ALLIANCE DATA SYSTEMS CORP
Form 10-Q
August 05, 2013

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

FORM 10-Q

(Mark One)

R	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended June 30, 2013
	OR
£	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to
	Commission File Number: 001-15749

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

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

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

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

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

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

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

Large accelerated filer R	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 Exchange Act). Yes £ No R

As of August 1, 2013, 48,742,778 shares of common stock were outstanding.

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PART I

Item 1. Financial Statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2013	December 31, 2012
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 749,821	$ 893,352
Trade receivables, less allowance for doubtful accounts ($4,339 and $3,919 at June 30, 2013 and December 31, 2012, respectively)	337,458	370,110
Credit card receivables:		
Credit card receivables – restricted for securitization investors	6,074,037	6,597,120
Other credit card receivables	1,156,553	852,512
Total credit card receivables	7,230,590	7,449,632
Allowance for loan loss	(448,396)	(481,958)
Credit card receivables, net	6,782,194	6,967,674
Deferred tax asset, net	223,870	237,268
Other current assets	455,399	171,049
Redemption settlement assets, restricted	509,230	492,690
Total current assets	9,057,972	9,132,143
Property and equipment, net	265,534	253,028
Deferred tax asset, net	28,876	30,027
Cash collateral, restricted	47,501	65,160
Intangible assets, net	520,831	582,874
Goodwill	1,736,054	1,751,053
Other non-current assets	210,544	185,854
Total assets	$ 11,867,312	$ 12,000,139
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 241,437	$ 215,470
Accrued expenses	243,882	274,625
Deposits	1,106,452	1,092,753
Asset-backed securities debt – owed to securitization investors	660,000	1,474,054
Current debt	1,131,374	803,269
Other current liabilities	133,298	117,283
Deferred revenue	968,517	1,055,323
Total current liabilities	4,484,960	5,032,777
Deferred revenue	173,610	193,738
Deferred tax liability, net	268,202	277,354
Deposits	1,148,914	1,135,658

Asset-backed securities debt – owed to securitization investors		3,351,916		2,656,916
Long-term and other debt		1,724,670		2,051,570
Other liabilities		134,192		123,639
Total liabilities		11,286,464		11,471,652
Commitments and contingencies				
Stockholders' equity:				
Common stock, $0.01 par value; authorized, 200,000 shares; issued, 95,376 shares and 94,963 shares at June 30, 2013 and December 31, 2012, respectively		954		950
Additional paid-in capital		1,466,331		1,454,230
Treasury stock, at cost, 46,635 shares and 45,360 shares at June 30, 2013 and December 31, 2012, respectively		(2,666,066)		(2,458,092)
Retained earnings		1,798,679		1,553,260
Accumulated other comprehensive loss		(19,050)		(21,861)
Total stockholders' equity		580,848		528,487
Total liabilities and stockholders' equity	$	11,867,312	$	12,000,139

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share amounts)			
Revenues				
Transaction	$ 79,573	$ 77,502	$ 161,921	$ 160,246
Redemption	138,342	159,185	298,354	347,651
Finance charges, net	462,739	377,794	940,143	754,109
Database marketing fees and direct marketing services	309,495	219,530	605,101	433,126
Other revenue	37,943	32,474	76,010	62,922
Total revenue	1,028,092	866,485	2,081,529	1,758,054
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	619,285	506,455	1,239,707	1,033,360
Provision for loan loss	57,796	52,552	124,444	101,879
General and administrative	28,255	27,532	50,547	51,531
Depreciation and other amortization	20,446	18,496	40,006	36,100
Amortization of purchased intangibles	33,130	20,907	66,420	42,022
Total operating expenses	758,912	625,942	1,521,124	1,264,892
Operating income	269,180	240,543	560,405	493,162
Interest expense				
Securitization funding costs	24,694	22,518	49,179	44,847
Interest expense on deposits	7,002	6,003	14,009	11,966
Interest expense on long-term and other debt, net	51,770	44,546	102,822	81,906
Total interest expense, net	83,466	73,067	166,010	138,719
Income before income tax	$ 185,714	$ 167,476	$ 394,395	$ 354,443
Provision for income taxes	69,274	63,655	148,976	135,393
Net income	$ 116,440	$ 103,821	$ 245,419	$ 219,050
Basic income per share	$ 2.37	$ 2.07	$ 4.96	$ 4.37
Diluted income per share	$ 1.71	$ 1.63	$ 3.62	$ 3.49
Weighted average shares:				
Basic	49,123	50,161	49,444	50,157
Diluted	68,167	63,731	67,746	62,790

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$ 116,440	$ 103,821	$ 245,419	$ 219,050
Other comprehensive income, net of tax				
Net unrealized gain (loss) on securities available-for-sale, net of tax benefits of $(928), $(90), $(1,080) and $(116) for the three and six months ended June 30, 2013 and 2012, respectively	(6,550)	352	(5,454)	1,836
Foreign currency translation adjustments	4,938	1,406	8,265	(1,660)
Other comprehensive (loss) income	(1,612)	1,758	2,811	176
Total comprehensive income, net of tax	$ 114,828	$ 105,579	$ 248,230	$ 219,226

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 245,419	$ 219,050
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	106,426	78,122
Deferred income taxes	1,594	68,865
Provision for loan loss	124,444	101,879
Non-cash stock compensation	28,015	25,186
Fair value gain on interest-rate derivatives	(8,511)	(15,184)
Amortization of discount on debt	45,102	40,050
Change in operating assets and liabilities, net of acquisitions:		
Change in trade accounts receivable	(5,223)	(43,872)
Change in other assets	(20,307)	26,684
Change in accounts payable and accrued expenses	11,510	(8,570)
Change in deferred revenue	(37,269)	(39,323)
Change in other liabilities	36,546	(19,638)
Excess tax benefits from stock-based compensation	(10,103)	(13,564)
Other	12,822	(2,247)
Net cash provided by operating activities	530,465	417,438
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	(47,671)	41,440
Change in restricted cash	(271,132)	(438,665)
Change in credit card receivables	83,403	(61,375)
Purchase of credit card portfolios	(37,061)	(122,237)
Change in cash collateral, restricted	18,450	37,735

Capital expenditures	(58,995)	(55,541)
Purchases of marketable securities	(18,339)	(4,719)
Maturities/sales of marketable securities	1,002	968
Other	(1,383)	(10,587)
Net cash used in investing activities	(331,726)	(612,981)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	—	699,500
Repayments of borrowings	(43,887)	(494,691)
Issuances of deposits	732,754	659,227
Repayments of deposits	(705,799)	(360,050)
Borrowings from asset-backed securities	1,268,285	897,038
Repayments/maturities of asset-backed securities	(1,387,339)	(719,558)
Payment of capital lease obligations	(11)	(11)
Payment of deferred financing costs	(5,971)	(25,624)
Excess tax benefits from stock-based compensation	10,103	13,564
Proceeds from issuance of common stock	5,534	11,411
Purchase of treasury shares	(207,974)	(59,032)
Net cash (used in) provided by financing activities	(334,305)	621,774
Effect of exchange rate changes on cash and cash equivalents	(7,965)	(245)
Change in cash and cash equivalents	(143,531)	425,986
Cash and cash equivalents at beginning of period	893,352	216,213
Cash and cash equivalents at end of period	$ 749,821	$ 642,199
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 111,633	$ 99,257
Income taxes paid, net	$ 95,108	$ 98,243

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation ("ADSC" or, including its wholly owned subsidiaries and its consolidated variable interest entities, the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2012, filed with the SEC on February 28, 2013.

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

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

Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, "Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income," which expands the disclosure requirements for items reclassified from accumulated other comprehensive income to net income by requiring the total changes of each component of other comprehensive income to be disaggregated and separately presenting current period reclassification adjustments from the remainder of other comprehensive income for the period. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012 and requires prospective application. ASU 2013-02 had no impact on the Company's financial condition, results of operations or cash flows, but did add certain disclosure requirements. The related disclosures are presented in Note 9, "Accumulated Other Comprehensive Income."

2. SHARES USED IN COMPUTING NET INCOME PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share amounts)			
Numerator:				
Net income	$ 116,440	$ 103,821	$ 245,419	$ 219,050

Denominator:								
Weighted average shares, basic		49,123		50,161		49,444		50,157
Weighted average effect of dilutive securities:								
Shares from assumed conversion of convertible senior notes		10,611		8,435		10,372		8,051
Shares from assumed conversion of convertible note warrants		7,818		4,399		7,336		3,844
Net effect of dilutive stock options and unvested restricted stock units		615		736		594		738
Denominator for diluted calculations		68,167		63,731		67,746		62,790
Basic net income per share	$	2.37	$	2.07	$	4.96	$	4.37
Diluted net income per share	$	1.71	$	1.63	$	3.62	$	3.49

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

The Company calculates the effect of its convertible senior notes, which can be settled in cash or shares of common stock, on diluted net income per share as if they will be settled in cash as the Company has the intent to settle the convertible senior notes for cash.

Concurrently with the issuance of its convertible senior notes, the Company entered into hedge transactions that are generally expected to offset the potential dilution of the shares from assumed conversion of convertible senior notes.

The Company is also party to prepaid forward contracts to purchase 1,857,400 shares of its common stock that are to be delivered over a settlement period in 2014. The number of shares to be delivered under the prepaid forward contracts is used to reduce weighted-average basic and diluted shares outstanding.

3. CREDIT CARD RECEIVABLES

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Principal receivables	$ 6,866,955	$ 7,097,951
Billed and accrued finance charges	282,724	291,476
Other receivables	80,911	60,205
Total credit card receivables	7,230,590	7,449,632
Less credit card receivables – restricted for securitization investors	6,074,037	6,597,120
Other credit card receivables	$ 1,156,553	$ 852,512

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 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 receivables. Migration analysis is a technique used to estimate the likelihood that a credit card 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 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 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. Actual charge-offs for unpaid interest and fees were \$55.0 million and \$44.3 million for the three months ended June 30, 2013 and 2012, respectively, and \$113.7 million and \$93.2 million for the six months ended June 30, 2013 and 2012, respectively.

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

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)			
Balance at beginning of period	$ 471,016	$ 447,483	$ 481,958	$ 468,321
Provision for loan loss	57,796	52,552	124,444	101,879
Recoveries	27,163	23,864	57,948	52,714
Principal charge-offs	(107,579)	(91,378)	(215,954)	(190,393)
Balance at end of period	$ 448,396	$ 432,521	$ 448,396	$ 432,521

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 portfolio:

	June 30, 2013	% of Total	December 31, 2012	% of Total
	(In thousands, except percentages)			
Receivables outstanding – principal	$ 6,866,955	100.0%	$ 7,097,951	100.0%
Principal receivables balances contractually delinquent:				
31 to 60 days	98,208	1.5%	100,479	1.4%
61 to 90 days	62,331	0.9	62,546	0.9
91 or more days	105,003	1.5	120,163	1.7
Total	$ 265,542	3.9%	$ 283,188	4.0%

Modified Credit Card Receivables

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

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

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

The Company had $116.4 million and $117.0 million, respectively, as a recorded investment in impaired credit card receivables with an associated allowance for loan loss of $36.4 million and $39.7 million, respectively, as of June 30, 2013 and December 31, 2012. These modified credit card receivables represented less than 3% of the Company's total credit card receivables as of June 30, 2013 and December 31, 2012, respectively.

The average recorded investment in the impaired credit card receivables was $117.5 million and $111.8 million for the three months ended June 30, 2013 and 2012, respectively, and $117.5 million and $115.6 million for the six months ended June 30, 2013 and 2012, respectively.

Interest income on these modified credit card receivables is accounted for in the same manner as other accruing credit card receivables. Cash collections on these modified credit card receivables are allocated according to the same payment hierarchy methodology applied to credit card receivables that are not in such programs. The Company recognized $3.2 million and $2.9 million for the three months ended June 30, 2013 and 2012, respectively, and $6.3 million and $6.1 million for the six months ended June 30, 2013 and 2012, respectively, in interest income associated with modified credit card receivables during the period that such credit card receivables were impaired.

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

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in thousands)					
Troubled debt restructurings – credit card receivables	35,100	$ 32,135	$ 32,120	72,895	$ 66,101	$ 66,062

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in thousands)					
Troubled debt restructurings – credit card receivables	28,499	$ 25,917	$ 25,839	60,039	$ 54,155	$ 54,068

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

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in thousands)			

Troubled debt restructurings that subsequently defaulted – credit card receivables	15,698	$	14,938	31,193	$	29,421

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Number of Restructurings	Outstanding Balance		Number of Restructurings	Outstanding Balance	
	(Dollars in thousands)					
Troubled debt restructurings that subsequently defaulted – credit card receivables	13,187	$	12,699	29,207	$	28,161

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

Age of Credit Card Receivables

The following tables set forth, as of June 30, 2013 and 2012, the number of active credit card accounts with balances and the related principal balances outstanding, based upon the age of the active credit card accounts from origination:

	June 30, 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	4,162	26.3%	$ 1,567,355	22.8%
13-24 Months	2,132	13.5	868,822	12.7
25-36 Months	1,492	9.4	656,544	9.6
37-48 Months	1,188	7.5	570,969	8.3
49-60 Months	939	5.9	481,828	7.0
Over 60 Months	5,920	37.4	2,721,437	39.6
Total	15,833	100.0%	$ 6,866,955	100.0%

	June 30, 2012			
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	3,469	26.5%	$ 1,198,107	22.0%
13-24 Months	1,728	13.2	660,098	12.1
25-36 Months	1,335	10.2	605,357	11.1
37-48 Months	1,023	7.8	504,946	9.2
49-60 Months	851	6.5	396,614	7.3
Over 60 Months	4,683	35.8	2,086,155	38.3
Total	13,089	100.0%	$ 5,451,277	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 receivables by obligor credit quality as of June 30, 2013 and 2012:

Probability of an Account Becoming 90 or More Days Past Due or Becoming Charged-off (within the next 12 months)	June 30, 2013 Total Principal Receivables Outstanding	June 30, 2013 Percentage of Principal Receivables Outstanding	June 30, 2012 Total Principal Receivables Outstanding	June 30, 2012 Percentage of Principal Receivables Outstanding
	(In thousands, except percentages)			
No Score	$ 143,497	2.1%	$ 112,731	2.1%
27.1% and higher	304,557	4.4	232,278	4.2
17.1% - 27.0%	618,805	9.0	478,551	8.8
12.6% - 17.0%	718,748	10.5	551,539	10.1
3.7% - 12.5%	2,782,404	40.5	2,197,155	40.3
1.9% - 3.6%	1,483,852	21.6	1,236,673	22.7
Lower than 1.9%	815,092	11.9	642,350	11.8
Total	$ 6,866,955	100.0%	$ 5,451,277	100.0%

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

Credit Card Portfolio Acquisition

In March 2013, the Company acquired the existing private label credit card portfolio of Barneys New York. The purchase price was $37.1 million, which is subject to customary purchase price adjustments, and consisted of $35.3 million of credit card receivables and $1.8 million of intangible assets that are included in the June 30, 2013 unaudited condensed consolidated balance sheet.

Securitized Credit Card Receivables

The Company regularly securitizes its credit card receivables through its credit card securitization trusts. As of June 30, 2013, these trusts consisted of World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust ("Master Trust I") and World Financial Network Credit Card Master Trust III ("Master Trust III") (collectively, the "WFN Trusts"), and World Financial Capital Credit Card Master Note Trust (the "WFC Trust"). The Company continues to own and service the accounts that generate credit card receivables held by the WFN Trusts and the WFC Trust. In its capacity as a servicer, each of the respective banks earns a fee from the WFN Trusts and the WFC Trust to service and administer the credit card receivables, collect payments, and charge-off uncollectible receivables. These fees are eliminated and therefore are not reflected in the unaudited condensed consolidated statements of income for the three and six months ended June 30, 2013 and 2012.

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

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Total credit card receivables – restricted for securitization investors	$ 6,074,037	$ 6,597,120
Principal amount of credit card receivables – restricted for securitization investors, 90 days or more past due	$ 92,031	$ 112,203

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net charge-offs of securitized principal	$ 74,595	$ 60,640	$ 148,689	$ 123,445

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

4. REDEMPTION SETTLEMENT ASSETS

Redemption settlement assets consist of cash and cash equivalents and securities available-for-sale and are designated for settling redemptions by collectors of the AIR MILES® Reward Program in Canada under certain contractual relationships with sponsors of the AIR MILES Reward Program. These assets are primarily denominated in Canadian dollars. There were no realized gains or losses from the sale of investment securities for the three and six months ended June 30, 2013 and 2012. The principal components of redemption settlement assets, which are carried at fair value, are as follows:

	June 30, 2013				December 31, 2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)							
Cash and cash equivalents	$ 31,650	$ —	$ —	$ 31,650	$ 40,266	$ —	$ —	$ 40,266
Government bonds	—	—	—	—	5,064	53	—	5,117
Corporate bonds	470,761	7,881	(1,062)	477,580	436,846	10,560	(99)	447,307
Total	$ 502,411	$ 7,881	$ (1,062)	$ 509,230	$ 482,176	$ 10,613	$ (99)	$ 492,690

The following tables show the gross unrealized losses and fair value for those investments that were in an unrealized loss position as of June 30, 2013 and December 31, 2012, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	June 30, 2013					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Corporate bonds	$ 95,059	$ (1,062)	$ —	$ —	$ 95,059	$ (1,062)
Total	$ 95,059	$ (1,062)	$ —	$ —	$ 95,059	$ (1,062)

	December 31, 2012					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Corporate bonds	$ 36,518	$ (99)	$ —	$ —	$ 36,518	$ (99)
Total	$ 36,518	$ (99)	$ —	$ —	$ 36,518	$ (99)

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the security's issuer, and the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company typically invests in highly-rated securities with low probabilities of default and has the ability to hold the investments until maturity. As of June 30, 2013, the Company does not consider the investments to be other-than-temporarily impaired.

The amortized cost and estimated fair value of the securities at June 30, 2013 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 106,162	$ 106,783
Due after one year through five years	396,249	402,447
Total	$ 502,411	$ 509,230

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

5. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	June 30, 2013			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
		(In thousands)		
Finite Lived Assets				
Customer contracts and lists	$ 440,200	$ (155,851)	$ 284,349	3-12 years—straight line
Premium on purchased credit card portfolios	239,561	(126,177)	113,384	5-10 years—straight line, accelerated
Customer database	161,700	(112,468)	49,232	4-10 years—straight line
Collector database	66,543	(60,859)	5,684	30 years—15% declining balance
Tradenames	59,039	(13,027)	46,012	4-15 years—straight line
Purchased data lists	15,988	(10,340)	5,648	1-5 years—straight line, accelerated
Favorable lease	3,291	(202)	3,089	10 years—straight line
Noncompete agreements	1,300	(217)	1,083	3 years—straight line
	$ 987,622	$ (479,141)	$ 508,481	
Indefinite Lived Assets				
Tradenames	12,350	—	12,350	Indefinite life
Total intangible assets	$ 999,972	$ (479,141)	$ 520,831	

	December 31, 2012			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
		(In thousands)		
Finite Lived Assets				
Customer contracts and lists	$ 440,200	$ (124,351)	$ 315,849	3-12 years—straight line
Premium on purchased credit card portfolios	237,800	(108,227)	129,573	5-10 years—straight line, accelerated
Customer database	161,700	(102,706)	58,994	4-10 years—straight line
Collector database	70,550	(63,980)	6,570	30 years—15% declining balance
Tradenames	59,102	(10,139)	48,963	4-15 years—straight line
Purchased data lists	14,540	(8,527)	6,013	1-5 years—straight line, accelerated
Favorable lease	3,291	(29)	3,262	10 years—straight line
Noncompete agreements	1,300	—	1,300	3 years—straight line
	$ 988,483	$ (417,959)	$ 570,524	
Indefinite Lived Assets				
Tradenames	12,350	—	12,350	Indefinite life

Total intangible assets	$	1,000,833	$	(417,959)	$	582,874

Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2013 are as follows:

	LoyaltyOne®	Epsilon®	Private Label Services and Credit	Corporate/ Other	Total
			(In thousands)		
December 31, 2012	$ 248,070	$ 1,241,251	$ 261,732	$ —	$ 1,751,053
Effects of foreign currency translation	(13,446)	(1,553)	—	—	(14,999)
June 30, 2013	$ 234,624	$ 1,239,698	$ 261,732	$ —	$ 1,736,054

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6. DEBT

Debt consists of the following:

Description	June 30, 2013	December 31, 2012	Maturity	Interest Rate
	(Dollars in thousands)			
Long-term and other debt:				
2011 credit facility	$ —	$ —	May 2016	—
2011 term loan	874,453	885,928	May 2016 or May 2017	(1)
Convertible senior notes due 2013	767,265	768,831	August 2013	1.75%
Convertible senior notes due 2014	318,207	304,333	May 2014	4.75%
Senior notes due 2017	396,117	395,734	December 2017	5.250%
Senior notes due 2020	500,000	500,000	April 2020	6.375%
Capital lease obligations and other debt	2	13	July 2013	7.10%
Total long-term and other debt	2,856,044	2,854,839		
Less: current portion	(1,131,374)	(803,269)		
Long-term portion	$ 1,724,670	$ 2,051,570		
Deposits:				
Certificates of deposit	$ 1,936,058	$ 1,974,158	Various – July 2013 – May 2020	0.15% to 5.25%
Money market deposits	319,308	254,253	On demand	0.01% to 0.22%
Total deposits	2,255,366	2,228,411		
Less: current portion	(1,106,452)	(1,092,753)		
Long-term portion	$ 1,148,914	$ 1,135,658		
Asset-backed securities debt – owed to securitization investors:				
Fixed rate asset-backed term note securities	$ 3,246,916	$ 2,403,555	Various – July 2013 – June 2019	0.91% to 6.75%
Floating rate asset-backed term note securities	—	545,700	—	—
Conduit asset-backed securities	765,000	1,181,715	Various – September 2013 – May 2015	1.19% to 1.72%
Total asset-backed securities – owed to securitization investors	4,011,916	4,130,970		
Less: current portion	(660,000)	(1,474,054)		
Long-term portion	$ 3,351,916	$ 2,656,916		

(1) At June 30, 2013, the weighted average interest rate for the 2011 Term Loan was 2.20%.

At June 30, 2013, the Company was in compliance with its covenants.

Credit Agreements

At June 30, 2013, the Company, 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 Alliance Data FHC, Inc., as guarantors, were party to a credit agreement (the “2011 Credit Agreement”) that provided for a $903.1 million term loan (the “2011 Term Loan”) subject to certain principal repayments and a $917.5 million revolving line of credit (the “2011 Credit Facility”).

Total availability under the 2011 Credit Facility at June 30, 2013 was $917.5 million.

In July 2013, the Company, 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, entered into a credit agreement with various agents and lenders dated July 10, 2013 (the “2013 Credit Agreement”), replacing the 2011 Credit Agreement, which was concurrently terminated. Wells Fargo Bank, N.A. is the administrative agent and letter of credit issuer under the 2013 Credit Agreement. The 2013 Credit Agreement provides for a $1,142.5 million term loan with certain principal repayments and a $1,142.5 million 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. The 2013 Credit Agreement includes an uncommitted accordion feature of up to $500.0 million (in certain circumstances, up to $615.0 million) in the aggregate allowing for future incremental borrowings, subject to certain conditions.

The loans under the 2013 Credit Agreement are scheduled to mature on July 10, 2018. The 2013 Term Loan provides for aggregate principal payments of 2.5% of the initial term loan amount in each of the first and second year and 5% of the initial term loan amount in each of the third, fourth, and fifth year, payable in equal quarterly installments beginning on September 30, 2013. The 2013 Credit Agreement is unsecured.

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

Advances under the 2013 Credit Agreement are in the form of either U.S. dollar-denominated or Canadian dollar-denominated base rate loans or U.S. dollar-denominated eurodollar loans. The interest rate for base rate loans denominated in U.S. dollars fluctuates and is equal to the highest of (i) Wells Fargo’s prime rate (ii) the Federal funds rate plus 0.5% and (iii) the London Interbank Offered Rate (“LIBOR”) as defined in the 2013 Credit Agreement plus 1.0%, in each case plus a margin of 0.25% to 1.0% based upon the Company’s total leverage ratio as defined in the 2013 Credit Agreement. The interest rate for base rate loans denominated in Canadian dollars fluctuates and is equal to the higher of (i) Wells Fargo’s prime rate for Canadian dollar loans and (ii) the Canadian Dollar Offered Rate (“CDOR”) plus 1.0%, in each case plus a margin of 0.25% to 1.0% based upon the Company’s total leverage ratio as defined in the 2013 Credit Agreement. The interest rate for eurodollar loans fluctuates based on the rate at which deposits of U.S. dollars in the London interbank market are quoted plus a margin of 1.25% to 2.0% based on the Company’s total leverage ratio as defined in the 2013 Credit Agreement.

The 2013 Credit Agreement contains the usual and customary negative covenants for transactions of this type, including, but not limited to, restrictions on the Company’s ability and in certain instances, its subsidiaries’ ability to consolidate or merge; substantially change the nature of its business; sell, lease, or otherwise transfer any substantial part of its assets; create or incur indebtedness; create liens; pay dividends; and make acquisitions. The negative covenants are subject to certain exceptions as specified in the 2013 Credit Agreement. The 2013 Credit Agreement also requires the Company to satisfy certain financial covenants, including a maximum total leverage ratio as determined in accordance with the 2013 Credit Agreement and a minimum ratio of consolidated operating EBITDA to consolidated interest expense as determined in accordance with the 2013 Credit Agreement. The 2013 Credit Agreement also includes customary events of default.

Convertible Senior Notes

At June 30, 2013, the Company had outstanding $1.12 billion of convertible senior notes, consisting of $772.6 million that matured on August 1, 2013 and $345.0 million scheduled to mature on May 15, 2014. The table below summarizes the carrying value of the components of the convertible senior notes:

	June 30, 2013	December 31, 2012
	(In millions)	
Carrying amount of equity component	$ 368.7	$ 368.7
Principal amount of liability component	$ 1,117.6	$ 1,150.0
Unamortized discount	(32.1)	(76.8)
Net carrying value of liability component	$ 1,085.5	$ 1,073.2
If-converted value of common stock	$ 3,094.6	$ 2,534.4

The discount on the liability component will be amortized as interest expense over the remaining life of the convertible senior notes which, at June 30, 2013, is a weighted average period of 0.3 years.

Interest expense on the convertible senior notes recognized in the Company’s unaudited condensed consolidated statements of income for the three and six months ended June 30, 2013 and 2012 is as follows:

	Three Months Ended June 30,	Six Months Ended June 30,

	2013	2012	2013	2012
	(In thousands, except percentages)			
Interest expense calculated on contractual interest rate	$ 7,471	$ 7,618	$ 14,999	$ 15,237
Amortization of discount on liability component	22,669	20,300	44,719	40,050
Total interest expense on convertible senior notes	$ 30,140	$ 27,918	$ 59,718	$ 55,287
Effective interest rate (annualized)	11.0%	11.0%	11.0%	11.0%

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Both the convertible senior notes due 2013 (the "Convertible Senior Notes due 2013") and the convertible senior notes due 2014 (the "Convertible Senior Notes due 2014") are convertible at the option of the holder based on the condition that the common stock trading price exceeded 130% of the applicable conversion price. Pursuant to the indenture governing the Convertible Senior Notes due 2013, the Company provided notice that it intends to satisfy conversions occurring on or after April 2, 2013 by paying solely cash. Through June 30, 2013, $32.5 million of the convertible senior notes were surrendered for conversion and, in each case, either have been or will be settled in cash following the completion of the applicable cash settlement averaging period.

On August 1, 2013, the Company settled in cash the $772.6 million of Convertible Senior Notes due 2013, of which $772.5 million was surrendered for conversion for $1,790.3 million, with the remaining principal paid at maturity. The Company received $1,017.7 million of cash from the counterparties in settlement of the related convertible note hedge transactions.

Senior Notes Due 2017

In November 2012, the Company issued and sold $400 million aggregate principal amount of 5.250% senior notes due December 1, 2017 (the "Senior Notes due 2017") at an issue price of 98.912% of the aggregate principal amount. The unamortized discount was $3.9 million and $4.3 million at June 30, 2013 and December 31, 2012, respectively. The discount is being amortized using the effective interest method over the remaining life of the Senior Notes due 2017 which, at June 30, 2013, is a period of 4.4 years at an effective annual interest rate of 5.5%.

Deposits

As of June 30, 2013, Comenity Bank and Comenity Capital Bank had issued $319.3 million in money market deposits. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

Asset-backed Securities – Owed to Securitization Investors

Asset-backed Term Notes

In February 2013, Master Trust I issued $500.0 million of asset-backed term securities to investors, which will mature in February 2018. The offering consisted of $375.0 million of Class A Series 2013-A asset-backed notes with a fixed interest rate of 1.61% per year and an aggregate of $125.0 million of subordinated classes of the asset-backed term notes that were retained by the Company and are eliminated from the unaudited condensed consolidated financial statements.

In April 2013, $500.0 million of floating rate Series 2006-A asset-backed term notes matured and was repaid by the Company.

In May 2013, Master Trust I issued $657.9 million of asset-backed term securities to investors, which will mature in May 2016. The offering consisted of $500.0 million of Class A Series 2013-B asset-backed notes with a fixed interest rate of 0.91% per year and an aggregate of $157.9 million of subordinated classes of the asset-backed term notes that were retained by the Company and are eliminated from the unaudited condensed consolidated financial statements.

In July 2013, the Series 2009-D asset-backed term notes matured and were repaid by the Company. Pursuant to the indenture supplement applicable to these securities, as of June 30, 2013, the Company collected $245.0 million of principal payments made by its credit cardholders during the accumulation period. The cash is restricted to the securitization investors and is reflected in other current assets in the Company's unaudited condensed consolidated balance sheet as of June 30, 2013.

Conduit Facilities

The Company has access to committed undrawn capacity through three conduit facilities to support the funding of its credit card receivables through Master Trust I, Master Trust III and the WFC Trust. As of June 30, 2013, total capacity under the conduit facilities was $2.0 billion, of which $0.8 billion had been drawn and was included in asset-backed securities debt in the unaudited condensed consolidated balance sheet. 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 2013 to May 2015 with variable interest rates ranging from 1.19% to 1.72% as of June 30, 2013.

In May 2013, the Company renewed its 2009-VFN conduit facility under World Financial Capital Master Note Trust, extending the maturity to May 31, 2015 and increasing the total capacity from $375.0 million to $450.0 million.

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Derivative Instruments

As part of its interest rate risk management program, the Company may enter into derivative contracts with institutions that are established dealers to manage its exposure to changes in interest rates for certain obligations.

The credit card securitization trusts entered into certain interest rate derivative instruments that involved the receipt of variable rate amounts from counterparties in exchange for the Company making fixed rate payments over the life of the agreement without the exchange of the underlying notional amount. These interest rate derivative instruments were not designated as hedges. Such instruments were not speculative and were used to manage interest rate risk, but did not meet the specific hedge accounting requirements of ASC 815, “Derivatives and Hedging.”

Gains on derivative instruments of $2.2 million and $8.2 million for the three months ended June 30, 2013 and 2012, respectively, and $8.5 million and $15.2 million for the six months ended June 30, 2013 and 2012, respectively, were recognized in securitization funding costs within the unaudited condensed consolidated statements of income.

The Company’s outstanding interest rate derivative instruments matured in April 2013. The Company was not a party to any derivative instruments as of June 30, 2013.

The following tables identify the notional amount, fair value and classification of the Company’s outstanding interest rate derivatives at December 31, 2012 in the unaudited condensed consolidated balance sheets:

	December 31, 2012		
	Notional Amount		Weighted Average Years to Maturity
	(Dollars in thousands)		
Interest rate derivatives not designated as hedging instruments	$	545,700	0.51

	December 31, 2012		
	Balance Sheet Location		Fair Value
	(In thousands)		
Interest rate derivatives not designated as hedging instruments	Other assets	$	4
Interest rate derivatives not designated as hedging instruments	Other current liabilities	$	8,515

7. DEFERRED REVENUE

Because management has determined that the earnings process is not complete at the time an AIR MILES reward mile is issued, the recognition of revenue on fees received is deferred. Amounts for revenue related to the redemption element and service element are recorded in redemption revenue and transaction revenue, respectively, in the unaudited condensed consolidated statements of income.

Under certain of the Company's contracts, a portion of the proceeds is paid to the Company upon the issuance of an AIR MILES reward mile and a portion is paid at the time of redemption and therefore, the Company does not have a redemption obligation related to these contracts. Revenue is recognized at the time of redemption and is not reflected in the reconciliation of the redemption obligation detailed below. Under such contracts, the proceeds received at issuance are initially deferred as service revenue and revenue is recognized pro rata over the estimated life of an AIR MILES reward mile.

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

	Deferred Revenue Service	Deferred Revenue Redemption	Total
	(In thousands)		
December 31, 2012	$ 380,013	$ 869,048	$ 1,249,061
Cash proceeds	97,097	251,384	348,481
Revenue recognized	(106,288)	(279,647)	(385,935)
Other	—	138	138
Effects of foreign currency translation	(21,268)	(48,350)	(69,618)
June 30, 2013	$ 349,554	$ 792,573	$ 1,142,127
Amounts recognized in the unaudited condensed consolidated balance sheets:			
Current liabilities	$ 175,944	$ 792,573	$ 968,517
Non-current liabilities	$ 173,610	$ —	$ 173,610

8. STOCKHOLDERS' EQUITY

Stock Repurchase Program

On January 2, 2013, the Company's Board of Directors authorized a stock repurchase program to acquire up to $400.0 million of the Company's outstanding common stock from January 2, 2013 through December 31, 2013, subject to any restrictions pursuant to the terms of the Company's credit agreements, indentures, applicable securities laws or otherwise.

For the six months ended June 30, 2013, the Company acquired a total of 1,274,904 shares of its common stock for $208.0 million. As of June 30, 2013, the Company has $192.0 million available under the stock repurchase program.

Stock Compensation Expense

Total stock-based compensation expense recognized in the Company's unaudited condensed consolidated statements of income for the three and six months ended June 30, 2013 and 2012 is as follows:

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)			
Cost of operations	$ 10,600	$ 7,954	$ 19,542	$ 15,521
General and administrative	4,391	4,926	8,473	9,665
Total	$ 14,991	$ 12,880	$ 28,015	$ 25,186

During the six months ended June 30, 2013, the Company awarded 257,212 performance-based restricted stock units with a weighted average grant date fair value per share of $152.05 as determined on the date of grant. The performance restriction on the awards will lapse upon determination by the Board of Directors or the Compensation Committee of the Board of Directors that the Company's earnings before taxes for the period from January 1, 2013 to December 31, 2013 met certain pre-defined vesting criteria that permit a range from 50% to 150% of such performance-based restricted stock units to vest. Upon such determination, the restrictions will lapse with respect to 33% of the award on February 21, 2014, an additional 33% of the award on February 23, 2015 and the final 34% of the award on February 22, 2016, provided that the participant is employed by the Company on each such vesting date.

During the six months ended June 30, 2013, the Company awarded 75,282 service-based restricted stock units with a weighted average grant date fair value per share of $154.21 as determined on the date of grant. Service-based restricted stock units typically vest ratably over three years provided that the participant is employed by the Company on each such vesting date.

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9. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

Three Months Ended June 30, 2013	Net Unrealized Gains (Losses) on Securities	Foreign Currency Translation Adjustments (1)	Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Balance as of March 31, 2013	$ 11,417	$ (28,855)	$ (17,438)
Changes in other comprehensive income (loss)	(6,550)	4,938	(1,612)
Balance as of June 30, 2013	$ 4,867	$ (23,917)	$ (19,050)

Three Months Ended June 30, 2012	Net Unrealized Gains (Losses) on Securities	Foreign Currency Translation Adjustments (1)	Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Balance as of March 31, 2012	$ 8,437	$ (33,075)	$ (24,638)
Changes in other comprehensive income (loss)	352	1,406	1,758
Balance as of June 30, 2012	$ 8,789	$ (31,669)	$ (22,880)

Six Months Ended June 30, 2013	Net Unrealized Gains (Losses) on Securities	Foreign Currency Translation Adjustments (1)	Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Balance as of December 31, 2012	$ 10,321	$ (32,182)	$ (21,861)
Changes in other comprehensive income (loss)	(5,454)	8,265	2,811
Balance as of June 30, 2013	$ 4,867	$ (23,917)	$ (19,050)

Six Months Ended June 30, 2012	Net Unrealized Gains (Losses) on Securities	Foreign Currency Translation Adjustments (1)	Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Balance as of December 31, 2011	$ 6,953	$ (30,009)	$ (23,056)
Changes in other comprehensive income (loss)	1,836	(1,660)	176
Balance as of June 30, 2012	$ 8,789	$ (31,669)	$ (22,880)

(1) Primarily related to the impact of changes in the Canadian currency exchange rate.

A de minimis amount was reclassified out of accumulated other comprehensive income (loss) for the six months ended June 30, 2013.

10. FINANCIAL INSTRUMENTS

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

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

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

	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets				
Cash and cash equivalents	$ 749,821	$ 749,821	$ 893,352	$ 893,352
Trade receivables, net	337,458	337,458	370,110	370,110
Credit card receivables, net	6,782,194	6,782,194	6,967,674	6,967,674
Redemption settlement assets, restricted	509,230	509,230	492,690	492,690
Cash collateral, restricted	47,501	47,501	65,160	65,160
Other investments	377,734	377,734	91,972	91,972
Derivative instruments	—	—	4	4
Financial liabilities				
Accounts payable	241,437	241,437	215,470	215,470
Deposits	2,255,366	2,282,483	2,228,411	2,255,089
Asset-backed securities debt – owed to securitization investors	4,011,916	4,045,421	4,130,970	4,225,745
Long-term and other debt	2,856,044	4,915,377	2,854,839	4,358,379
Derivative instruments	—	—	8,515	8,515

Fair Value of Assets and Liabilities Held at June 30, 2013 and December 31, 2012

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

Cash and cash equivalents, trade receivables, net and accounts payable — The carrying amount approximates fair value due to the short maturity and the relatively liquid nature of these assets and liabilities.

Credit card receivables, net — The carrying amount of credit card receivables, net approximates fair value due to the short maturity and average interest rates that approximate current market origination rates.

Redemption settlement assets, restricted — Redemption settlement assets, restricted consists of cash and cash equivalents and marketable securities. The fair value for securities is based on quoted market prices for the same or similar securities.

Cash collateral, restricted — The spread deposits are recorded at their fair value based on discounted cash flow models. The Company uses a valuation model that calculates the present value of estimated cash flows for each asset. The fair value is based on the term of the underlying securities and a discount rate. The carrying amount of excess funding deposits approximates its fair value due to the relatively short maturity period and average interest rates, which approximate current market rates.

Other investments — Other investments consist primarily of restricted cash and marketable securities. The fair value is based on quoted market prices for the same or similar securities.

As of June 30, 2013, the Company’s other investments consisted of $318.4 million of restricted cash and $59.3 million of marketable securities. The Company had a cost basis in its marketable securities of $62.4 million with unrealized losses of $3.2 million and unrealized gains of $0.1 million. Of the $3.2 million unrealized losses, $2.7 million has been unrealized for less than twelve months and $0.5 million has been unrealized for twelve months or greater.