ALLIANCE DATA SYSTEMS CORP
Form 10-K
February 27, 2015

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, 2014

or

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

Commission file number 001-15749

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

Delaware	31-1429215
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7500 Dallas Parkway, Suite 700	
Plano, Texas	75024
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

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

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

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

As of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $14.8 billion (based upon the closing price on the New York Stock Exchange on June 30, 2014 of $281.25 per share).

As of February 23, 2015, 62,805,266 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 2015 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2014.

ALLIANCE DATA SYSTEMS CORPORATION

INDEX

Index

Caution Regarding Forward-Looking Statements

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

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

Index

PART I

Item 1. Business.

Our Company

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

Our client base of more than 1,500 companies consists primarily of large consumer-based businesses, including well-known brands such as Bank of Montreal, Sobeys Inc., Shell Canada Products, Procter & Gamble, AstraZeneca, Hilton, Bank of America, General Motors, FedEx, Kraft, Victoria's Secret, Lane Bryant, Pottery Barn, J. Crew and Ann Taylor. Our client base is diversified across a broad range of end-markets, including financial services, specialty retail, grocery and drugstore chains, petroleum retail, automotive, hospitality and travel, telecommunications, insurance and healthcare. We believe our comprehensive suite of marketing solutions offers us a significant competitive advantage, as many of our competitors offer a more limited range of services. We believe the breadth and quality of our service offerings have enabled us to establish and maintain long-standing client relationships.

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

Our Market Opportunity and Growth Strategy

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

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

international expansion will provide us with strong revenue growth opportunities. On January 2, 2014, we acquired a 60% ownership interest in BrandLoyalty Group B.V., or BrandLoyalty, a Netherlands-based data-driven loyalty marketer, which designs, organizes, implements and evaluates innovative and tailor-made loyalty programs for grocers worldwide. BrandLoyalty generates most of its revenues throughout Europe and in key markets in Asia and Latin America. BrandLoyalty is also developing new markets in other regions, including Russia and China. Effective January 1, 2015, we increased our ownership in BrandLoyalty to 70%. Our acquisition of Conversant Inc., in December 2014, also expands our operations in Europe and Asia. We own approximately 37% of CBSM-Companhia Brasileira De Servicos De Marketing, the operator of the dotz coalition loyalty program in Brazil, or dotz. Dotz currently operates in 12 markets in Brazil, and as of December 31, 2014, dotz had more than 14 million collectors enrolled in the program. These transactions expand our presence across Europe, Asia and Latin America and provide opportunity to leverage our core competencies in these markets as well.

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

Index

Products and Services

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

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

Index
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, a Netherlands-based data-driven loyalty marketer.
The AIR MILES Reward Program enables consumers 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. In December 2011, we introduced a new program option called AIR MILES Cash to which collectors can allocate some or all of their future AIR MILES reward miles collected. Since March 2012, collectors have been able to instantly redeem their AIR MILES reward miles collected in AIR MILES Cash towards in-store purchases at participating sponsors. Approximately two-thirds of Canadian households actively participate in the AIR MILES Reward Program, and it was recently named as one of the most influential Canadian brands in Canada's Ipsos Influence Index.
The three primary parties involved in our AIR MILES Reward Program are: sponsors, collectors and suppliers, each of which is described below.
Sponsors. More than 170 brand name sponsors participate in our AIR MILES Reward Program, including Shell Canada Products, Jean Coutu, RONA, Amex Bank of Canada, Sobeys Inc. and Bank of Montreal.
The AIR MILES Reward Program is a full service outsourced loyalty program for our sponsors, who pay us a fee per AIR MILES reward mile issued, in return for which we provide all marketing, customer service, rewards and redemption management. We typically grant participating sponsors exclusivity in their market category, enabling them to realize incremental sales and increase market share as a result of their participation in the AIR MILES Reward Program coalition.
Collectors. Collectors earn AIR MILES reward miles at thousands of retail and service locations, typically including any online presence the sponsor may have. Collectors can also earn at the many locations where collectors can use certain cards issued by Bank of Montreal and Amex Bank of Canada. This enables collectors to rapidly accumulate AIR MILES reward miles across a significant portion of their everyday spend. The AIR MILES Reward Program offers a reward structure that provides a quick, easy and free way for collectors to earn a broad selection of travel, entertainment and other lifestyle rewards through their day-to-day shopping at participating sponsors.
Suppliers. We enter into agreements with airlines, movie theaters, manufacturers of consumer electronics and other providers to supply rewards for the AIR MILES Reward Program. The broad range of rewards that can be redeemed is one of the reasons the AIR MILES Reward Program remains popular with collectors. Over 400 suppliers use the AIR MILES Reward Program as an additional distribution channel for their products. Suppliers include well-recognized companies in diverse industries, including travel, hospitality, electronics and entertainment.
BrandLoyalty designs, organizes, implements 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 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.

Index
Epsilon
Epsilon is a leading marketing services firm providing end-to-end, integrated marketing solutions that leverage transactional data to help clients more effectively acquire and build stronger relationships with their customers. Services include strategic consulting, customer database technologies, omni-channel marketing, loyalty management, proprietary data, predictive modeling, permission-based email marketing and a full range of direct and digital agency services. On behalf of our clients, we develop marketing programs for individual consumers with highly targeted offers and communications. Since these communications are more relevant to the consumer, the consumer is more likely to be responsive to these offers, resulting in a measurable return on our clients' marketing investments. We distribute marketing campaigns and communications through all marketing channels based on the consumer's preference, including digital platforms such as email, mobile, display and social media. Epsilon has over 1,200 clients, operating primarily in the financial services, automotive, consumer product goods (CPG), specialty retail, travel and hospitality, pharmaceutical and telecommunications end-markets.
On December 10, 2014, we completed the acquisition of Conversant, Inc. Conversant is a leader in personalized digital marketing. By offering a fully integrated personalization platform, personalized media programs and one of the world's largest affiliate marketing networks, all fueled by an in-depth understanding of what motivates people to engage, connect and buy, Conversant helps the world's biggest companies grow by creating personalized experiences that deliver higher returns for brands and greater value for consumers. Conversant's solution and capabilities enhance Epsilon's existing offline and online data set, allowing for more effective targeted marketing programs across an expanded distribution network. The acquisition provides scale in the rapidly growing display, mobile, video and social digital channels, and adds essential capabilities to Epsilon's digital messaging platform, Agility Harmony®.
Agency Services. Through our consulting services we analyze our clients' business, brand and/or product strategy to create customer acquisition and retention strategies and tactics designed to further optimize our clients' customer relationships and marketing return on investment. We offer ROI-based targeted marketing services through digital user experience design technology, customer relationship marketing, consumer promotions marketing, direct and digital shopper marketing, distributed and local area marketing, and services that include brand planning and consumer insights.
Database Design and Management. For large consumer-facing brands, we design, build and operate complex consumer marketing databases, including loyalty program management, such as Hilton HHonors, Walgreens Balance® Rewards and the Citi Thank You programs. Our solutions are highly customized and support our clients' needs for real-time data integration from a multitude of data sources, including multi-channel transactional data.
Data Services. We believe we are one of the leading sources of comprehensive consumer data that is essential to marketers when making informed marketing decisions. Together with our clients, we use this data to develop highly-targeted, individualized marketing programs that increase response rates and build stronger customer relationships.
Analytical Services. We provide behavior-based, demographic and attitudinal customer segmentation, purchase analysis, web analytics, marketing mix modeling, program optimization, predictive modeling and program measurement and analysis. Through our analytical services, we gain a better understanding of consumer behavior that can help our clients as they develop customer relationship strategies.
Traditional and Digital Marketing. We provide strategic communication solutions and our end-to-end suite of products and services includes strategic consulting, creative services, campaign management and delivery optimization. We deploy marketing campaigns and communications through all marketing channels, including digital platforms such as email, mobile and social media. We also operate what we believe to be one of the largest global permission-based email marketing platforms in the industry. Agility Harmony, Epsilon's next generation digital messaging platform, enables clients to build campaigns using measurable distribution channels. The Conversant acquisition enhances Epsilon's existing solutions, particularly in the rapidly growing display, mobile, video and social digital channels, and adds essential capabilities to Agility Harmony.

Index
Private Label Services and Credit
Our Private Label Services and Credit segment assists some of the best known retailers in extending their brand with a private label and/or co-brand credit card account that can be used by their customers in the store, or through online or catalog purchases.
Receivables Financing. Our Private Label Services and Credit segment provides risk management solutions, account origination and funding services for our more than 135 private label and co-brand credit card programs. Through these credit card programs, we had $10.8 billion in principal receivables, from over 36.1 million active accounts for the year ended December 31, 2014, with an average balance during that period of approximately $552 for accounts with outstanding balances. As of December 31, 2014, L Brands and its retail affiliates accounted for approximately 11.6% of our credit card and loan receivables. We process millions of credit card applications each year using automated proprietary scoring technology and verification procedures to make risk-based origination decisions when approving new credit card accountholders and establishing their credit card limits. We augment these procedures with credit risk scores provided by credit bureaus. This information helps us segment prospects into narrower risk ranges, allowing us to better evaluate individual credit risk.
Our accountholder base consists primarily of middle- to upper-income individuals, in particular women who use our credit cards primarily as brand affinity tools. These accounts generally have lower average balances compared to balances on general purpose credit cards. We focus our sales efforts on prime borrowers and do not target sub-prime borrowers.
We use a securitization program as our primary funding vehicle for our credit card receivables. Securitizations involve the packaging and selling of both current and future receivable balances of credit card accounts to a master trust, which is a variable interest entity, or VIE. Our three master trusts are consolidated in our financial statements.
Processing Services. We perform processing services and provide service and maintenance for private label and co-brand credit card programs. We use automated technology for bill preparation, printing and mailing, and also offer consumers the ability to view, print and pay their bills online. By doing so, we improve the funds availability for both our clients and for those private label and co-brand credit card receivables that we own or securitize. Our customer care operations are influenced by our retail heritage and we view every customer touch point as an opportunity to generate or reinforce a sale. We provide focused training programs in all areas to achieve the highest possible customer service standards and monitor our performance by conducting surveys with our clients and their customers. In 2013, for the ninth 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. Our call centers are equipped to handle phone, mail, fax, email and web inquiries. We also provide collection activities on delinquent accounts to support our private label and co-brand credit card programs.
Marketing Services. Our private label and co-branded credit card programs are designed specifically for retailers and have the flexibility to be customized to accommodate our clients' specific needs. Through our integrated marketing services, we design and implement strategies that assist our clients in acquiring, retaining and managing valuable repeat customers. Our credit card programs capture transaction data that we analyze to better understand consumer behavior and use to increase the effectiveness of our clients' marketing activities. We use multi-channel marketing communication tools, including in-store, permission-based email, mobile messaging and direct mail to reach our clients' customers.

Index

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. In the United States, we have 10 issued patents, 23 pending patent applications, and 24 pending provisional patent applications, each with the U.S. Patent and Trademark Office. In Canada, we have one issued patent and one pending patent application. In addition, we have one issued patent in each of France, Germany, and the United Kingdom. We also have one pending Patent Cooperation Treaty application. We generally enter into confidentiality or license agreements with our employees, consultants and corporate partners, and generally control access to and distribution of our technology, documentation and other proprietary information. Despite the efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain the use of our products or technology that we consider proprietary and third parties may attempt to develop similar technology independently. We pursue registration and protection of our trademarks primarily in the United States and Canada, although we also have either registered trademarks or applications pending for certain marks in Argentina, Australia, New Zealand, the European Union or some of its individual countries (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom), Peru, Mexico, Venezuela, Brazil, China, Hong Kong, Japan, South Korea, Switzerland, Norway, Russian Federation, Turkey, Vietnam and Singapore and internationally under the Madrid Protocol in several countries, including several of the aforementioned countries. We are the exclusive Canadian licensee of the AIR MILES family of trademarks pursuant to a perpetual license agreement with Air Miles International Trading B.V., for which we pay a royalty fee. We believe that the AIR MILES family of trademarks and our other trademarks are important for our branding, corporate identification and marketing of our services in each business segment.

Competition

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

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

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

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

Index

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. Nevertheless, as a state bank, Comenity Bank is still subject to overlapping supervision by the Federal Deposit Insurance Corporation, or FDIC, and the State of Delaware; and, as an industrial bank, Comenity Capital Bank is still subject to overlapping supervision by the FDIC and the State of Utah.

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

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

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

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

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

Index
In the United States under the Gramm-Leach-Bliley Act, we are required to maintain a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information. It also requires us to provide initial and annual privacy notices to customers that describe in general terms our information sharing practices. If we intend to share nonpublic personal information about customers with affiliates and/or nonaffiliated third parties, we must provide our customers with a notice and a reasonable period of time for each customer to "opt out" of any such disclosure. In Canada, the Act to promote the efficiency and adaptability of the Canadian economy by regulating certain activities that discourage reliance on electronic means of carrying out commercial activities, and to amend the Canadian Radio-television and Telecommunications Commission Act, the Competition Act, the Personal Information Protection and Electronic Documents Act and the Telecommunications Act, more generally known as Canada's Anti-Spam Legislation, may restrict our ability to send commercial "electronic messages," defined to include text, sound, voice and image messages to email, or similar accounts, where the primary purpose is advertising or promoting a commercial product or service to our customers and prospective customers. The Act requires that a sender have consent to send a commercial electronic message, and provide the customers with an opportunity to opt out from receiving future commercial electronic email messages from the sender.
In the European Union, the Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 requires member states to implement and enforce a comprehensive data protection law that is based on principles designed to safeguard personal data, defined as any information relating to an identified or identifiable natural person. The Directive frames certain requirements for transfer outside of the European Economic Area and individual rights such as consent requirements.
In addition to U.S. federal privacy laws with which we must comply, states also have adopted statutes, regulations or other measures governing the collection and distribution of nonpublic personal information about customers. In some cases these state measures are preempted by federal law, but if not, we monitor and seek to comply with individual state privacy laws in the conduct of our business.
We also have systems and processes to comply with the USA PATRIOT ACT of 2001, which is designed to deter and punish terrorist acts in the United States and around the world, to enhance law enforcement investigatory tools, and for other purposes.

Employees

As of December 31, 2014, we had over 15,000 employees. We believe our relations with our employees are good. We have no collective bargaining agreements with our employees.

Available Information

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

Index
Item 1A. Risk Factors.
RISK FACTORS
Strategic Business Risk and Competitive Environment
Our 10 largest clients represented 37.5% of our consolidated revenue in 2014 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 37.5% of our consolidated revenue during the year ended December 31, 2014, with no single client representing greater than 10.0% of our consolidated revenue. A decrease in revenue from any of our significant clients for any reason, including a decrease in pricing or activity, or a decision either to utilize another service provider or to no longer outsource some or all of the services we provide, could have a material adverse effect on our consolidated revenue.
LoyaltyOne. LoyaltyOne represents 26.5% of our consolidated revenue. LoyaltyOne's 10 largest clients represented approximately 48.9% of our LoyaltyOne revenue in 2014. Bank of Montreal and Sobeys Inc. represented approximately 24.9% and 10.3%, respectively, of this segment's revenue for 2014. Our contract with Bank of Montreal expires in 2017, subject to automatic renewals at five-year intervals. Our contract with Sobeys Inc. and its retail affiliates expires in 2024.
Epsilon. Epsilon represents 28.7% of our consolidated revenue. Epsilon's 10 largest clients represented approximately 34.1% of our Epsilon revenue in 2014, with no single client representing more than 10% of Epsilon's revenue.
Private Label Services and Credit. Private Label Services and Credit represents 45.2% of our consolidated revenue. Private Label Services and Credit's 10 largest clients represented approximately 65.4% of our Private Label Services and Credit revenue in 2014. L Brands and its retail affiliates and Ascena Retail Group, Inc. and its retail affiliates represented approximately 16.7% and 12.8%, respectively, of our revenue for this segment in 2014. Our primary contract with a retail affiliate of L Brands expires in 2018 and our contracts with Ascena Retail Group and its retail affiliates expire in 2016 and 2019.
If actual redemptions by AIR MILES Reward Program collectors are greater than expected, or if the costs related to redemption of AIR MILES reward miles increase, our profitability could be adversely affected.
A portion of our revenue is based on our estimate of the number of AIR MILES reward miles that will go unused by the collector base. The percentage of AIR MILES reward miles not expected to be redeemed is known as "breakage." Breakage is based on management's estimate after viewing and analyzing various historical trends including vintage analysis, current run rates and other pertinent factors, such as the impact of macroeconomic factors and changes in the program structure, including the introduction of a five-year expiry policy in December 2011, the introduction of the AIR MILES Cash program option and changes to rewards offered.
From June 2008 through December 2012, our estimate of breakage was 28%. Based on the analysis of historical redemption trends, statistical analysis performed, and the expected impact of recent changes in the program structure, at December 31, 2012 we determined that our estimate of breakage should be lowered to 27%. At December 31, 2013 we determined that our estimate of breakage should be further reduced to 26%. Our estimated breakage rate remained at 26% as of December 31, 2014. Any significant change in, or failure by management to reasonably estimate, breakage could adversely affect our profitability.
Additionally, if actual redemptions are greater than our estimates, our profitability could be adversely affected due to the cost of the excess redemptions.
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 $39.1 million for the year ended December 31, 2014.
The loss of our most active AIR MILES Reward Program collectors could adversely affect our growth and profitability.
Our most active AIR MILES Reward Program collectors drive a disproportionately large percentage of our AIR MILES Reward Program revenue. The loss of a significant portion of these collectors, for any reason, could impact our ability to generate significant revenue from sponsors. The continued attractiveness of our loyalty and rewards programs will depend in large part on our ability to remain affiliated with sponsors that are desirable to consumers and

to offer rewards that are both attainable and attractive.

Index

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

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

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

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

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

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

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

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

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

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

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

The primary risk associated with unsecured consumer lending is the risk of default or bankruptcy of the borrower, resulting in the borrower's balance being charged-off as uncollectible. We rely principally on the customer's creditworthiness for repayment of the loan and therefore have no other recourse for collection. We may not be able to successfully identify and evaluate the creditworthiness of cardholders to minimize delinquencies and losses. An increase in defaults or net charge-offs could result in a reduction in net income. General economic factors, such as the rate of inflation, unemployment levels and interest rates, may result in greater delinquencies that lead to greater credit losses. In addition to being affected by general economic conditions and the success of our collection and recovery efforts, the stability of our delinquency and net credit card and loan receivable charge-off rates are affected by the credit risk of our credit card and loan receivables and the average age or maturity of our various credit card account portfolios. Further, our pricing strategy may not offset the negative impact on profitability caused by increases in delinquencies and losses, thus any material increases in delinquencies and losses beyond our current estimates could have a material adverse impact on us. For 2014, our average credit card and loan receivable net charge-off rate was 4.2%, compared to 4.7% and 4.8% for 2013 and 2012, respectively. Delinquency rates were 4.0% of principal credit card and loan receivables at December 31, 2014 compared to 4.2% and 4.0% at December 31, 2013 and 2012, respectively.

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

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

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

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

Index

Liquidity, Market and Credit Risk

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

Interest rate risk affects us directly in our borrowing activities. Our interest expense, net was approximately $260.5 million for the year ended December 31, 2014. To manage our risk from market interest rates, we actively monitor the interest rates and the interest sensitive components to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. To achieve this objective, we manage our exposure to fluctuations in market interest rates through the use of fixed-rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. In 2014, a 1.0% increase in interest rates would have resulted in an increase to interest expense of approximately $53.0 million. Conversely, a corresponding decrease in interest rates would have resulted in a decrease to interest expense of approximately $42.5 million. In addition, we may enter into derivative instruments such as interest rate swaps and interest rate caps to mitigate our interest rate risk on related financial instruments or to lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes.

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

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

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

In addition, on 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. 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 recent rulemaking but may be implemented by the SEC in the future. We are still assessing the impact of the new rules, and the possibility of continued rulemaking, on our publicly offered securitization program. The SEC also issued an advance notice of proposed rulemaking relating to the exemptions that our credit card securitization trusts rely on in our credit card securitization programs to avoid registration as investment companies. The form that these rules may ultimately take is uncertain at this time, but such rules may impact our ability or desire to issue asset-backed securities in the future. The FDIC, the SEC, the Federal Reserve and certain other federal regulators have adopted regulations that would mandate a minimum five percent risk retention requirement for securitizations that are issued on and after December 24, 2016. We have not yet determined whether our existing forms of risk retention will satisfy the final regulatory requirements or whether structural changes will be necessary. Such risk retention requirements may impact our ability or desire to issue asset-backed securities in the future.

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

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

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

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 purposes;
- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions and other corporate purposes;
- reduce or delay investments and capital expenditures;
- cause any refinancing of our indebtedness to be at higher interest rates and require us to comply with more onerous covenants, which could further restrict our business operations; and
- prevent us from raising the funds necessary to repurchase all notes tendered to us upon the occurrence of certain changes of control.

We do not intend to pay cash dividends.

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

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

We are exposed primarily to fluctuations in the exchange rate between the U.S. and Canadian dollars through our significant Canadian operations and the exchange rate between the U.S. dollar and the Euro through our ownership interest in BrandLoyalty. We currently do not hedge any of our net investment exposure in our Canadian or European operations.

Index

Regulatory Environment

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

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

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

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

While the CFPB does not examine Comenity Bank and Comenity Capital Bank, it will receive information from their primary federal regulator. In addition, the CFPB's broad rulemaking authority is expected to impact their operations. For example, the CFPB's rulemaking authority may allow it to change regulations adopted in the past by other regulators including regulations issued under the Truth in Lending Act or the Credit Card Accountability Responsibility and Disclosure Act of 2009, or the CARD Act, by the Board of Governors of the Federal Reserve System. The CFPB's ability to rescind, modify or interpret past regulatory guidance could increase our compliance costs and litigation exposure. Furthermore, the CFPB has broad authority to prevent "unfair, deceptive or abusive" acts or practices and has taken enforcement action against other credit card issuers and financial services companies. Evolution of these standards could result in changes to pricing, practices, procedures and other activities relating to our credit card accounts in ways that could reduce the associated return. It is unclear what changes would be promulgated by the CFPB and what effect, if any, such changes would have on our credit accounts.

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

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

Index

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

The enactment of new or amended legislation or industry regulations pertaining to consumer or private sector privacy issues could have a material adverse impact on our marketing services. Legislation or industry regulations regarding consumer or private sector privacy issues could place restrictions upon the collection, sharing and use of information that is currently legally available, which could materially increase our cost of collecting some data. These types of legislation or industry regulations could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our clients' requirements and our profitability and cash flow targets. While 47 states and the District of Columbia have enacted data breach notification laws, there is no such federal law generally applicable to our businesses. Data breach notification legislation has been proposed widely and exists in specific countries and jurisdictions in which we conduct business. If enacted, these legislative measures could impose strict requirements on reporting time frames for providing notice, as well as the contents of such notices. In addition to the United States, Canadian and European Union regulations discussed below, we have expanded our marketing services through the acquisition of companies formed and operating in foreign jurisdictions that may be subject to additional or more stringent legislation and regulations regarding consumer or private sector privacy.

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

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

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

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

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

In the European Union, the Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 requires member states to implement and enforce a comprehensive data protection law that is based on principles designed to safeguard personal data, defined as any information relating to an identified or identifiable natural person. The Directive frames certain requirements for transfer outside of the European Economic Area and individual rights such as consent requirements. The Directive may be superseded by the General Data Protection Regulation proposed in January 2012 which would create one standard for the European Union member states but could limit our ability to provide services and information to our clients. There is also rapid development of new privacy laws and regulations in the Asia Pacific region and elsewhere around the globe, including amendments of existing data protection laws to the scope of such laws and penalties for noncompliance. Failure to comply with these international data protection laws and regulations could have a negative impact on our reputation and subject us to significant penalties.

Index

If the technology that we currently use to target the delivery of online advertisements and to prevent fraud is restricted or becomes subject to additional regulation, our product offerings could be limited and our profitability could be adversely impacted.

Websites typically place small files of non-personalized, or anonymous information commonly known as cookies, on an Internet user's hard drive. Cookies generally collect information about users on a non-personalized basis to enable websites to provide users with a more customized experience. Cookie information is passed to the website through an Internet user's browser software. We currently use cookies, along with other technologies, as set forth in our privacy policies, for purposes that include, without limitation, improving the experience Web and mobile users have when they see advertisements, advertising campaign reporting, website reporting and to monitor and prevent fraudulent activity. Most currently available Internet browsers allow Internet users to modify their browser settings to prevent cookies from being stored on their hard drive, and some users currently do so. Internet users can also delete cookies from their hard drives at any time. Some Internet commentators and privacy advocates have suggested limiting or eliminating the use of cookies, and legislation has been introduced in some jurisdictions to regulate the use of cookie technology. The effectiveness of our technology could be limited by any reduction or limitation in the use of cookies. If the use or effectiveness of cookies were limited, we expect that we would need to switch to other technologies to gather demographic and behavioral information. While such technologies currently exist, they may be less effective than cookies. We also expect that we would need to develop or acquire other technology to monitor and prevent fraudulent activity. Replacement of cookies could require reengineering time and resources, might not be completed in time to avoid losing customers or advertising inventory, and might not be commercially feasible. Our use of cookie technology or any other technologies designed to collect Internet usage information may subject us to litigation or investigations in the future that could be costly and time consuming, could require us to change our business practices and could divert management's attention.

Some of browser makers have been working on their own do-not-track, or DNT, technical solutions, notably Microsoft® Internet Explorer®, Mozilla® Firefox®, Apple® Safari® and Google Chrome®. Microsoft's Internet Explorer 9 offers a tracking protection feature that doesn't allow for tracking by allowing Internet users to download tracking protection block lists which consequently block any third-party domain included in such block lists from serving content. Microsoft's Internet Explorer 10 and 11 offer DNT by default. In addition, Mozilla Firefox has announced a plan to block third-party cookies by default. These features offered or planned by Microsoft and Mozilla, if widely deployed and adopted, may adversely affect our ability to grow our company, maintain our current revenues and profitability, serve and monetize content and utilize our behavioral targeting platform.

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

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

Index

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

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

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

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

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

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

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

Operational and Other Risk

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

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

16

Index

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

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

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

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

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

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

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

Our operations, acquisitions and employment of personnel outside the United States may require us to comply with numerous complex laws and regulations of the United States government and those of the various international jurisdictions where we do business. These laws and regulations may apply to a company, or individual directors, officers, employees or agents of such company, and may restrict our operations, investment decisions or joint venture activities. Specifically, we may be subject to anti-corruption laws and regulations, including, but not limited to, the United States' Foreign Corrupt Practices Act, or FCPA; the United Kingdom's Bribery Act 2010, or UKBA; and Canada's Corruption of Foreign Public Officials Act, or CFPOA. These anti-corruption laws generally prohibit providing anything of value to foreign officials for the purpose of influencing official decisions, obtaining or retaining business, or obtaining preferential treatment and require us to maintain adequate record-keeping and internal controls to ensure that our books and records accurately reflect transactions. As part of our business, we or our partners may do business with state-owned enterprises, the employees and representatives of which may be considered foreign officials for purposes of the FCPA, UKBA or CFPOA. There can be no assurance that our policies, procedures, training and

compliance programs will effectively prevent violation of all United States and international laws and regulations with which we are required to comply, and such a violation may subject us to penalties that could adversely affect our reputation, business, financial condition or results of operations. In addition, some of the international jurisdictions in which we operate may lack a developed legal system, have elevated levels of corruption, maintain strict currency controls, present adverse tax consequences or foreign ownership requirements, require difficult or lengthy regulatory approvals, or lack enforcement for non-compete agreements, among other obstacles.
Future sales of our common stock, or the perception that future sales could occur, may adversely affect our common stock price.
As of February 23, 2015, we had an aggregate of 84,872,167 shares of our common stock authorized but unissued and not reserved for specific purposes. In general, we may issue all of these shares without any action or approval by our stockholders. We have reserved 24,003,000 shares of our common stock for issuance under our employee stock purchase plan and our long-term incentive plans, of which 968,952 shares are issuable upon vesting of restricted stock awards, restricted stock units, and upon exercise of options granted as of February 23, 2015, including options to purchase approximately 129,402 shares exercisable as of February 23, 2015 or that will become exercisable within 60 days after February 23, 2015. We have reserved for issuance 1,500,000 shares of our common stock, 712,210 of which remain issuable, under our 401(k) and Retirement Savings Plan as of December 31, 2014. In addition, we may pursue acquisitions of competitors and related businesses and may issue shares of our common stock in connection with these acquisitions. Sales or issuances of a substantial number of shares of common stock, or the perception that such sales could occur, could adversely affect prevailing market prices of our common stock, and any sale or issuance of our common stock will dilute the ownership interests of existing stockholders.
Anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change of control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent or delay change of control transactions or attempts by our stockholders to replace or remove our current management.
Delaware law, as well as provisions of our certificate of incorporation, bylaws and debt instruments, could discourage unsolicited proposals to acquire us, even though such proposals may be beneficial to our stockholders. These include our board's authority to issue shares of preferred stock without further stockholder approval.
In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our certificate of incorporation, bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by our then-current board of directors, including a merger, tender offer or proxy contest involving us. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline or delay or prevent our stockholders from receiving a premium over the market price of our common stock that they might otherwise receive.

Index

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

As of December 31, 2014, we own one general office property and lease approximately 121 general office properties worldwide, comprised of approximately 4.2 million square feet. These facilities are used to carry out our operational, sales and administrative functions. Our principal facilities are as follows:

Location	Segment	Approximate Square Footage	Lease Expiration Date
Plano, Texas	Corporate	108,269	June 29, 2021
Columbus, Ohio	Corporate, Private Label Services and Credit	272,602	February 28, 2018
Toronto, Ontario, Canada	LoyaltyOne	194,018	September 30, 2017
Mississauga, Ontario, Canada	LoyaltyOne	50,908	November 30, 2019
Den Bosch, Netherlands	LoyaltyOne	132,482	December 31, 2028
Maasbree, Netherlands	LoyaltyOne	488,681	September 1, 2028
Wakefield, Massachusetts	Epsilon	184,411	December 31, 2020
Irving, Texas	Epsilon	221,898	June 30, 2026
Lewisville, Texas	Epsilon	10,000	January 15, 2017
Earth City, Missouri	Epsilon	116,783	December 31, 2016
West Chicago, Illinois	Epsilon	155,412	October 31, 2025
Columbus, Ohio	Private Label Services and Credit	103,161	January 31, 2019
Couer D'Alene, Idaho	Private Label Services and Credit	114,000	March 31, 2027
Westerville, Ohio	Private Label Services and Credit	100,800	July 31, 2024
Wilmington, Delaware	Private Label Services and Credit	5,198	November 30, 2020
Salt Lake City, Utah	Private Label Services and Credit	6,488	January 18, 2018

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

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

Index

PART II

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

Market Information

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

	High	Low
Year Ended December 31, 2014		
First quarter	$300.49	$230.53
Second quarter	284.40	230.79
Third quarter	288.67	239.83
Fourth quarter	292.96	230.54
Year Ended December 31, 2013		
First quarter	$162.07	$146.39
Second quarter	185.32	152.80
Third quarter	220.02	171.30
Fourth quarter	264.31	209.71

Holders

As of February 23, 2015, the closing price of our common stock was $279.62 per share, there were 62,805,266 shares of our common stock outstanding, and there were approximately 73 holders of record of our common stock.

Dividends

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

Issuer Purchases of Equity Securities

On December 5, 2013, our Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of our outstanding common stock from January 1, 2014 through December 31, 2014. On January 1, 2015, our Board of Directors authorized a stock repurchase program to acquire up to $600.0 million of our outstanding common stock from January 1, 2015 through December 31, 2015, subject to any restrictions pursuant to the terms of our credit agreements, indentures, applicable securities laws or otherwise.

Index

The following table presents information with respect to purchases of our common stock made during the three months ended December 31, 2014:

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2] (In millions)
During 2014:				
October 1-31	3,524	$253.86	—	$ 182.5
November 1-30	2,488	283.03	—	182.5
December 1-31	250,661	278.60	248,161	113.4
Total	256,673	$278.31	248,161	$ 113.4

(1) During the period represented by the table, 8,512 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Saving Plan for the benefit of the employees who participated in that portion of the plan.

(2) On December 5, 2013, our Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of our outstanding common stock from January 1, 2014 through December 31, 2014. On January 1, 2015, our Board of Directors authorized a stock repurchase program to acquire up to $600.0 million of our outstanding common stock from January 1, 2015 through December 31, 2015, subject to any restrictions pursuant to the terms of our credit agreements, indentures, applicable securities laws or otherwise.

Performance Graph

The following graph compares the yearly percentage change in cumulative total stockholder return on our common stock since December 31, 2009, with the cumulative total return over the same period of (1) the S&P 500 Index and (2) a peer group of fourteen companies selected by us.

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

Index

Pursuant to rules of the SEC, the comparison assumes $100 was invested on December 31, 2009 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.

	Alliance Data Systems Corporation	S&P 500	Peer Group
December 31, 2009	$ 100.00	$100.00	$100.00
December 31, 2010	109.97	115.06	115.21
December 31, 2011	160.77	117.49	122.31
December 31, 2012	224.12	136.30	154.64
December 31, 2013	407.08	180.44	235.73
December 31, 2014	442.87	205.14	249.06

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.

Index

Item 6. Selected Financial Data.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

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

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share amounts)				
Income statement data					
Total revenue	$5,302,940	$4,319,063	$3,641,390	$3,173,287	$2,791,421
Cost of operations (exclusive of amortization and depreciation disclosed separately below) [1]	3,218,774	2,549,159	2,106,612	1,811,882	1,545,380
Earn-out obligation	105,944	—	—	—	—
Provision for loan loss	425,205	345,758	285,479	300,316	387,822
General and administrative [1]	141,468	109,115	108,059	95,256	85,773
Depreciation and other amortization	109,655	84,291	73,802	70,427	67,806
Amortization of purchased intangibles	203,427	131,828	93,074	82,726	75,420
Total operating expenses	4,204,473	3,220,151	2,667,026	2,360,607	2,162,201
Operating income	1,098,467	1,098,912	974,364	812,680	629,220
Interest expense, net	260,526	305,500	291,460	298,585	318,330
Income from continuing operations before income taxes	837,941	793,412	682,904	514,095	310,890
Provision for income taxes	321,801	297,242	260,648	198,809	115,252
Income from continuing operations	516,140	496,170	422,256	315,286	195,638
Loss from discontinued operations, net of taxes	—	—	—	—	(1,901)
Net income	$516,140	$496,170	$422,256	$315,286	$193,737
Less: Net income attributable to non-controlling interest	9,847	—	—	—	—
Net income attributable to Alliance Data Systems Corporation stockholders	$506,293	$496,170	$422,256	$315,286	$193,737
Income from continuing operations attributable to Alliance Data Systems Corporation stockholders per share:					
Basic	$8.72	$10.09	$8.44	$6.22	$3.72
Diluted	$7.87	$7.42	$6.58	$5.45	$3.51
Net income attributable to Alliance Data Systems Corporation stockholders per share:					
Basic	$8.72	$10.09	$8.44	$6.22	$3.69
Diluted	$7.87	$7.42	$6.58	$5.45	$3.48
Weighted average shares:					
Basic	56,378	49,190	50,008	50,687	52,534
Diluted	62,445	66,866	64,143	57,804	55,710

22

Index

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Adjusted EBITDA, net [2]					
Adjusted EBITDA, net	$1,425,560	$1,249,777	$1,073,748	$859,530	$638,000
Other financial data					
Cash flows from operating activities	$1,344,159	$1,003,492	$1,134,190	$1,011,347	$902,709
Cash flows from investing activities	$(4,737,121)	$(1,619,416)	$(2,671,350)	$(1,040,710)	$(340,784)
Cash flows from financing activities	$3,516,146	$704,152	$2,209,019	$109,250	$(715,675)
Segment operating data					
Private label statements generated	212,015	192,508	166,091	142,064	142,379
Credit sales	$18,948,167	$15,252,299	$12,523,632	$9,636,053	$8,773,436
Average credit card and loan receivables	$8,750,148	$7,212,678	$5,927,562	$4,962,503	$5,025,915
AIR MILES reward miles issued	5,500,889	5,420,723	5,222,887	4,940,364	4,584,384
AIR MILES reward miles redeemed	4,100,680	4,017,494	4,040,876	3,633,921	3,634,821

	As of December 31,				
	2014	2013	2012	2010	2010
	(In thousands)				
Balance sheet data					
Credit card and loan receivables, net	$10,673,709	$8,069,713	$6,697,674	$5,197,690	$4,838,354
Redemption settlement assets, restricted	520,340	510,349	492,690	515,838	472,428
Total assets	20,263,977	13,244,257	12,000,139	8,980,249	8,272,152
Deferred revenue	1,013,177	1,137,186	1,249,061	1,226,436	1,221,242
Deposits	4,773,541	2,816,361	2,228,411	1,353,775	859,100
Non-recourse borrowings of consolidated securitization entities	5,191,916	4,591,916	4,130,970	3,260,287	3,660,142
Long-term and other debt, including current maturities	4,209,246	2,800,281	2,854,839	2,183,474	1,869,772
Total liabilities	17,632,031	12,388,496	11,471,652	8,804,283	8,249,058
Redeemable non-controlling interest	235,566	—	—	—	—
Total stockholders' equity	2,396,380	855,761	528,487	175,966	23,094

(1) Included in cost of operations is stock compensation expense of $50.8 million, $40.3 million, $32.7 million, $25.8 million and $27.6 million for the years ended December 31, 2014, 2013, 2012, 2011, and 2010, respectively. Included in general and administrative is stock compensation expense of $21.7 million, $18.9 million, $17.8 million, $17.7 million and $22.5 million for the years ended December 31, 2014, 2013, 2012, 2011 and 2010, respectively.

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

23

Index

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

Overview

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

LoyaltyOne

LoyaltyOne generates revenue primarily from our coalition loyalty program in Canada, the AIR MILES Reward Program, and BrandLoyalty as described more fully below. Revenue increased $487.4 million, or 53.0%, to $1.4 billion and adjusted EBITDA, net increased $49.0 million for the year ended December 31, 2014 as compared to the same period in 2013, due to the BrandLoyalty acquisition, which added $545.8 million and $64.6 million to revenue and adjusted EBITDA, net, respectively. A weaker Canadian dollar negatively impacted the results of operations for the year ended December 31, 2014, as the average foreign currency exchange rate was $0.91 as compared to $0.97 in the prior year period, which lowered revenue and adjusted EBITDA, net by $58.2 million and $16.8 million, respectively.

On January 2, 2014, we acquired a 60% ownership interest in BrandLoyalty, a Netherlands-based, data-driven loyalty marketer that designs, organizes, implements and evaluates innovative and tailor-made loyalty programs for food retailers worldwide. The acquisition expands our presence across Europe, Asia and Latin America. For additional information on the BrandLoyalty acquisition, see Note 3, "Acquisitions," of the Notes to Consolidated Financial Statements. BrandLoyalty is consolidated in our financial statements and included in our results of operations as of the date of acquisition. Pursuant to the BrandLoyalty share purchase agreement, we may acquire the remaining 40% ownership interest in BrandLoyalty from the sellers over a four-year period, or 10% per year, based upon predetermined valuation multiples. If specified annual earnings targets are met by BrandLoyalty, we must acquire the additional 10% ownership interest for the year achieved; otherwise the seller has a put option to sell us the 10% ownership interest for the respective year. The BrandLoyalty share purchase agreement also contains an earn-out provision for which we have recorded a contingent liability of approximately $326.0 million as of December 31, 2014, of which $105.9 million is included in operating expenses in our consolidated statements of income. As the earnings target specified in the share purchase agreement was met, we acquired an additional 10% ownership interest effective January 1, 2015, increasing our ownership interest in BrandLoyalty to 70%.

For the AIR MILES Reward Program, AIR MILES reward miles issued and AIR MILES reward miles redeemed are the two primary drivers of LoyaltyOne's revenue and indicators of success of the program. The number of AIR MILES reward miles issued impacts the number of future AIR MILES reward miles available to be redeemed. This can also impact our future revenue recognized with respect to the number of AIR MILES reward miles redeemed and the amount of breakage for those AIR MILES reward miles expected to remain unredeemed. The estimated breakage rate changed from 28% to 27% effective December 31, 2012 and from 27% to 26% effective December 31, 2013. As of December 31, 2014, the estimated breakage rate remained at 26%.

For those sponsor contracts not yet subject to Accounting Standards Update, or ASU, 2009 13, "Multiple-Deliverable Revenue Arrangements," the fees received from AIR MILES reward miles issued are allocated between the redemption element based on the fair value of the redemption element and the service element based on the residual method. For sponsor contracts subject to ASU 2009 13, we determine the selling price for all of the deliverables in the arrangement, and use the relative selling price method to allocate the arrangement consideration among the deliverables. Proceeds from the issuance of AIR MILES reward miles under these contracts are allocated to three elements: the redemption element, the service element and the brand element. Revenue for the redemption element is recognized at the time an AIR MILES reward mile is redeemed. For the service element, revenue is recognized over the estimated life of an AIR MILES reward mile. Revenue attributable to the brand element is recognized at the time an AIR MILES reward mile is issued.

AIR MILES reward miles issued during the year ended December 31, 2014 increased 1.5% compared to 2013 due to an increase in AIR MILES reward miles issued under the AIR MILES Cash program option. The merger of two of our top grocery sponsors and newly enacted regulations related to prescription drug purchases negatively impacted growth of our AIR MILES reward miles issued in 2014. AIR MILES reward miles redeemed during the year ended December 31, 2014 increased 2.1% compared to the same period in the prior year due to increased redemptions through the AIR MILES Cash program option as well as increased redemptions for travel rewards.

For the year ended December 31, 2014, the AIR MILES Cash program option represented approximately 15.5% of the AIR MILES reward miles issued as compared to 12.1% in the prior year.

During the year ended December 31, 2014, LoyaltyOne signed a cross-Canada, long-term agreement with Sobeys Inc, a national grocery retailer in Canada that acquired Canada Safeway in late 2013, to continue its participation and expand its Sobeys-owned banners as sponsors in the AIR MILES Reward Program. We signed a new, long-term agreement with Katz Group Canada Ltd., a leading retail drugstore operator in Canada and an AIR MILES Reward Program sponsor in Ontario, to continue its participation to issue AIR MILES reward miles in Ontario and expand to its Katz Group-owned banners in other areas of Canada.

We also signed new multi-year agreements with Kent Building Supplies, a Canadian home improvement products retailer, and Moneris Solutions Corporation, a Canadian credit and debit card processor, to participate as sponsors in the AIR MILES Reward Program. Finally, we signed a new multi-year consulting agreement with Loblaw Companies Limited to develop and execute merchandising and marketing strategies.

We also own approximately 37% of CBSM-Companhia Brasileira De Servicos De Marketing, the operator of the dotz coalition loyalty program in Brazil. Dotz operates in 12 regions with more than 14 million collectors enrolled in the program. Our investment in dotz had minimal impact on our results of operations in 2014 and 2013, and we are not expecting it to have an impact on our results of operations in 2015.

Index

Epsilon

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

Revenue increased $142.1 million, or 10.3%, to $1.5 billion and adjusted EBITDA, net increased $19.4 million, or 6.7%, to $309.1 million for the year ended December 31, 2014 as compared to the same period in 2013. Revenue growth was driven by additional services provided to both new and existing clients, increased demand in the automotive vertical and the acquisition of Conversant.

On December 10, 2014, we completed the acquisition of Conversant, a digital marketing services company offering unique end-to-end digital marketing solutions that empower clients to more effectively market to their customers across all channels. Conversant's solution and capabilities are complementary to and enhance Epsilon's existing offline and online data set, allowing for more effective targeted marketing programs across an expanded distribution network. Conversant also provides scale in the rapidly growing display, mobile, video and social digital channels, and adds essential capabilities to Epsilon's digital loyalty platform, Agility Harmony. Conversant is consolidated in our financial statements and included in our results of operations as of the date of acquisition. For additional information on the acquisition of Conversant, see Note 3, "Acquisitions," of the Notes to Consolidated Financial Statements.

During the year ended December 31, 2014, Epsilon announced new multi-year agreements with ANN INC., operator of leading women's specialty retail fashion brands, to provide a customer relationship management database solution, and FordDirect, a joint venture between Ford Motor Company and its franchised dealers, to build and host a customer relationship management database and provide database marketing services. We signed a multi-year agreement with Sephora, a leading specialty cosmetics retailer, to provide targeted email marketing services. Additionally, we announced new multi-year agreements with Ebates Inc. to provide email marketing services and UncommonGoods to provide database marketing services.

Private Label Services and Credit

The Private Label Services and Credit segment provides risk management solutions, account origination, funding services, transaction processing, marketing, customer care and collection services for our more than 135 private label retail and co-branded credit card programs.

Revenue, generated primarily from finance charges and late fees as well as other servicing fees, increased $360.4 million, or 17.7% to $2.4 billion and adjusted EBITDA, net increased $129.2 million, or 16.3%, to $920.9 million for the year ended December 31, 2014 as compared to the same period in 2013.

For the year ended December 31, 2014, average credit card and loan receivables increased 21.3% as compared to the same period in the prior year as a result of increased credit sales, recent client signings and recent credit card portfolio acquisitions. Credit sales increased 24.2% for the year ended December 31, 2014 due to strong credit cardholder spending, recent new client signings and recent credit card portfolio acquisitions.

Delinquency rates were 4.0% of principal credit card and loan receivables at December 31, 2014 as compared to 4.2% at December 31, 2013. The principal net charge-off rate improved to 4.2% for the year ended December 31, 2014 as compared to 4.7% in the prior year period. We expect our 2015 charge-off rate to be consistent with 2014.

During the year ended December 31, 2014, we announced new multi-year agreements to provide private label credit card services to Overstock.com, JD Williams, International Diamond Distributors, Venus, GameStop Corporation and Mayors Jewelers. We also announced multi-year renewal agreements with Bealls and Burkes Outlet and Eddie Bauer to continue providing private label credit card services. We announced multi-year renewal agreements with HSN, ANN INC. brands, Ann Taylor and LOFT, and furniture retailer Arhaus, to continue providing private label and co-brand credit card services.

Additionally, we announced new multi-year agreements to provide co-brand credit card services to American Kennel Club, Orbitz, DSW Inc., Virgin America, Good Sam Enterprises and BJ's Wholesale Club. We also signed a new multi-year agreement to provide co-brand and private label credit card services to Meijer, one of the largest retailers in the U.S.

During 2014, we acquired four credit card portfolios for an aggregate purchase price of approximately $976.5 million, one of which remains subject to customary purchase price adjustments.

25

Index
Discussion of Critical Accounting Policies and Estimates
Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting policies that are described in the Notes to Consolidated Financial Statements. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our judgments and estimates in determination of our financial condition and operating results. Estimates are based on information available as of the date of the financial statements and, accordingly, actual results could differ from these estimates, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and operating results and require management's most subjective judgments. The primary critical accounting policies and estimates are described below.
Allowance for Loan Loss.
We maintain an allowance for loan loss at a level that is appropriate to absorb probable losses inherent in credit card and loan receivables. The allowance for loan loss covers forecasted uncollectable principal as well as unpaid interest and fees. The allowance for loan loss is evaluated monthly for appropriateness. In estimating the allowance for principal loan losses, we utilize a migration analysis of delinquent and current credit card and loan receivables. Migration analysis is a technique used to estimate the likelihood that a credit card or loan receivable will progress through the various stages of delinquency to charge-off. In evaluating the allowance for loan loss for both principal and unpaid interest and fees, management also considers factors that may impact loan loss experience, including seasoning, loan volume and amounts, payment rates and forecasting uncertainties. The allowance is maintained through an adjustment to the provision for loan loss. Charge-offs of principal amounts, net of recoveries are deducted from the allowance.
Net charge-offs include the principal amount of losses from credit cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased credit cardholders, less recoveries and exclude charged-off interest, fees and fraud losses. Charged-off interest and fees reduce finance charges, net while fraud losses are recorded as an expense. Credit card and loan receivables, including unpaid interest and fees, are charged-off at the end of the month during which an account becomes 180 days contractually past due, except in the case of customer bankruptcies or death. Credit card and loan receivables, including unpaid interest and fees, associated with customer bankruptcies or death are charged-off at the end of each month subsequent to 60 days after the receipt of notification of the bankruptcy or death, but in any case, not later than the 180-day contractual time frame.
We record the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. In estimating the allowance for uncollectable unpaid interest and fees, we utilize historical charge-off trends, analyzing actual charge-offs for the prior three months. The allowance for unpaid interest and fees is maintained through an adjustment to finance charges, net.
If management used different assumptions in estimating net losses that could be incurred, the impact to the allowance for loan loss could have a material effect on our consolidated financial condition and results of operations. For example, a 100 basis point change in management's estimate of incurred net loan losses could have resulted in a change of approximately $107.1 million in the allowance for loan loss at December 31, 2014, with a corresponding change in the provision for loan loss.

Index
Revenue Recognition.
We recognize revenue when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) the service has been performed or the product has been delivered. We may also enter into contracts that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used to interpret the terms and determine when all the criteria of revenue recognition have been met in order for revenue recognition to occur in the appropriate accounting period. While changes in the allocation of the estimated sales price between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition.
AIR MILES Reward Program. The AIR MILES Reward Program collects fees from its sponsors based on the number of AIR MILES reward miles issued and, in limited circumstances, the number of AIR MILES reward miles redeemed. Because management has determined that the earnings process is not complete at the time an AIR MILES reward mile is issued, the recognition of redemption and service revenue is deferred. Redemption revenue is recognized as AIR MILES reward miles are redeemed and service revenue is amortized over the estimated life of an AIR MILES reward mile.
Under certain of our contracts, a portion of the proceeds is paid to us upon the issuance of AIR MILES reward miles and a portion is paid at the time of redemption and therefore, we do not have a redemption obligation related to these contracts. Revenue is recognized at the time of redemption. Under such contracts, the proceeds received at issuance are initially deferred as service revenue and revenue is amortized over the estimated life of an AIR MILES reward mile.
For those sponsor contracts not yet subject to the adoption of ASU 2009 13, we allocate the proceeds received from sponsors for the issuance of AIR MILES reward miles between the redemption element, which represents the award ultimately provided to the collector (the "redemption element") and the service element, which consists of direct marketing and support services (the "service element"). For contracts entered into prior to January 1, 2011, revenue related to the service element is determined using the residual method.
The adoption of ASU 2009 13 eliminated the use of the residual method for new sponsor agreements entered into, or existing sponsor agreements that are materially modified, after January 1, 2011. ASU 2009 13 also established the use of a three-level hierarchy when establishing the selling price and the relative selling price method when allocating arrangement consideration. The ASU had no significant impact upon adoption as no new material contracts or material modifications were experienced with sponsors in the AIR MILES Reward Program from its adoption through December 31, 2012.
In the first quarter of 2013, we renewed our agreements with two of our top five sponsors. As part of our analysis, it was determined that in addition to the redemption and service elements, the right to use of the "AIR MILES" brand name met the criteria for a separate deliverable or element under ASU 2009 13. For this "brand element," revenue is recognized at the time an AIR MILES reward mile is issued.
For those sponsor contracts within the scope of ASU 2009 13, proceeds from the issuance of AIR MILES reward miles are allocated to three elements, the redemption element, the service element, and the brand element, based on the relative selling price method. The fair value of each element was determined using management's estimated selling price for that respective element. The objective of using the estimated selling price methodology is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. Accordingly, we determine our best estimate of selling price by considering multiple inputs and methods, including discounted cash flows, the estimated brand value and the number of AIR MILES reward miles issued and redeemed. We estimated the selling prices and volumes over the term of the respective agreements in order to determine the allocation of proceeds to each of the multiple elements delivered.
The amount of revenue recognized in a period is subject to the estimate of breakage and the estimated life of an AIR MILES reward mile. Breakage and the life of an AIR MILES reward mile are based on management's estimate after viewing and analyzing various historical trends including vintage analysis, current run rates and other pertinent factors, such as the impact of macroeconomic factors and changes in the program structure.

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

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

Based on the analysis of historical redemption trends and additional statistical analysis performed, including the impact of changes in the program structure, we determined that our estimate of breakage had changed from 27% to 26% as of December 31, 2013. Our estimated breakage rate remained at 26% as of December 31, 2014.

There have been no changes to management's estimate of the life of an AIR MILES reward miles in the periods presented in the financial statements. We estimate that an increase (decrease) to the estimated life of an AIR MILES reward mile of one month would decrease (increase) transaction revenue by approximately $6 to $7 million.

As of December 31, 2014, we had $1.0 billion in deferred revenue related to the AIR MILES Reward Program that will be recognized in the future. Further information is provided in Note 13, "Deferred Revenue," of the Notes to Consolidated Financial Statements.

Income Taxes.

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

Index

Recent Accounting Pronouncements

See "Recently Adopted Accounting Standards" and "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.

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, amortization of purchased intangibles, certain business acquisition costs and the additional contingent consideration incurred as a result of the earn-out obligation associated with the BrandLoyalty acquisition. Adjusted EBITDA, net is also a non-GAAP financial measure equal to adjusted EBITDA less securitization funding costs, interest expense on deposits and adjusted EBITDA attributable to the non-controlling interest.

We use adjusted EBITDA and adjusted EBITDA, net as an integral part of our internal reporting to measure the performance of our reportable segments and to evaluate the performance of our senior management. 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. Stock compensation expense is not included in the measurement of segment adjusted EBITDA provided to the chief operating decision maker for purposes of assessing segment performance and decision making with respect to resource allocations. In addition to the above, adjusted EBITDA, net also excludes the interest associated with financing our credit card and loan receivables, which represents securitization funding costs and interest on deposits, and the percentage of the adjusted EBITDA attributable to the non-controlling interest. We believe that adjusted EBITDA and adjusted EBITDA, net provide useful information to our investors regarding our performance and overall results of operations. Adjusted EBITDA and adjusted EBITDA, net are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, either operating income or net income as indicators of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, adjusted EBITDA and adjusted EBITDA, net are not intended to represent funds available for dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

The adjusted EBITDA and adjusted EBITDA, net measures presented in this 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,				
	2014	2013	2012	2011	2010
	(In thousands)				
Income from continuing operations	$516,140	$496,170	$422,256	$315,286	$195,638
Stock compensation expense	72,462	59,183	50,497	43,486	50,094
Provision for income taxes	321,801	297,242	260,648	198,809	115,252
Interest expense, net	260,526	305,500	291,460	298,585	318,330

Depreciation and other amortization	109,655	84,291	73,802	70,427	67,806
Amortization of purchased intangibles	203,427	131,828	93,074	82,726	75,420
Business acquisition costs (1)	7,301	—	—	—	—
Earn-out obligation (2)	105,944	—	—	—	—
Adjusted EBITDA	$1,597,256	$1,374,214	$1,191,737	$1,009,319	$822,540
Less: Securitization funding costs	91,103	95,326	92,808	126,711	155,084
Less: Interest expense on deposits	37,543	29,111	25,181	23,078	29,456
Less: Adjusted EBITDA attributable to non-controlling interest	43,050	—	—	—	—
Adjusted EBITDA, net	$1,425,560	$1,249,777	$1,073,748	$859,530	$638,000

(1) Represents expenditures directly associated with the acquisition of Conversant.

(2) Represents additional contingent consideration as a result of the earn-out obligation associated with the acquisition of our 60 percent ownership interest in BrandLoyalty.

Index

Consolidated Results of Operations

	Year Ended December 31,			% Change	
	2014	2013	2012	2014 to 2013	2013 to 2012
Revenues	(in thousands, except percentages)				
Transaction	$337,391	$329,027	$300,801	2.5 %	9.4 %
Redemption	1,053,248	587,187	635,536	79.4	(7.6)
Finance charges, net	2,303,698	1,956,654	1,643,405	17.7	19.1
Database marketing fees and direct marketing services	1,438,688	1,289,356	931,533	11.6	38.4
Other revenue	169,915	156,839	130,115	8.3	20.5
Total revenue	5,302,940	4,319,063	3,641,390	22.8	18.6
Operating expenses					
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	3,218,774	2,549,159	2,106,612	26.3	21.0
Earn-out obligation	105,944	—	—	100.0	—
Provision for loan loss	425,205	345,758	285,479	23.0	21.1
General and administrative	141,468	109,115	108,059	29.7	1.0
Depreciation and other amortization	109,655	84,291	73,802	30.1	14.2
Amortization of purchased intangibles	203,427	131,828	93,074	54.3	41.6
Total operating expenses	4,204,473	3,220,151	2,667,026	30.6	20.7
Operating income	1,098,467	1,098,912	974,364	—	12.8
Interest expense					
Securitization funding costs	91,103	95,326	92,808	(4.4)	2.7
Interest expense on deposits	37,543	29,111	25,181	29.0	15.6
Interest expense on long-term and other debt, net	131,880	181,063	173,471	(27.2)	4.4
Total interest expense, net	260,526	305,500	291,460	(14.7)	4.8
Income before income tax	837,941	793,412	682,904	5.6	16.2
Provision for income taxes	321,801	297,242	260,648	8.3	14.0
Net income	$516,140	$496,170	$422,256	4.0 %	17.5 %
Key Operating Metrics:					
Private label statements generated	212,015	192,508	166,091	10.1 %	15.9 %
Credit sales	$18,948,167	$15,252,299	$12,523,632	24.2 %	21.8 %
Average credit card and loan receivables	$8,750,148	$7,212,678	$5,927,562	21.3 %	21.7 %
AIR MILES reward miles issued	5,500,889	5,420,723	5,222,887	1.5 %	3.8 %
AIR MILES reward miles redeemed	4,100,680	4,017,494	4,040,876	2.1 %	(0.6)%

Index

Year ended December 31, 2014 compared to the year ended December 31, 2013

Revenue. Total revenue increased $983.9 million, or 22.8%, to $5.3 billion for the year ended December 31, 2014 from $4.3 billion for the year ended December 31, 2013. The net increase was due to the following:

- Transaction. Revenue increased $8.4 million, or 2.5%, to $337.4 million for the year ended December 31, 2014. Other servicing fees charged to our credit cardholders increased $26.7 million due to increased volumes. This increase was offset by a decline of $12.3 million in merchant fees, which are transaction fees charged to the retailer, due to increased royalty payments associated with new clients and the increase in associated credit sales. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, also decreased $7.6 million due to the impact of an unfavorable Canadian exchange rate.
- Redemption. Revenue increased $466.1 million, or 79.4%, to $1.1 billion for the year ended December 31, 2014 due to the BrandLoyalty acquisition, which added $538.9 million. These increases were offset by an unfavorable Canadian exchange rate, which negatively impacted redemption revenue by $36.6 million, and the change in estimate of our breakage rate in prior years.
- Finance charges, net. Revenue increased $347.0 million, or 17.7%, to $2.3 billion for the year ended December 31, 2014 due to a 21.3% increase in average credit card and loan receivables, which increased revenue $417.0 million through a combination of recent credit card portfolio acquisitions and strong credit cardholder spending. This increase was offset in part by an 80 basis point decline in yield due to the onboarding of new programs, which decreased revenue $70.0 million.
- Database marketing fees and direct marketing. Revenue increased $149.3 million, or 11.6%, to $1.4 billion for the year ended December 31, 2014. Revenue was driven by the acquisition of Conversant and by marketing technology revenue, which increased $35.7 million as a result of both database builds completed for new clients being placed in production, and an expansion of services provided to existing clients. Agency revenue increased $43.1 million due to demand in the automotive vertical. Marketing analytic services provided by LoyaltyOne also increased $25.1 million due to new client signings.
- Other revenue. Revenue increased $13.1 million, or 8.3%, to $169.9 million for the year ended December 31, 2014 due to the BrandLoyalty acquisition, which added $6.8 million, and additional consulting services provided by Epsilon.

Cost of operations. Cost of operations increased $669.6 million, or 26.3%, to $3.2 billion for the year ended December 31, 2014 as compared to $2.5 billion for the year ended December 31, 2013. The increase resulted from growth across each of our segments, including the following:

- Within the LoyaltyOne segment, cost of operations increased $396.1 million due to the BrandLoyalty acquisition, which added $438.2 million. This increase was offset by a decrease in operating expenses in our Canadian operations of $42.0 million due to the decline in the Canadian exchange rate.
- Within the Epsilon segment, cost of operations increased $129.6 million due to the Conversant acquisition, an increase in payroll and benefits expense of $52.9 million associated with an increase in the number of associates to support growth, including the onboarding of new clients, and an increase of $44.4 million in direct processing expenses, associated with the increase in revenue.
- Within the Private Label Services and Credit segment, cost of operations increased by $150.3 million. Payroll and benefits expense increased $76.3 million associated with an increase in the number of associates to support growth, and marketing expenses increased $23.4 million due to the increase in credit sales. Other operating expenses increased by $50.6 million, as credit card processing expenses were higher due to an increase in the number of statements generated, and data processing costs increased due to growth in volumes.

Earn-out obligation. On January 2, 2014, we acquired a 60% ownership interest in BrandLoyalty. The share purchase agreement contained an earn-out provision which resulted in an increase in contingent consideration of $105.9 million, which is included in operating expenses in our consolidated statements of income.

Provision for loan loss. Provision for loan loss increased $79.4 million, or 23.0%, to $425.2 million for the year ended December 31, 2014 as compared to $345.8 million for the year ended December 31, 2013. The increase in the provision was a result of the growth in credit card and loan receivables. The net charge-off rate was 4.2% for the year ended December 31, 2014 as compared to 4.7% for the year ended December 31, 2013. Delinquency rates were 4.0% of principal credit card and loan receivables at December 31, 2014 as compared to 4.2% at December 31, 2013.

General and administrative. General and administrative expenses increased $32.4 million, or 29.7%, to $141.5 million for the year ended December 31, 2014 as compared to $109.1 million for the year ended December 31, 2013 as a result of increased payroll and benefits costs of $21.7 million due to higher health care costs and discretionary benefits, as well as increased professional services fees of $12.6 million primarily related to the Conversant acquisition. Additionally, foreign currency exchange gains related to the contingent liability associated with the BrandLoyalty acquisition were offset in part by the related foreign currency exchange forward contract.

Depreciation and other amortization. Depreciation and other amortization increased $25.4 million, or 30.1%, to $109.7 million for the year ended December 31, 2014, as compared to $84.3 million for the year ended December 31, 2013, due to additional assets placed into service from recent capital expenditures and the Conversant and BrandLoyalty acquisitions, which added $6.2 million.

Amortization of purchased intangibles. Amortization of purchased intangibles increased $71.6 million, or 54.3%, to $203.4 million for the year ended December 31, 2014 as compared to $131.8 million for the year ended December 31, 2013. The increase relates to $74.0 million of additional amortization associated with the intangible assets from the Conversant and BrandLoyalty acquisitions as well as recent credit card portfolio acquisitions.

Interest expense, net. Total interest expense, net decreased $45.0 million, or 14.7%, to $260.5 million for the year ended December 31, 2014 as compared to $305.5 million for the year ended December 31, 2013. The decrease was due to the following:

- Securitization funding costs. Securitization funding costs decreased $4.2 million as decreases with lower average interest rates being partially offset by higher average borrowings.
- Interest expense on deposits. Interest on deposits increased $8.4 million as increases with higher average borrowings being offset in part by lower average interest rates.
- Interest expense on long-term and other debt, net. Interest expense on long-term and other debt, net decreased $49.2 million due to a $71.5 million decrease associated with the maturity of the convertible senior notes in August 2013 and May 2014. This decrease was offset by increases of $13.6 million related to the $600.0 million senior notes issued in July 2014, $6.9 million related to additional borrowings on our credit agreement and $7.2 million related to assumed debt from the BrandLoyalty acquisition.

Taxes. Income tax expense increased $24.6 million to $321.8 million for the year ended December 31, 2014 from $297.2 million for the year ended December 31, 2013 due primarily to an increase in taxable income and an increase in the effective tax rate. The effective tax rate for the year ended December 31, 2014 was 38.4% as compared to 37.5% for the year ended December 31, 2013 as a result of nondeductible expense related to the earn-out obligation associated with the BrandLoyalty acquisition, partially offset by both international expansion efforts and a valuation allowance release associated with the Conversant acquisition. Absent these items noted above, our effective income tax rate would have been 36.2%, and we expect a similar rate for 2015.

Index

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

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

- Transaction. Revenue increased $28.2 million, or 9.4%, to $329.0 million for the year ended December 31, 2013. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $40.0 million due to $33.5 million of revenue recognized associated with the AIR MILES brand element, as well as increases in the number of AIR MILES reward miles issued in previous quarters. Other servicing fees charged to our credit cardholders increased $30.0 million, offset by a decrease of $41.7 million in merchant fees, which are transaction fees charged to the retailer, due to increased royalty payments associated with the signing of new clients.
- Redemption. Revenue decreased $48.3 million, or 7.6%, to $587.2 million for the year ended December 31, 2013 due to the impact of the change in estimate of our breakage rate in December 2012, a slight decrease in AIR MILES reward miles redeemed, and an unfavorable exchange rate. The decline in the Canadian dollar impacted redemption revenue by $17.1 million.
- Finance charges, net. Revenue increased $313.2 million, or 19.1%, to $2.0 billion for the year ended December 31, 2013. This increase was driven by a 21.7% increase in average credit card and loan receivables, which increased approximately $1.3 billion through a combination of recent credit card portfolio acquisitions and strong credit cardholder spending. This was offset in part by a 60 basis point decline in gross yield primarily due to the onboarding of new credit card portfolios.
- Database marketing fees and direct marketing. Revenue increased $357.8 million, or 38.4%, to $1.3 billion for the year ended December 31, 2013. The increase in revenue was driven by increases within our Epsilon segment, including our acquisition of HMI Holding Corp. and Solution Set Holding Corp, collectively HMI, which added $272.6 million and an increase in agency revenue of $61.2 million due to demand in the telecommunications and automotive verticals. Marketing technology revenue increased $21.7 million due to new database builds that were placed in service during the year ended December 31, 2013, offset by declines in email volume experienced by our digital business.
- Other revenue. Revenue increased $26.7 million, or 20.5%, to $156.8 million for the year ended December 31, 2013 due to additional consulting services provided by Epsilon, particularly in the telecommunications vertical.

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

- Within the LoyaltyOne segment, cost of operations decreased $20.5 million due to a $20.7 million decrease in fulfillment costs for the AIR MILES Reward Program associated with the decline in AIR MILES reward miles redeemed as well as a reduction in losses associated with international expansion. These decreases were partially offset by increases in payroll and benefits of $1.7 million and marketing expenses of $2.0 million. The impact of the exchange rate reduced cost of operations by $19.0 million and is reflected in the changes described above.
- Within the Epsilon segment, cost of operations increased $320.6 million due to the HMI acquisition, which added $234.6 million, as well as an increase of $68.1 million in cost of operations associated with the increase in agency and consulting revenue.
- Within the Private Label Services and Credit segment, cost of operations increased by $151.6 million. Payroll and benefits increased $72.1 million due to an increase in the number of associates to support growth, and marketing expenses increased $24.0 million due to the increase in credit sales. Other operating expenses increased by $55.5 million, as credit card processing expenses were higher due to an increase in the number of statements generated, and data processing costs increased due to growth in volumes.

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

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

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

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

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

- Securitization funding costs. Securitization funding costs increased $2.5 million due to greater average borrowings for the year ended December 31, 2013 as compared to the year ended December 31, 2012. These increases were offset by lower average interest rates.
- Interest expense on deposits. Interest on deposits increased $3.9 million as increases from higher borrowings were offset by lower average interest rates.
- Interest expense on long-term and other debt, net. Interest expense on long-term and other debt, net increased $7.6 million due to an increase of $27.1 million resulting from the issuances of senior notes in 2012 and an increase of $2.3 million related to term debt as increases from higher borrowings were offset by lower average interest rates. These increases were offset in part by the maturity of the 2013 convertible senior notes on August 1, 2013 which resulted in a decrease in interest expense of $23.8 million, including a reduction of the imputed interest, compared to the year ended December 31, 2012.

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

Index

Segment Revenue and Adjusted EBITDA, net

	Year Ended December 31,			% Change	
	2014	2013	2012	2014 to 2013	2013 to 2012
Revenue:	(in thousands, except percentages)				
LoyaltyOne	$1,406,877	$919,480	$919,041	53.0%	— %
Epsilon	1,522,423	1,380,344	996,210	10.3	38.6
Private Label Services and Credit	2,395,076	2,034,724	1,732,160	17.7	17.5
Corporate/Other	556	82	372	nm *	nm *
Eliminations	(21,992)	(15,567)	(6,393)	nm *	nm *
Total	$5,302,940	$4,319,063	$3,641,390	22.8%	18.6 %
Adjusted EBITDA, net[1]:					
LoyaltyOne	$307,508	$258,541	$236,094	18.9%	9.5 %
Epsilon	309,100	289,699	222,253	6.7	30.3
Private Label Services and Credit	920,892	791,662	705,252	16.3	12.3
Corporate/Other	(111,940)	(90,125)	(89,851)	24.2	0.3
Eliminations	—	—	—	nm *	nm *
Total	$1,425,560	$1,249,777	$1,073,748	14.1%	16.4 %

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

* not meaningful.

Year ended December 31, 2014 compared to the year ended December 31, 2013

Revenue. Total revenue increased $983.9 million, or 22.8%, to $5.3 billion for the year ended December 31, 2014 from $4.3 billion for the year ended December 31, 2013. The net increase was due to the following:

- LoyaltyOne. Revenue increased $487.4 million, or 53.0%, to $1.4 billion for year ended December 31, 2014, as the BrandLoyalty acquisition contributed $545.8 million to revenue. Excluding the BrandLoyalty acquisition, LoyaltyOne revenue decreased $58.4 million as a result of the decline in the Canadian exchange rate, which negatively impacted revenue by $58.2 million.
- Epsilon. Revenue increased $142.1 million, or 10.3%, to $1.5 billion for the year ended December 31, 2014. Agency revenue increased $46.2 million due to increased demand in the automotive vertical. Additionally, marketing technology revenue increased $43.7 million as a result of both database builds completed for new clients being placed in production, and an expansion of services provided to existing clients. The Conversant acquisition added $45.5 million to revenue.
- Private Label Services and Credit. Revenue increased $360.4 million, or 17.7%, to $2.4 billion for the year ended December 31, 2014. Finance charges, net increased by $347.0 million, driven by a 21.3% increase in average credit card and loan receivables due to strong cardholder spending and new client signings. Transaction revenue increased $14.3 million due to an increase in other servicing fees of $26.7 million, offset by a decrease in merchant fees of $12.3 million.

Adjusted EBITDA, net. Adjusted EBITDA, net increased $175.8 million, or 14.1%, to $1.4 billion for the year ended December 31, 2014 from $1.2 billion for the year ended December 31, 2013. The increase was due to the following:

- LoyaltyOne. Adjusted EBITDA, net increased $49.0 million, or 18.9%, to $307.5 million for the year ended December 31, 2014. Adjusted EBITDA, net was positively impacted by the BrandLoyalty acquisition, which contributed $64.6 million, while a weaker Canadian dollar negatively impacted adjusted EBITDA, net by $16.8 million.
- Epsilon. Adjusted EBITDA, net increased $19.4 million, or 6.7%, to $309.1 million for the year ended December 31, 2014. Adjusted EDITDA, net was positively impacted by increases in revenue as discussed above, but was negatively impacted by expenses incurred with the onboarding of new clients, as well as higher payroll and benefit costs associated with growth.
- Private Label Services and Credit. Adjusted EBITDA, net increased $129.2 million, or 16.3%, to $920.9 million for the year ended December 31, 2014. Adjusted EBITDA, net was positively impacted by the increase in finance charges, net, but offset in part by both an increase in operating expenses due to increased volumes and an increase in the provision for loan loss due to the increase in credit card and loan receivables.
- Corporate/Other. Adjusted EBITDA, net decreased $21.8 million to a loss of $111.9 million for the year ended December 31, 2014 related to increases in payroll and benefit costs of $21.7 million as a result of higher health care costs and discretionary benefits.

Index

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

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

- LoyaltyOne. Revenue increased $0.4 million to $919.5 million for the year ended December 31, 2013. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $40.0 million due to $33.5 million of revenue recognized associated with the AIR MILES brand element, as well as increases in the number of AIR MILES reward miles issued in previous quarters. Database marketing fees and direct marketing services increased $8.8 million due to an increase in marketing analytic services provided to certain clients. Redemption revenue decreased $48.3 million, or 7.6%, due to the impact of the change in estimate of our breakage rate in December 2012 as well as a slight decline in the number of AIR MILES reward miles redeemed. The changes in revenue described above include the impacts of an unfavorable Canadian foreign currency exchange rate, which decreased revenue by $26.9 million.
- Epsilon. Revenue increased $384.1 million, or 38.6%, to $1.4 billion for the year ended December 31, 2013. The acquisition of HMI contributed $273.6 million to revenue. Agency revenue also increased $82.7 million due to increased demand in the telecommunications and automotive verticals. Additionally, marketing technology revenue increased $30.1 million due to new databases placed in service during the year ended December 31, 2013, offset by declines in email volumes experienced by our digital business.
- Private Label Services and Credit. Revenue increased $302.6 million, or 17.5%, to $2.0 billion for the year ended December 31, 2013. Finance charges, net increased by $313.2 million, driven by a 21.7% increase in average credit card and loan receivables due to recent credit card portfolio acquisitions and strong credit cardholder spending. Transaction revenue decreased $10.7 million due to a decrease of $41.7 million in merchant fees, offset by an increase in other servicing fees of $30.0 million.

Adjusted EBITDA, net. Adjusted EBITDA, net increased $176.0 million, or 16.4%, to $1.2 billion for the year ended December 31, 2013 from $1.1 billion for the year ended December 31, 2012. The increase was due to the following:

- LoyaltyOne. Adjusted EBITDA, net increased $22.4 million, or 9.5%, to $258.5 million for the year ended December 31, 2013, despite a weaker Canadian dollar which negatively impacted adjusted EBITDA, net by $8.0 million. Adjusted EBITDA, net was positively impacted by a reduction in operating expenses, including a decline in losses associated with international expansion activities.
- Epsilon. Adjusted EBITDA, net increased $67.4 million, or 30.3%, to $289.7 million for the year ended December 31, 2013. Adjusted EDITDA, net was positively impacted by the acquisition of HMI, which added $39.8 million to adjusted EBITDA, net and growth in agency as discussed above, which resulted in an increase in adjusted EBITDA, net of $15.5 million. Additionally, Epsilon benefited from the reorganization of its data survey products in 2012, which had a positive impact to adjusted EBITDA, net of $12.9 million.
- Private Label Services and Credit. Adjusted EBITDA, net increased $86.4 million, or 12.3%, to $791.7 million for the year ended December 31, 2013. Adjusted EBITDA, net was positively impacted by the increase in finance charges, net, offset in part by both an increase in operating expenses due to increased volumes and an increase in the provision for loan loss due to the increase in credit card and loan receivables.
- Corporate/Other. Adjusted EBITDA, net decreased $0.3 million to a loss of $90.1 million for the year ended December 31, 2013 related to an increase in payroll costs and higher data processing costs.

Index

Asset Quality

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

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

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

	December 31, 2014	% of Total	December 31, 2013	% of Total
	(In thousands, except percentages)			
Receivables outstanding - principal	$10,762,498	100.0%	$8,166,961	100.0%
Principal receivables balances contractually delinquent:				
31 to 60 days	$157,760	1.4 %	$114,430	1.4 %
61 to 90 days	93,175	0.9	74,700	0.9
91 or more days	182,945	1.7	150,425	1.9
Total	$433,880	4.0 %	$339,555	4.2 %

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

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

	Year Ended December 31, 2014	2013	2012
	(In thousands, except percentages)		
Average credit card and loan receivables	$8,750,148	$7,212,678	$5,927,562
Net charge-offs of principal receivables	370,703	335,547	282,842
Net charge-offs as a percentage of average credit card and loan receivables	4.2 %	4.7 %	4.8 %

Liquidity and Capital Resources

Operating Activities. We generated cash flow from operating activities of $1.3 billion and $1.0 billion for the years ended December 31, 2014 and 2013, respectively. The increase in operating cash flows in 2014 was due to increased profitability as well as non-cash charges to income such as an increase in the provision for loan loss due to the increase in credit card receivables, and the earn-out obligation associated with the BrandLoyalty aquisition, as well as changes in working capital for the year ended December 31, 2014 as compared to the year ended December 31, 2013.

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

Index

Investing Activities. Cash used in investing activities was $4.7 billion and $1.6 billion for the years ended December 31, 2014 and 2013, respectively. Significant components of investing activities are as follows:

- Redemption settlement assets. Cash decreased $59.7 million and $54.6 million for the year ended December 31, 2014 and 2013, respectively, due to the increase in funding requirements resulting from changes in our estimate of breakage in each of December 2013 and December 2012.
- Credit card and loan receivables funding. Cash decreased $2.3 billion and $1.4 billion for the years ended December 31, 2014 and 2013, respectively, due to growth in our credit card and loan receivables.
- Payments for acquired businesses, net of cash acquired. During the year ended December 31, 2014, we utilized cash of $1.2 billion in acquisitions, consisting of $259.5 million in the acquisition of our 60% ownership interest in BrandLoyalty on January 2, 2014 and $936.3 million in the Conversant acquisition on December 10, 2014.
- Purchase of credit card portfolios. During the year ended December 31, 2014, we paid $953.2 million to acquire four credit card portfolios. During the year ended December 31, 2013, we paid $46.7 million to acquire two credit card portfolios.
- Capital Expenditures. Our capital expenditures for the year ended December 31, 2014 were $158.7 million compared to $135.4 million for the comparable period in 2013 due to our overall growth. We anticipate capital expenditures not to exceed approximately 3% of annual revenue for the foreseeable future.
- Purchases of other investments. Our purchases of other investments were $125.7 million for the year ended December 31, 2014, as compared to $35.1 million for the year ended December 31, 2013. The increase in purchases of other investments is a result of the purchase of $100.1 million of long-term U.S. Treasury bonds in June 2014.

Financing Activities. Cash provided by financing activities was $3.5 billion and $704.2 million for the years ended December 31, 2014 and 2013, respectively. During 2014, we issued $600 million of senior notes due 2022 and amended our 2013 credit facility to issue $1.4 billion in additional term loans. The proceeds of these additional term loans were used to fund the cash consideration of the Conversant acquisition and pay down of our revolving credit facility. During the year ended December 31, 2014, we settled our 2014 convertible senior notes in cash, which resulted in a cash outflow of $1.9 billion offset by cash received from our hedge counterparties of $1.5 billion, resulting in net cash used of $345.0 million. Additionally, we had a net issuance of deposits of $2.0 billion and $600.0 million of asset-backed notes to fund the acquisition of our credit card portfolios and growth in our credit card receivables. Our financing activities during the year ended December 31, 2013 relate primarily to borrowings and repayments of deposits and asset-backed securities debt, settlements for early conversions of the 2013 convertible senior notes and repurchases of our common stock.

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

We believe that internally generated funds and other sources of liquidity discussed above will be sufficient to meet working capital needs, capital expenditures, and other business requirements for at least the next 12 months, including the €347.1 million ($392.9 million as of February 10, 2015) due as contingent consideration associated with the acquisition of our 60% ownership interest in BrandLoyalty and the additional 10% ownership interest acquired effective January 1, 2015 in accordance with the terms of the BrandLoyalty share purchase agreement, and amounts due under the BrandLoyalty credit agreement that mature on December 31, 2015.

Debt

2013 Credit Agreement. We entered into a credit agreement dated July 10, 2013, or the 2013 Credit Agreement, among us as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Data Management, LLC, Comenity LLC, Comenity Servicing LLC and Aspen Marketing Services, LLC, as guarantors, with various agents and lenders. At December 31, 2013, the 2013 Credit Agreement provided for a $1.25 billion term loan, or the 2013 Term Loan, subject to certain principal repayments, and a $1.25 billion revolving line of credit with a U.S. $65.0 million sublimit for Canadian dollar borrowings and a $65.0 million sublimit for swing line loans.

In July 2014, we exercised in part the accordion feature of the 2013 Credit Agreement and increased the capacity under the 2013 Credit Facility by $50.0 million to $1.3 billion.

On December 8, 2014, we entered into an amendment to the 2013 Credit Agreement, or the Amended 2013 Credit Agreement, which provides for, among other things, (i) a new five-year incremental term loan of $1.4 billion which matures on December 8, 2019 and (ii) the extension of the maturity date for the majority of the existing term loans under the Amended 2013 Credit Agreement from July 10, 2018 to December 8, 2019.

As of December 31, 2014, we had no borrowings under our credit facility and total availability at $1.3 billion. Our total leverage ratio, as defined in our credit agreement, was 2.5 to 1 at December 31, 2014, as compared to the maximum covenant ratio of 3.5 to 1.

BrandLoyalty Credit Agreement. As part of the BrandLoyalty acquisition, we assumed the debt outstanding under BrandLoyalty's Amended and Restated Senior Facilities Agreement, as amended, or the BrandLoyalty Credit Agreement. The BrandLoyalty Credit Agreement consists of term loans of €63.0 million and a revolving line of credit of €87.0 million, both of which are scheduled to mature on December 31, 2015. The term loans provide for quarterly principal payments of €6.25 million through September 2015, with the remaining amount payable upon maturity in December 2015. As of December 31, 2014, amounts outstanding under the term loans and revolving line of credit were €38.0 million and €51.9 million ($46.0 million and $62.8 million), respectively.

Convertible Senior Notes. In June 2009, we issued $345.0 million aggregate principal amount of convertible senior notes that matured and were repaid on May 15, 2014. We settled in cash the 2014 convertible senior notes, which were surrendered for conversion for $1,864.8 million. We applied $1,519.8 million of cash from the counterparties in settlement of the related convertible note hedge transactions.

Senior Notes Due 2017. In November 2012, we issued and sold $400 million aggregate principal amount of 5.250% senior notes due December 1, 2017, or the Senior Notes due 2017, at an issue price of 98.912% of the aggregate principal amount. The Senior Notes due 2017 accrue interest on the principal amount at the rate of 5.250% per annum from November 20, 2012, payable semiannually in arrears, on June 1 and December 1 of each year, beginning on June 1, 2013.

Senior Notes Due 2020. In March 2012, we issued and sold $500 million aggregate principal amount of 6.375% senior notes due April 1, 2020, or the Senior Notes due 2020. The Senior Notes due 2020 accrue interest on the principal amount at the rate of 6.375% per annum from March 29, 2012, payable semiannually in arrears, on April 1 and October 1 of each year, beginning on October 1, 2012.

Senior Notes due 2022. In July 2014, we issued and sold $600 million aggregate principal amount of 5.375% senior notes due August 1, 2022, or the Senior Notes due 2022. The Senior Notes due 2022 accrue interest on the principal amount at the rate of 5.375% per annum from July 29, 2014, payable semi-annually in arrears, on February 1 and August 1 of each year, beginning on February 1, 2015.

We expect to add Conversant LLC and Commission Junction, Inc. as guarantors for the 2013 Credit Agreement, the Senior Notes due 2017, the Senior Notes due 2020 and the Senior Notes due 2022 prior to March 10, 2015.

As of December 31, 2014, we were in compliance with our debt covenants.

Deposits. We utilize money market deposits and certificates of deposit to finance the operating activities and fund securitization enhancement requirements of our bank subsidiaries, Comenity Bank and Comenity Capital Bank. Comenity Bank and Comenity Capital Bank offer demand deposit programs through contractual arrangements with securities brokerage firms. As of December 31, 2014, Comenity Bank and Comenity Capital Bank had $838.6 million in money market deposits outstanding with interest rates ranging from 0.01% to 0.42%. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

Comenity Bank and Comenity Capital Bank issue certificates of deposit in denominations of $100,000 and $1,000, respectively, in various maturities ranging between three months and seven years and with effective annual interest rates ranging from 0.30% to 3.25%. As of December 31, 2014, we had $3.9 billion of certificates of deposit outstanding. Certificate of deposit borrowings are subject to regulatory capital requirements.

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

As of December 31, 2014, the WFN Trusts and the WFC Trust had approximately $8.3 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits, additional receivables and subordinated classes. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and the WFC Trust and by the performance of the credit card receivables in these credit card securitization trusts.

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

At December 31, 2014, we had $5.2 billion of non-recourse borrowings of consolidated securitization entities, of which $1.1 billion is due within the next 12 months.

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

The following table shows the maturities of borrowing commitments as of December 31, 2014 for the WFN Trusts and the WFC Trust by year:

	2015	2016	2017	2018	2019 and Thereafter	Total
	(In thousands)					
Term notes	$693,750	$1,050,000	$650,000	$631,000	$802,166	$3,826,916
Conduit facilities [1]	440,000	1,150,000	—	—	—	1,590,000
Total [2]	$1,133,750	$2,200,000	$650,000	$631,000	$802,166	$5,416,916

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

(2) Total amounts do not include $1.6 billion of debt issued by the credit card securitization trusts, which was retained by us and has been eliminated in the consolidated financial statements.

36

Index
Early amortization events as defined within each asset-backed securitization transaction are generally driven by asset performance. We do not believe it is reasonably likely for an early amortization event to occur due to asset performance. However, if an early amortization event were declared, the trustee of the particular credit card securitization trust would retain the interest in the receivables along with the excess interest income that would otherwise be paid to our bank subsidiary until the credit card securitization investors were fully repaid. The occurrence of an early amortization event would significantly limit or negate our ability to securitize additional credit card receivables.
As of December 31, 2014, $4.9 billion of asset-backed term securities were outstanding, $1.1 billion of which we retained and eliminated from the consolidated financial statements. As of December 31, 2014, $3.4 billion of these asset-backed term securities have varying maturities from June 2015 through June 2019 and fixed interest rates ranging from 0.61% to 6.75%. The remaining $0.4 billion of these asset-backed term securities have a floating interest rate of 0.54% and a maturity in February 2016.
In February 2014, Master Trust I issued $625.0 million of asset-backed term securities, of which $175.0 million of subordinated classes were retained by us and eliminated from the consolidated financial statements. These securities mature in February 2016 and have a variable interest rate equal to the London Interbank Offered Rate, or LIBOR, plus a margin of 0.38%.
In July 2014, Master Trust I issued $394.7 million of asset-backed term securities, of which $94.7 million of subordinated classes were retained by us and eliminated from the consolidated financial statements. These securities mature in September 2015 and have a fixed interest rate of 0.61%.
In October 2014, $316.5 million of Series 2011-A asset backed term notes, of which $66.5 million of subordinated classes were retained by us and eliminated from the consolidated financial statements, matured and was repaid.
In November 2014, Master Trust I issued $427.6 million of asset-backed term notes, of which $102.6 million of subordinated classes were retained by us and eliminated from the consolidated financial statements. These securities will mature in October 2017 and have a fixed interest rate of 1.54%.
We have access to committed undrawn capacity through three conduit facilities to support the funding of our credit card receivables through World Financial Network Credit Card Master Note Trust, World Financial Network Credit Card Master Trust III and the WFC Trust. As of December 31, 2014, total capacity under the conduit facilities was $1.6 billion, of which $1.4 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 2015 to May 2016 with variable interest rates ranging from 1.05% to 1.71% as of December 31, 2014.
In February 2014, Master Trust I renewed its 2009-VFN conduit facility, extending the maturity to February 29, 2016, with a total capacity of $700.0 million.
In May 2014, the WFC Trust renewed its 2009-VFN conduit facility, extending the maturity to May 31, 2016, with a total capacity of $450.0 million.
See Note 11, "Debt," of the Notes to Consolidated Financial Statements for additional information regarding our debt.
Repurchase of Equity Securities. During 2014, 2013, and 2012, we repurchased approximately 1.1 million, 1.4 million and 1.0 million shares of our common stock for an aggregate amount of $286.6 million, $231.1 million and $137.4 million, respectively. We have authorization from our Board of Directors to acquire $600.0 million of our common stock through December 31, 2015.
Contractual Obligations. The following table highlights, as of December 31, 2014, our contractual obligations and commitments to make future payments by type and period:

	2015	2016 & 2017	2018 & 2019	2020 & Thereafter	Total
	(In thousands)				
Deposits [(1)]	$2,682,271	$1,387,925	$728,040	$79,046	$4,877,282
Non-recourse borrowings of consolidated	1,137,041	2,793,987	1,467,749	—	5,398,777

securitization entities (1)					
Long-term and other debt (1)	343,129	926,088	2,445,288	1,191,281	4,905,786
Operating leases	101,910	160,207	121,292	397,062	780,471
Software licenses	4,337	—	—	—	4,337
ASC 740 obligations (2)	—	—	—	—	—
Purchase obligations (3)	305,998	117,023	74,856	1,829	499,706
Total	$4,574,686	$5,385,230	$4,837,225	$1,669,218	$16,466,359

(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, 2014, applied to the contractual repayment period.

(2) ASC 740 obligations do not reflect unrecognized tax benefits of $160.1 million, of which the timing remains uncertain.

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

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

Index

Inflation and Seasonality

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

Legislative and Regulatory Matters

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

Quantitative measures established by regulations to ensure capital adequacy require Comenity Bank and Comenity Capital Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets and of Tier 1 capital to average assets. Under the regulations, a "well capitalized" institution must have a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, but 3% is allowed in some cases. Under these guidelines, Comenity Bank and Comenity Capital Bank are considered well capitalized. As of December 31, 2014, Comenity Capital Bank's Tier 1 capital ratio was 14.1%, total capital ratio was 15.4% and leverage ratio was 14.6%, and Comenity Capital Bank was not subject to a capital directive order. As of December 31, 2014, Comenity Bank's Tier 1 capital ratio was 13.9%, total capital ratio was 15.2% and leverage ratio was 14.2%, and Comenity Bank was not subject to a capital directive order.

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 implemented by the SEC in the future. We are still assessing the impact of the new rules, and the possibility of continued rulemaking, on our publicly offered credit card securitization program. The SEC also issued an advance notice of proposed rulemaking relating to the exemptions that our credit card securitization trusts relied on in our credit card securitization program to avoid registration as investment companies. The form that these rules may ultimately take is uncertain at this time, but such rules may impact our ability or desire to issue asset-backed securities in the future.

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

Index

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
Market Risk
Market risk is the risk of loss from adverse changes in market prices and rates. Our primary market risks include interest rate risk, credit risk, foreign currency exchange rate risk and redemption reward risk.
Interest Rate Risk. Interest rate risk affects us directly in our borrowing activities. Our interest expense, net was approximately $260.5 million for 2014. To manage our risk from market interest rates, we actively monitor the interest rates and the interest sensitive components to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. To achieve this objective, we manage our exposure to fluctuations in market interest rates through the use of fixed-rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. In addition, we may enter into derivative instruments such as interest rate swaps and interest rate caps to mitigate our interest rate risk on related financial instruments or to lock the interest rate on a portion of our variable debt. We do not enter into derivative or interest rate transactions for trading or other speculative purposes.
The approach we use to quantify interest rate risk is a sensitivity analysis, which we believe best reflects the risk inherent in our business. This approach calculates the impact on pre-tax income from an instantaneous and sustained increase in interest rates of 1.0%. In 2014, a 1.0% increase in interest rates would have resulted in an increase to our interest expense of approximately $53.0 million. Conversely, a corresponding decrease in interest rates would have resulted in a decrease to interest expense of approximately $42.5 million. Our use of this methodology to quantify the market risk of financial instruments should not be construed as an endorsement of its accuracy or the appropriateness of the related assumptions.
Credit Risk. We are exposed to credit risk relating to the credit card loans we make to our clients' customers. Our credit risk relates to the risk that consumers using the private label or co-brand credit cards that we issue will not repay their revolving credit card loan balances. To minimize our risk of credit card loan write-offs, we have developed automated proprietary scoring technology and verification procedures to make risk-based origination decisions when approving new accountholders, establishing their credit limits and applying our risk-based pricing. We also utilize a proprietary collection scoring algorithm to assess accounts for collections efforts if they become delinquent; after exhausting all in-house collection efforts, we may engage collection agencies and outside attorneys to continue those efforts.
Foreign Currency Exchange Rate Risk. We are exposed to fluctuations in the exchange rate between the U.S. and the Canadian dollar through our significant Canadian operations. In 2014, with the BrandLoyalty and Conversant acquisitions, we are also exposed to fluctuations in the exchange rate between the U.S. dollar and the Euro. We currently do not hedge any of our net investment exposure in our Canadian or European operations. For the year ended December 31, 2014, a 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 a decrease in pre-tax income of $21.1 million and $3.9 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.

Index

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2014, 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, 2014, 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.

In December 2014, we acquired Conversant, Inc. Because of the timing of the acquisition, Conversant was excluded from our evaluation of and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2014. Conversant represented $2.9 billion, or 14.3%, of our total assets at December 31, 2014 and contributed $45.5 million, or 0.9%, in revenues and $2.4 million, or 0.3%, of pre-tax income for the year ended December 31, 2014.

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, 2014.

The effectiveness of internal control over financial reporting as of December 31, 2014, has been audited by Deloitte & Touche LLP, the independent registered public accounting firm who also audited our consolidated financial statements. Deloitte & Touche's attestation report on the effectiveness of our internal control over financial reporting appears on page F-3.

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

Index

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to the Proxy Statement for the 2015 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2014.

Item 11. Executive Compensation.

Incorporated by reference to the Proxy Statement for the 2015 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2014.

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

Incorporated by reference to the Proxy Statement for the 2015 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2014.

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

Incorporated by reference to the Proxy Statement for the 2015 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2014.

Item 14. Principal Accounting Fees and Services.

Incorporated by reference to the Proxy Statement for the 2015 Annual Meeting of our stockholders, which will be filed with the SEC not later than 120 days after December 31, 2014.

Index

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.

			Incorporated by Reference		
Exhibit No.	Filer	Description	Form	Exhibit	Filing Date
#2.1	(a)	Agreement and Plan of Merger, dated as of September 11, 2014, among Alliance Data Systems Corporation, Conversant, Inc. and Amber Sub LLC.	8-K	2.1	9/11/14
3.1	(a)	Second Amended and Restated Certificate of Incorporation of the Registrant.	S-1	3.1	3/3/00
3.2	(a)	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of the Registrant.	8-K	3.1	6/7/13
3.3	(a)	Fourth Amended and Restated Bylaws of the Registrant.	8-K	3.2	6/7/13
4	(a)	Specimen Certificate for shares of Common Stock of the Registrant.	10-Q	4	8/8/03
10.1	(a)	Office Lease between Nodenble Associates, LLC and ADS Alliance Data Systems, Inc., dated as of October 1, 2009.	10-K	10.1	3/1/10
10.2	(a)	Fourth Amendment to Office Lease between FSP One Legacy Circle LLC (as successor-in-interest to Nodenble Associates, LLC) and ADS Alliance Data Systems, Inc. dated as of June 15, 2011.	10-K	10.2	2/27/12
*10.3	(a)	Office Lease, dated as of June 7, 2013 between The Shops at Legacy (North) L.L.C. and ADS Alliance Data Systems, Inc.			
10.4	(a)	Lease Agreement, dated as of May 19, 2010 between Brandywine Operating Partnership, L.P. and ADS Alliance Data Systems, Inc.	10-Q	10.13	8/9/10
10.5	(a)	Office Lease between Office City, Inc. and World Financial Network National Bank, dated December 24, 1986, and amended January 19, 1987, May 11, 1988, August 4, 1989 and August 18, 1999.	S-1	10.17	1/13/00
10.6	(a)	Fifth Amendment to Office Lease between Office City, Inc. and World Financial Network National Bank, dated March 29, 2004.	10-K	10.6	2/28/08
10.7	(a)	Lease Modification Agreement between Office City, Inc. and Comenity Servicing LLC, successor in interest to World Financial Network National Bank, dated October 17, 2013.	10-K	10.6	2/28/14
10.8	(a)		S-1	10.18	1/13/00

Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated July 2, 1990, and amended September 11, 1990, November 16, 1990 and February 18, 1991.

Index

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.9	(a)	Fourth Amendment to Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated June 1, 2000.	10-Q	10.1	5/14/03
10.10	(a)	Fifth Amendment to Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated June 30, 2001.	10-K	10.10	3/3/06
10.11	(a)	Sixth Amendment to Lease Agreement by and between Continental Acquisitions, Inc. and World Financial Network National Bank, dated January 27, 2006.	10-K	10.10	2/28/08
10.12	(a)	Letter Agreement by and between Continental Realty, Ltd. and ADS Alliance Data Systems, Inc., dated as of October 29, 2009.	10-K	10.10	3/1/10
10.13	(a)	Seventh Amendment to Lease Agreement by and among JEL/220 W. Schrock, LLC, FEK/220 W. Schrock, LLC, CP/220 W. Schrock, LLC, NRI 220 Schrock, LLC, ADS Alliance Data Systems, Inc. and Alliance Data Systems Corporation, dated as of January 14, 2010.	10-K	10.10	2/28/11
10.14	(a)	Eighth Amendment to Lease by and between JEL/220 W. Schrock, LLC, FEK/220 W. Schrock, LLC, CP/220 W. Schrock, LLC, NRI 220 Schrock, LLC, Comenity Servicing LLC, successor in interest to ADS Alliance Data Systems, Inc., and Alliance Data Systems Corporation, dated as of December 3, 2013.	10-K	10.13	2/28/14
10.15	(a)	Lease Agreement by and between 601 Edgewater LLC and Epsilon Data Management, Inc., dated July 30, 2002.	10-K	10.17	3/4/05
10.16	(a)	First Amendment to Lease Agreement by and between 601 Edgewater LLC and Epsilon Data Management, Inc., dated August 29, 2007.	10-K	10.13	2/28/08
10.17	(a)	Second Amendment to Lease Agreement by and between 601 Edgewater LLC and Epsilon Data Management, LLC, dated October 3, 2008.	10-K	10.13	3/2/09
10.18	(a)	Third Amendment to Lease Agreement by and between 601 Edgewater LLC and Epsilon Data Management, LLC, dated November 10, 2009.	10-K	10.14	3/1/10
*10.19	(a)	Lease by and between 601 Edgewater LLC and Epsilon Data Management, LLC, dated August 16, 2011.			
10.20	(a)	Lease Agreement by and between Sterling Direct, Inc. and Sterling Properties, L.L.C., dated September 22, 1997, as subsequently assigned.	10-K	10.18	3/4/05
10.21	(a)	First Amendment to Lease by and between Bekins Properties LLC (as successor in interest to Sterling Properties LLC) and Epsilon Data Management, LLC (as successor in interest to Sterling Direct, Inc.), dated as of September 1, 2011.	10-K	10.17	2/27/12
*10.22	(a)	Second Amendment to Lease by and between RGA Real Estate Holdings, LLC (as successor in interest to Bekins Properties LLC) and Epsilon Data Management, LLC (as successor in interest to Sterling Direct, Inc.), dated as of September 30, 2014.			

Index

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.23	(a)	Lease between 592423 Ontario Inc. and Loyalty Management Group Canada, Inc., dated November 14, 2005.	10-K	10.18	2/26/07
10.24	(a)	Lease Amending Agreement by and between Dundeal Canada (GP) Inc. (as successor in interest to 592423 Ontario Inc.) and LoyaltyOne, Inc., dated as of May 21, 2009.	10-K	10.19	3/1/10
10.25	(a)	Lease Agreement by and between ADS Place Phase I, LLC and ADS Alliance Data Systems, Inc. dated August 25, 2006.	10-K	10.20	2/26/07
10.26	(a)	Third Lease Amendment by and between ADS Place Phase I, LLC and ADS Alliance Data Systems, Inc. dated as of November 1, 2007.	10-K	10.21	3/1/10
10.27	(a)	Office Lease by and between BRE/COH OH LLC and ADS Alliance Data Systems, Inc. dated as of July 26, 2012, as amended.	10-K	10.26	2/28/14
10.28	(a)	Lease between 2725312 Canada Inc. and Loyalty Management Group Canada Inc. dated as of February 26, 2008, as amended.	10-K	10.29	2/27/12
10.29	(a)	Industrial Building Lease between Aspen Marketing Services, Inc. (as successor-in-interest to Aspen Marketing, Inc.) and A. & A. Conte Joint Venture Limited Partnership dated June 3, 2003, as amended.	10-K	10.30	2/27/12
10.30	(a)	Fourth Amendment to Industrial Building Lease between Aspen Marketing Services, LLC (as successor-in-interest to Aspen Marketing Services, Inc.) and A. & A. Conte Joint Venture Limited Partnership dated March 26, 2012.	10-K	10.26	2/28/13
10.31	(a)	Co-Location Agreement between Epsilon Data Management, LLC and Cyrus Networks, LLC d/b/a CyrusOne dated November 15, 2011.	10-K	10.27	2/28/13
10.32	(a)	Lease Agreement between NOP Cottonwood 2795, LLC and ADS Alliance Data Systems, Inc. dated as of September 21, 2010, as amended.	10-K	10.28	2/28/13
*10.33	(a)	Third Amendment to Lease Agreement between NOP Cottonwood 2795, LLC and Comenity Servicing LLC (successor in interest to ADS Alliance Data Systems, Inc.), dated as of March 11, 2014.			
*10.34	(a)	Lease Agreement between Piedmont Operating Partnership, L.P. and Epsilon Data Management, LLC dated as of August 1, 2013.			
*10.35	(a)	Assumption and Assignment Agreement between Coldwater Creek Merchandising & Logistics, Inc., Comenity Servicing LLC and Foothill Shadows, LLC dated as of September 16, 2014, as amended.			
*10.36	(a)	Lease Agreement between C.V. Kingsroad and Brand Loyalty International B.V. dated October 9, 2012, as amended.			
*10.37	(a)				

		Lease Agreement between Stichting Mathilda and Brand Loyalty Sourcing B.V. dated December 20, 2012.			
+10.38	(a)	Alliance Data Systems Corporation Amended and Restated Executive Deferred Compensation Plan effective January 1, 2008.	10-Q	10.1	5/11/09
+10.39	(a)	Alliance Data Systems Corporation 2003 Long-Term Incentive Plan.	S-8	4.6	6/18/03

44

Index

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
+10.40	(a)	Alliance Data Systems Corporation 2005 Long-Term Incentive Plan.	DEF 14A	A	4/29/05
+10.41	(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
+10.42	(a)	Alliance Data Systems Corporation 2010 Omnibus Incentive Plan.	DEF 14A	A	4/20/10
+10.43	(a)	Form of Nonqualified Stock Option Agreement for awards under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan.	8-K	10.4	8/4/05
+10.44	(a)	Form of Canadian Nonqualified Stock Option Agreement for awards under the Alliance Data Systems Corporation 2005 Long Term Incentive Plan.	10-K	10.101	2/27/07
+10.45	(a)	Form of Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2013 grant).	8-K	10.1	2/25/13
+10.46	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2013 grant).	8-K	10.2	2/25/13
+10.47	(a)	Form of Time-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan.	8-K	10.1	2/20/14
+10.48	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2014 grant).	8-K	10.2	2/20/14
+10.49	(a)	Form of Performance-Based Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2010 Omnibus Incentive Plan (2015 grant).	8-K	10.2	2/19/15
+10.50	(a)	Form of Non-Employee Director Nonqualified Stock Option Agreement.	8-K	10.1	6/13/05
+10.51	(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
+10.52	(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
+10.53	(a)	Alliance Data Systems Corporation Non-Employee Director Deferred Compensation Plan.	8-K	10.1	6/9/06
+10.54	(a)	Form of Alliance Data Systems Associate Confidentiality Agreement.	10-K	10.24	3/12/03
+10.55	(a)	Form of Alliance Data Systems Corporation Indemnification Agreement for Officers and Directors.	8-K	10.1	2/1/05
+10.56	(a)	Alliance Data Systems Corporation Amended and Restated Employee Stock Purchase Plan, effective July 1, 2005.	DEF 14A	C	4/29/05

+10.57	(a)	First Amendment to the Alliance Data Systems Corporation Amended and Restated Employee Stock Purchase Plan, dated as of May 1, 2014.	10-Q	10.6	5/4/14

45

Index

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
+10.58	(a)	LoyaltyOne, Inc. Registered Retirement Savings Plan, as amended.	10-Q	10.1	5/7/10
+10.59	(a)	LoyaltyOne, Inc. Deferred Profit Sharing Plan, as amended.	10-Q	10.2	5/7/10
+10.60	(a)	LoyaltyOne, Inc. Canadian Supplemental Executive Retirement Plan, effective as of January 1, 2009.	10-Q	10.3	5/7/10
+10.61	(a)	Change in Control Agreement, dated as of September 25, 2003, by and between ADS Alliance Data Systems, Inc. and Edward J. Heffernan.	S-3	10.1	10/15/03
10.62	(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).	S-1	10.43	1/13/00
10.63	(a)	Amended and Restated License to Use and Exploit the Air Miles Scheme in Canada, dated July 24, 1998, by and between Air Miles International Trading B.V. and Loyalty Management Group Canada Inc.	S-1	10.44	1/13/00
10.64	(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.	S-3	4.6	7/5/01
10.65	(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
10.66	(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
10.67	(b) (c) (d)	Third Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of March 30, 2005, among World Financial Network National Bank, WFN Credit Company, LLC and BNY Midwest Trust Company.	8-K	4.1	4/4/05
10.68	(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
10.69	(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
10.70	(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,	8-K	4.1	5/29/08

N.A.

46

Index

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.71	(b) (d)	Seventh Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of June 28, 2010, among World Financial Network National Bank, WFN Credit Company, LLC, and The Bank of New York Mellon Trust Company, N.A.	8-K	4.2	6/30/10
10.72	(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
10.73	(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
10.74	(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.	S-3	4.3	7/5/01
10.75	(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
10.76	(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
10.77	(b) (c) (d)	Fourth Amendment to the Transfer and Servicing Agreement, dated as of March 30, 2005, among WFN Credit Company, LLC, World Financial Network National Bank and World Financial Network Credit Card Master Note Trust.	8-K	4.2	4/4/05
10.78	(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
10.79	(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
10.80	(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
10.81	(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
10.82	(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

47

Index

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.83	(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
10.84	(b) (c)	Receivables Purchase Agreement, dated as of August 1, 2001, between World Financial Network National Bank and WFN Credit Company, LLC.	S-3	4.8	7/5/01
10.85	(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
10.86	(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
10.87	(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
10.88	(b) (c)	Master Indenture, dated as of August 1, 2001, between World Financial Network Credit Card Master Note Trust and BNY Midwest Trust Company.	S-3	4.1	7/5/01
10.89	(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
10.90	(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
10.91	(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
10.92	(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
10.93	(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
10.94	(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
10.95	(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

Index

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.96	(b) (d)	Series 2010-A Indenture Supplement, dated as of July 8, 2010, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A.	8-K	4.1	7/14/10
10.97	(b) (c) (d)	Series 2011-B Indenture Supplement, dated as of November 9, 2011, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A.	8-K	4.2	11/14/11
10.98	(b) (c) (d)	Series 2012-A Indenture Supplement, dated as of April 12, 2012, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A.	8-K	4.1	4/16/12
10.99	(b) (c) (d)	Series 2012-B Indenture Supplement, dated as of July 19, 2012, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.1	7/23/12
10.100	(b) (c) (d)	Series 2012-C Indenture Supplement, dated as of July 19, 2012, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.2	7/23/12
10.101	(b) (c) (d)	Series 2012-D Indenture Supplement, dated as of October 5, 2012, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.1	10/10/12
10.102	(b) (c) (d)	Series 2013-A Indenture Supplement, dated as of February 20, 2013, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.1	2/22/13
10.103	(b) (c) (d)	Series 2013-B Indenture Supplement, dated as of May 21, 2013, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.1	5/24/13
10.104	(b) (c) (d)	Series 2014-A Indenture Supplement, dated as of February 19, 2014, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A.	8-K	4.1	2/21/14
10.105	(b) (c) (d)	Series 2014-B Indenture Supplement, dated as of July 18, 2014, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	7/22/14
10.106	(b) (c) (d)	Series 2014-C Indenture Supplement, dated as of November 7, 2014, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	11/13/14
10.107	(b) (c) (d)	Amended and Restated Service Agreement, dated as of June 28, 2013, between Comenity Servicing LLC and Comenity Bank.	8-K	99.1	7/3/13

Index

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.108	(b) (c) (d)	First Amendment to Amended and Restated Service Agreement, dated as of September 9, 2013, between Comenity Servicing LLC and Comenity Bank.	8-K	99.1	9/11/13
10.109	(b) (c) (d)	Second Amendment to Amended and Restated Service Agreement, dated as of March 1, 2014, between Comenity Servicing LLC and Comenity Bank.	8-K	99.1	3/5/14
10.110	(b) (c) (d)	Third Amendment to Amended and Restated Service Agreement, dated as of September 1, 2014, between Comenity Servicing LLC and Comenity Bank.	8-K	99.1	9/5/14
10.111	(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
10.112	(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
10.113	(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
10.114	(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
10.115	(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
10.116	(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
10.117	(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
10.118	(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
10.119	(a)	Third Amendment to the Amended and Restated Pooling and Servicing Agreement, dated as of October 26, 2007, among WFN Credit Company, LLC, World Financial Network National Bank, and Union Bank of California, N.A. (successor to	10-Q	10.9	11/7/08

		JPMorgan Chase Bank, N.A.).			
10.120	(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

50

Index

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.121	(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
10.122	(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
10.123	(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
10.124	(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
10.125	(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
10.126	(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
10.127	(a)	Second Amended and Restated Series 2009-VFC1 Supplement, dated as of September 25, 2013, among WFN Credit Company, LLC, Comenity Bank and Deutsche Bank Trust Company Americas.	10-Q	10.4	11/5/13
10.128	(a)	Third Amended and Restated Series 2009-VFN Indenture Supplement, dated as of May 24, 2013, between World Financial Capital Master Note Trust and Deutsche Bank Trust Company Americas.	10-Q	10.2	8/5/13
*10.129	(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.			
10.130	(a)	Amendment and Restatement Agreement, dated as of December 19, 2013, including Amended and Restated Completion Facilities Agreement, as amended, by and among Brand Loyalty Group B.V. and certain subsidiaries parties thereto, as borrowers and guarantors, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (as Coordinator and Documentation Agent), Deutsche Bank Nederland N.V., ING Bank N.V. (as Agent and Security Agent) and NIBC Bank N.V.	10-Q	10.5	5/5/14
10.131	(a)	Credit Agreement, dated as of July 10, 2013, by and among Alliance Data Systems Corporation, as borrower, and certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, N.A., as Administrative Agent, and various other agents and lenders.	8-K	10.1	7/16/13

10.132	(a)	First Amendment to Credit Agreement, dated as of December 8, 2014, by and among Alliance Data Systems Corporation, as borrower, and certain of its subsidiaries as guarantors, Wells Fargo Bank, N.A., as Administrative Agent and Letter of Credit Issuer, and various other lenders.	8-K	10.1	12/10/14

51

Index

Exhibit No.	Filer	Description	Incorporated by Reference Form	Exhibit	Filing Date
10.133	(a)	Indenture, dated March 29, 2012, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as Trustee (including the form of the Company's 6.375% Senior Note due April 1, 2020).	8-K	4.1	4/2/12
10.134	(a)	Indenture, dated November 20, 2012, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as Trustee (including the form of the Company's 5.250% Senior Note due December 1, 2017).	8-K	4.1	11/27/12
10.135	(a)	Indenture, dated July 29, 2014, by and among Alliance Data Systems Corporation, as issuer, and certain subsidiaries parties thereto, as guarantors, and Wells Fargo Bank, N.A., as trustee (including the form of the Company's 5.375% Senior Note due August 1, 2022).	8-K	4.1	7/30/14
*12.1	(a)	Statement re Computation of Ratios			
*21	(a)	Subsidiaries of the Registrant			
*23.1	(a)	Consent of Deloitte & Touche LLP			
*31.1	(a)	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
*31.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
*32.1	(a)	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.			
*32.2	(a)	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.			
*101.INS	(a)	XBRL Instance Document			
*101.SCH	(a)	XBRL Taxonomy Extension Schema Document			
*101.CAL	(a)	XBRL Taxonomy Extension Calculation Linkbase Document			
*101.DEF	(a)	XBRL Taxonomy Extension Definition Linkbase Document			
*101.LAB	(a)	XBRL Taxonomy Extension Label Linkbase Document			

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

* Filed herewith

+ Management contract, compensatory plan or arrangement

Schedules to this Exhibit have been omitted in reliance on Item 601(b)(2) of Regulation S-K, Alliance Data will furnish copies of any such schedules to the SEC upon request

(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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
ALLIANCE DATA SYSTEMS CORPORATION

Index

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Alliance Data Systems Corporation and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Alliance Data Systems Corporation and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Dallas, Texas
February 27, 2015

Index

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Alliance Data Systems Corporation and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Conversant, Inc. ("Conversant"), which was acquired on December 10, 2014 and whose financial statements constitute approximately 14.3% of total assets, 0.9% of revenues, and 0.3% of pre-tax income of the consolidated financial statement amounts as of and for the year ended December 31, 2014. Accordingly, our audit did not include the internal control over financial reporting at Conversant. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2014 of the Company and our report dated February 27, 2015 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 27, 2015

Index

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	2013
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$1,077,152	$969,822
Trade receivables, less allowance for doubtful accounts ($3,811 and $2,262 at December 31, 2014 and 2013, respectively)	743,294	394,822
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	8,312,291	7,080,014
Other credit card and loan receivables	2,931,589	1,492,868
Total credit card and loan receivables	11,243,880	8,572,882
Allowance for loan loss	(570,171)	(503,169)
Credit card and loan receivables, net	10,673,709	8,069,713
Credit card and loan receivables held for sale	125,060	62,082
Deferred tax asset, net	218,872	216,195
Other current assets	456,349	177,859
Redemption settlement assets, restricted	520,340	510,349
Total current assets	13,814,776	10,400,842
Property and equipment, net	559,628	299,188
Deferred tax asset, net	164	2,454
Cash collateral, restricted	22,511	34,124
Intangible assets, net	1,515,994	460,404
Goodwill	3,865,484	1,735,703
Other non-current assets	485,420	311,542
Total assets	$20,263,977	$13,244,257
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$455,656	$210,019
Accrued expenses	457,472	262,307
Contingent consideration	326,023	—
Deposits	2,645,995	1,544,059
Non-recourse borrowings of consolidated securitization entities	1,058,750	1,025,000
Current debt	208,164	364,489
Other current liabilities	306,123	140,186
Deferred revenue	846,370	966,438
Deferred tax liability, net	930	—
Total current liabilities	6,305,483	4,512,498
Deferred revenue	166,807	170,748
Deferred tax liability, net	690,175	275,757
Deposits	2,127,546	1,272,302
Non-recourse borrowings of consolidated securitization entities	4,133,166	3,566,916
Long-term and other debt	4,001,082	2,435,792
Other liabilities	207,772	154,483
Total liabilities	17,632,031	12,388,496
Commitments and contingencies (Note 14)		
Redeemable non-controlling interest	235,566	—
Stockholders' equity:		

Common stock, $0.01 par value; authorized, 200,000 shares; issued, 111,686 shares and 98,302 shares at December 31, 2014 and 2013, respectively	1,117	983
Additional paid-in capital	2,905,563	1,512,752
Treasury stock, at cost, 47,874 shares and 46,752 shares at December 31, 2014 and 2013, respectively	(2,975,795)	(2,689,177)
Retained earnings	2,540,948	2,049,430
Accumulated other comprehensive loss	(75,453)	(18,227)
Total stockholders' equity	2,396,380	855,761
Total liabilities and stockholders' equity	$20,263,977	$13,244,257

See accompanying notes to consolidated financial statements.

Index

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2014	2013	2012
	(In thousands, except per share amounts)		
Revenues			
Transaction	$337,391	$329,027	$300,801
Redemption	1,053,248	587,187	635,536
Finance charges, net	2,303,698	1,956,654	1,643,405
Database marketing fees and direct marketing services	1,438,688	1,289,356	931,533
Other revenue	169,915	156,839	130,115
Total revenue	5,302,940	4,319,063	3,641,390
Operating expenses			
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	3,218,774	2,549,159	2,106,612
Earn-out obligation	105,944	—	—
Provision for loan loss	425,205	345,758	285,479
General and administrative	141,468	109,115	108,059
Depreciation and other amortization	109,655	84,291	73,802
Amortization of purchased intangibles	203,427	131,828	93,074
Total operating expenses	4,204,473	3,220,151	2,667,026
Operating income	1,098,467	1,098,912	974,364
Interest expense			
Securitization funding costs	91,103	95,326	92,808
Interest expense on deposits	37,543	29,111	25,181
Interest expense on long-term and other debt, net	131,880	181,063	173,471
Total interest expense, net	260,526	305,500	291,460
Income before income tax	837,941	793,412	682,904
Provision for income taxes	321,801	297,242	260,648
Net income	$516,140	$496,170	$422,256
Less: Net income attributable to non-controlling interest	9,847	—	—
Net income attributable to Alliance Data Systems Corporation stockholders	$506,293	$496,170	$422,256
Net income attributable to Alliance Data Systems Corporation stockholders per share:			
Basic	$8.72	$10.09	$8.44
Diluted	$7.87	$7.42	$6.58
Weighted average shares:			
Basic	56,378	49,190	50,008
Diluted	62,445	66,866	64,143

See accompanying notes to consolidated financial statements.

Index

ALLIANCE DATA SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net income	$516,140	$496,170	$422,256
Other comprehensive income, net of tax			
Net unrealized (loss) gain on securities available-for-sale, net of tax expense (benefit) of $1,271, $(1,460) and $(377) for the years ended December 31, 2014, 2013 and 2012, respectively	(1,535)	(6,132)	3,368
Net unrealized gain on cash flow hedges, net of tax expense of $952 for the year ended December 31, 2014	2,350	—	—
Foreign currency translation adjustments	(58,041)	9,766	(2,173)
Other comprehensive (loss) income	(57,226)	3,634	1,195
Total comprehensive income, net of tax	$458,914	$499,804	$423,451
Less: Comprehensive income attributable to non-controlling interest	11,766	—	—
Comprehensive income attributable to Alliance Data Systems Corporation stockholders	$470,680	$499,804	$423,451

See accompanying notes to consolidated financial statements.

Index

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock					Accumulated Other	
	Shares	Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Comprehensive Income (Loss)	Total Stockholders' Equity
	(In thousands)						
January 1, 2012	94,141	$ 941	$ 1,387,773	$ (2,320,696)	$ 1,131,004	$ (23,056)	$ 175,966
Net income attributable to Alliance Data Systems Corporation stockholders	—	—	—	—	422,256	—	422,256
Other comprehensive income	—	—	—	—	—	1,195	1,195
Stock-based compensation	—	—	50,497	—	—	—	50,497
Repurchases of common stock	—	—	—	(137,396)	—	—	(137,396)
Other	822	9	15,960	—	—	—	15,969
December 31, 2012	94,963	$ 950	$ 1,454,230	$ (2,458,092)	$ 1,553,260	$ (21,861)	$ 528,487
Net income attributable to Alliance Data Systems Corporation stockholders	—	—	—	—	496,170	—	496,170
Other comprehensive income	—	—	—	—	—	3,634	3,634
Stock-based compensation	—	—	59,183	—	—	—	59,183
Repurchases of common stock	—	—	—	(231,085)	—	—	(231,085)
Warrant conversions	2,783	28	(37)	—	—	—	(9)
Other	556	5	(624)	—	—	—	(619)
December 31, 2013	98,302	$ 983	$ 1,512,752	$ (2,689,177)	$ 2,049,430	$ (18,227)	$ 855,761
Net income attributable to Alliance Data Systems Corporation stockholders	—	—	—	—	506,293	—	506,293
Accretion of non-controlling interest	—	—	—	—	(14,775)	—	(14,775)
Other comprehensive loss	—	—	—	—	—	(57,226)	(57,226)
Stock-based compensation	—	—	72,462	—	—	—	72,462
Repurchases of common stock	—	—	—	(286,618)	—	—	(286,618)
Warrant conversions	8,289	83	(1,559)	—	—	—	(1,476)
Acquisition of Conversant, Inc.	4,608	46	1,322,695	—	—	—	1,322,741
Other	487	5	(787)	—	—	—	(782)
December 31, 2014	111,686	$ 1,117	$ 2,905,563	$ (2,975,795)	$ 2,540,948	$ (75,453)	$ 2,396,380

See accompanying notes to consolidated financial statements.

Index

ALLIANCE DATA SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$516,140	$496,170	$422,256
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	313,082	216,119	166,876
Deferred income taxes	(13,391)	42,913	102,266
Provision for loan loss	425,205	345,758	285,479
Non-cash stock compensation	72,462	59,183	50,497
Amortization of discount on debt	12,709	65,677	82,452
Amortization of deferred financing costs	24,019	25,492	24,935
Earn-out obligation	105,944	—	—
Change in other operating assets and liabilities, net of acquisitions:			
Change in deferred revenue	(27,782)	(30,383)	(11,225)
Change in trade receivables	(156,003)	(33,414)	(49,219)
Change in accounts payable and accrued expenses	125,919	(28,011)	115,114
Change in other assets	(128,660)	(148,952)	(3,184)
Change in other liabilities	89,915	63,914	(13,146)
Originations of credit card and loan receivables held for sale	(5,271,668)	(1,674,713)	—
Sales of credit card and loan receivables held for sale	5,284,880	1,612,631	—
Excess tax benefits from stock-based compensation	(34,159)	(17,267)	(20,199)
Other	5,547	8,375	(18,712)
Net cash provided by operating activities	1,344,159	1,003,492	1,134,190
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in redemption settlement assets	(59,701)	(54,572)	37,232
Change in cash collateral, restricted	12,658	32,405	99,035
Change in restricted cash	803	39,378	(46,837)
Change in credit card and loan receivables	(2,260,706)	(1,420,931)	(1,371,352)
Purchase of credit card portfolios	(953,171)	(46,705)	(780,003)
Payments for acquired businesses, net of cash	(1,195,808)	—	(463,964)
Capital expenditures	(158,694)	(135,376)	(116,455)
Purchases of other investments	(125,729)	(35,084)	(34,069)
Maturities/sales of other investments	7,227	2,852	15,651
Other	(4,000)	(1,383)	(10,588)
Net cash used in investing activities	(4,737,121)	(1,619,416)	(2,671,350)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under debt agreements	3,431,087	1,985,000	1,095,148
Repayments of borrowings	(1,835,161)	(1,300,241)	(506,214)
Proceeds from convertible note hedge counterparties	1,519,833	1,056,307	—
Settlement of convertible note borrowings	(1,864,803)	(1,861,289)	—
Issuances of deposits	3,820,867	1,989,576	1,866,213
Repayments of deposits	(1,863,686)	(1,401,625)	(991,577)
Non-recourse borrowings of consolidated securitization entities	2,670,000	2,268,285	2,543,892
	(2,070,000)	(1,807,339)	(1,673,209)

Repayments/maturities of non-recourse borrowings of consolidated securitization entities			
Payment of deferred financing costs	(55,119)	(24,772)	(40,267)
Excess tax benefits from stock-based compensation	34,159	17,267	20,199
Proceeds from issuance of common stock	17,063	14,090	20,696
Purchase of treasury shares	(286,618)	(231,085)	(125,840)
Other	(1,476)	(22)	(22)
Net cash provided by financing activities	3,516,146	704,152	2,209,019
Effect of exchange rate changes on cash and cash equivalents	(15,854)	(11,758)	5,280
Change in cash and cash equivalents	107,330	76,470	677,139
Cash and cash equivalents at beginning of year	969,822	893,352	216,213
Cash and cash equivalents at end of year	$1,077,152	$969,822	$893,352
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$221,237	$239,203	$215,708
Income taxes paid, net	$255,985	$216,530	$137,838

See accompanying notes to consolidated financial statements.

Index

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION
Description of the Business—Alliance Data Systems Corporation ("ADSC" or, including its consolidated subsidiaries and variable interest entities, the "Company") is a leading global provider of data-driven marketing and loyalty solutions serving large, consumer-based businesses in a variety of industries. The Company offers a comprehensive portfolio of integrated outsourced marketing solutions, including customer loyalty programs, database marketing services, end-to-end marketing services, analytics and creative services, direct marketing services and private label and co-brand retail credit card programs. The Company focuses on facilitating and managing interactions between its clients and their customers through all consumer marketing channels, including in-store, online, email, social media, mobile, direct mail and telephone. The Company captures and analyzes data created during each customer interaction, leveraging the insight derived from that data to enable clients to identify and acquire new customers and enhance customer loyalty.
The Company operates in the following reportable segments: LoyaltyOne®, Epsilon®, and Private Label Services and Credit.
LoyaltyOne includes the Company's Canadian AIR MILES® Reward Program and BrandLoyalty. Epsilon provides end-to-end, integrated direct marketing solutions that leverage transactional data to help clients more effectively acquire and build stronger relationships with their customers. Private Label Services and Credit encompasses credit card processing, billing and payment processing, customer care and collections services for private label retailers as well as private label retail credit card and loan receivables financing, including securitization of the credit card receivables that it underwrites from its private label and co-brand retail credit card programs.
For purposes of comparability, certain prior period amounts have been reclassified to conform to the current year presentation in accordance with accounting principles generally accepted in the United States of America ("GAAP").
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Principles of Consolidation—The accompanying consolidated financial statements include the accounts of ADSC and all subsidiaries in which the Company has a controlling interest. Controlling interest is determined by majority ownership interest and the absence of substantive third party participating rights. All intercompany transactions have been eliminated.
The Company also consolidates any variable interest entity ("VIE") for which the Company is the primary beneficiary. In accordance with Accounting Standards Codification ("ASC") 860, "Transfers and Servicing," and ASC 810, "Consolidation," the Company is the primary beneficiary of World Financial Network Credit Card Master Trust ("Master Trust"), World Financial Network Credit Card Master Note Trust ("Master Trust I") and World Financial Network Credit Card Master Trust III ("Master Trust III") (collectively, the "WFN Trusts"), and World Financial Capital Master Note Trust (the "WFC Trust"). The Company is deemed to be the primary beneficiary for the WFN Trusts and the WFC Trust, as it is the servicer for each of the trusts and is a holder of the residual interest. The Company, through its involvement in the activities of the trusts, has the power to direct the activities that most significantly impact the economic performance of the trust, and the obligation (or right) to absorb losses (or receive benefits) of the trust that could potentially be significant.
For investments in any entities in which the Company owns 50% or less of the outstanding voting stock but in which the Company has significant influence over operating and financial decisions, the Company applies the equity method of accounting. In cases where the Company's equity investment is less than 20% and significant influence does not exist, such investments are carried at cost.
Cash and Cash Equivalents—The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
Credit Card and Loan Receivables—The Company sells a majority of the credit card receivables originated by Comenity Bank to WFN Credit Company, LLC, which in turn sells them to the WFN Trusts as part of a securitization program. The Company also sells its credit card receivables originated by Comenity Capital Bank to World Financial Capital Credit Company, LLC which in turn sells them to the WFC Trust. The credit card receivables sold to each of the trusts are restricted for securitization investors.

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

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

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. Cash flows associated with credit card portfolios that are purchased with the intent to sell are included in cash flows from operating activities. Cash flows associated with credit card and loan receivables originated or purchased for investment are classified as investing cash flows, regardless of a subsequent change in intent.

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

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

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

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

In evaluating the allowance for loan loss for both principal and unpaid interest and fees, management also considers factors that may impact loan loss experience, including seasoning, loan volume and amounts, payment rates and forecasting uncertainties.

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

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

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

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

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

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

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

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

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

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

Changes in the fair value of derivative instruments designated as cash flow hedges, excluding any ineffective portion are recorded in other comprehensive income (loss) until the hedged transactions affect net income. The ineffective portion of these cash flow hedges impacts net income when the ineffectiveness occurs.

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

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

Transaction —The Company earns transaction fees, which are principally based on the number of transactions processed or statements generated and are recognized as such services are performed.

Air Miles Reward Program —The AIR MILES Reward Program collects fees from its sponsors based on the number of AIR MILES reward miles issued and, in limited circumstances, the number of AIR MILES reward miles redeemed. Because management has determined that the earnings process is not complete at the time an AIR MILES reward mile is issued, the recognition of redemption and service revenue is deferred. Redemption revenue is recognized as AIR MILES reward miles are redeemed and is impacted by the Company's estimate of breakage, or those AIR MILES reward miles the Company estimates will remain unredeemed by collectors. Service revenue is amortized over the estimated life of an AIR MILES reward mile.

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

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

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

For those sponsor contracts within the scope of ASU 2009 13, proceeds from the issuance of AIR MILES reward miles are allocated to three elements, the redemption element, the service element, and the brand element, based on the relative selling price method. The fair value of each element was determined using management's estimated selling price for that respective element. The estimated breakage rate changed from 28% to 27%, effective December 31, 2012 and from 27% to 26%, effective December 31, 2013 As of December 31, 2014, the estimated breakage rate remained at 26%.

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

Finance charges, net—Finance charges, net represents revenue earned on customer accounts serviced by the Company, and is recognized in the period in which it is earned. The Company recognizes earned finance charges, interest income and fees on credit card and loan receivables in accordance with the contractual provisions of the credit arrangements. As discussed in Note 4, "Credit Card and Loan Receivables," interest and fees continue to accrue on all credit card accounts beyond 90 days, except in limited circumstances, until the credit card account balance and all related interest and other fees are paid or charged-off, typically at 180 days delinquent. Charge-offs for unpaid interest and fees as well as any adjustments to the allowance associated with unpaid interest and fees are recorded as a reduction to finance charges, net. Pursuant to ASC Subtopic 310 20, "Receivables - Nonrefundable Fees and Other Costs," direct loan origination costs on credit card and loan receivables are deferred and amortized on a straight-line basis over a one-year period and recorded as a reduction to finance charges, net. As of December 31, 2014 and 2013, the remaining unamortized deferred costs related to loan origination were $32.0 million and $20.5 million, respectively, and were recorded in other current assets in the consolidated balance sheets.

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

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

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

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

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

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands, except per share amounts)		
Numerator			
Net income attributable to Alliance Data Systems Corporation stockholders	$506,293	$496,170	$422,256
Less: Accretion of redeemable non-controlling interest	14,775	—	—
Net income attributable to Alliance Data Systems Corporation stockholders after accretion of redeemable non-controlling interest	$491,518	$496,170	$422,256
Denominator			
Weighted average shares, basic	56,378	49,190	50,008
Weighted average effect of dilutive securities:			
Shares from assumed conversion of convertible senior notes	2,112	8,516	8,645
Shares from assumed exercise of convertible note warrants	3,421	8,482	4,702
Net effect of dilutive stock options and unvested restricted stock	534	678	788
Denominator for diluted calculation	62,445	66,866	64,143
Net income attributable to Alliance Data Systems Corporation stockholders per share:			
Basic	$8.72	$10.09	$8.44
Diluted	$7.87	$7.42	$6.58

The Company calculated the effect of its convertible senior notes on diluted net income per share as if they would be settled in cash as the Company had the intent to settle the convertible senior notes for cash. The convertible senior notes were settled with cash upon maturity in August 2013 and May 2014, respectively.

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 the Euro. 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 $12.0 million, $(1.0) million and $0.6 million in foreign currency transaction gains (losses) for the years ended December 31, 2014, 2013 and 2012, respectively.

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

Advertising Costs—The Company participates in various advertising and marketing programs, including collaborative arrangements with certain clients. The cost of advertising and marketing programs is expensed in the period incurred. The Company has recognized advertising expenses, including advertising on behalf of its clients, of $239.5 million, $206.6 million and $166.1 million for the years ended December 31, 2014, 2013 and 2012, 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 August 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-15, "Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU 2014-15 provides guidance regarding management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and if such doubt exists, requires specific disclosures. ASU 2014-15 is effective for interim and annual periods beginning after December 15, 2016 and is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014 09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014 09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for interim and annual reporting periods beginning after December 15, 2016. Early application is not permitted. ASU 2014 09 permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014 09 will have on its consolidated financial statements and related disclosures.

Recently Adopted Accounting Standards

In July 2013, the FASB issued ASU 2013 11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. ASU 2013 11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the governing tax law.

ASU 2013 11 was effective for interim and annual periods beginning after December 15, 2013 and required prospective application. The adoption of ASU 2013 11 did not have a material impact on the Company's financial condition, results of operations or cash flows.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
3. ACQUISITIONS
2014 Acquisitions:
Brand Loyalty Group B.V.
On January 2, 2014, the Company acquired a 60% ownership interest in BrandLoyalty Group B.V. ("BrandLoyalty"), a Netherlands-based, data-driven loyalty marketer. BrandLoyalty designs, organizes, implements and evaluates innovative and tailor-made loyalty programs for food retailers worldwide. The acquisition expands the Company's presence across Europe, Asia and Latin America. The results of BrandLoyalty have been included since the date of acquisition and are reflected in the Company's LoyaltyOne segment. The initial cash consideration was approximately $259.5 million in addition to the assumption of debt. The goodwill resulting from the acquisition is not deductible for tax purposes.
The following table summarizes the allocation of consideration and the respective fair values of the assets acquired and liabilities assumed in the BrandLoyalty acquisition as of the date of purchase:

	As of January 2, 2014 (In thousands)
Current assets, net of cash acquired	$246,769
Deferred tax asset	3,509
Property and equipment	19,719
Other non-current assets	3,994
Intangible assets	423,832
Goodwill	565,015
Total assets acquired	1,262,838
Current liabilities	146,559
Current portion of long-term debt	34,180
Deferred tax liability	105,512
Long-term debt (net of current portion)	126,323
Other liabilities	142
Total liabilities assumed	412,716
Redeemable non-controlling interest	341,907
Net assets acquired	$508,215

The Company also recorded a liability for the earn-out provisions included in the BrandLoyalty share purchase agreement of €181.9 million ($248.7 million as of January 2, 2014), which is included in the Company's consolidated balance sheet. The liability was measured at fair value on the date of purchase and subsequent changes in the fair value of the liability of €87.6 million ($105.9 million at December 31, 2014) are included in operating expenses in the Company's consolidated statements of income. This earn-out obligation is not deductible for tax purposes.
Pursuant to the BrandLoyalty share purchase agreement, the Company may acquire the remaining 40% ownership interest in BrandLoyalty over a four-year period from the acquisition date at 10% per year at predetermined valuation multiples. If specified annual earnings targets are met by BrandLoyalty, the Company must acquire the additional 10% ownership interest for the year achieved; otherwise, the sellers have a put option to sell the Company their 10% ownership interest for the respective year.
The specified annual earnings target was met for the year ended December 31, 2014 and the Company acquired an additional 10% ownership interest effective January 1, 2015. See Note 15, "Redeemable Non-Controlling Interest," for more information.

In February 2015, the Company paid €269.9 million to settle the contingent consideration associated with the Company's 60% ownership interest and €77.2 million for the acquisition of the Company's additional 10% ownership interest in BrandLoyalty ($305.5 million and $87.4 million on February 10, 2015, respectively).

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

Conversant, Inc.

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

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

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

	As of December 10, 2014 (In thousands)
Current assets, net of cash acquired	$ 180,030
Deferred tax asset	11,905
Property and equipment	25,555
Developed technology	182,500
Other non-current assets	1,744
Intangible assets	755,600
Goodwill	1,650,299
Total assets acquired	2,807,633
Current liabilities	177,585
Deferred tax liability	344,081
Other liabilities	26,933
Total liabilities assumed	548,599
Net assets acquired	$ 2,259,034

The allocation of the purchase price was based upon a preliminary valuation and the Company's estimates and assumptions are subject to change when purchase price adjustments are finalized, which will occur prior to December 10, 2015.

The following table presents the Company's unaudited pro forma consolidated revenue and net income for the years ended December 31, 2014 and 2013. The unaudited pro forma results include the historical consolidated statements of income of the Company and Conversant, giving effect to the Conversant acquisition and related financing transactions as if they had occurred on January 1, 2013.

	Years Ended December 31,	
	2014	2013
	(In thousands)	
Total revenue	$5,853,501	$4,892,184
Net income	$528,870	$482,221

The unaudited pro forma results are not necessarily indicative of the operating results that would have occurred if the Conversant acquisition had been completed as of the date for which the unaudited pro forma financial information is presented. The unaudited pro forma financial information for the years ended December 31, 2014 and 2013 includes adjustments that are directly related to the acquisition, factually supportable, and expected to have a continuing impact. These adjustments include, but are not limited to, amortization related to fair value adjustments to intangible assets and interest expense on acquisition-related debt. The unaudited pro forma financial information for the year ended December 31, 2014 was also adjusted to exclude $44.1 million of acquisition costs, which primarily consist of advisory, legal, accounting, valuation and other professional or consulting fees.

In addition the unaudited pro forma statements do not purport to project the future consolidated operating results of the combined Company.

Index

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

2012 Acquisitions:

Hyper Marketing Group

On November 30, 2012, the Company acquired all of the stock of HMI Holding Corp. and Solution Set Holding Corp. (collectively, "HMI"). The purchase price was subject to customary working capital adjustments. HMI offers ROI-based targeted marketing services through digital user experience design technology, customer relationship marketing, consumer promotions marketing, direct and digital shopper marketing, distributed and local area marketing, and analytical services that include brand planning and consumer insights. The results of HMI have been included since the date of acquisition and are reflected in the Company's Epsilon segment. The acquisition enhanced Epsilon's core capabilities, strengthened its competitive advantage and expanded Epsilon into new industry verticals. Total consideration was $451.8 million, net of $7.1 million of cash and cash equivalents acquired. The goodwill that was deductible for tax purposes is $66.4 million. The following table summarizes the allocation of the consideration and the respective fair values of the assets acquired and liabilities assumed in the HMI acquisition as of the date of purchase:

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

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

Index

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

4. CREDIT CARD AND LOAN RECEIVABLES

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

	December 31, 2014	December 31, 2013
	(In thousands)	
Principal receivables	$10,762,498	$8,166,961
Billed and accrued finance charges	422,838	343,521
Other credit card and loan receivables	58,544	62,400
Total credit card and loan receivables	11,243,880	8,572,882
Less credit card receivables – restricted for securitization investors	8,312,291	7,080,014
Other credit card and loan receivables	$2,931,589	$1,492,868

Allowance for Loan Loss

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

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

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

The Company records the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. In estimating the allowance for uncollectable unpaid interest and fees, the Company utilizes historical charge-off trends, analyzing actual charge-offs for the prior three months. The allowance for unpaid interest and fees is maintained through an adjustment to finance charges, net. For the years ended December 31, 2014, 2013 and 2012, actual charge-offs for unpaid interest and fees were $302.7 million, $240.8 million and $191.1 million, respectively.

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

	Years Ended December 31, 2014	2013	2012
	(In thousands)		
Balance at beginning of period	$503,169	$481,958	$468,321
Provision for loan loss	425,205	345,758	285,479
Change in estimate for uncollectible unpaid interest and fees	12,500	11,000	11,000
Recoveries	178,394	112,538	97,131

Principal charge-offs	(549,097)	(448,085)	(379,973)
Balance at end of period	$570,171	$503,169	$481,958

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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, 2014	% of Total	December 31, 2013	% of Total
	(In thousands, except percentages)			
Receivables outstanding - principal	$10,762,498	100.0%	$8,166,961	100.0%
Principal receivables balances contractually delinquent:				
31 to 60 days	$157,760	1.4 %	$114,430	1.4 %
61 to 90 days	93,175	0.9	74,700	0.9
91 or more days	182,945	1.7	150,425	1.9
Total	$433,880	4.0 %	$339,555	4.2 %

The practice of re-aging an account may affect credit card loan delinquencies and charge-offs. A re-age is intended to assist delinquent cardholders who have experienced financial difficulties but who demonstrate both an ability and willingness to repay the amounts due. Accounts meeting specific defined criteria are re-aged when the cardholder makes one or more consecutive payments aggregating a certain pre-defined amount of their account balance. With re-aging, the outstanding balance of a delinquent account is returned to a current status. For the years ended December 31, 2014, 2013 and 2012, the Company's re-aged accounts represented 1.2%, 1.4% and 1.3%, 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.

Index
ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
Modified Credit Card and Loan Receivables

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

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

The Company had $134.9 million and $118.1 million, respectively, as a recorded investment in impaired credit card and loan receivables with an associated allowance for loan loss of $35.2 million and $33.9 million, respectively, as of December 31, 2014 and 2013. These modified credit card and loan receivables represented less than 2% of the Company's total credit card and loan receivables as of both December 31, 2014 and 2013.

The average recorded investment in the impaired credit card and loan receivables was $117.9 million and $117.4 million for the years ended December 31, 2014 and 2013, respectively.

Interest income on these modified credit card and loan receivables is accounted for in the same manner as other accruing credit card and loan receivables. Cash collections on these modified credit card and loan receivables are allocated according to the same payment hierarchy methodology applied to credit card and loan receivables that are not in such programs. The Company recognized $13.2 million, $12.7 million and $15.5 million for the years ended December 31, 2014, 2013 and 2012, respectively, in interest income associated with modified credit card and loan receivables during the period that such credit card and loan receivables were impaired.

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

	Year Ended December 31, 2014		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in thousands)		
Troubled debt restructurings – credit card and loan receivables	141,137	$ 142,260	$ 142,141

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

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, 2014	
	Number of Restructurings	Outstanding Balance
	(Dollars in thousands)	
Troubled debt restructurings that subsequently defaulted – credit card and loan receivables	60,427	$ 59,862

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

Index

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

Age of Credit Card and Loan Receivable Accounts

The following tables set forth, as of December 31, 2014 and 2013, the number of active credit card and loan accounts with balances and the related principal balances outstanding, based upon the age of the active credit card and loan accounts from origination:

	December 31, 2014			
Age of Accounts Since Origination	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
	(In thousands, except percentages)			
0-12 Months	6,029	28.8 %	$ 2,710,992	25.2 %
13-24 Months	3,026	14.4	1,549,899	14.4
25-36 Months	2,120	10.1	1,113,755	10.3
37-48 Months	1,548	7.4	866,645	8.1
49-60 Months	1,158	5.5	655,351	6.1
Over 60 Months	7,082	33.8	3,865,856	35.9
Total	20,963	100.0 %	$ 10,762,498	100.0 %

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

Credit Quality

The Company uses proprietary scoring models developed specifically for the purpose of monitoring the Company's obligor credit quality. The proprietary scoring models are used as a tool in the underwriting process and for making credit decisions. The proprietary scoring models are based on historical data and require various assumptions about future performance. Information regarding customer performance is factored into these proprietary scoring models to determine the probability of an account becoming 90 or more days past due at any time within the next 12 months. Obligor credit quality is monitored at least monthly during the life of an account. The following table reflects composition of the Company's credit card and loan receivables by obligor credit quality as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Probability of an Account Becoming 90 or More Days Past		

Due or Becoming Charged-off (within the next 12 months)	Principal Receivables Outstanding		Percentage of Principal Receivables Outstanding (In thousands, except percentages)			Principal Receivables Outstanding		Percentage of Principal Receivables Outstanding	
No Score	$	227,378	2.1	%	$	162,366		2.0	%
27.1% and higher		499,989	4.6			362,366		4.4	
17.1% - 27.0%		967,035	9.0			732,425		9.0	
12.6% - 17.0%		1,129,122	10.5			858,721		10.5	
3.7% - 12.5%		4,429,399	41.1			3,234,547		39.6	
1.9% - 3.6%		2,254,794	21.0			1,748,317		21.4	
Lower than 1.9%		1,254,781	11.7			1,068,219			