ 327.1	\$ 331.9
Furniture and equipment	164.3	166.4
Land, buildings and leasehold improvements	126.0	128.1
Construction in progress	46.2	22.7
Total	<u>663.6</u>	<u>649.1</u>
Accumulated depreciation and amortization	<u>(381.3)</u>	<u>(360.9)</u>
Property and equipment, net	<u>\$ 282.3</u>	<u>\$ 288.2</u>

Depreciation expense totaled \$40.6 million, \$41.2 million and \$40.8 million for the years ended December 31, 2019, 2018 and 2017, respectively, and includes purchased software. Amortization expense on capitalized software totaled \$39.3 million, \$39.5 million and \$32.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

As of December 31, 2019 and 2018, the net amount of unamortized capitalized software costs included in the consolidated balance sheets was \$74.0 million and \$87.5 million, respectively.

Sale of Real Estate

In October 2019, the Company sold a building and land for cash proceeds of \$15.1 million and simultaneously entered into a new 15 year lease agreement for the building, with four consecutive tenant options to extend the lease for five-year terms. Under the criteria of ASC 842, the transaction met the definition of a sale and the Company recognized a \$6.1 million gain on the transaction, which was included in cost of operations in the Company's consolidated statement of income for the year ended December 31, 2019.

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

13. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	<u>December 31, 2019</u>			
	<u>Gross</u>	<u>Accumulated</u>	<u>Net</u>	<u>Amortization Life and Method</u>
	<u>Assets</u>	<u>Amortization</u>		
		(in millions)		
<i>Finite Lived Assets</i>				
Customer contracts and lists	\$ 325.1	\$ (278.7)	\$ 46.4	7 years—straight line
Premium on purchased credit card portfolios	192.6	(93.2)	99.4	1-13 years—straight line
Collector database	53.9	(52.9)	1.0	5 years—straight line
Tradenames	31.8	(26.5)	5.3	8-15 years—straight line
	<u>\$ 603.4</u>	<u>\$ (451.3)</u>	<u>\$ 152.1</u>	
<i>Indefinite Lived Assets</i>				
Tradename	1.2	—	1.2	Indefinite life
Total intangible assets	<u>\$ 604.6</u>	<u>\$ (451.3)</u>	<u>\$ 153.3</u>	
	<u>December 31, 2018</u>			
	<u>Gross</u>	<u>Accumulated</u>	<u>Net</u>	<u>Amortization Life and Method</u>
	<u>Assets</u>	<u>Amortization</u>		
		(in millions)		
<i>Finite Lived Assets</i>				
Customer contracts and lists	\$ 339.5	\$ (244.4)	\$ 95.1	3-7 years—straight line
Premium on purchased credit card portfolios	286.0	(172.9)	113.1	3-13 years—straight line
Collector database	51.3	(49.9)	1.4	5 years—straight line
Tradenames	32.5	(25.9)	6.6	8-15 years—straight line
	<u>\$ 709.3</u>	<u>\$ (493.1)</u>	<u>\$ 216.2</u>	
<i>Indefinite Lived Assets</i>				
Tradename	1.2	—	1.2	Indefinite life
Total intangible assets	<u>\$ 710.5</u>	<u>\$ (493.1)</u>	<u>\$ 217.4</u>	

As part of the portfolio acquisitions during the year ended December 31, 2019, the Company acquired \$35.7 million of intangible assets, consisting of \$21.8 million of customer relationships being amortized over a life of 2.7 years and \$13.9 million of marketing relationships being amortized over a life of 5.9 years.

As part of the Signet acquisition in October 2017, the Company acquired \$52.3 million of intangible assets, consisting of \$35.9 million of customer relationships being amortized over a life of 3.0 years and \$16.4 million of marketing relationships being amortized over a life of 7.0 years. For more information on this acquisition, see Note 5, “Acquisitions.”

Amortization expense related to the intangible assets was approximately \$96.2 million, \$112.9 million and \$114.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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

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

	For the Years Ending December 31,
	(in millions)
2020	\$ 82.7
2021	22.4
2022	17.6
2023	12.9
2024	10.7
Thereafter	5.8

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018, respectively, are as follows:

	LoyaltyOne	Card Services	Total
	(in millions)		
Balance at January 1, 2018	\$ 731.1	\$ 261.7	\$ 992.8
Effects of foreign currency translation	(38.0)	—	(38.0)
Balance at December 31, 2018	\$ 693.1	\$ 261.7	\$ 954.8
Goodwill acquired during the period	—	2.3	2.3
Effects of foreign currency translation	(2.2)	—	(2.2)
Balance at December 31, 2019	\$ 690.9	\$ 264.0	\$ 954.9

The Company completed annual impairment tests for goodwill on July 31, 2019, 2018 and 2017 and determined at each date that no impairment exists. No further testing of goodwill impairments will be performed until July 31, 2020, unless events occur or circumstances indicate an impairment is probable.

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

14. RESTRUCTURING AND OTHER CHARGES

In 2019, the Company, under the direction of the Board of Directors, evaluated the cost structure and executed on certain cost saving initiatives at each segment. As a result, the Company incurred restructuring and other charges of \$118.1 million. These charges included restructuring and other exit activities related to reductions in force, terminations of certain product lines, reduction or closure of certain leased office space, asset impairments, changes in management structure and fundamental reorganizations that affect the nature and focus of operations. Restructuring and other charges incurred at the Corporate segment of \$37.9 million were recorded to general and administrative expense in the Company's consolidated statements of income. Restructuring and other charges incurred in the LoyaltyOne and Card Services segments of \$50.8 million and \$29.4 million, respectively, were recorded to cost of operations in the Company's consolidated statements of income. These charges are not expected to continue in 2020.

LoyaltyOne

In the first quarter of 2019, BrandLoyalty incurred \$7.9 million in restructuring charges associated with the wind-down of Merison, a retail marketing division included in the LoyaltyOne segment. The restructuring charges consisted of inventory impairment charges of \$3.4 million, contract termination costs of \$2.1 million, fixed asset impairment charges of \$1.2 million and termination benefits of \$1.2 million. In the third quarter of 2019, asset impairment charges of \$33.5 million were recorded related to the discontinuance of certain product lines within inventory and the impairment of certain prepaid assets and fixed assets, and termination benefits of \$8.1 million were incurred, primarily related to changes in management structure. LoyaltyOne also incurred lease termination costs of \$0.2 million related to the closure of leased office space and contract termination costs of \$0.2 million. In the fourth quarter of 2019, as a result of certain changes in estimates, LoyaltyOne incurred an additional \$2.6 million of impairment charges and decreased its termination benefits accrual by \$1.7 million.

Corporate/Other

Effective April 12, 2019, the Company entered into a definitive agreement to sell its Epsilon segment to Publicis Groupe S.A. for \$4.4 billion in cash, subject to certain specified adjustments. Due to the pending sale of Epsilon, in the second quarter of 2019, the Company incurred restructuring charges at Corporate as a result of efforts to realign the organization, including termination benefits of \$11.3 million and asset impairment charges of \$11.1 million related to assets primarily utilized to support the Epsilon segment. Subsequent to the sale of Epsilon, the Company further sought to eliminate redundancies and executed a second reduction in force with further management changes and incurred \$3.3 million and \$4.0 million in termination benefits in the third and fourth quarters of 2019, respectively. Additionally, the Company incurred lease termination costs of \$7.0 million related to the reduction of its leased office space, as well as other exit costs of \$1.2 million.

Card Services

In the fourth quarter of 2019, the Company executed a significant reduction in force in its Card Services segment and incurred \$27.3 million in termination benefits. For the year ended December 31, 2019, Card Services also incurred lease termination costs of \$1.9 million related to the reduction of its leased office space as well as the related impairment of certain assets of \$0.2 million.

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

Restructuring and other charges incurred by reportable segment for all restructuring activities for the year ended December 31, 2019 are as follows:

<u>Year Ended December 31, 2019</u>	<u>Termination Benefits</u>	<u>Asset Impairments</u>	<u>Lease Termination Costs</u> (in millions)	<u>Other Exit Costs</u>	<u>Total</u>
Corporate/Other	\$ 18.6	\$ 11.1	\$ 7.0	\$ 1.2	\$ 37.9
LoyaltyOne	7.6	40.7	0.2	2.3	50.8
Card Services	27.3	0.2	1.9	—	29.4
Total	<u>\$ 53.5</u>	<u>\$ 52.0</u>	<u>\$ 9.1</u>	<u>\$ 3.5</u>	<u>\$ 118.1</u>

The Company's liability for restructuring and other charges is recognized in accrued expenses and other liabilities in its consolidated balance sheets. The following table summarizes the activities related to the restructuring and other charges, as discussed above, for the year ended December 31, 2019:

<u>Year Ended December 31, 2019</u>	<u>Termination Benefits</u>	<u>Asset Impairments</u>	<u>Lease Termination Costs</u> (in millions)	<u>Other Exit Costs</u>	<u>Total</u>
Liability as of December 31, 2018	\$ —	\$ —	\$ —	\$ —	\$ —
Charged to expense	53.5	52.0	9.1	3.5	118.1
Adjustments for non-cash charges ⁽¹⁾	—	(52.0)	0.7	(0.1)	(51.4)
Cash payments	(18.8)	—	(9.8)	(3.3)	(31.9)
Liability as of December 31, 2019	<u>\$ 34.7</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.1</u>	<u>\$ 34.8</u>

⁽¹⁾ Adjustments for non-cash charges primarily relate to asset impairments. For the year ended December 31, 2019, lease termination costs were netted against a \$0.7 million gain upon derecognition of right-of-use assets and related liabilities.

The Company's outstanding liability related to restructuring and other charges is expected to be settled by the end of 2021, with the majority settled in 2020.

15. ACCRUED EXPENSES

Accrued expenses consist of the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(in millions)	
Accrued payroll and benefits	\$ 133.4	\$ 187.1
Accrued taxes	18.1	22.6
Accrued other liabilities	176.3	112.5
Accrued expenses	<u>\$ 327.8</u>	<u>\$ 322.2</u>

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

16. DEBT

Debt consists of the following:

Description	December 31, 2019	December 31, 2018	Maturity	Interest Rate
	(Dollars in millions)			
<i>Long-term and other debt:</i>				
2017 revolving line of credit	\$ —	\$ 740.0	December 2022	(1)
2017 term loans	2,028.8	2,938.1	December 2022	(2)
BrandLoyalty credit agreement	—	183.7	June 2020	(3)
Senior notes due 2021	—	500.0		
Senior notes due 2022	—	600.0		
Senior notes due 2022 (€400.0 million)	—	458.8		
Senior notes due 2023 (€300.0 million)	—	344.1		
Senior notes due 2024	850.0	—	December 2024	4.750%
Total long-term and other debt	<u>2,878.8</u>	<u>5,764.7</u>		
Less: Unamortized debt issuance costs	28.9	39.3		
Less: Current portion	101.4	138.9		
Long-term portion	<u>\$ 2,748.5</u>	<u>\$ 5,586.5</u>		
<i>Deposits:</i>				
Certificates of deposit	\$ 8,585.2	\$ 8,395.1	Various – Jan 2020 to Dec 2024	1.33% to 4.00%
Money market deposits	3,589.8	3,424.3	Non-maturity	(4)
Total deposits	12,175.0	11,819.4		
Less: Unamortized debt issuance costs	23.3	25.7		
Less: Current portion	6,942.4	6,537.7		
Long-term portion	<u>\$ 5,209.3</u>	<u>\$ 5,256.0</u>		
<i>Non-recourse borrowings of consolidated securitization entities:</i>				
Fixed rate asset-backed term note securities	\$ 4,891.0	\$ 4,893.3	Various – May 2020 to Sep 2022	2.03% to 3.95%
Conduit asset-backed securities	2,405.0	2,770.0	Various – Sep 2020 to Apr 2021	(5)
Total non-recourse borrowings of consolidated securitization entities	7,296.0	7,663.3		
Less: Unamortized debt issuance costs	12.0	11.6		
Less: Current portion	3,030.8	2,717.6		
Long-term portion	<u>\$ 4,253.2</u>	<u>\$ 4,934.1</u>		

- (1) The interest rate is based upon the London Interbank Offered Rate (“LIBOR”) plus an applicable margin. At December 31, 2018, the weighted average interest rate for the revolving line of credit was 4.22%.
- (2) The interest rate is based upon the London Interbank Offered Rate (“LIBOR”) plus an applicable margin. The weighted average interest rate for the term loans was 3.30% and 4.27% at December 31, 2019 and 2018, respectively.
- (3) The interest rate is based upon the Euro Interbank Offered Rate plus an applicable margin. At December 31, 2018, the weighted average interest rate was 1.22% and 1.65% 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 December 31, 2019, the interest rates ranged from 1.84% to 3.50%. At December 31, 2018, the interest rates ranged from 1.90% to 2.71%.
- (5) The interest rate is based upon LIBOR or the asset-backed commercial paper costs of each individual conduit provider plus an applicable margin. At December 31, 2019, the interest rates ranged from 2.79% to 2.96%. At December 31, 2018, the interest rates ranged from 3.48% to 3.79%.

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

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

Long-term and Other Debt

Credit Agreement

The Company, as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Alliance Data International LLC, Comenity LLC and Comenity Servicing LLC, as guarantors, are party to a credit agreement with various agents and lenders dated June 14, 2017 (the “2017 Credit Agreement”).

At December 31, 2018, the 2017 Credit Agreement provided for \$3,052.6 million in term loans (the “2017 Term Loans”) and a \$1,572.4 million revolving credit facility (the “2017 Credit Facility”), with total availability under the 2017 Credit Facility of \$832.4 million.

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

In July 2019, the Company made a mandatory payment of \$500.0 million of the revolving credit facility, with the aggregate revolving credit commitments reduced to \$1,072.4 million.

On December 20, 2019, the Company amended its credit agreement to extend the maturity date from June 14, 2021 to December 31, 2022, reduce the aggregate revolving credit commitments from \$1,072.4 million to \$750.0 million, add a consolidated minimum tangible net worth covenant upon certain triggering events and make certain other amendments. The amendment also required the Company to prepay the term loans to \$2,028.8 million upon consummation of the offering of the \$850.0 million aggregate principal amount of 4.750% senior notes due December 15, 2024 (“Senior Notes due 2024”), which obligation was satisfied in full with a prepayment of \$833.0 million, representing the net proceeds from the offering of the Senior Notes due 2024.

At December 31, 2019, the credit agreement, as amended, provided for a \$2,028.8 million term loan, subject to certain principal repayments, and a \$750.0 million revolving credit facility.

Total availability under the 2017 Credit Facility at December 31, 2019 was \$750.0 million.

The loans under the credit agreement are scheduled to mature on December 31, 2022. The 2017 Term Loan provides for aggregate principal payments of 1.25% of the \$2,028.8 million term loan amount, payable in equal quarterly installments beginning on March 31, 2020. The credit agreement is unsecured.

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

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

BrandLoyalty Credit Agreement

BrandLoyalty and certain of its subsidiaries, as borrower and guarantors, are parties to a credit agreement that provides for an A-1 term loan facility of €90.0 million and an A-2 term loan facility of €100.0 million, subject to certain principal repayments, a committed revolving line of credit of €37.5 million and an uncommitted revolving line of credit of €37.5 million, all of which mature in June 2020.

In September 2019, the Company repaid the €115.0 million in term loans outstanding under the BrandLoyalty credit agreement, originally scheduled to mature in June 2020, and repaid the €32.5 million amount outstanding under the revolving line of credit.

Senior Notes

In July 2019, with the proceeds from the Epsilon transaction, the Company extinguished all of its senior notes, which had an outstanding balance of \$1.9 billion. The Company incurred a loss from the extinguishment of debt of approximately \$71.9 million, resulting from the redemption price of each of the notes of \$49.9 million and the write-off of deferred issuance costs of \$22.0 million. The senior notes extinguished were as follows:

- \$500.0 million aggregate principal amount of 5.875% senior notes due November 1, 2021
- \$600.0 million aggregate principal amount of 5.375% senior notes due August 1, 2022
- €400.0 million aggregate principal amount of 4.500% senior notes due March 15, 2022
- €300.0 million aggregate principal amount of 5.2500% senior notes due November 15, 2023

In December 2019, the Company issued and sold \$850.0 million aggregate principal amount of 4.750% senior notes due December 15, 2024. The Senior Notes due 2024 accrue interest on the principal amount at the rate of 4.750% per annum from December 20, 2019, payable semi-annually in arrears, on June 15 and December 15 of each year, beginning on June 15, 2020. The Senior Notes due 2024 will mature on December 15, 2024, subject to earlier repurchase or redemption.

The Senior Notes due 2024 are governed by an indenture that includes usual and customary negative covenants and events of default. The Senior Notes due 2024 are guaranteed on a senior unsecured basis by each of the Company's existing and future domestic restricted subsidiaries that incurs or in any other manner becomes liable for any debt under the Company's domestic credit facilities, including the credit agreement.

Deposits

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 2020 and December 2024 and with effective annual interest rates ranging from 1.33% to 4.00%, with a weighted average interest rate of 2.66%, at December 31, 2019. At December 31, 2018, interest rates ranged from 1.25% to 4.00%, with a weighted average interest rate of 2.44%. Interest is paid monthly and at maturity.

Comenity Bank and Comenity Capital Bank offer non-maturity deposit programs through contractual arrangements with various financial counterparties. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date. As of December 31, 2019, Comenity Bank and Comenity Capital Bank had \$3.6 billion in money market deposits outstanding with annual interest rates ranging from 1.84% to 3.50%, with a weighted average interest rate of 2.05%. As of December 31, 2018, Comenity Bank and Comenity Capital Bank had \$3.4 billion in money market deposits outstanding with annual interest rates ranging from 1.90% to 2.71%, with a weighted average interest rate of 2.59%.

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

Non-Recourse Borrowings of Consolidated Securitization Entities

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

Asset-Backed Term Notes

For the year ended December 31, 2019, the following asset-backed term notes were issued by Master Trust I:

- In February 2019, the Company issued \$562.5 million of Series 2019-A asset-backed term notes, which mature in February 2022. The offering consisted of \$500.0 million of Class A notes with a fixed interest rate of 3.14% per year, \$37.2 million of Class M Notes with a fixed interest rate of 3.61% per year and \$25.3 million of notes that were retained by the Company and eliminated from the Company’s consolidated balance sheets.
- In June 2019, the Company issued \$399.2 million of Series 2019-B asset-backed term notes, which mature in June 2022. The offering consisted of \$350.0 million of Class A notes with a fixed interest rate of 2.49% per year, \$31.2 million of Class M notes with a fixed interest rate of 3.04% per year and \$18.0 million of notes which were retained by the Company and eliminated from the Company’s consolidated balance sheets.
- In September 2019, the Company issued \$684.2 million of Series 2019-C asset-backed term notes, which mature in September 2022. The offering consisted of \$600.0 million of Class A notes with a fixed interest rate of 2.21% per year, \$53.4 million of Class M notes with a fixed interest rate of 2.71% per year and \$30.8 million of notes which were retained by the Company and eliminated from the Company’s consolidated balance sheets.

For the year ended December 31, 2019, the following asset-backed term notes from Master Trust I matured and were repaid:

- In March 2019, \$550.0 million of Series 2012-A asset-backed term notes, \$137.5 million of which were retained by the Company and eliminated from the Company’s consolidated balance sheets.
- In June 2019, \$466.7 million of Series 2012-D asset-backed term notes, \$77.0 million of which were retained by the Company and eliminated from the Company’s consolidated balance sheets.
- In August 2019, \$444.7 million of Series 2017-B asset-backed term notes, \$44.7 million of which were retained by the Company and eliminated from the Company’s consolidated balance sheets.
- In October 2019, \$460.5 million of Series 2016-C asset-backed term notes, \$88.7 million of which were retained by the Company and eliminated from the Company’s consolidated balance sheets.

Conduit Facilities

The Company has access to committed undrawn capacity through three conduit facilities to support the funding of its credit card receivables through Master Trust I, Master Trust III and the WFC Trust. Borrowings outstanding under each facility bear interest at a margin above LIBOR or the asset-backed commercial paper costs of each individual conduit provider.

In May 2019, the WFC Trust amended its 2009-VFN conduit facility, increasing the capacity from \$1,975.0 million to \$2,175.0 million and extending the maturity to April 2021.

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

As of December 31, 2019, the conduits have varying maturities from September 2020 to April 2021 with variable interest rates ranging from 2.79% to 2.96%. Total capacity under the conduit facilities was \$4.7 billion, of which \$2.4 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the consolidated balance sheets.

Maturities

The future principal payments for the Company’s debt as of December 31, 2019 are as follows:

Year	Long-Term and Other Debt	Deposits (in millions)	Non-Recourse Borrowings of Consolidated Securitization Entities
2020	\$ 101.4	\$ 6,944.8	\$ 3,032.2
2021	101.4	2,193.9	2,692.1
2022	1,826.0	1,574.0	1,571.7
2023	—	935.0	—
2024	850.0	527.3	—
Thereafter	—	—	—
Total maturities	<u>2,878.8</u>	<u>12,175.0</u>	<u>7,296.0</u>
Unamortized debt issuance costs	<u>(28.9)</u>	<u>(23.3)</u>	<u>(12.0)</u>
	<u>\$ 2,849.9</u>	<u>\$ 12,151.7</u>	<u>\$ 7,284.0</u>

17. DERIVATIVE INSTRUMENTS

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

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

The Company enters into foreign currency derivatives to reduce the volatility of the Company’s cash flows resulting from changes in foreign currency exchange rates associated with certain inventory transactions, some of which are designated as cash flow hedges. The Company generally hedges foreign currency exchange rate risks for periods of 12 months or less. As of December 31, 2019, the maximum term over which the Company is hedging its exposure to the variability of future cash flows associated with certain inventory transactions is 7 months.

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

	December 31, 2019			
	Notional Amount	Fair Value	Balance Sheet Location (in millions)	Maturity
<i>Designated as hedging instruments:</i>				
Foreign currency exchange hedges	<u>\$ 5.5</u>	<u>\$ 0.2</u>	Other current assets	January 2020 to February 2020
Foreign currency exchange hedges	<u>\$ 7.8</u>	<u>\$ 0.3</u>	Other current liabilities	February 2020 to July 2020

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

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

Derivatives Designated as Hedging Instruments

For the year ended December 31, 2019, gains of \$0.1 million, net of tax, were recognized in other comprehensive income related to foreign currency exchange hedges designated as effective, losses of \$0.1 million, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations), and a de minimis amount of ineffectiveness was recorded. Changes in the fair value of these hedges, excluding any ineffective portion are recorded in other comprehensive income until the hedged transactions affect net income. The ineffective portion of these cash flow hedges impacts net income when the ineffectiveness occurs. At December 31, 2019, \$0.1 million is expected to be reclassified from accumulated other comprehensive income into net income in the coming 12 months.

For the year ended December 31, 2018, losses of \$0.1 million, net of tax, were recognized in other comprehensive income related to foreign currency exchange hedges designated as effective, gains of \$0.2 million, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations), and a de minimis amount of ineffectiveness was recorded.

For the year ended December 31, 2017, losses of \$0.5 million, net of tax, were recognized in other comprehensive income related to foreign currency exchange hedges designated as effective, gains of \$0.2 million, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations), and \$0.1 million of ineffectiveness was recorded.

Derivatives Not Designated as Hedging Instruments

For the years ended December 31, 2019, 2018 and 2017, the Company recognized losses of \$1.4 million, gains of \$10.6 million, and gains of \$12.5 million, respectively, related to foreign currency exchange forward contracts not designated as hedging instruments in general and administrative expense in the Company’s consolidated statements of income.

As of December 31, 2019, the Company did not hold any derivatives not designated as hedging instruments.

Net Investment Hedges

The Company previously designated its Euro-denominated 5.250% senior notes due 2023 (€300.0 million) and €340.0 million of its Euro-denominated 4.500% senior notes due 2022 (€400.0 million) as a net investment hedge of its investment in BrandLoyalty on an after-tax basis. The net investment hedge was intended to reduce the volatility in stockholders’ equity caused by the changes in foreign currency exchange rates of the Euro with respect to the U.S. dollar.

On July 1, 2019, the Company dedesignated its net investment hedge, and the Euro-denominated senior notes were repaid in July 2019. The \$7.5 million unamortized amount of the net investment hedge will remain in accumulated other comprehensive loss until the Company’s investment in BrandLoyalty is disposed of or substantially liquidated.

For the years ended December 31, 2019, 2018 and 2017, the Company recorded unrealized gains of \$4.9 million, unrealized gains of \$29.6 million, and unrealized losses of \$46.1 million, net of tax, respectively, in other comprehensive income and no ineffectiveness was recorded on the net investment hedges.

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

18. COMMITMENTS AND CONTINGENCIES

AIR MILES Reward Program

The Company has entered into contractual arrangements with certain AIR MILES Reward Program sponsors that result in fees being billed to those sponsors upon the redemption of AIR MILES reward miles issued by those sponsors. The Company has obtained letters of credit and other assurances from those sponsors for the Company’s benefit that expire at various dates. These letters of credit and other assurances totaled \$141.7 million at December 31, 2019, which exceeds the amount of the Company’s estimate of its obligation to provide travel and other rewards upon the redemption of the AIR MILES reward miles issued by those sponsors.

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

The Company has entered into certain long-term arrangements with airlines and other suppliers in connection with reward redemptions under the AIR MILES Reward Program. These long-term arrangements allow the Company to retain preferred pricing subject to meeting agreed upon annual volume commitments for rewards purchased.

Regulatory Matters

Comenity Bank is regulated, supervised and examined by the State of Delaware and the Federal Deposit Insurance Corporation (“FDIC”). Comenity Bank remains subject to regulation by the Board of the Governors of the Federal Reserve System. The Company’s industrial bank, Comenity Capital Bank, is regulated, supervised and examined by the State of Utah and the FDIC. Both Comenity Bank and Comenity Capital Bank are under the supervision of the Consumer Financial Protection Bureau (“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.

Quantitative measures established by regulations to ensure capital adequacy require Comenity Bank and Comenity Capital Bank (collectively, the “Banks”) 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. Based on these guidelines, the Banks are considered well capitalized.

The actual capital ratios and minimum ratios as of December 31, 2019 are as follows:

	Actual Ratio	Minimum Ratio for Capital Adequacy Purposes	Minimum Ratio to be Well Capitalized under Prompt Corrective Action Provisions
Comenity Bank			
Tier 1 capital to average assets	12.9 %	4.0 %	5.0 %
Common Equity Tier 1 capital to risk-weighted assets . .	14.6	4.5	6.5
Tier 1 capital to risk-weighted assets	14.6	6.0	8.0
Total capital to risk-weighted assets	15.9	8.0	10.0
Comenity Capital Bank			
Tier 1 capital to average assets	11.9 %	4.0 %	5.0 %
Common Equity Tier 1 capital to risk-weighted assets . .	14.4	4.5	6.5
Tier 1 capital to risk-weighted assets	14.4	6.0	8.0
Total capital to risk-weighted assets	15.7	8.0	10.0

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

The actual capital ratios and minimum ratios as of December 31, 2018 are as follows:

	<u>Actual Ratio</u>	<u>Minimum Ratio for Capital Adequacy Purposes</u>	<u>Minimum Ratio to be Well Capitalized under Prompt Corrective Action Provisions</u>
Comenity Bank			
Tier 1 capital to average assets	13.1 %	4.0 %	5.0 %
Common Equity Tier 1 capital to risk-weighted assets . .	14.6	4.5	6.5
Tier 1 capital to risk-weighted assets	14.6	6.0	8.0
Total capital to risk-weighted assets	15.9	8.0	10.0
Comenity Capital Bank			
Tier 1 capital to average assets	12.1 %	4.0 %	5.0 %
Common Equity Tier 1 capital to risk-weighted assets . .	14.4	4.5	6.5
Tier 1 capital to risk-weighted assets	14.4	6.0	8.0
Total capital to risk-weighted assets	15.7	8.0	10.0

On September 10, 2019, Comenity Capital Bank submitted a bank merger application to the Federal Deposit Insurance Corporation (“FDIC”) seeking the FDIC’s approval to merge Comenity Bank with and into Comenity Capital Bank as the surviving bank entity. On the same date, Comenity Capital Bank and Comenity Bank each submitted counterpart bank merger applications to the Utah Department of Financial Institutions and the Delaware Office of the State Bank Commissioner, respectively, in connection with the proposed merger. The merger application remains subject to regulatory review and approval and no guarantee can be provided as to the outcome or timing of such review.

Cardholders

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

Holders of credit cards issued by the Company have available lines of credit, which vary by cardholder. These lines of credit represent elements of risk in excess of the amount recognized in the financial statements. The lines of credit are subject to change or cancellation by the Company. At December 31, 2019, the Company had 61.0 million total accounts, including both active and inactive, having unused lines of credit averaging \$2,307 per account.

Indemnification

On July 1, 2019, the Company completed the sale of its Epsilon segment to Publicis Groupe S.A. (“Publicis”). Under the terms of the agreement governing that transaction, the Company agreed to indemnify Publicis and its affiliates from and against any losses arising out of or related to a Department of Justice (“DOJ”) investigation. The DOJ investigation relates to third-party marketers who sent, or allegedly sent, deceptive mailings and the provision of data and services to those marketers by Epsilon’s data practice. Epsilon has actively cooperated with the DOJ in connection with its ongoing investigation. The Company records a loss contingency when a loss is probable and an amount can be reasonably estimated. For the year ended December 31, 2019, the Company recorded a loss contingency of \$32.9 million, net of tax, which was included in loss from discontinued operations. As these estimates are initially developed substantially earlier than when the ultimate loss is known, no assurance can be given that the investigation will be resolved on these, or other, terms. Therefore, this loss contingency may be refined each period as additional information becomes available. For the year ended December 31, 2019, the Company incurred \$3.2 million in legal fees associated with this matter, which was included in cost of operations in the Company’s consolidated statements of income.

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

Legal Proceedings

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

19. STOCKHOLDERS' EQUITY

Stock Repurchase Programs

During the years ended December 31, 2019, 2018 and 2017, the Company repurchased approximately 6.3 million, 2.2 million and 2.3 million shares of its common stock, respectively, for an aggregate amount of \$976.1 million, \$443.2 million and \$553.7 million, respectively.

2017 Authorization

In January 2017, the Company's Board of Directors authorized a stock repurchase program to acquire up to \$500.0 million of the Company's outstanding common stock from January 1, 2017 through December 31, 2017. In July 2017, the Company's Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2017 to acquire an additional \$500.0 million of the Company's outstanding common stock through July 31, 2018, for a total stock repurchase authorization of up to \$1.0 billion. At July 31, 2018, \$280.3 million of this program expired unused.

2018 Authorization

On July 26, 2018, the Company's Board of Directors authorized a new stock repurchase program to acquire up to \$500.0 million of the Company's outstanding common stock from August 1, 2018 through July 31, 2019.

For the year ended December 31, 2018, the Company acquired approximately 0.8 million shares of its common stock for \$166.0 million under its previous stock repurchase program and acquired approximately 1.4 million shares of its common stock for \$277.2 million under its current stock repurchase program.

For the six months ended June 30, 2019, the Company acquired a total of 1.3 million shares of its common stock for \$222.8 million under its stock repurchase program. As of June 30, 2019, the Company did not have any amounts remaining under its authorized stock repurchase program.

2019 Authorization

In July 2019, the Company's Board of Directors authorized a new stock repurchase program to acquire up to \$1.1 billion of its outstanding common stock from July 5, 2019 through June 30, 2020.

On July 19, 2019, the Company commenced a "modified Dutch Auction" tender offer to acquire up to \$750.0 million in aggregate purchase price of its issued and outstanding common stock at a price not greater than \$162.00 nor less than \$144.00 per share, to the seller in cash, less any applicable withholding taxes and without interest, upon the terms and subject to the conditions described in the Offer to Purchase dated July 19, 2019 and in the related Letter of Transmittal. The tender offer expired on August 15, 2019, and the Company repurchased 5,050,505 shares of its issued and outstanding common stock at a price of \$148.50 per share, for an aggregate cost of approximately \$750.0 million. Additionally, the Company incurred approximately \$3.3 million of direct costs related to the repurchase, including \$2.2 million in commissions, which have been recorded to treasury stock in the Company's consolidated balance sheets.

As of December 31, 2019, the Company had \$347.8 million remaining under its authorized stock repurchase program.

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Stock Compensation Plans

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

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

In March 2015, the Company’s Board of Directors adopted the 2015 Omnibus Incentive Plan (the “2015 Plan”), which was subsequently approved by the Company’s stockholders on June 3, 2015. The 2015 Plan became effective July 1, 2015 and expires on June 30, 2020. The 2015 Plan reserves 5,100,000 shares of common stock for grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance share awards, cash incentive awards, deferred stock units, and other stock-based and cash-based awards to selected officers, employees, non-employee directors and consultants performing services for the Company or its affiliates, with only employees being eligible to receive incentive stock options.

On June 5, 2015, the Company registered 5,100,000 shares of its common stock for issuance in accordance with the 2015 Plan pursuant to a Registration Statement on Form S-8, File No. 333-204758.

Beginning February 15, 2017, the restricted stock unit award agreements under the 2015 Plan provide for dividend equivalent rights (“DERs”), which entitle holders of restricted stock units to the same dividend value per share as holders of common stock. DERs are subject to the same vesting and other terms and conditions as the corresponding unvested restricted stock units. DERs are paid only when the underlying shares vest.

Terms of all awards under the 2015 Plan are determined by the Board of Directors or the compensation committee of the Board of Directors or its designee at the time of award.

Stock Compensation Expense

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

Stock-based compensation expense recognized in the Company’s consolidated statements of income for the years ended December 31, 2019, 2018 and 2017, is as follows:

	Years Ended December 31,		
	2019	2018	2017
	<small>(in millions)</small>		
Cost of operations	\$ 16.5	\$ 23.3	\$ 18.8
General and administrative	8.6	21.1	22.5
Total	\$ 25.1	\$ 44.4	\$ 41.3

Effective April 12, 2019, the Company entered into a definitive agreement to sell its Epsilon segment to Publicis Groupe S.A. for \$4.4 billion in cash, subject to certain specified adjustments. The agreement provided for certain unvested restricted stock units held by Epsilon employees to be modified, with original vesting conditions to be accelerated upon consummation of the sale of Epsilon. Additionally, the agreement provided for certain other awards held by Epsilon employees to be forfeited upon consummation of the sale of Epsilon, which occurred July 1, 2019. As a result, in April 2019 the Company recorded \$19.4 million of incremental stock-based compensation expense in discontinued operations related to the modifications, net of forfeitures. Stock-based compensation expense included in

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

loss from discontinued operations totaled \$29.7 million, \$36.4 million and \$33.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The income tax benefits related to stock-based compensation expense for the years ended December 31, 2019, 2018 and 2017 were \$3.6 million, \$7.3 million and \$5.4 million, respectively.

As the amount of stock-based compensation expense recognized is based on awards ultimately expected to vest, the amount recognized in the Company's results of operations has been reduced for estimated forfeitures. In connection with the Company's adoption of ASU 2016-09, the Company elected to continue to estimate forfeitures at each grant date, with forfeiture estimates to be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on the Company's historical experience, with a forfeiture rate of 5% for the years ended December 31, 2019, 2018 and 2017.

As of December 31, 2019, there was approximately \$29.4 million of unrecognized expense, adjusted for estimated forfeitures, related to non-vested, stock-based equity awards granted to employees, which is expected to be recognized over a weighted average period of approximately 1.3 years.

Restricted Stock Unit Awards

During 2019, the Company awarded service-based, performance-based and market-based restricted stock units. In accordance with ASC 718, the Company recognizes the estimated stock-based compensation expense, net of estimated forfeitures, over the applicable service period.

For service-based and performance-based awards, the fair value of the restricted stock units was estimated using the Company's closing share price on the date of grant. Service-based restricted stock unit awards typically vest ratably over a three year period. Performance-based restricted stock unit awards typically vest ratably over a three year period if specified performance measures tied to the Company's financial performance are met.

For the market-based award granted in 2019, the fair value of the restricted stock units was estimated utilizing Monte Carlo simulations of the Company's stock price correlation (0.55), expected volatility (29.2%) and risk-free rate (2.5%) over two-year time horizons matching the performance period. Upon determination of the market condition, the restrictions will lapse with respect to the entire award on February 15, 2021, provided that the participant is employed by the Company on such vesting date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

The following table summarizes restricted stock unit activity under the Company’s equity compensation plans:

	Market- Based ⁽¹⁾	Performance- Based ⁽¹⁾	Service- Based	Total	Weighted Average Fair Value
Balance at January 1, 2017	—	444,319	332,378	776,697	\$ 216.89
Shares granted	28,172	282,311	126,051	436,534	229.37
Shares vested	—	(188,929)	(96,723)	(285,652)	248.70
Shares forfeited	—	(87,122)	(32,647)	(119,769)	211.69
Balance at December 31, 2017	28,172	450,579	329,059	807,810	\$ 207.45
Shares granted	28,057	263,542	138,160	429,759	233.98
Shares vested	—	(188,680)	(130,823)	(319,503)	224.62
Shares forfeited	—	(102,199)	(18,955)	(121,154)	227.66
Balance at December 31, 2018	56,229	423,242	317,441	796,912	\$ 218.81
Shares granted	37,878	420,239	246,118	704,235	161.05
Shares vested	—	(262,773)	(178,730)	(441,503)	218.45
Shares forfeited	(69,819)	(350,436)	(126,257)	(546,512)	188.40
Balance at December 31, 2019	24,288	230,272	258,572	513,132	\$ 172.06
Outstanding and Expected to Vest				271,685	\$ 200.63

⁽¹⁾ Shares granted reflects a 100% target attainment of the respective market-based or performance-based metric. Shares forfeited include those restricted stock units forfeited as a result of the Company not meeting the respective market-based or performance-based metric conditions.

The total fair value of restricted stock units vested was \$96.4 million, \$71.8 million and \$71.0 million for the years ended December 31, 2019, 2018 and 2017, respectively. The aggregate intrinsic value of restricted stock units outstanding and expected to vest was \$30.5 million at December 31, 2019. The weighted-average remaining contractual life for unvested restricted stock units was 1.3 years at December 31, 2019.

Stock Options

Stock option awards are granted with an exercise price equal to the market price of the Company’s stock on the date of grant. Options typically vest ratably over three years and expire ten years after the date of grant. There were no stock options outstanding as of December 31, 2019.

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

	Outstanding		Exercisable	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Balance at January 1, 2017	18,866	\$ 37.60	18,864	\$ 37.60
Options granted	—	—		
Options exercised	(7,004)	60.85		
Options forfeited	(3)	35.56		
Balance at December 31, 2017	11,859	\$ 23.87	11,859	\$ 23.87
Options granted	—	—		
Options exercised	(886)	12.70		
Options forfeited	(119)	2.74		
Balance at December 31, 2018	10,854	\$ 25.01	10,854	\$ 25.01
Options granted	—	—		
Options exercised	(10,854)	25.01		
Options forfeited	—	—		
Balance at December 31, 2019	—	\$ —	—	\$ —

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Based on the market value on their respective exercise dates, the total intrinsic value of stock options exercised was approximately \$1.3 million, \$0.2 million and \$1.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. The Company received \$0.3 million of cash proceeds from stock options exercised during the year ended December 31, 2019.

Dividends

During the year ended December 31, 2019, the Company declared quarterly cash dividends of \$0.63 per share, for a total of \$127.1 million. The Company paid cash dividends and dividend equivalents aggregating \$127.4 million for the year ended December 31, 2019, and \$1.2 million of dividend equivalents were accrued but not yet paid at December 31, 2019.

During the year ended December 31, 2018, the Company declared quarterly cash dividends of \$0.57 per share, for a total of \$125.9 million. The Company paid cash dividends and dividend equivalents aggregating \$125.2 million for the year ended December 31, 2018, and \$0.7 million of dividend equivalents were accrued but not yet paid at December 31, 2018.

During the year ended December 31, 2017, the Company declared quarterly cash dividends of \$0.52 per share, for a total of \$116.4 million. The Company paid cash dividends and dividend equivalents aggregating \$115.5 million for the year ended December 31, 2017, and \$0.9 million of dividend equivalents were accrued but not yet paid at December 31, 2017.

On January 30, 2020 the Company's Board of Directors declared a quarterly cash dividend of \$0.63 per share on the Company's common stock, payable on March 19, 2020 to stockholders of record at the close of business on February 14, 2020.

Preferred Stock

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

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

On April 25, 2019, the Company entered into an exchange agreement with ValueAct Holdings, L.P. ("ValueAct") pursuant to which ValueAct exchanged an aggregate of 1,500,000 shares of the Company's common stock for an aggregate of 150,000 shares of preferred stock. The issuance to ValueAct of the shares of preferred stock was, and the

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issuance of the shares of common stock issuable upon conversion of the preferred stock was, made in reliance upon the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended.

In October 2019, ValueAct exchanged all 150,000 shares of preferred stock back to common stock. At December 31, 2019, the Company did not have any shares of preferred stock outstanding.

20. EMPLOYEE BENEFIT PLANS

Employee Stock Purchase Plan

In March 2015, the Company's Board of Directors adopted the 2015 Employee Stock Purchase Plan (the "2015 ESPP"), which was subsequently approved by the Company's stockholders on June 3, 2015. The 2015 ESPP became effective July 1, 2015 with no definitive expiration date. The Company's Board of Directors may at any time and for any reason terminate or amend the 2015 ESPP. No employee may purchase more than \$25,000 in stock under the 2015 ESPP in any calendar year, and no employee may purchase stock under the 2015 ESPP if such purchase would cause the employee to own more than 5% of the voting power or value of the Company's common stock. The 2015 ESPP provides for six month offering periods, commencing on the first trading day of the first and third calendar quarter of each year and ending on the last trading day of each subsequent calendar quarter. The purchase price of the common stock upon exercise shall be 85% of the fair market value of shares on the applicable purchase date as determined by averaging the high and low trading prices of the last trading day of the six-month period. An employee may elect to pay the purchase price of such common stock through payroll deductions. The 2015 ESPP provides for the issuance of any remaining shares available for issuance under the 2005 ESPP, which were 441,327 shares at June 30, 2015. The 2015 ESPP reserved an additional 1,000,000 shares of the Company's common stock for issuance under the 2015 Plan, bringing the maximum number of shares reserved for issuance under the 2015 ESPP to 1,441,327 shares, subject to adjustment as provided in the 2015 ESPP.

On June 5, 2015, the Company registered 1,441,327 shares of its common stock for issuance in accordance with the 2015 ESPP pursuant to a Registration Statement on Form S-8, File No. 333-204759.

During the year ended December 31, 2019, the Company issued 107,167 shares of common stock under the 2015 ESPP at a weighted-average issue price of \$113.17. Since its adoption on July 1, 2015, 448,682 shares of common stock have been issued, with 992,645 shares available for issuance under the 2015 ESPP.

2015 Omnibus Incentive Plan

The 2015 Omnibus Incentive Plan authorizes the compensation committee to grant cash-based and other equity-based or equity-related awards, including deferred stock units. The maximum cash amount that may be awarded to any single participant in any one calendar year may not exceed \$7.5 million. See Note 19, "Stockholders' Equity," for more information about the 2015 Plan.

401(k) Retirement Savings Plan

The Alliance Data Systems 401(k) and Retirement Savings Plan is a defined contribution plan that is qualified under Section 401(k) of the Internal Revenue Code of 1986. The Company amended its 401(k) and Retirement Savings Plan effective January 1, 2019. The 401(k) and Retirement Savings Plan is an IRS-approved safe harbor plan design that eliminates the need for most discrimination testing. Eligible employees can participate in the 401(k) and Retirement Savings Plan immediately upon joining the Company and after 180 days of employment begin receiving company matching contributions. In addition, "seasonal" or "on-call" employees must complete a year of eligibility service before they may participate in the 401(k) and Retirement Savings Plan. The 401(k) and Retirement Savings Plan permits eligible employees to make Roth elective deferrals, which are included in the employee's taxable income at the time of contribution, but not when distributed. Regular, or Non-Roth, elective deferrals made by employees, together with contributions by the Company to the 401(k) and Retirement Savings Plan, and income earned on these contributions, are not taxable to employees until withdrawn from the 401(k) and Retirement Savings Plan. The 401(k) and Retirement Savings Plan covers U.S. employees, who are at least 18 years old, of ADS Alliance Data Systems, Inc., one of the

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Company's wholly-owned subsidiaries, and any other subsidiary or affiliated organization that adopts this 401(k) and Retirement Savings Plan. Employees of the Company, and all of its U.S. subsidiaries, are currently covered under the 401(k) and Retirement Savings Plan.

The Company matches an employee's contribution dollar-for-dollar up to five percent of the employee's eligible compensation. All company matching contributions are immediately vested. Company matching contributions for the years ended December 31, 2019, 2018 and 2017 were \$35.3 million, \$44.8 million and \$41.6 million, respectively.

The participants in the plan can direct their contributions and the Company's matching contribution to numerous investment options, including the Company's common stock. On July 20, 2001, the Company registered 1,500,000 shares of its common stock for issuance in accordance with its 401(k) and Retirement Savings Plan pursuant to a Registration Statement on Form S-8, File No. 333-65556. As of December 31, 2019, 462,101 of such shares remain available for issuance.

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

The Company provides for its Canadian employees the Group Retirement Savings Plan of the Loyalty Group ("GRSP"), which is a group retirement savings plan registered with the Canada Revenue Agency. Contributions made by Canadian employees on their behalf or on behalf of their spouse to the GRSP, and income earned on these contributions, are not taxable to employees until withdrawn from the GRSP. Employee contributions eligible for company match may not exceed the overall maximum allowed by the Income Tax Act (Canada); the maximum tax-deductible GRSP contribution is set by the Canada Revenue Agency each year. The Deferred Profit Sharing Plan ("DPSP") is a legal trust registered with the Canada Revenue Agency. Eligible full-time employees can participate in the GRSP after three months of employment and eligible part-time employees after six months of employment. Employees become eligible to receive company matching contributions into the DPSP on the first day of the calendar quarter following twelve months of employment. Based on the eligibility guidelines, the Company matches an employee's contribution dollar-for-dollar up to five percent of the employee's eligible compensation. Contributions made to the DPSP reduce an employee's maximum contribution amounts to the GRSP under the Income Tax Act (Canada) for the following year. All company matching contributions into the DPSP vest after receipt of one continuous year of DPSP contributions. LoyaltyOne matching and discretionary contributions were \$1.8 million, \$1.7 million and \$1.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Executive Deferred Compensation Plan and the Canadian Supplemental Executive Retirement Plan

The Company also maintains an Executive Deferred Compensation Plan ("EDCP"). The EDCP permits a defined group of management and highly compensated employees to defer on a pre-tax basis a portion of their base salary and incentive compensation (as defined in the EDCP) payable for services rendered. Deferrals under the EDCP are unfunded and subject to the claims of the Company's creditors. Each participant in the EDCP is 100% vested in their account, and account balances accrue interest at a rate established and adjusted periodically by the committee that administers the EDCP.

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

As of December 31, 2019 and 2018, the Company's outstanding liability related to these plans and included in accrued expenses in the Company's consolidated balance sheets was \$33.3 million and \$63.2 million, respectively.

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21. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	<u>Net Unrealized Gains (Losses) on Securities</u>	<u>Net Unrealized Gains (Losses) on Cash Flow Hedges</u>	<u>Net Unrealized Gains (Losses) on Net Investment Hedge (in millions)</u>	<u>Foreign Currency Translation Adjustments ⁽¹⁾</u>	<u>Accumulated Other Comprehensive Loss</u>
Balance as of January 1, 2017 . . .	\$ (1.6)	\$ 0.4	\$ 4.1	\$ (153.6)	\$ (150.7)
Changes in other comprehensive income (loss)	<u>(7.1)</u>	<u>(0.5)</u>	<u>(46.1)</u>	<u>64.2</u>	<u>10.5</u>
Balance at December 31, 2017 . . .	\$ (8.7)	\$ (0.1)	\$ (42.0)	\$ (89.4)	\$ (140.2)
Changes in other comprehensive income (loss)	<u>(2.0)</u>	<u>(0.1)</u>	<u>29.6</u>	<u>(25.4)</u>	<u>2.1</u>
Balance at December 31, 2018 . . .	\$ (10.7)	\$ (0.2)	\$ (12.4)	\$ (114.8)	\$ (138.1)
Changes in other comprehensive income (loss)	13.2	0.1	4.9	(6.8)	11.4
Recognition resulting from the sale of Epsilon's foreign subsidiaries . . .	—	—	—	26.8	26.8
Balance at December 31, 2019 . . .	<u>\$ 2.5</u>	<u>\$ (0.1)</u>	<u>\$ (7.5)</u>	<u>\$ (94.8)</u>	<u>\$ (99.9)</u>

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

In accordance with ASC 830, “Foreign Currency Matters,” upon the sale of Epsilon on July 1, 2019, \$26.8 million of accumulated foreign currency translation adjustments attributable to Epsilon’s foreign subsidiaries sold were reclassified from accumulated other comprehensive loss and included in the calculation of the gain/loss on sale of Epsilon segment. Additionally, as of January 1, 2018, a cumulative-effect adjustment of \$1.5 million, net of tax, was reclassified from accumulated other comprehensive loss to retained earnings related to the adoption of ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” For more information, see Note 2, “Summary of Significant Accounting Policies.” Other reclassifications from accumulated other comprehensive loss into net income for each of the periods presented were not material.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

22. INCOME TAXES

The components of income from continuing operations before income taxes and income tax expense are as follows:

	Years Ended December 31,		
	2019	2018	2017
	(in millions)		
Components of income from continuing operations before income taxes:			
Domestic	\$ 591.9	\$ 1,052.7	\$ 883.8
Foreign	146.5	162.3	178.7
Total	<u>\$ 738.4</u>	<u>\$ 1,215.0</u>	<u>\$ 1,062.5</u>
Components of income tax expense:			
Current			
Federal	\$ 126.0	\$ 152.2	\$ 295.0
State	35.8	58.0	17.5
Foreign	11.5	52.8	56.7
Total current	<u>173.3</u>	<u>263.0</u>	<u>369.2</u>
Deferred			
Federal	(11.8)	48.0	(65.3)
State	6.7	14.7	6.2
Foreign	(2.4)	(56.2)	(16.8)
Total deferred	<u>(7.5)</u>	<u>6.5</u>	<u>(75.9)</u>
Total provision for income taxes	<u>\$ 165.8</u>	<u>\$ 269.5</u>	<u>\$ 293.3</u>

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

	Years Ended December 31,		
	2019	2018	2017
	(in millions)		
Expected expense at statutory rate	\$ 155.1	\$ 255.1	\$ 371.9
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal benefit	33.6	57.4	14.5
Foreign rate differential	(2.3)	11.6	(26.0)
Foreign restructuring	—	(48.0)	—
Impact of 2017 Tax Reform	(30.2)	(29.7)	(64.9)
Global intangible low-taxed income	8.7	15.5	—
Non-deductible expenses (non-taxable income)	9.1	3.7	(4.6)
Other	(8.2)	3.9	2.4
Total	<u>\$ 165.8</u>	<u>\$ 269.5</u>	<u>\$ 293.3</u>

H.R. 1, originally known as the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Reform”) was enacted on December 22, 2017. The 2017 Tax Reform permanently reduced the corporate tax rate to 21% from 35%, effective January 1, 2018 and implemented a change from a system of worldwide taxation with deferral to a hybrid territorial system. This system taxes excess foreign profits above a deemed routine return through the Global Intangible Low-Taxed Income (“GILTI”) regime. The Company recognizes tax on GILTI as an expense in the period incurred. For the year ended December 31, 2019, the Company recorded an income tax benefit of approximately \$30.2 million related to a decrease in unrecognized tax benefits as a result of a tax accounting method change required by the 2017 Tax Reform.

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Deferred tax assets and liabilities consist of the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(in millions)	
Deferred tax assets		
Deferred revenue	\$ 9.5	\$ 10.6
Allowance for doubtful accounts	267.6	267.0
Net operating loss carryforwards and other carryforwards	69.0	57.8
Stock-based compensation and other employee benefits	13.7	24.4
Lease liabilities	74.4	—
Accrued expenses and other	40.3	66.2
Intangible assets	23.2	—
Total deferred tax assets	<u>497.7</u>	<u>426.0</u>
Valuation allowance	<u>(64.0)</u>	<u>(36.3)</u>
Deferred tax assets, net of valuation allowance	<u>433.7</u>	<u>389.7</u>
Deferred tax liabilities		
Deferred income	\$ 365.6	\$ 409.8
Depreciation	41.8	79.0
Right of use assets	61.1	—
Intangible assets	—	113.4
Total deferred tax liabilities	<u>468.5</u>	<u>602.2</u>
Net deferred tax liability	<u>\$ (34.8)</u>	<u>\$ (212.5)</u>
Amounts recognized in the consolidated balance sheets:		
Non-current assets	\$ 45.2	\$ 44.0
Non-current liabilities	<u>(80.0)</u>	<u>(256.5)</u>
Total – Net deferred tax liability	<u>\$ (34.8)</u>	<u>\$ (212.5)</u>

At December 31, 2019, included in the Company’s U.S. tax returns are approximately \$20.1 million of U.S. federal net operating loss carryovers (“NOLs”) and approximately \$33.8 million of foreign tax credits. With the exception of NOLs generated after December 31, 2017, these attributes expire at various times through the year 2037. Pursuant to Section 382 of the Internal Revenue Code, the Company’s utilization of a portion of such NOLs is subject to an annual limitation. The Company does not believe it is more likely than not that all of its NOLs will be utilized and has therefore, in accordance with ASC 740-10-30, “Income Taxes-Overall-Initial Measurement,” established a valuation allowance against a portion of the NOLs. At December 31, 2019, the Company has state income tax NOLs of approximately \$175.4 million and state credits of approximately \$5.9 million available to offset future state taxable income. The state NOLs and credits will expire at various times through the year 2038. The Company believes a majority of these NOLs will expire before utilization and has therefore established a valuation allowance against those NOLs expected to expire unutilized. The Company has \$216.3 million of foreign NOLs and \$5.6 million of foreign capital losses at December 31, 2019. The foreign NOLs and capital losses have an unlimited carryforward period. The Company does not believe it is more likely than not that the NOLs or capital losses will be utilized and has therefore, in accordance with ASC 740-10-30, “Income Taxes—Overall—Initial Measurement,” established a full valuation allowance against them. The Company’s valuation allowance increased \$27.7 million during the year ended December 31, 2019, due primarily to an increase in the amount of state and foreign NOLs that the Company does not believe will be utilized. The Company’s valuation allowance decreased \$40.1 million during the year ended December 31, 2018 and increased \$31.7 million during the year ended December 31, 2017.

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

At December 31, 2019, the Company did not have any excess financial reporting basis over tax basis from a U.S. federal tax perspective primarily as a result of the GILTI regime pursuant to the 2017 Tax Reform. The Company may

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

have, in certain state or foreign jurisdictions, amounts of financial reporting basis that exceeds tax basis as of December 31, 2019. However, these amounts are immaterial and no additional state or foreign tax liability has been recorded. Finally, despite the immaterial nature, the Company intends to permanently reinvest any previously undistributed earnings of our foreign subsidiaries in the operations outside the United States to support its international growth.

The net tax impact of the change in the carrying value of the Euro-denominated Senior Notes due 2022 and 2023 due to foreign exchange fluctuations that was recorded directly to other comprehensive income was an expense of \$1.6 million, an expense of \$9.5 million and a benefit of \$26.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. These notes were repaid in July 2019.

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

Balance at January 1, 2017	\$ 192.0
Increases related to prior years' tax positions	9.3
Decreases related to prior years' tax positions	(15.7)
Increases related to current year tax positions	33.0
Settlements during the period	(6.7)
Lapses of applicable statutes of limitation	(3.6)
Balance at December 31, 2017	<u>\$ 208.3</u>
Increases related to prior years' tax positions	41.3
Decreases related to prior years' tax positions	(9.6)
Increases related to current year tax positions	61.5
Settlements during the period	(1.0)
Lapses of applicable statutes of limitation	(4.2)
Balance at December 31, 2018	<u>\$ 296.3</u>
Increases related to prior years' tax positions	2.7
Decreases related to prior years' tax positions	(76.6)
Increases related to current year tax positions	58.3
Settlements during the period	(0.6)
Lapses of applicable statutes of limitation	(5.8)
Balance at December 31, 2019	<u><u>\$ 274.3</u></u>

Included in the balance at December 31, 2019 are tax positions reclassified from deferred income taxes. Deductibility or taxability is highly certain for these tax positions but there is uncertainty about the timing of such deductibility or taxability. Because of the impact of deferred tax accounting, other than interest and penalties, this timing uncertainty, if realized, would not have a material effect on the annual effective tax rate but could accelerate the payment of cash to the taxing authority to an earlier period.

The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company has potential cumulative interest and penalties with respect to unrecognized tax benefits of approximately \$67.0 million, \$66.7 million and \$41.6 million at December 31, 2019, 2018 and 2017, respectively. For the years ended December 31, 2019, 2018 and 2017, the Company recorded approximately an \$0.8 million benefit, a \$24.5 million expense and a \$5.7 million expense, respectively, for potential interest and penalties with respect to unrecognized tax benefits.

At December 31, 2019, 2018 and 2017, the Company had unrecognized tax benefits of approximately \$255.1 million, \$247.7 million and \$170.0 million, respectively, that, if recognized, would impact the effective tax rate. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits over the next twelve months.

The Company files income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. With some exceptions, the tax returns filed by the Company are no longer subject to U.S. federal income tax examinations for the years before 2015, state and local examinations for years before 2014 or foreign income tax examinations for years before 2013.

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

23. FINANCIAL INSTRUMENTS

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

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

	December 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Financial assets				
Credit card and loan receivables, net	\$ 18,292.0	\$ 19,126.0	\$ 16,816.7	\$ 17,472.7
Credit card receivables held for sale	408.0	436.2	1,951.6	1,995.5
Redemption settlement assets, restricted	600.8	600.8	558.6	558.6
Other investments	259.8	259.8	291.3	291.3
Derivative instruments	0.2	0.2	3.8	3.8
Financial liabilities				
Derivative instruments	0.3	0.3	0.3	0.3
Deposits	12,151.7	12,303.6	11,793.7	11,768.7
Non-recourse borrowings of consolidated securitization entities	7,284.0	7,333.6	7,651.7	7,626.9
Long-term and other debt	2,849.9	2,878.8	5,725.4	5,755.3

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

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

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

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

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

Deposits — For money market deposits, carrying value approximates fair value due to the liquid nature of these deposits. For certificates of deposit, the fair value is estimated based on the current observable market rates available to the Company for similar deposits with similar remaining maturities.

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

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

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

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

Financial Assets and Financial Liabilities Fair Value Hierarchy

ASC 820, “Fair Value Measurements and Disclosures,” establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

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

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

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

	<u>Balance at December 31, 2019</u>	<u>Fair Value Measurements at December 31, 2019 Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		(in millions)		
Mutual funds ⁽¹⁾	\$ 25.1	\$ 25.1	\$ —	\$ —
Corporate bonds ⁽¹⁾	536.4	—	536.4	—
Marketable securities ⁽²⁾	259.8	26.2	233.6	—
Derivative instruments ⁽³⁾	0.2	—	0.2	—
Total assets measured at fair value.	<u>\$ 821.5</u>	<u>\$ 51.3</u>	<u>\$ 770.2</u>	<u>\$ —</u>
Derivative instruments ⁽³⁾	\$ 0.3	\$ —	\$ 0.3	\$ —
Total liabilities measured at fair value.	<u>\$ 0.3</u>	<u>\$ —</u>	<u>\$ 0.3</u>	<u>\$ —</u>

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

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

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

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

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

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

Financial Instruments Disclosed but Not Carried at Fair Value

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

	Total	Fair Value Measurements at December 31, 2019		
		Level 1 (in millions)	Level 2	Level 3
Financial assets:				
Credit card and loan receivables, net	\$ 19,126.0	\$ —	\$ —	\$ 19,126.0
Credit card receivables held for sale	436.2	—	—	436.2
Total	<u>\$ 19,562.2</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 19,562.2</u>
Financial liabilities:				
Deposits	\$ 12,303.6	\$ —	\$ 12,303.6	\$ —
Non-recourse borrowings of consolidated securitization entities	7,333.6	—	7,333.6	—
Long-term and other debt	2,878.8	—	2,878.8	—
Total	<u>\$ 22,516.0</u>	<u>\$ —</u>	<u>\$ 22,516.0</u>	<u>\$ —</u>

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

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

24. PARENT-ONLY FINANCIAL STATEMENTS

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

Balance Sheets

	December 31,	
	2019	2018
	(in millions)	
Assets:		
Cash and cash equivalents	\$ 0.2	\$ 0.1
Investment in subsidiaries	5,326.2	8,606.0
Other assets	3.4	20.1
Total assets	<u>\$ 5,329.8</u>	<u>\$ 8,626.2</u>
Liabilities:		
Current portion of long-term and other debt	\$ 101.4	\$ 114.4
Long-term and other debt	2,748.5	5,427.7
Intercompany liabilities	806.7	395.9
Other liabilities	84.9	356.1
Total liabilities	3,741.5	6,294.1
Stockholders’ equity	1,588.3	2,332.1
Total liabilities and stockholders’ equity	<u>\$ 5,329.8</u>	<u>\$ 8,626.2</u>

See Note 16, “Debt,” for more information regarding the Company’s long-term and other debt.

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

Statements of Income

	Years Ended December 31,		
	2019	2018 (in millions)	2017
Interest from loans to subsidiaries	\$ 19.2	\$ 17.9	\$ 13.8
Dividends from subsidiaries	922.6	810.1	360.6
Total revenue	<u>941.8</u>	<u>828.0</u>	<u>374.4</u>
Loss on extinguishment of debt	71.9	—	—
Interest expense, net	130.0	281.2	278.9
Other expenses, net	(0.7)	(0.4)	12.9
Total expenses	<u>201.2</u>	<u>280.8</u>	<u>291.8</u>
Income before income taxes and equity in undistributed net income of subsidiaries	740.6	547.2	82.6
Benefit for income taxes	42.1	7.0	322.7
Income before equity in undistributed net (loss) income of subsidiaries	782.7	554.2	405.3
Equity in undistributed net (loss) income of subsidiaries ⁽¹⁾	(504.7)	408.9	383.4
Net income	<u>\$ 278.0</u>	<u>\$ 963.1</u>	<u>\$ 788.7</u>

⁽¹⁾ Includes \$252.1 million after-tax loss on sale of Epsilon.

Statements of Comprehensive Income

	Years Ended December 31,		
	2019	2018 (in millions)	2017
Net income	\$ 278.0	\$ 963.1	\$ 788.7
Other comprehensive income (loss), net of tax	4.9	29.6	(46.1)
Total comprehensive income, net of tax	<u>\$ 282.9</u>	<u>\$ 992.7</u>	<u>\$ 742.6</u>

Statements of Cash Flows

	Years Ended December 31,		
	2019	2018 (in millions)	2017
Net cash (used in) provided by operating activities	\$ (1,029.1)	\$ 82.3	\$ 72.3
Investing activities:			
Investment in subsidiaries	(135.0)	—	(164.0)
Proceeds from sale of business	4,118.3	—	—
Dividends received	922.6	810.1	360.6
Net cash provided by investing activities	<u>4,905.9</u>	<u>810.1</u>	<u>196.6</u>
Financing activities:			
Borrowings under debt agreements	3,083.0	4,527.0	7,673.6
Repayments of borrowings	(5,778.2)	(4,838.3)	(7,232.4)
Payment of debt extinguishment costs	(46.1)	—	—
Payment of deferred financing costs	(20.7)	(4.6)	(33.7)
Purchase of treasury shares	(976.1)	(443.2)	(553.7)
Dividends paid	(127.4)	(125.2)	(115.5)
Proceeds from issuance of common stock	12.4	17.6	18.4
Other	(23.6)	(25.7)	(25.6)
Net cash used in financing activities	<u>(3,876.7)</u>	<u>(892.4)</u>	<u>(268.9)</u>
Change in cash, cash equivalents and restricted cash	0.1	—	—
Cash, cash equivalents and restricted cash at beginning of year	0.1	0.1	0.1
Cash, cash equivalents and restricted cash at end of year	<u>\$ 0.2</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>

Non-cash investing activities related to the parent-only statement of cash flows for the year ended December 31, 2019 included a \$3.0 billion non-cash dividend in the form of an intercompany return of capital from ADS Alliance Data Systems, Inc. to ADSC.

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

25. SEGMENT INFORMATION

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

As discussed in Note 6, “Discontinued Operations,” in the first quarter of 2019 the Company’s Epsilon segment was classified as a discontinued operation and was sold on July 1, 2019. The Company operates in the LoyaltyOne and Card Services reportable segments, which consist of the following:

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

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

<u>Year Ended December 31, 2019</u>	<u>LoyaltyOne</u>	<u>Card Services</u>	<u>Corporate/ Other</u>	<u>Total</u>
	(in millions)			
Revenues	\$ 1,033.1	\$ 4,547.8	\$ 0.4	\$ 5,581.3
Income (loss) before income taxes	\$ 103.1	\$ 991.7	\$ (356.4)	\$ 738.4
Interest expense, net	2.3	439.0	127.7	569.0
Operating income (loss)	105.4	1,430.7	(228.7)	1,307.4
Depreciation and amortization	80.1	89.3	6.7	176.1
Stock compensation expense	7.2	9.3	8.6	25.1
Strategic transaction costs	1.0	—	10.7	11.7
Restructuring and other charges	50.8	29.4	37.9	118.1
Loss on extinguishment of debt	—	—	71.9	71.9
Adjusted EBITDA ⁽¹⁾	244.5	1,558.7	(92.9)	1,710.3
Less: Securitization funding costs	—	213.4	—	213.4
Less: Interest expense on deposits	—	225.6	—	225.6
Adjusted EBITDA, net ⁽¹⁾	\$ 244.5	\$ 1,119.7	\$ (92.9)	\$ 1,271.3
Capital expenditures	\$ 41.5	\$ 44.2	\$ 0.8	\$ 86.5

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

<u>Year Ended December 31, 2018</u>	<u>LoyaltyOne</u>	<u>Card Services</u>	<u>Corporate/ Other</u>	<u>Total</u>
	(in millions)			
Revenues	\$ 1,068.4	\$ 4,597.6	\$ 0.6	\$ 5,666.6
Income (loss) before income taxes	\$ 153.8	\$ 1,381.6	\$ (320.4)	\$ 1,215.0
Interest expense, net	5.6	385.9	150.8	542.3
Operating income (loss)	159.4	1,767.5	(169.6)	1,757.3
Depreciation and amortization	84.8	101.1	7.7	193.6
Stock compensation expense	10.0	13.3	21.1	44.4
Adjusted EBITDA ⁽¹⁾	254.2	1,881.9	(140.8)	1,995.3
Less: Securitization funding costs	—	220.2	—	220.2
Less: Interest expense on deposits	—	165.7	—	165.7
Adjusted EBITDA, net ⁽¹⁾	\$ 254.2	\$ 1,496.0	\$ (140.8)	\$ 1,609.4
Capital expenditures	\$ 34.0	\$ 53.8	\$ 5.5	\$ 93.3

<u>Year Ended December 31, 2017</u>	<u>LoyaltyOne</u>	<u>Card Services</u>	<u>Corporate/ Other</u>	<u>Total</u>
	(in millions)			
Revenues	\$ 1,303.5	\$ 4,170.6	\$ 0.6	\$ 5,474.7
Income (loss) before income taxes	\$ 161.6	\$ 1,235.7	\$ (334.8)	\$ 1,062.5
Interest expense, net	5.4	281.7	168.3	455.4
Operating income (loss)	167.0	1,517.4	(166.5)	1,517.9
Depreciation and amortization	81.7	98.4	7.8	187.9
Stock compensation expense	8.0	10.8	22.5	41.3
Adjusted EBITDA ⁽¹⁾	256.7	1,626.6	(136.2)	1,747.1
Less: Securitization funding costs	—	156.6	—	156.6
Less: Interest expense on deposits	—	125.1	—	125.1
Adjusted EBITDA, net ⁽¹⁾	\$ 256.7	\$ 1,344.9	\$ (136.2)	\$ 1,465.4
Capital expenditures	\$ 55.2	\$ 54.2	\$ 8.8	\$ 118.2

⁽¹⁾ Adjusted EBITDA is a non-GAAP financial measure equal to income from continuing operations, the most directly comparable financial measure based on GAAP plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization, and amortization of purchased intangibles. In 2019, adjusted EBITDA also excluded costs for professional services associated with strategic initiatives, restructuring and other charges as detailed in Note 14, “Restructuring and Other Charges,” and loss related to the Company’s extinguishment of debt in July 2019.

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

The table below reconciles the reportable segments’ total assets to consolidated total assets:

	<u>LoyaltyOne</u>	<u>Card Services</u>	<u>Corporate/ Other</u>	<u>Discontinued Operations</u>	<u>Total</u>
	(in millions)				
Total Assets					
December 31, 2019	\$ 2,338.0	\$ 23,931.1	\$ 225.7	\$ —	\$ 26,494.8
December 31, 2018	\$ 2,200.2	\$ 23,904.2	\$ 125.9	\$ 4,157.4	\$ 30,387.7

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

With respect to information concerning principal geographic areas, revenues are based on the location of the subsidiary that generally correlates with the location of the customer. Effective January 1, 2018, the Company adopted ASC 606, “Revenue from Contracts with Customers,” applying the modified retrospective method to those contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with the Company’s historic accounting under ASC 605. Information concerning principal geographic areas is as follows:

	<u>United States</u>	<u>Canada</u>	<u>Europe, Middle East and Africa</u>	<u>Asia Pacific</u>	<u>Other</u>	<u>Total</u>
	(in millions)					
Revenues						
Year Ended December 31, 2019	<u>\$ 4,588.3</u>	<u>\$ 352.2</u>	<u>\$ 449.1</u>	<u>\$ 121.7</u>	<u>\$ 70.0</u>	<u>\$ 5,581.3</u>
Year Ended December 31, 2018	<u>\$ 4,621.3</u>	<u>\$ 411.3</u>	<u>\$ 463.2</u>	<u>\$ 122.0</u>	<u>\$ 48.8</u>	<u>\$ 5,666.6</u>
Year Ended December 31, 2017	<u>\$ 4,192.5</u>	<u>\$ 726.6</u>	<u>\$ 411.4</u>	<u>\$ 129.2</u>	<u>\$ 15.0</u>	<u>\$ 5,474.7</u>
Long Lived Assets						
December 31, 2019	<u>\$ 1,361.1</u>	<u>\$ 311.1</u>	<u>\$ 696.2</u>	<u>\$ 12.8</u>	<u>\$ 0.9</u>	<u>\$ 2,382.1</u>
December 31, 2018	<u>\$ 4,693.1</u>	<u>\$ 261.0</u>	<u>\$ 698.6</u>	<u>\$ 22.5</u>	<u>\$ 0.8</u>	<u>\$ 5,676.0</u>

As of December 31, 2019, 2018 and 2017, revenues from L Brands and its affiliates represented approximately 10.6%, 10.8% and 12.0%, respectively, of consolidated revenues and are included in the Card Services segment.

26. SUPPLEMENTAL CASH FLOW INFORMATION

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	(in millions)		
Cash and cash equivalents	\$ 3,874.4	\$ 3,863.1	\$ 4,190.0
Restricted cash included within other current assets ⁽¹⁾	44.4	60.7	50.4
Restricted cash included within redemption settlement assets, restricted ⁽²⁾	39.3	43.9	74.3
Total cash, cash equivalents and restricted cash	<u>\$ 3,958.1</u>	<u>\$ 3,967.7</u>	<u>\$ 4,314.7</u>

⁽¹⁾ Includes cash restricted for principal and interest repayments of non-recourse borrowings of consolidated securitized debt and other restricted cash within other current assets.

⁽²⁾ See Note 10, “Redemption Settlement Assets,” for additional information regarding the nature of restrictions on redemption settlement assets.

Non-cash financing activities for the year ended December 31, 2019 included an exchange agreement with ValueAct Holdings, L.P. pursuant to which ValueAct exchanged an aggregate of 1,500,000 shares of the Company’s common stock for an aggregate of 150,000 shares of preferred stock, and ValueAct’s subsequent exchange of all 150,000 shares of preferred stock back to common stock. For more information, see Note 19, “Stockholders’ Equity.”

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

27. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Unaudited quarterly results of operations for the years ended December 31, 2019 and 2018 are presented below.

	Quarter Ended			
	March 31, 2019 ⁽¹⁾	June 30, 2019	September 30, 2019	December 31, 2019
	(in millions, except per share amounts)			
Revenues	\$ 1,334.2	\$ 1,348.5	\$ 1,437.6	\$ 1,461.0
Operating expenses	977.3	1,011.2	1,133.4	1,152.0
Operating income	356.9	337.3	304.2	309.0
Interest expense, net	143.9	143.5	140.0	141.6
Income from continuing operations before income taxes	213.0	193.8	164.2	167.4
Provision for income taxes	34.8	51.4	42.6	37.0
Income from continuing operations	178.2	142.4	121.6	130.4
Loss from discontinued operations, net of taxes	(29.1)	(3.4)	(229.2)	(32.9)
Net income (loss)	<u>\$ 149.1</u>	<u>\$ 139.0</u>	<u>\$ (107.6)</u>	<u>\$ 97.5</u>
Basic income (loss) per share:				
Income from continuing operations	\$ 3.36	\$ 2.72	\$ 2.47	\$ 2.73
Loss from discontinued operations	<u>\$ (0.55)</u>	<u>\$ (0.07)</u>	<u>\$ (4.69)</u>	<u>\$ (0.70)</u>
Net income (loss) per share	<u>\$ 2.81</u>	<u>\$ 2.65</u>	<u>\$ (2.22)</u>	<u>\$ 2.03</u>
Diluted income (loss) per share:				
Income from continuing operations	\$ 3.35	\$ 2.71	\$ 2.41	\$ 2.74
Loss from discontinued operations	<u>\$ (0.55)</u>	<u>\$ (0.07)</u>	<u>\$ (4.54)</u>	<u>\$ (0.69)</u>
Net income (loss) per share	<u>\$ 2.80</u>	<u>\$ 2.64</u>	<u>\$ (2.13)</u>	<u>\$ 2.05</u>

⁽¹⁾ In the first quarter of 2019, Epsilon was presented as a discontinued operation in accordance with ASC 205 in our Quarterly Report on Form 10-Q. Included in our presentation was the allocation of interest expense associated with \$1.9 billion in senior notes for the three months ended March 31, 2019 and 2018, respectively. On April 30, 2019, the Company amended its credit agreement, which among other items, provided that upon consummation of the sale of Epsilon, a mandatory payment of \$500.0 million of the revolving credit facility was required and all of the Company's outstanding senior notes were required to be redeemed. The table above includes the allocation of interest expense associated with the \$500.0 million mandatory repayment of the revolving credit facility, as well as the related income tax effect, which was not reflected in our historical results in our Quarterly Report on Form 10-Q for the period ended March 31, 2019. The impact was \$5.6 million of interest expense and an income tax benefit of \$1.7 million.

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

	Quarter Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
	(in millions, except per share amounts)			
Revenues	\$ 1,381.7	\$ 1,397.2	\$ 1,423.2	\$ 1,464.5
Operating expenses	1,009.4	1,000.5	943.4	956.0
Operating income	372.3	396.7	479.8	508.5
Interest expense, net	127.2	133.6	136.8	144.7
Income from continuing operations before income taxes	245.1	263.1	343.0	363.8
Provision for income taxes	65.2	39.3	54.3	110.7
Income from continuing operations	179.9	223.8	288.7	253.1
(Loss) income from discontinued operations, net of taxes	(16.0)	(6.0)	7.8	31.8
Net income	<u>\$ 163.9</u>	<u>\$ 217.8</u>	<u>\$ 296.5</u>	<u>\$ 284.9</u>
Basic income (loss) per share:				
Income from continuing operations	\$ 3.25	\$ 4.05	\$ 5.27	\$ 4.69
(Loss) income from discontinued operations	<u>\$ (0.29)</u>	<u>\$ (0.11)</u>	<u>\$ 0.14</u>	<u>\$ 0.59</u>
Net income per share	<u>\$ 2.96</u>	<u>\$ 3.94</u>	<u>\$ 5.41</u>	<u>\$ 5.28</u>
Diluted income (loss) per share:				
Income from continuing operations	\$ 3.23	\$ 4.04	\$ 5.25	\$ 4.67
(Loss) income from discontinued operations	<u>\$ (0.28)</u>	<u>\$ (0.11)</u>	<u>\$ 0.14</u>	<u>\$ 0.58</u>
Net income per share	<u>\$ 2.95</u>	<u>\$ 3.93</u>	<u>\$ 5.39</u>	<u>\$ 5.25</u>

28. SUBSEQUENT EVENTS

In January 2020, the Company entered into a securities purchase agreement and effectuated the sale of Precima, a provider of retail strategy and customer data applications and analytics, for total consideration of approximately \$40.0 million, of which \$10.0 million is contingent upon the occurrence of specified events and performance of the business. Precima was included in the Company's LoyaltyOne segment.

SCHEDULE II

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>	<u>Write-Offs Net of Recoveries ⁽¹⁾</u>	<u>Balance at End of Year</u>
Allowance for Doubtful Accounts—Accounts receivable:			(in millions)		
Year Ended December 31, 2019.....	\$ 0.4	\$ 3.5	\$ —	\$ (0.5)	\$ 3.4
Year Ended December 31, 2018.....	\$ 0.1	\$ 0.4	\$ —	\$ (0.1)	\$ 0.4
Year Ended December 31, 2017.....	\$ 0.3	\$ 0.1	\$ (0.1)	\$ (0.2)	\$ 0.1

⁽¹⁾ Accounts written off during the year, net of recoveries and foreign exchange impact.

About Alliance Data

Alliance Data® (NYSE: ADS) is a leading global provider of data-driven marketing and loyalty solutions serving large, consumer-based industries. The Company creates and deploys customized solutions, enhancing the critical customer marketing experience; the result is measurably changing consumer behavior while driving business growth and profitability for some of today's most recognizable brands. Alliance Data helps its clients create and increase customer loyalty through solutions that engage millions of customers each day across multiple touch points using traditional, digital, mobile and emerging technologies. An S&P 500, FORTUNE 500 and FORTUNE 100 Best Companies to Work For company headquartered in Columbus, Ohio, Alliance Data consists of businesses that together employ over 8,500 associates at more than 50 locations worldwide.

Alliance Data's card services business is a provider of market-leading private label, co-brand, and business credit card programs. LoyaltyOne® owns and operates the AIR MILES® Reward Program, Canada's most recognized loyalty program, and Netherlands-based BrandLoyalty, a global provider of tailor-made loyalty programs for grocers. More information about Alliance Data can be found at www.AllianceData.com.

Follow Alliance Data on Twitter, Facebook, LinkedIn, Instagram and YouTube.

Forward-looking Statements

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give our expectations or forecasts of future events and can generally be identified by the use of words such as "believe," "expect," "anticipate," "estimate," "intend," "project," "plan," "likely," "may," "should" or other words or phrases of similar import. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding, and the guidance we give with respect to, our anticipated operating or financial results, completion of strategic initiatives, future dividend declarations, and future economic conditions, including, but not limited to, fluctuation in currency exchange rates, market conditions and COVID-19 impacts related to relief measures for impacted borrowers and depositors, labor shortages due to quarantine, reduction in demand from clients, supply chain disruption for our reward suppliers and disruptions in the airline or travel industries.

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 document, 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, factors set forth in the Risk Factors section in our Annual Report on Form 10-K for the most recently ended fiscal year, which may be updated in Item 1A of, or elsewhere in, our Quarterly Reports on Form 10-Q filed for periods subsequent to such Form 10-K. Our forward-looking statements 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.

CONTACT INFORMATION

CORPORATE HEADQUARTERS

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3075 Loyalty Circle
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614-729-4000

COMMON STOCK

The company's common stock is listed on the New York Stock Exchange under the ticker symbol "ADS."

FORM 10-K

For more information about Alliance Data, visit us online at www.alliancedata.com. The company's Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission, is available at Alliance Data's website.

ELECTRONIC ACCESS

Stockholders may visit the following website for electronic access to Annual Reports and Proxy materials:
www.edocumentview.com/ads

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BOARD OF DIRECTORS

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Sharen J. Turney
Director





AllianceData.

I'm confident that, with the support of our stakeholders, we can shape **a new, more promising path forward** for Alliance Data as a company **worthy of your investment**. Thank you for your support.

Ralph Andretta, President and CEO