

ALLIANCE DATA SYSTEMS CORP
Form 10-Q
November 05, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 office, including zip code)

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

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

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

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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 Act). Yes £ No R

As of October 31, 2014, 59,411,741 shares of common stock were outstanding.

ALLIANCE DATA SYSTEMS CORPORATION

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PART I

Item 1. Financial Statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2014	December 31, 2013
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	\$634,824	\$969,822
Trade receivables, less allowance for doubtful accounts (\$3,096 and \$2,262 at September 30, 2014 and December 31, 2013, respectively)	455,064	394,822
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	7,214,380	7,080,014
Other credit card and loan receivables	2,080,465	1,492,868
Total credit card and loan receivables	9,294,845	8,572,882
Allowance for loan loss	(511,354)	(503,169)
Credit card and loan receivables, net	8,783,491	8,069,713
Loan receivables held for sale	70,588	62,082
Deferred tax asset, net	200,094	216,195
Other current assets	728,327	177,859
Redemption settlement assets, restricted	529,037	510,349
Total current assets	11,401,425	10,400,842
Property and equipment, net	337,717	299,188
Deferred tax asset, net	2,609	2,454
Cash collateral, restricted	36,576	34,124
Intangible assets, net	752,614	460,404
Goodwill	2,245,782	1,735,703
Other non-current assets	416,552	311,542
Total assets	\$ 15,193,275	\$ 13,244,257
LIABILITIES AND EQUITY		
Accounts payable	\$318,798	\$210,019
Accrued expenses	553,873	262,307
Deposits	2,066,815	1,544,059
Non-recourse borrowings of consolidated securitization entities	1,268,750	1,025,000
Current debt	78,537	364,489
Other current liabilities	210,053	140,186
Deferred revenue	873,332	966,438
Deferred tax liability, net	19	—
Total current liabilities	5,370,177	4,512,498
Deferred revenue	164,835	170,748
Deferred tax liability, net	362,236	275,757
Deposits	1,660,990	1,272,302
Non-recourse borrowings of consolidated securitization entities	3,183,166	3,566,916
Long-term and other debt	2,878,498	2,435,792

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Other liabilities	175,279	154,483
Total liabilities	13,795,181	12,388,496
Commitments and contingencies (Note 12)		
Redeemable non-controlling interest	317,423	—
Stockholders' equity:		
Common stock, \$0.01 par value; authorized, 200,000 shares; issued, 107,032 shares and 98,302 shares at September 30, 2014 and December 31, 2013, respectively	1,070	983
Additional paid-in capital	1,551,999	1,512,752
Treasury stock, at cost, 47,626 shares and 46,752 shares at September 30, 2014 and December 31, 2013, respectively	(2,906,663)	(2,689,177)
Retained earnings	2,488,511	2,049,430
Accumulated other comprehensive loss	(54,246)	(18,227)
Total stockholders' equity	1,080,671	855,761
Total liabilities and equity	\$ 15,193,275	\$ 13,244,257

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Revenues				
Transaction	\$87,162	\$84,264	\$251,390	\$246,185
Redemption	232,464	131,985	744,658	430,339
Finance charges, net	597,892	507,828	1,672,339	1,447,971
Database marketing fees and direct marketing services	353,525	334,720	1,021,813	939,821
Other revenue	48,090	37,650	126,991	113,660
Total revenue	1,319,133	1,096,447	3,817,191	3,177,976
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	767,415	628,386	2,323,210	1,868,093
Provision for loan loss	114,577	90,976	281,811	215,420
General and administrative	39,169	33,845	101,498	84,392
Depreciation and other amortization	28,070	21,395	79,555	61,401
Amortization of purchased intangibles	48,261	33,077	145,144	99,497
Total operating expenses	997,492	807,679	2,931,218	2,328,803
Operating income	321,641	288,768	885,973	849,173
Interest expense				
Securitization funding costs	22,763	22,914	67,974	72,093
Interest expense on deposits	9,064	7,287	25,526	21,296
Interest expense on long-term and other debt, net	29,637	43,814	98,643	146,636
Total interest expense, net	61,464	74,015	192,143	240,025
Income before income tax	260,177	214,753	693,830	609,148
Provision for income taxes	95,229	81,875	253,946	230,851
Net income	\$164,948	\$132,878	\$439,884	\$378,297
Less: Net income attributable to non-controlling interest	706	—	803	—
Net income attributable to Alliance Data Systems Corporation stockholders	\$164,242	\$132,878	\$439,081	\$378,297
Net income attributable to Alliance Data Systems Corporation stockholders per share:				
Basic	\$2.84	\$2.73	\$7.98	\$7.69
Diluted	\$2.74	\$2.01	\$6.98	\$5.63
Weighted average shares				
Basic	57,742	48,710	54,998	49,199
Diluted	59,908	66,019	62,887	67,168

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	\$164,948	\$132,878	\$439,884	\$378,297
Other comprehensive income, net of tax				
Net unrealized gain (loss) on securities available-for-sale, net of tax (benefit) expense of \$(228), \$167, \$688 and \$(913) for the three and nine months ended September 30, 2014 and 2013, respectively	(1,991)	50	(1,435)	(5,404)
Net unrealized loss on cash flow hedges, net of tax benefit of \$34 for each of the three and nine months ended September 30, 2014	(104)	—	(104)	—
Foreign currency translation adjustments	(37,956)	(247)	(34,480)	8,018
Other comprehensive (loss) income	(40,051)	(197)	(36,019)	2,614
Total comprehensive income, net of tax	\$124,897	\$132,681	\$403,865	\$380,911
Less: Comprehensive income attributable to non-controlling interest	1,251	—	1,514	—
Comprehensive income attributable to Alliance Data Systems Corporation stockholders	\$123,646	\$132,681	\$402,351	\$380,911

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months
September 30
2014
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$439,884
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	224,699
Deferred income taxes	5,320
Provision for loan loss	281,811
Non-cash stock compensation	49,754
Fair value gain on interest-rate derivatives	(244)
Amortization of discount on debt	12,499
Amortization of deferred financing costs	17,092
Change in deferred revenue	(41,537)
Change in other operating assets and liabilities, net of acquisitions	21,786
Originations of loan receivables held for sale	(3,645,315)
Sales of loan receivables held for sale	3,636,809
Excess tax benefits from stock-based compensation	(31,888)
Other	(2,691)
Net cash provided by operating activities	967,979

CASH FLOWS FROM INVESTING ACTIVITIES:

Change in redemption settlement assets	(48,906)
Change in cash collateral, restricted	(1,582)
Change in restricted cash	(316,071)
Change in credit card and loan receivables	(633,336)
Purchase of credit card portfolios	(379,616)
Payment for acquired business, net of cash	(259,514)

Capital expenditures	(114,595)
Purchases of other investments	(109,780)
Maturities/sales of other investments	4,565
Other	(4,000)
Net cash used in investing activities	(1,862,835)

CASH FLOWS FROM FINANCING ACTIVITIES:

Borrowings under debt agreements	1,920,190
Repayments of borrowings	(1,580,796)
Proceeds from convertible note hedge counterparties	1,519,833
Settlement of convertible note borrowings	(1,864,803)
Issuances of deposits	2,342,836
Repayments of deposits	(1,431,392)
Non-recourse borrowings of consolidated securitization entities	1,495,000
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(1,635,000)
Payment of deferred financing costs	(24,470)
Excess tax benefits from stock-based compensation	31,888
Proceeds from issuance of common stock	10,439
Purchase of treasury shares	(217,486)
Other	(1,476)
Net cash provided by (used in) financing activities	564,763

Effect of exchange rate changes on cash and cash equivalents	(4,905)
Change in cash and cash equivalents	(334,998)
Cash and cash equivalents at beginning of period	969,822
Cash and cash equivalents at end of period	\$634,824

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid	\$153,839
Income taxes paid, net	\$147,927

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation ("ADSC" or, including its consolidated subsidiaries and variable interest entities, 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, 2013, filed with the SEC on February 28, 2014.

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

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

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

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. 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.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

2. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Numerator:				
Net income attributable to Alliance Data Systems Corporation stockholders	\$ 164,242	\$ 132,878	\$ 439,081	\$ 378,297
Denominator:				
Weighted average shares, basic	57,742	48,710	54,998	49,199
Weighted average effect of dilutive securities:				
Shares from assumed conversion of convertible senior notes	—	7,512	2,816	9,419
Shares from assumed conversion of convertible note warrants	1,664	9,141	4,561	7,937
Net effect of dilutive stock options and unvested restricted stock	502	656	512	613
Denominator for diluted calculations	59,908	66,019	62,887	67,168
Net income attributable to Alliance Data Systems Corporation stockholders per share:				
Basic	\$2.84	\$2.73	\$7.98	\$7.69
Diluted	\$2.74	\$2.01	\$6.98	\$5.63

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.

The Company is also party to prepaid forward contracts in which it purchased 1,857,400 shares of its common stock to be delivered over a settlement period in 2014. These shares have reduced weighted-average basic and diluted shares outstanding for the three and nine months ended September 30, 2014 and 2013. As of September 30, 2014, 510,781 shares have been delivered to the Company, with the remaining 1,346,619 to be delivered throughout the remainder of 2014.

3. ACQUISITION

On January 2, 2014, the Company acquired a 60% ownership interest in BrandLoyalty Group B.V. ("Brand Loyalty"), 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 Company also recorded a contingent liability for the earn-out provisions included in the share purchase agreement of approximately \$248.7 million as of January 2, 2014, which is included in accrued expenses in the Company's unaudited condensed consolidated balance sheet. The contingent liability was measured at fair value on the date of purchase and any subsequent changes in the fair value of the liability are recorded through earnings.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

Pursuant to the BrandLoyalty share purchase agreement, the Company may acquire the remaining 40% ownership interest in BrandLoyalty over a four-year period, 10% per year at predetermined valuation multiples. If specified annual earnings targets are met by BrandLoyalty, the Company must acquire the additional 10% interest for the year achieved; otherwise, the sellers have a put option to sell the Company their 10% interest for the respective year. See Note 13, "Redeemable Non-Controlling Interest," for more information.

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:

	September 30, 2014	December 31, 2013
	(In thousands)	
Principal receivables	\$8,849,589	\$8,166,961
Billed and accrued finance charges	381,761	343,521
Other credit card and loan receivables	63,495	62,400
Total credit card and loan receivables	9,294,845	8,572,882
Less credit card receivables – restricted for securitization investors	7,214,380	7,080,014
Other credit card and loan receivables	\$2,080,465	\$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 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.

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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. Actual charge-offs for unpaid interest and fees were \$70.9 million and \$54.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$212.9 million and \$167.8 million for the nine months ended September 30, 2014 and 2013, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Balance at beginning of period	\$483,580	\$448,396	\$503,169	\$481,958
Provision for loan loss	114,577	90,976	281,811	215,420
Change in estimate for uncollectible unpaid interest and fees	1,000	—	1,500	—
Recoveries	39,074	26,204	115,548	84,152
Principal charge-offs	(126,877)	(103,535)	(390,674)	(319,489)
Balance at end of period	\$511,354	\$462,041	\$511,354	\$462,041

Delinquencies

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

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

September 30, 2014	% of Total	December 31, 2013	% of Total
(In thousands, except percentages)			

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Receivables outstanding – principal	\$8,849,589	100.0%	\$8,166,961	100.0%
Principal receivables balances contractually delinquent:				
31 to 60 days	138,036	1.6	114,430	1.4
61 to 90 days	85,226	0.9	74,700	0.9
91 or more days	168,368	1.9	150,425	1.9
Total	\$391,630	4.4 %	\$339,555	4.2 %

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ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED 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 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 and loan receivables in these programs, there would not be a material difference in the allowance for loan loss.

The Company had \$119.0 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 \$31.8 million and \$33.9 million, respectively, as of September 30, 2014 and December 31, 2013. These modified credit card and loan receivables represented less than 2% of the Company's total credit card and loan receivables as of September 30, 2014 and December 31, 2013, respectively.

The average recorded investment in the impaired credit card receivables was \$114.0 million and \$116.7 million for the three months ended September 30, 2014 and 2013, respectively, and \$114.2 million and \$117.2 million for the nine months ended September 30, 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 \$3.3 million and \$3.2 million for the three months ended September 30, 2014 and 2013, respectively, and \$9.6 million and \$9.5 million for the nine months ended September 30, 2014 and 2013, respectively, in interest income associated with modified credit card and loan receivables during the period that such credit card and loan receivables were impaired.

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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:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Pre-modification Number of Restructurings	Post-modification Outstanding Balance	Pre-modification Number of Restructurings	Post-modification Outstanding Balance
Troubled debt restructurings – credit card receivables		36,846		\$

(Dollars in thousands)