

---

---

**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, 2011**

**OR**

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

**For the transition period from            to**

**Commission File Number: 001-15749**

---

**ALLIANCE DATA SYSTEMS CORPORATION**

*(Exact Name of Registrant as Specified in its Charter)*

**Delaware**

*(State or Other Jurisdiction of Incorporation or Organization)*

**31-1429215**

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

**7500 Dallas Parkway, Suite 700  
Plano, Texas 75024**

*(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**

Non-accelerated filer **£** (Do not check if a smaller reporting company)

Accelerated filer **£**

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 August 3, 2011, 50,917,709 shares of common stock were outstanding.

---

---

# ALLIANCE DATA SYSTEMS CORPORATION

## INDEX

	<b>Page Number</b>
<b>Part I: FINANCIAL INFORMATION</b>	
Item 1. Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010	3
Condensed Consolidated Statements of Income for the three and six months ended June 30, 2011 and 2010	4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3. Quantitative and Qualitative Disclosures About Market Risk	43
Item 4. Controls and Procedures	43
<b>Part II: OTHER INFORMATION</b>	
Item 1. Legal Proceedings	44
Item 1A. Risk Factors	44
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 3. Defaults Upon Senior Securities	44
Item 4. (Removed and Reserved)	44
Item 5. Other Information	44
Item 6. Exhibits	45
<b>SIGNATURES</b>	47

## PART I

## Item 1. Financial Statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2011	December 31, 2010
	(In thousands)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 232,821	\$ 139,114
Trade receivables, less allowance for doubtful accounts (\$3,832 and \$4,350 at June 30, 2011 and December 31, 2010, respectively)	296,271	260,945
Credit card receivables:		
Credit card receivables – restricted for securitization investors	4,338,016	4,795,753
Other credit card receivables	601,201	560,670
Total credit card receivables	4,939,217	5,356,423
Allowance for loan loss	(461,015)	(518,069)
Credit card receivables, net	4,478,202	4,838,354
Deferred tax asset, net	252,816	279,752
Other current assets	132,266	127,022
Redemption settlement assets, restricted	479,210	472,428
Assets of discontinued operations	5,898	11,920
Total current assets	5,877,484	6,129,535
Property and equipment, net	195,850	170,627
Deferred tax asset, net	53,815	46,218
Cash collateral, restricted	317,076	185,754
Intangible assets, net	424,567	314,391
Goodwill	1,462,716	1,221,823
Other non-current assets	216,939	203,804
Total assets	\$ 8,548,447	\$ 8,272,152
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 111,543	\$ 121,856
Accrued expenses	170,562	168,578
Certificates of deposit	357,409	442,600
Asset-backed securities debt – owed to securitization investors	1,494,146	1,743,827
Current debt	19,957	255,679
Other current liabilities	107,252	85,179
Deferred revenue	1,078,038	1,044,469
Total current liabilities	3,338,907	3,862,188
Deferred revenue	190,980	176,773
Deferred tax liability, net	118,068	82,637
Certificates of deposit	470,272	416,500
Asset-backed securities debt – owed to securitization investors	1,812,740	1,916,315
Long-term and other debt	2,341,651	1,614,093
Other liabilities	188,698	180,552
Total liabilities	8,461,316	8,249,058
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Common stock, \$0.01 par value; authorized, 200,000 shares; issued, 93,924 shares and 92,797 shares at June 30, 2011 and December 31, 2010, respectively	939	928
Additional paid-in capital	1,350,530	1,320,767
Treasury stock, at cost, 42,931 shares and 41,426 shares at June 30, 2011 and December 31, 2010, respectively	(2,196,480)	(2,079,819)
Retained earnings	971,117	815,718
Accumulated other comprehensive loss	(38,975)	(34,500)
Total stockholders' equity	87,131	23,094
Total liabilities and stockholders' equity	\$ 8,548,447	\$ 8,272,152

See accompanying notes to unaudited condensed consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Revenues				
Transaction	\$ 69,869	\$ 69,341	\$ 146,640	\$ 145,942
Redemption	133,342	127,709	283,102	266,386
Finance charges, net	332,272	319,269	674,414	625,626
Database marketing fees and direct marketing services	182,264	134,972	334,974	260,163
Other revenue	22,711	18,427	41,764	35,138
Total revenue	740,458	669,718	1,480,894	1,333,255
Operating expenses				
Cost of operations	431,250	358,708	835,775	719,711
Provision for loan loss	60,376	94,700	128,042	182,701
General and administrative	21,021	21,509	41,960	43,673
Depreciation and other amortization	16,850	16,580	33,604	32,905
Amortization of purchased intangibles	19,170	17,841	37,814	35,687
Total operating expenses	548,667	509,338	1,077,195	1,014,677
Operating income	191,791	160,380	403,699	318,578
Interest expense				
Securitization funding costs	35,062	43,606	66,048	85,225
Interest expense on certificates of deposit	5,494	7,604	11,187	16,202
Interest expense on long-term and other debt, net	38,238	32,638	73,018	65,127
Total interest expense, net	78,794	83,848	150,253	166,554
Income before income tax	\$ 112,997	\$ 76,532	\$ 253,446	\$ 152,024
Provision for income taxes	43,974	29,212	98,047	58,050
Net income	\$ 69,023	\$ 47,320	\$ 155,399	\$ 93,974
Basic income per share	\$ 1.35	\$ 0.89	\$ 3.04	\$ 1.78
Diluted income per share	\$ 1.19	\$ 0.83	\$ 2.74	\$ 1.67
Weighted average shares				
Basic	51,070	53,188	51,099	52,820
Diluted	58,145	56,821	56,778	56,122

See accompanying notes to unaudited condensed consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six Months Ended June 30,	
	2011	2010
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 155,399	\$ 93,974
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	71,418	68,592
Deferred income taxes	9,960	19,973
Provision for loan loss	128,042	182,701
Non-cash stock compensation	20,190	23,021
Fair value (gain) loss on interest-rate derivatives	(14,603)	5,384
Amortization of discount on convertible senior notes	35,882	32,162
Change in operating assets and liabilities, net of acquisitions:		
Change in trade accounts receivable	(20,245)	2,619
Change in other assets	10,941	24,833
Change in accounts payable and accrued expenses	(21,599)	(668)
Change in deferred revenue	5,113	(5,169)
Change in other liabilities	36,253	11,865
Excess tax benefits from stock-based compensation	(11,590)	(11,416)
Other	1,782	(1,376)
Net cash provided by operating activities	<u>406,943</u>	<u>446,495</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in redemption settlement assets	15,513	16,927
Payments for acquired businesses, net of cash	(358,152)	—
Change in restricted cash	16,842	21,802
Change in credit card receivables	270,586	276,446
Purchase of credit card receivables	(42,696)	—
Change in cash collateral, restricted	(131,172)	(95,053)
Capital expenditures	(33,935)	(31,512)
Investments in the stock of investees	(13,591)	—
Other	222	(3,699)
Net cash (used in) provided by investing activities	<u>(276,383)</u>	<u>184,911</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under debt agreements	2,336,500	555,000
Repayments of borrowings	(1,876,776)	(544,346)
Issuances of certificates of deposit	138,061	94,000
Repayments of certificates of deposit	(169,480)	(460,100)
Borrowings from asset-backed securities	636,500	411,945
Repayments/maturities of asset-backed securities	(989,757)	(745,120)
Payment of capital lease obligations	(3,791)	(11,476)
Payment of deferred financing costs	(24,564)	(730)
Excess tax benefits from stock-based compensation	11,590	11,416
Proceeds from issuance of common stock	20,533	29,631
Purchase of treasury shares	(116,661)	(14,520)
Net cash used in financing activities	<u>(37,845)</u>	<u>(674,300)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>992</u>	<u>(1,702)</u>
Change in cash and cash equivalents	93,707	(44,596)
Cash effect on adoption of ASC 860 and ASC 810	—	81,553
Cash and cash equivalent at beginning of period	<u>139,114</u>	<u>213,378</u>
Cash and cash equivalents at end of period	<u>\$ 232,821</u>	<u>\$ 250,335</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ 118,971</u>	<u>\$ 119,290</u>
Income taxes paid, net	<u>\$ 58,371</u>	<u>\$ 16,897</u>

See accompanying notes to unaudited condensed consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## **1. 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, 2010, filed with the SEC on February 28, 2011. With respect to information concerning principal geographic areas, revenues are attributed to respective countries based on the location of the subsidiary, which generally correlates with the location of the customer.

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, fraud losses of \$1.0 million and \$1.9 million for the three and six months ended June 30, 2010, respectively, have been reclassified from provision for loan loss to cost of operations in the prior period financial statements to conform to the current year presentation. Such reclassifications have no impact on previously reported net income.

## **2. RECENT ACCOUNTING PRONOUNCEMENTS**

In October 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2009-13, “Multiple-Deliverable Revenue Arrangements,” which supersedes certain guidance in Accounting Standards Codification (“ASC”) 605-25, “Revenue Recognition — Multiple-Element Arrangements,” and requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices (the relative-selling-price method). ASU 2009-13 eliminates the use of the residual method of allocation in which the undelivered element is measured at its estimated selling price and the delivered element is measured as the residual of the arrangement consideration, and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables subject to ASU 2009-13. ASU 2009-13 is effective for revenue arrangements entered into or materially modified beginning on or after January 1, 2011. The Company elected to adopt this ASU prospectively. Revenue associated with the service element of the Company’s AIR MILES<sup>®</sup> Reward Program has historically been determined using the residual method. Based on the sponsor contracts expected to be signed, renewed or materially modified in 2011, the adoption of ASU 2009-13 did not and is not expected to have a material impact on the Company’s unaudited condensed consolidated financial statements for 2011. Should one of the AIR MILES Reward Program’s top five sponsors materially modify its agreement with the Company in 2011, it could significantly shift the allocation of deferred revenue between the service element and redemption element. This change in allocation between the deferred revenue elements could impact the timing of revenue recognition, as the redemption element is recognized as AIR MILES reward miles are redeemed while the service element is recognized on a pro-rata basis over the estimated life of an AIR MILES reward mile, or 42 months.

In April 2011, the FASB issued ASU 2011-02, “Receivables (Topic 310): A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” ASU 2011-02 provides additional guidance to creditors for evaluating whether a modification or restructuring of a receivable is a TDR by clarifying the existing guidance with respect to whether (1) the creditor has granted a concession and (2) the debtor is experiencing financial difficulties. The amendments in ASU 2011-02 will be effective for the first interim or annual period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning of the annual period of adoption. Early adoption is permitted. For purposes of measuring impairment of receivables that are newly considered impaired as a result of ASU 2011-02, the amendments are to be applied prospectively for the first interim or annual period.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

beginning on or after June 15, 2011. ASU 2011-02 will also require additional disclosures about TDR activities along with the disclosures required by ASU 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," that were previously deferred. The Company does not expect the adoption of ASU 2011-02 to have a material impact on the Company's financial condition, results of operations, or cash flows.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS")", which amends ASC 820, "Fair Value Measurement." ASU 2011-04 revises the application of the valuation premise of highest and best use of an asset. It also enhances disclosure requirements and will require entities to disclose, for their recurring Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, with early adoption prohibited. ASU 2011-04 will require prospective application. The Company does not expect the adoption of ASU 2011-04 to have a material impact on the Company's financial condition, results of operations, or cash flows.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." ASU 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of changes in equity and requires the presentation of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. ASU 2011-05 does not change the items that must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. ASU 2011-05 is effective for interim and annual periods beginning after December 31, 2011. Early adoption is permitted, but full retrospective application is required. ASU 2011-05 impacts financial statement presentation only; accordingly, it will have no impact on the Company's financial condition, results of operations, or cash flows.

### 3. 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,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
<b>Numerator :</b>				
Net Income	\$ 69,023	\$ 47,320	\$ 155,399	\$ 93,974
<b>Denominator :</b>				
Weighted average shares, basic	51,070	53,188	51,099	52,820
Weighted average effect of dilutive securities:				
Shares from assumed conversion of convertible senior notes	4,659	2,295	3,724	1,950
Shares from assumed conversion of convertible note warrants	1,537	—	1,085	—
Net effect of dilutive stock options and unvested restricted stock	879	1,338	870	1,352
Denominator for diluted calculations	58,145	56,821	56,778	56,122
<b>Basic net income per share</b>	<u>\$ 1.35</u>	<u>\$ 0.89</u>	<u>\$ 3.04</u>	<u>\$ 1.78</u>
<b>Diluted net income per share</b>	<u>\$ 1.19</u>	<u>\$ 0.83</u>	<u>\$ 2.74</u>	<u>\$ 1.67</u>

The Company calculates the effect of its convertible senior notes, consisting of \$805.0 million aggregate principal amount of convertible senior notes due 2013 (the "Convertible Senior Notes 2013") and \$345.0 million aggregate principal amount of convertible senior notes due 2014 (the "Convertible Senior Notes 2014"), 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 in cash.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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.

For the three and six months ended June 30, 2011, the Company excluded 10.3 million warrants, respectively, from the calculation of net income per share as the effect was anti-dilutive. For the three and six months ended June 30, 2010, the Company excluded 17.5 million warrants, respectively, from the calculation of net income per share as the effect was anti-dilutive.

#### **4. ACQUISITION**

On May 31, 2011, the Company acquired all of the stock of Aspen Marketing Holdings, Inc. (“Aspen”) for a purchase price of \$345.0 million, plus a working capital adjustment. Aspen specializes in a full range of digital and direct marketing services, including the use of advanced analytics to perform data-driven customer acquisition and retention campaigns. Aspen is also a leading provider of marketing agency services, with expertise in the automotive and telecommunications industries. The results of Aspen have been included since the date of acquisition and are reflected in the Company’s Epsilon® segment. The acquisition enhances Epsilon’s core capabilities, strengthens its competitive advantage, expands Epsilon into new industry verticals and adds a strong, talented team of marketing professionals.

The total purchase price for Aspen was \$358.2 million, net of \$13.5 million of cash and cash equivalents acquired. The purchase price is subject to customary working capital adjustments. The goodwill resulting from the acquisition is not deductible for tax purposes. The following table summarizes the preliminary allocation of the consideration and the respective fair values of the assets acquired and liabilities assumed in the Aspen acquisition as of the date of purchase:

	<b>As of May 31, 2011</b>
	<b>(In thousands)</b>
Current assets	\$ 39,924
Property and equipment	4,829
Other assets	1,600
Capitalized software	24,000
Intangible assets	140,000
Goodwill	231,986
<b>Total assets acquired</b>	<b>442,339</b>
Current liabilities	30,099
Other liabilities	3,904
Deferred tax liabilities	50,184
<b>Total liabilities assumed</b>	<b>84,187</b>
<b>Net assets acquired</b>	<b>\$ 358,152</b>

As part of the acquisition, the Company assumed two interest rate caps with a notional amount of \$42.5 million that mature November 2012. The derivatives did not qualify for hedge accounting treatment and were terminated in July 2011. The fair value of the derivatives from May 31, 2011 through termination was de minimis.

Additionally, at the date of the acquisition, Aspen had a tax net operating loss carryforward totaling approximately \$140 million resulting from a previous merger. This potential tax benefit is contingent on the prior merger qualifying as a reorganization under Internal Revenue Code (“IRC”) section 368. At this time, the potential tax benefits from the tax net operating loss carryforward have not been recognized in the Company’s unaudited condensed consolidated financial statements.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**5. 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 and delinquencies is presented in the table below:

	June 30, 2011	December 31, 2010
	(In thousands)	
Principal receivables	\$ 4,716,196	\$ 5,116,111
Billed and accrued finance charges	192,173	214,643
Other receivables	30,848	25,669
Total credit card receivables	4,939,217	5,356,423
Less credit card receivables – restricted for securitization investors	4,338,016	4,795,753
Other credit card receivables	\$ 601,201	\$ 560,670
Principal amount of credit card receivables 90 days or more past due	\$ 91,977	\$ 130,538

***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 uncollectable principal as well as unpaid interest and fees. The allowance for loan loss is evaluated monthly for adequacy.

In estimating the allowance for principal loan losses, management utilizes a migration analysis of delinquent and current credit card 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 losses. Charge-offs of principal amounts, net of recoveries are deducted from the allowance.

The Company records the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. For the three and six months ended June 30, 2011 and 2010, actual charge-offs for unpaid interest and fees were \$48.3 million, \$104.5 million and \$53.6 million, \$114.5 million, respectively. In estimating the allowance for uncollectable unpaid interest and fees, the Company utilizes historical charge-off trends, analyzing actual charge-offs for the prior three months. The allowance is maintained through an adjustment to finance charges, net. In evaluating the quantitative and qualitative factors as set forth below, including the relatively consistent levels of unpaid interest and fees included in credit card receivables for each of the quarterly periods in 2010 and 2011, there has been no change in the allowance for loan loss attributable to unpaid interest and fees. However, if trends continue to improve, the Company would expect to reduce the allowance for loan loss attributable to unpaid interest and fees.

In evaluating the allowance for loan loss for both principal and unpaid interest and fees, management also considers factors that may impact loan loss experience, including seasoning, loan volume and amounts, payment rates and forecasting uncertainties. The following table presents the Company's allowance for loan loss for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Balance at beginning of period	\$ 489,620	\$ 544,569	\$ 518,069	\$ 54,884
Adoption of ASC 860 and ASC 810	—	—	—	523,950
Provision for loan loss	60,376	94,700	128,042	182,701
Recoveries	21,876	21,046	47,742	42,784
Principal charge-offs	(108,942)	(133,470)	(232,838)	(277,474)
Other	(1,915)	—	—	—
Balance at end of period	\$ 461,015	\$ 526,845	\$ 461,015	\$ 526,845

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Net Charge-Offs***

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
(In thousands, except percentages)				
Average credit card receivables	\$ 4,848,715	\$ 4,992,034	\$ 4,908,587	\$ 5,088,590
Net charge-offs of principal receivables	87,066	112,424	185,096	234,690
Net charge-offs as a percentage of average credit card receivables	7.2%	9.0%	7.5%	9.2%

***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. 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 will engage collection agencies and outside attorneys to continue those efforts.

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

	<b>June 30, 2011</b>	<b>% of Total</b>	<b>December 31, 2010</b>	<b>% of Total</b>
(In thousands, except percentages)				
Receivables outstanding – principal	\$ 4,716,196	100%	\$ 5,116,111	100%
Principal receivables balances contractually delinquent:				
31 to 60 days	73,982	1.5%	87,252	1.7%
61 to 90 days	48,408	1.0	59,564	1.2
91 or more days	91,977	2.0	130,538	2.5
Total	<u>\$ 214,367</u>	<u>4.5%</u>	<u>\$ 277,354</u>	<u>5.4%</u>

***Modified Credit Card Receivables***

The Company does hold certain credit card receivables for which the terms have been modified. The Company's modified credit card loans include loans for which temporary hardship concessions have been granted and loans in permanent workout programs. These modified loans 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 loan 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, loan 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. In assessing the appropriate allowance for loan loss, these loans are included in the general pool of credit cards with the allowance determined under the contingent loss model of ASC 450-20, "Loss

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Contingencies.” If the Company applied accounting standards under ASC 310-40, “Troubled Debt Restructurings by Creditors,” to loans in these programs, there would not be a significant difference in the allowance for loan loss. Credit card receivables for which temporary hardship and permanent concessions were granted comprised less than 3% of the Company’s total credit card receivables at each of June 30, 2011 and December 31, 2010.

***Age of Credit Card Receivables***

The following table sets forth, as of June 30, 2011, 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:

Age Since Origination	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Receivables Outstanding
(In thousands, except percentages)				
0-12 Months	2,890	24.1%	\$ 890,067	18.9%
13-24 Months	1,605	13.4	637,793	13.5
25-36 Months	1,206	10.1	546,198	11.6
37-48 Months	992	8.3	427,875	9.1
49-60 Months	838	7.0	365,110	7.7
Over 60 Months	4,446	37.1	1,849,153	39.2
Total	<u>11,977</u>	<u>100.0%</u>	<u>\$ 4,716,196</u>	<u>100.0%</u>

***Credit Quality***

The Company uses proprietary scoring models developed specifically for the purpose of monitoring the Company’s obligor credit quality. The proprietary scoring model is used as a tool in the underwriting process and for making credit decisions. The proprietary scoring model is based on historical data and requires 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 by obligor credit quality as of June 30, 2011:

Probability of an Account Becoming 90 or More Days Past Due or Becoming Charged off (within the next 12 months)	Total Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
(In thousands, except percentages)		
No Score	\$ 79,173	1.7%
27.1% and higher	266,134	5.6
17.1% - 27.0%	447,442	9.5
12.6% - 17.0%	550,006	11.7
3.7% - 12.5%	1,962,204	41.6
1.9% - 3.6%	925,257	19.6
Lower than 1.9%	485,980	10.3
Total	<u>\$ 4,716,196</u>	<u>100.0%</u>

***Securitized Credit Card Receivables***

The Company regularly securitizes its credit card receivables through its credit card securitization trusts, consisting of World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust, World Financial Network Credit Card Master Note Trust II and World Financial Network Credit Card 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 uncollectable 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, 2011 and 2010.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The WFN Trusts and the WFC Trust are variable interest entities (“VIEs”) and the assets of these consolidated VIEs include certain credit card receivables that are restricted to settle the obligations of those entities and are not expected to be available to the Company or its creditors. The liabilities of the consolidated VIEs include 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, 2011	December 31, 2010
	(In thousands)	
Total credit card receivables – restricted for securitization investors	\$ 4,338,016	\$ 4,795,753
Principal amount of credit card receivables – restricted for securitization investors, 90 days or more past due	\$ 82,769	\$ 117,594

  

	Three Months Ended June 30, 2011	2010	Six Months Ended June 30, 2011	2010
	(In thousands)			
Net charge-offs of securitized principal	\$ 78,623	\$ 97,899	\$ 165,926	\$ 206,008

### Portfolio Acquisition

In February 2011, World Financial Capital Bank, one of the Company’s wholly-owned subsidiaries, acquired the existing private label credit card portfolio of J.Jill and entered into a multi-year agreement to provide private label credit card services. The total purchase price was approximately \$42.7 million, which consisted of \$37.9 million of credit card receivables and \$4.8 million of intangible assets that are included in the unaudited condensed consolidated balance sheets as of June 30, 2011.

## 6. 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. Realized gains and losses from the sale of investment securities were not material. The principal components of redemption settlement assets, which are carried at fair value, are as follows:

	June 30, 2011				December 31, 2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)							
Cash and cash equivalents	\$ 36,759	\$ —	\$ —	\$ 36,759	\$ 74,612	\$ —	\$ —	\$ 74,612
Government bonds	5,247	163	—	5,410	15,235	161	(34)	15,362
Corporate bonds <sup>(1)</sup>	432,745	4,885	(589)	437,041	380,605	3,212	(1,363)	382,454
Total	\$ 474,751	\$ 5,048	\$ (589)	\$ 479,210	\$ 470,452	\$ 3,373	\$ (1,397)	\$ 472,428

- (1) As of June 30, 2011 and December 31, 2010, LoyaltyOne® had investments in retained interests in the WFN Trusts with a fair value of \$64.9 million in each case. These amounts are eliminated and therefore not reflected in the unaudited condensed consolidated financial statements and notes thereof as of June 30, 2011 and December 31, 2010.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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, 2011 and December 31, 2010, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	Less than 12 months		June 30, 2011 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Corporate bonds	\$ 59,582	\$ (589)	\$ —	\$ —	\$ 59,582	\$ (589)
Total	<u>\$ 59,582</u>	<u>\$ (589)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 59,582</u>	<u>\$ (589)</u>

	Less than 12 months		December 31, 2010 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Government bonds	\$ 10,119	\$ (34)	\$ —	\$ —	\$ 10,119	\$ (34)
Corporate bonds	128,349	(1,363)	—	—	128,349	(1,363)
Total	<u>\$ 138,468</u>	<u>\$ (1,397)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 138,468</u>	<u>\$ (1,397)</u>

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the security's issuer, and the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company typically invests in highly-rated securities with low probabilities of default and has the ability to hold the investments until maturity. As of June 30, 2011, the Company does not consider the investments to be other-than-temporarily impaired.

The net carrying value and estimated fair value of the redemption settlement assets at June 30, 2011 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
(In thousands)		
Due in one year or less	\$ 58,010	\$ 57,909
Due after one year through five years	416,741	421,301
Total	<u>\$ 474,751</u>	<u>\$ 479,210</u>

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**7. INTANGIBLE ASSETS AND GOODWILL**

*Intangible Assets*

Intangible assets consist of the following:

	June 30, 2011			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
	(In thousands)			
Finite Lived Assets				
Customer contracts and lists	\$ 316,245	\$ (125,357)	\$ 190,888	3-12 years—straight line
Premium on purchased credit card portfolios	156,203	(73,068)	83,135	3-10 years—straight line, accelerated
Collector database	72,659	(63,980)	8,679	30 years—15% declining balance
Customer database	175,531	(86,299)	89,232	4-10 years—straight line
Noncompete agreements	1,089	(895)	194	2-3 years—straight line
Tradenames	38,202	(5,929)	32,273	5-15 years—straight line
Purchased data lists	22,244	(14,428)	7,816	1-5 years—straight line, accelerated
	\$ 782,173	\$ (369,956)	\$ 412,217	
Indefinite Lived Assets				
Tradenames	12,350	—	12,350	Indefinite life
Total intangible assets	\$ 794,523	\$ (369,956)	\$ 424,567	

	December 31, 2010			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
	(In thousands)			
Finite Lived Assets				
Customer contracts and lists	\$ 211,413	\$ (123,932)	\$ 87,481	5-10 years—straight line
Premium on purchased credit card portfolios	151,430	(63,115)	88,315	3-10 years—straight line, accelerated
Collector database	70,211	(61,075)	9,136	30 years—15% declining balance
Customer database	175,397	(76,002)	99,395	4-10 years—straight line
Noncompete agreements	1,062	(668)	394	2-3 years—straight line
Tradenames	14,169	(5,070)	9,099	5-10 years—straight line
Purchased data lists	20,506	(12,285)	8,221	1-5 years—straight line, accelerated
	<u>\$ 644,188</u>	<u>\$ (342,147)</u>	<u>\$ 302,041</u>	
Indefinite Lived Assets				
Tradenames	<u>12,350</u>	<u>—</u>	<u>12,350</u>	Indefinite life
Total intangible assets	<u>\$ 656,538</u>	<u>\$ (342,147)</u>	<u>\$ 314,391</u>	

With the J.Jill portfolio acquisition in February 2011, the Company acquired \$4.8 million of intangible assets consisting of a customer relationship of \$2.6 million and a marketing relationship of \$2.2 million, which are being amortized, in each case, over a weighted average life of 7.0 years.

With the Aspen acquisition on May 31, 2011, the Company acquired \$140.0 million of intangible assets, consisting of \$116.0 million of customer relationships and \$24.0 million of trade names, which are being amortized over a weighted average life of 8.3 years and 15 years, respectively. See Note 4, "Acquisition," for more information regarding the Aspen acquisition.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Goodwill**

The changes in the carrying amount of goodwill for the six months ended June 30, 2011 are as follows:

	<u>LoyaltyOne</u>	<u>Epsilon</u>	<u>Private Label Services and Credit</u>	<u>Corporate/ Other</u>	<u>Total</u>
	(In thousands)				
December 31, 2010	\$ 246,930	\$ 713,161	\$ 261,732	\$ —	\$ 1,221,823
Effects of foreign currency translation	8,216	691	—	—	8,907
Goodwill acquired during the year	—	231,986	—	—	231,986
June 30, 2011	<u>\$ 255,146</u>	<u>\$ 945,838</u>	<u>\$ 261,732</u>	<u>\$ —</u>	<u>\$ 1,462,716</u>

**8. DEBT**

Debt consists of the following:

Description	June 30, 2011	December 31, 2010	Maturity	Interest Rate
	(Dollars in thousands)			
<i>Certificates of deposit:</i>				
Certificates of deposit	\$ 827,681	\$ 859,100	Six months to five years	0.20% to 5.25%
Less: current portion	(357,409)	(442,600)		
Long-term portion	<u>\$ 470,272</u>	<u>\$ 416,500</u>		
<i>Asset-backed securities debt – owed to securitization investors:</i>				
Fixed rate asset-backed term note securities	\$ 1,772,815	\$ 1,772,815	Various - Nov 2011 – Jun 2015	3.79% to 7.00%
Floating rate asset-backed term note securities	1,153,500	1,153,500	Various - Sept 2011 – Apr 2013	(1)
Conduit asset-backed securities	<u>380,571</u>	<u>733,827</u>	Various - Sept 2011 – Jun 2012	1.39% to 2.07%
Total asset-backed securities – owed to securitization investors	3,306,886	3,660,142		
Less: current portion	(1,494,146)	(1,743,827)		
Long-term portion	<u>\$ 1,812,740</u>	<u>\$ 1,916,315</u>		
<i>Long-term and other debt:</i>				
2011 credit facility	\$ 616,000	\$ —	May 2016	(2)
2011 term loan	792,500	—	May 2016	(2)
2006 credit facility	—	300,000	—	—
Series B senior notes	—	250,000	—	—
2009 term loan	—	161,000	—	—
2010 term loan	—	236,000	—	—
Convertible senior notes due 2013	684,797	659,371	August 2013	1.75%
Convertible senior notes due 2014	268,143	257,687	May 2014	4.75%
Capital lease obligations and other debt	<u>168</u>	<u>5,714</u>	Various - Aug 2011 – Jul 2013 (3)	5.25% to 7.10% (3)
Total long-term and other debt	2,361,608	1,869,772		
Less: current portion	(19,957)	(255,679)		
Long-term portion	<u>\$ 2,341,651</u>	<u>\$ 1,614,093</u>		

(1) Interest rates include those for certain of the Company's asset-backed securities – owed to securitization investors where floating rate debt is fixed through interest rate swap agreements. The interest rate for the floating rate debt is equal to the London Interbank Offered Rate ("LIBOR") as defined in the respective agreements plus a margin of 0.1% to 2.5% as defined in the respective agreements. The weighted average interest rate of the fixed rate achieved through interest rate swap agreements is 4.16% at June 30, 2011.

(2) On May 24, 2011, the Company entered into a credit agreement (the "2011 Credit Agreement") which consists of a \$792.5 million unsecured revolving credit facility (the "2011 Credit Facility") and a \$792.5 million term loan (the "2011 Term Loan") where advances are in the form of either base rate loans or Eurodollar loans and may be denominated in Canadian dollars, subject to a sublimit, or U.S. dollars. At June 30, 2011, the weighted average interest rate for the 2011 Credit Facility and 2011 Term Loan was 2.59% and 2.44%, respectively.

(3) The Company has other minor borrowings, primarily capital leases, with varying interest rates and maturities.

At June 30, 2011, the Company was in compliance with its covenants.



**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***2011 Credit Agreement***

The Company is party to a credit agreement, among the Company as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC, Epsilon Data Management LLC, Comenity LLC and Alliance Data FHC, Inc., as guarantors, SunTrust Bank and Bank of Montreal, as co-administrative agents, and Bank of Montreal as letter of credit issuer, and various other agents and banks, dated May 24, 2011 (the “2011 Credit Agreement”). The 2011 Credit Agreement provides for a \$792.5 million term loan (the “2011 Term Loan”) and a \$792.5 million revolving line of credit (the “2011 Credit Facility”) with a U.S. \$65.0 million sublimit for Canadian dollar borrowings and a \$65.0 million sublimit for swing line loans. The 2011 Credit Agreement includes an uncommitted accordion feature of up to \$415.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions.

The loans under the 2011 Credit Agreement are scheduled to mature on May 24, 2016. The 2011 Term Loan provides for aggregate principal payments equal to 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 of the term loan, payable in equal quarterly installments beginning September 30, 2011. The 2011 Credit Agreement is unsecured.

Advances under the 2011 Credit Agreement are in the form of either base rate loans or Eurodollar loans and may be denominated in U.S. dollars or Canadian dollars. The interest rate for base rate loans denominated in U.S. dollars fluctuates and is equal to the highest of (i) the Bank of Montreal’s prime rate; (ii) the Federal funds rate plus 0.5% and (iii) the London Interbank Offered Rate (“LIBOR”) as defined in the 2011 Credit Agreement plus 1.0%, in each case plus a margin of 0.75% to 1.25% based upon the Company’s senior leverage ratio as defined in the 2011 Credit Agreement. The interest rate for base rate loans denominated in Canadian dollars fluctuates and is equal to the higher of (i) the Bank of Montreal’s prime rate for Canadian dollar loans and (ii) the Canadian Dollar Offered Rate (“CDOR”) plus 1%, in each case plus a margin of 0.75% to 1.25% based upon the Company’s senior leverage ratio as defined in the 2011 Credit Agreement. The interest rate for Eurodollar loans denominated in U.S. or Canadian dollars fluctuates based on the rate at which deposits of U.S. dollars or Canadian dollars, respectively, in the London interbank market are quoted plus a margin of 1.75% to 2.25% based upon the Company’s senior leverage ratio as defined in the 2011 Credit Agreement.

The 2011 Credit Agreement contains 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 investments or acquisitions. The negative covenants are subject to certain exceptions as specified in the 2011 Credit Agreement. The 2011 Credit Agreement also requires the Company to satisfy certain financial covenants, including maximum ratios of total leverage and senior leverage as determined in accordance with the 2011 Credit Agreement and a minimum ratio of consolidated operating EBITDA to consolidated interest expense as determined in accordance with the 2011 Credit Agreement.

Concurrently with entering into the 2011 Credit Agreement, the Company terminated the following credit facilities: (i) a credit agreement, dated September 29, 2006, which consisted of a \$750.0 million unsecured revolving credit facility (the “2006 Credit Facility”); (ii) a term loan agreement, dated May 15, 2009 (the “2009 Term Loan”); and (iii) a term loan agreement, dated August 6, 2010 (the “2010 Term Loan”). The 2006 Credit Facility, the 2009 Term Loan and the 2010 Term Loan were scheduled to expire on March 30, 2012.

Total availability under the 2011 Credit Facility at June 30, 2011 was \$176.5 million.

***Series B Senior Notes***

The Company repaid the \$250.0 million aggregate principal amount of the 6.14% Series B senior notes at their scheduled maturity of May 16, 2011.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Convertible Senior Notes**

The Company has outstanding \$1.15 billion of convertible senior notes, consisting of \$805.0 million scheduled to mature 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, 2011	December 31, 2010
	(In thousands)	
Carrying amount of equity component	\$ 368,678	\$ 368,678
Principal amount of liability component	\$ 1,150,000	\$ 1,150,000
Unamortized discount	(197,060)	(232,942)
Net carrying value of liability component	\$ 952,940	\$ 917,058
If-converted value of common stock	\$ 1,646,993	\$ 1,243,605

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, 2011, is a weighted average period of 2.3 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, 2011 and 2010 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except percentages)			
Interest expense calculated on contractual interest rate	\$ 7,618	\$ 7,618	\$ 15,237	\$ 15,237
Amortization of discount on liability component	18,187	16,301	35,882	32,162
Total interest expense on convertible senior notes	\$ 25,805	\$ 23,919	\$ 51,119	\$ 47,399
Effective interest rate (annualized)	11.0%	11.0%	11.0%	11.0%

**Asset-backed Securities – Owed to Securitization Investors**

**Conduit Facilities**

During the second quarter of 2011, the Company renewed its \$1.2 billion 2009-VFN conduit facility under World Financial Network Credit Card Master Note Trust and its \$275.0 million 2009-VFN conduit facility under World Financial Capital Credit Card Master Note Trust, extending their maturities to June 13, 2012 and June 1, 2012, respectively.

**Derivative Financial Instruments**

As part of its interest rate risk management program, the Company may enter into derivative financial instruments with institutions that are established dealers and manage its exposure to changes in fair value of certain obligations attributable to changes in LIBOR.

The credit card securitization trusts enter into derivative financial instruments, which include both interest rate swaps and an interest rate cap, to mitigate their interest rate risk on a related financial instrument or to lock the interest rate on a portion of their variable asset-backed securities debt.

These interest rate contracts involve 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 contracts are not designated as hedges. Such contracts are not speculative and are used to manage interest rate risk, but do not meet the specific hedge accounting requirements of ASC 815, "Derivatives and Hedging."

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following tables identify the notional amount, fair value and classification of the Company's outstanding interest rate contracts for the credit card securitization trusts at June 30, 2011 and December 31, 2010 in the unaudited condensed consolidated balance sheets:

	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Notional Amount</u>	<u>Weighted Average Years to Maturity</u>	<u>Notional Amount</u>	<u>Weighted Average Years to Maturity</u>
	(Dollars in thousands)			
Interest rate contracts not designated as hedging instruments	\$ 1,153,500	1.23	\$ 1,153,500	1.72

	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
	(In thousands)			
Interest rate contracts not designated as hedging instruments	Other current liabilities	\$ 1,400	Other current liabilities	\$ 4,574
Interest rate contracts not designated as hedging instruments	Other liabilities	\$ 53,828	Other liabilities	\$ 65,257

The following table summarizes activity related to and identifies the location of the Company's outstanding interest rate contracts for the credit card securitization trusts for the three and six months ended June 30, 2011 and 2010 recognized in the unaudited condensed consolidated statements of income:

	<u>2011</u>		<u>2010</u>	
<u>For the three months ended June 30 ,</u>	<u>Income Statement Location</u>	<u>Gain on Derivative Contracts</u>	<u>Income Statement Location</u>	<u>Loss on Derivative Contracts</u>
	(In thousands)			
Interest rate contracts not designated as hedging instruments	Securitization funding costs	\$ 4,711	Securitization funding costs	\$ 3,203
<u>For the six months ended June 30 ,</u>				
Interest rate contracts not designated as hedging instruments	Securitization funding costs	\$ 14,603	Securitization funding costs	\$ 5,384

The Company limits its exposure on derivatives by entering into contracts with institutions that are established dealers who maintain certain minimum credit criteria established by the Company. At June 30, 2011, the Company does not maintain any derivative contracts subject to master agreements that would require the Company to post collateral or that contain any credit-risk related contingent features. The Company has provisions in certain of the master agreements that require counterparties to post collateral to the Company when their credit ratings fall below certain thresholds. At June 30, 2011, these thresholds were not breached and no amounts were held as collateral by the Company.

## 9. 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 all fees received at issuance is deferred. The Company allocates the proceeds from the issuance of AIR MILES reward miles into two components as follows:

- *Redemption element.* The redemption element is the larger of the two components. Revenue related to the redemption element is based on the estimated fair value. For this component, revenue is recognized at the time an AIR MILES reward mile is redeemed, or for those AIR MILES reward miles that are estimated to go unredeemed by the collector base, known as "breakage," over the estimated life of an AIR MILES reward mile. The Company's estimate of breakage is 28%.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

- *Service element.* The service element consists of marketing and administrative services provided to sponsors. Revenue related to the service element has been determined in accordance with ASU 2009-13. It is initially deferred and then amortized pro rata over the estimated life of an AIR MILES reward mile. With the adoption of ASU 2009-13, the residual method will no longer be utilized for new sponsor agreements entered into on or after January 1, 2011 or existing sponsor agreements that are materially modified subsequent to that date; for these agreements, the Company will measure the service element at its estimated selling price.

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. 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.

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

	Deferred Revenue		
	Service	Redemption	Total
	(In thousands)		
December 31, 2010	\$ 339,514	\$ 881,728	\$ 1,221,242
Cash proceeds	108,189	258,078	366,267
Revenue recognized	(95,743)	(266,500)	(362,243)
Other	—	1,094	1,094
Effects of foreign currency translation	12,009	30,649	42,658
June 30, 2011	\$ 363,969	\$ 905,049	\$ 1,269,018
Amounts recognized in the unaudited condensed consolidated balance sheets:			
Current liabilities	\$ 172,989	\$ 905,049	\$ 1,078,038
Non-current liabilities	\$ 190,980	\$ —	\$ 190,980

## 10. STOCKHOLDERS' EQUITY

### *Stock Repurchase Program*

On September 13, 2010, 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 September 13, 2010 through December 31, 2011, subject to any restrictions pursuant to the terms of the Company's credit agreements or otherwise.

For the six months ended June 30, 2011, the Company acquired a total of 1,505,252 shares of its common stock for \$116.7 million. As of June 30, 2011, the Company has \$211.4 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, 2011 and 2010 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Cost of operations	\$ 6,007	\$ 6,308	\$ 11,910	\$ 12,203
General and administrative	5,099	6,107	8,280	10,818
Total	\$ 11,106	\$ 12,415	\$ 20,190	\$ 23,021

During the six months ended June 30, 2011, the Company awarded 425,328 performance-based restricted stock units with a weighted average grant date fair value per share of \$83.72 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, 2011 to December 31, 2011 met certain pre-defined vesting criteria that permit a range from 50% to

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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, 2012, an additional 33% of the award on February 21, 2013 and the final 34% of the award on February 21, 2014, provided that the participant is employed by the Company on each such vesting date.

During the six months ended June 30, 2011, the Company awarded 125,959 service-based restricted stock units with a weighted average grant date fair value per share of \$84.45 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.

## 11. COMPREHENSIVE INCOME

The components of comprehensive income, net of tax effect, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Net income	\$ 69,023	\$ 47,320	\$ 155,399	\$ 93,974
Adoption of ASC 860 and ASC 810 <sup>(1)</sup>	—	—	—	55,881
Unrealized gain (loss) on securities available-for-sale	3,484	3,953	(944)	(1,748)
Foreign currency translation adjustments <sup>(2)</sup>	(387)	5,757	(3,531)	(1,881)
Total comprehensive income, net of tax	<u>\$ 72,120</u>	<u>\$ 57,030</u>	<u>\$ 150,924</u>	<u>\$ 146,226</u>

(1) These amounts related to retained interests in the WFN Trusts and the WFC Trust were previously reflected in accumulated other comprehensive income. Upon the adoption of ASC 860, “Transfers and Servicing,” and ASC 810, “Consolidation,” which was effective January 1, 2010, these interests and related accumulated other comprehensive income have been reclassified, derecognized or eliminated upon consolidation.

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

## 12. 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.

**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, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)				
<b>Financial assets</b>				
Cash and cash equivalents	\$ 232,821	\$ 232,821	\$ 139,114	\$ 139,114
Trade receivables, net	296,271	296,271	260,945	260,945
Credit card receivables, net	4,478,202	4,478,202	4,838,354	4,838,354
Redemption settlement assets, restricted	479,210	479,210	472,428	472,428
Cash collateral, restricted	317,076	317,076	185,754	185,754
Other investment securities	89,214	89,214	104,916	104,916
<b>Financial liabilities</b>				
Accounts payable	111,543	111,543	121,856	121,856
Certificates of deposit	827,681	849,521	859,100	883,405
Asset-backed securities debt – owed to securitization investors	3,306,886	3,368,719	3,660,142	3,711,263
Long-term and other debt	2,361,608	3,152,040	1,869,772	2,393,124
Derivative financial instruments	55,228	55,228	69,831	69,831

**Fair Value of Assets and Liabilities Held at June 30, 2011 and December 31, 2010**

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.

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

*Redemption settlement assets, restricted* — 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 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 investment securities* — Other investment securities consist primarily of U.S. Treasury and government securities. The fair value is based on quoted market prices for the same or similar securities.

*Certificates of deposit* — The fair value is estimated based on the current rates available to the Company for similar certificates of deposit with similar remaining maturities.

*Asset-backed securities debt – owed to securitization investors* — The fair value is estimated based on the current rates available to the Company for similar debt instruments with similar remaining maturities.

*Long-term and other debt* — The fair value is estimated based on the current rates available to the Company for similar debt instruments with similar remaining maturities.

*Derivative financial instruments* — The valuation of these instruments is determined using a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and option volatility.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Assets and Liabilities Measured on a Recurring Basis**

ASC 825 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

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

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

The following tables provide the assets carried at fair value measured on a recurring basis as of June 30, 2011 and December 31, 2010:

	Balance at June 30, 2011	Fair Value Measurements at June 30, 2011 Using		
		Level 1	Level 2	Level 3
		(In thousands)		
Government bonds <sup>(1)</sup>	\$ 5,410	\$ —	\$ 5,410	\$ —
Corporate bonds <sup>(1)</sup>	437,041	22,992	414,049	—
Cash collateral, restricted	317,076	—	141,250	175,826
Other investment securities <sup>(2)</sup>	89,214	69,876	19,338	—
Total assets measured at fair value	<u>\$ 848,741</u>	<u>\$ 92,868</u>	<u>\$ 580,047</u>	<u>\$ 175,826</u>
Derivative financial instruments <sup>(3)</sup>	\$ 55,228	\$ —	\$ 55,228	\$ —
Total liabilities measured at fair value	<u>\$ 55,228</u>	<u>\$ —</u>	<u>\$ 55,228</u>	<u>\$ —</u>

  

	Balance at December 31, 2010	Fair Value Measurements at December 31, 2010 Using		
		Level 1	Level 2	Level 3
		(In thousands)		
Government bonds <sup>(1)</sup>	\$ 15,362	\$ —	\$ 15,362	\$ —
Corporate bonds <sup>(1)</sup>	382,454	164,706	217,748	—
Cash collateral, restricted	185,754	—	—	185,754
Other investment securities <sup>(2)</sup>	104,916	86,881	18,035	—
Total assets measured at fair value	<u>\$ 688,486</u>	<u>\$ 251,587</u>	<u>\$ 251,145</u>	<u>\$ 185,754</u>
Derivative financial instruments <sup>(3)</sup>	\$ 69,831	\$ —	\$ 69,831	\$ —
Total liabilities measured at fair value	<u>\$ 69,831</u>	<u>\$ —</u>	<u>\$ 69,831</u>	<u>\$ —</u>

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

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

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

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following tables summarize the changes in fair value of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 825 as of June 30, 2011 and 2010:

	<b>Cash Collateral, Restricted</b>
	<b>(In thousands)</b>
March 31, 2011	\$ 179,333
Total gains (realized or unrealized):	
Included in earnings	126
Purchases	—
Settlements	(3,633)
Transfers in or out of Level 3	—
June 30, 2011	<u>\$ 175,826</u>

Gains for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at June 30, 2011	<u>\$ 126</u>
--	---------------

	<b>Cash Collateral, Restricted</b>
	<b>(In thousands)</b>
December 31, 2010	\$ 185,754
Total gains (realized or unrealized):	
Included in earnings	458
Purchases	2,291
Settlements	(12,677)
Transfers in or out of Level 3	—
June 30, 2011	<u>\$ 175,826</u>

Gains for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at June 30, 2011	<u>\$ 458</u>
--	---------------

	<b>Cash Collateral, Restricted</b>
	<b>(In thousands)</b>
March 31, 2010	\$ 183,700
Total losses (realized or unrealized):	
Included in earnings	(363)
Purchases, sales, issuances and settlements	(11,547)
Transfers in or out of Level 3	—
June 30, 2010	<u>\$ 171,790</u>

Losses for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at June 30, 2010	<u>\$ (363)</u>
---	-----------------

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	<u>Corporate Bonds</u>	<u>Seller's Interest</u>	<u>Due from Securitizations</u>	<u>Cash Collateral, Restricted</u>
	(In thousands)			
December 31, 2009	\$ 73,866	\$ 297,108	\$ 775,570	\$ 206,678
Adoption of ASC 860 and ASC 810	(73,866)	(297,108)	(775,570)	—
Total losses (realized or unrealized):				
Included in earnings	—	—	—	(330)
Purchases, sales, issuances and settlements	—	—	—	(34,558)
Transfers in or out of Level 3	—	—	—	—
June 30, 2010	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 171,790</u>
Losses for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at June 30, 2010	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (330)</u>

Gains and losses included in earnings attributable to cash collateral, restricted are included in interest in the unaudited condensed consolidated statements of income.

***Assets and Liabilities Measured on a Non-Recurring Basis***

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets include those associated with acquired businesses, including goodwill and other intangible assets. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if one or more is determined to be impaired. During the three and six months ended June 30, 2011, the Company had no impairments related to these assets.

**13. INCOME TAXES**

For the three and six months ended June 30, 2011, the Company utilized an effective tax rate of 38.9% and 38.7%, respectively, to calculate its provision for income taxes. For the three and six months ended June 30, 2010, the Company utilized an effective tax rate of 38.2%, in each case, to calculate its provision for income taxes. In accordance with ASC 740-270, "Income taxes — Interim Reporting," the Company's expected annual effective tax rate for calendar year 2011 based on all known variables is 38.7%.

**14. SEGMENT INFORMATION**

The Company operates in three reportable segments: LoyaltyOne, Epsilon and Private Label Services and Credit.

- LoyaltyOne includes the Company's Canadian AIR MILES Reward Program;
- Epsilon provides integrated direct marketing solutions that combine database marketing technology and analytics with a broad range of direct marketing services; and
- Private Label Services and Credit provides risk management solutions, account origination, funding, transaction processing, customer care and collections services for the Company's private label retail credit card programs.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Additionally, corporate and all other immaterial businesses are reported collectively as an “all other” category labeled “Corporate/Other.” Total interest expense, net and income taxes are not allocated to the segments in the computation of segment operating profit for internal evaluation purposes and are included in “Corporate/Other.” Total assets are not allocated to the segments.

Three Months Ended June 30, 2011	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
(In thousands)						
Revenues	\$ 203,162	\$ 188,456	\$ 350,718	\$ 356	\$ (2,234)	\$ 740,458
Adjusted EBITDA <sup>(1)</sup>	52,943	39,324	163,671	(15,567)	(1,454)	238,917
Depreciation and amortization	5,251	20,721	8,858	1,190	—	36,020
Stock compensation expense	1,365	2,855	1,786	5,100	—	11,106
Operating income (loss)	46,327	15,748	153,027	(21,857)	(1,454)	191,791
Interest expense, net	—	—	—	78,794	—	78,794
Income (loss) before income taxes	46,327	15,748	153,027	(100,651)	(1,454)	112,997

Three Months Ended June 30, 2010	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
(In thousands)						
Revenues	\$ 191,531	\$ 137,024	\$ 343,260	\$ 388	\$ (2,485)	\$ 669,718
Adjusted EBITDA <sup>(1)</sup>	58,666	31,277	133,229	(14,243)	(1,713)	207,216
Depreciation and amortization	6,147	18,076	8,532	1,666	—	34,421
Stock compensation expense	2,365	2,166	1,777	6,107	—	12,415
Operating income (loss)	50,154	11,035	122,920	(22,016)	(1,713)	160,380
Interest expense, net	—	—	—	83,848	—	83,848
Income (loss) before income taxes	50,154	11,035	122,920	(105,864)	(1,713)	76,532

Six Months Ended June 30, 2011	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
(In thousands)						
Revenues	\$ 420,836	\$ 344,140	\$ 719,628	\$ 713	\$ (4,423)	\$ 1,480,894
Adjusted EBITDA <sup>(1)</sup>	111,194	72,990	347,001	(32,970)	(2,908)	495,307
Depreciation and amortization	10,434	40,620	17,868	2,496	—	71,418
Stock compensation expense	3,332	5,148	3,430	8,280	—	20,190
Operating income (loss)	97,428	27,222	325,703	(43,746)	(2,908)	403,699
Interest expense, net	—	—	—	150,253	—	150,253
Income (loss) before income taxes	97,428	27,222	325,703	(193,999)	(2,908)	253,446

Six Months Ended June 30, 2010	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
(In thousands)						
Revenues	\$ 391,201	\$ 263,331	\$ 682,464	\$ 1,153	\$ (4,894)	\$ 1,333,255
Adjusted EBITDA <sup>(1)</sup>	112,253	58,563	272,984	(30,183)	(3,426)	410,191
Depreciation and amortization	12,284	36,092	17,021	3,195	—	68,592
Stock compensation expense	4,528	4,136	3,539	10,818	—	23,021
Operating income (loss)	95,441	18,335	252,424	(44,196)	(3,426)	318,578
Interest expense, net	—	—	—	166,554	—	166,554
Income (loss) before income taxes	95,441	18,335	252,424	(210,750)	(3,426)	152,024

- (1) Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization and amortization of purchased intangibles. Adjusted EBITDA is presented in accordance with ASC 280, “Segment Reporting,” as it is the primary performance metric by which senior management is evaluated.

**ALLIANCE DATA SYSTEMS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

## 15. DISCONTINUED OPERATIONS

In November 2009, the Company terminated operations of its credit program for web and catalog retailer VENUE. This has been treated as a discontinued operation under ASC 205-20, “Presentation of Financial Statements — Discontinued Operations.” The underlying assets of the discontinued operation for the periods presented in the unaudited condensed consolidated balance sheets are as follows:

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	(In thousands)	
<b>Assets :</b>		
Credit card receivables, net	\$ 5,898	\$ 11,920
Assets of discontinued operations	<u>\$ 5,898</u>	<u>\$ 11,920</u>

## 16. NON-CASH FINANCING AND INVESTING ACTIVITIES

On January 1, 2010, the Company adopted ASC 860 and ASC 810 resulting in the consolidation of the WFN Trusts and the WFC Trust. However, based on the carrying amounts of the WFN Trusts’ and the WFC Trust’s assets and liabilities as prescribed by ASC 810, the consolidation of the trusts had the following non-cash impact to the financing and investing activities of the unaudited condensed consolidated statements of cash flows for the six months ended June 30, 2010 as follows:

- elimination of \$74 million in redemption settlement assets for those interests retained in the WFN Trusts,
- elimination of \$775 million in retained interests classified in due from securitizations,
- consolidation of \$4.1 billion in credit card receivables, and
- consolidation of \$3.7 billion in asset-backed securities.

## 17. COMMITMENTS AND CONTINGENCIES

On March 30, 2011, an incident was detected where a subset of Epsilon clients’ customer data was exposed by an unauthorized entry into Epsilon’s email system. The information obtained was limited to email addresses and/or customer names only. A rigorous assessment determined that no personal information associated with those names was at risk. Client marketing campaigns were restarted and Epsilon’s email volumes are not expected to be significantly impacted. At this time, the Company does not believe it will incur any significant costs arising from the incident, and does not believe that the incident will have a material impact to the Company’s liquidity, capital resources or results of operations.

## 18. SUBSEQUENT EVENT

Effective August 1, 2011, WFNNB converted from a national banking association and limited purpose credit card bank to a Delaware State FDIC-insured bank and limited purpose credit card bank and changed its name to World Financial Network Bank (“WFNB”). WFNB is regulated, supervised and examined by the State of Delaware and the Federal Deposit Insurance Corporation (“FDIC”).

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes thereto presented in this quarterly report and the consolidated financial statements and related notes thereto included in our Annual Report filed on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission, or SEC, on February 28, 2011. With respect to information concerning principal geographic areas, revenues are attributed to respective countries based on the location of the subsidiary, which generally correlates with the location of the customer.

**Year in Review Highlights**

For the six months ended June 30, 2011, revenue increased 11.1% to \$1.48 billion and adjusted EBITDA increased 20.8% to \$495.3 million as compared to the prior year period as each of the three segments had solid operating results.

*LoyaltyOne®*

Revenue increased 7.6% to \$420.8 million and adjusted EBITDA decreased slightly to \$111.2 million for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. A stronger Canadian dollar benefitted the first half of 2011 as the average foreign currency exchange rate for the six months ended June 30, 2011 was \$1.02 as compared to \$0.97 in the same prior year period, which added \$23.2 million and \$6.4 million to revenue and adjusted EBITDA, respectively.

During the six months ended June 30, 2011, LoyaltyOne announced a long-term contract renewal with Sobey's, a leading Canadian grocer and retailer, and with The Jean Coutu Group, one of Canada's leading pharmacy chains. In addition, LoyaltyOne signed new agreements with The Children's Place, a children's specialty apparel retailer, and Zale Canada, a specialty jewelry retailer, to participate as national sponsors in the AIR MILES® Reward Program.

AIR MILES reward miles issued during the six months ended June 30, 2011 increased 5.8% compared to the same prior year period due to positive growth in consumer credit card spending, as well as increased promotional activity in the grocer sector and higher gas prices. Additionally, with the positive growth in issuance from credit cards and high frequency retailers, our sponsor mix is returning to traditional levels. We expect issuance growth to be in the mid-single digits for the remainder of 2011. The number of AIR MILES reward miles issued impacts the number of future AIR MILES reward miles available to be redeemed. This can also impact our future revenue recognized with respect to the number of AIR MILES reward miles redeemed and the amount of breakage for those AIR MILES reward miles expected to go unredeemed.

AIR MILES reward miles redeemed during the six months ended June 30, 2011 increased 6.6% compared to the same prior year period due to increased travel rewards, as collectors took advantage of the ability to book flights on-line, a capability launched in the fourth quarter of 2010. Due to recent modifications implemented in the AIR MILES Reward Program, which were completed during 2011 in the ordinary course to manage the program, the increase in AIR MILES reward miles redemptions slowed to 2.0% for the second quarter of 2011 as compared to the second quarter of 2010. We expect redemption growth to remain at low single-digit year-over-year increases for the remainder of 2011.

Additionally, we increased our investment in CBSM-Companhia Brasileira De Servicos De Marketing, operator of the dotz coalition loyalty program in Brazil, to 35% as of June 30, 2011. In May 2011, CBSM signed a multi-year agreement with Banco Do Brasil to expand the dotz coalition loyalty program across Brazil. A national roll out of the dotz coalition loyalty program is planned for later in 2011. We also invested approximately \$3.6 million to obtain a 26% ownership in Direxions Global Solutions Private Ltd., a leading loyalty, customer relationship management (CRM) solutions and data analytics provider in India. During 2011, we have invested an aggregate of \$13.6 million in these international ventures.

*Epsilon®*

Revenue increased 30.7% to \$344.1 million and adjusted EBITDA increased 24.6% to \$73.0 million for the six months ended June 30, 2011 as compared to the same period in the prior year, driven by strong organic growth as well as the acquisitions of Direct Marketing Services and Database Marketing divisions of Equifax, Inc., collectively DMS, in July 2010 and Aspen Marketing Services, or Aspen, in May 2011.

During the six months ended June 30, 2011, Epsilon announced signings with Norwegian Cruise Line to manage and host their consumer database, and provide analytics and marketing strategy support, and a multi-year renewal and expansion agreement with Helzberg Diamonds to optimize and continue to support their multi-channel direct marketing efforts.

Overall, the outlook for Epsilon's business remains strong as the segment continues to benefit from client wins and recent acquisitions. As previously discussed, on May 31, 2011, we acquired Aspen, which specializes in a full range of digital and direct marketing services, including the use of advanced analytics to perform data-driven customer acquisition and retention campaigns. Aspen is also a leading provider of marketing agency services, with expertise in the automotive and telecommunications industries. The acquisition enhances Epsilon's core capabilities, strengthens its competitive advantage, expands Epsilon into new industry verticals and adds a strong, talented team of marketing professionals.

#### *Private Label Services and Credit*

Revenue increased 5.4% to \$719.6 million and adjusted EBITDA increased 27.1% to \$347.0 million for the six months ended June 30, 2011 as compared to the same period in the prior year, driven by improvements in gross yield due to program changes made throughout 2010, and improvements in the provision for loan loss due to improving trends in credit quality.

During the six months ended June 30, 2011, we announced the signing of a new, long-term agreement to provide private label credit card services to J.Jill, a leading multichannel fashion retailer of women's apparel, accessories and footwear, and purchased their existing private label credit card accounts, a moderate size portfolio of approximately \$40 million. In addition, we signed a new long-term agreement with Sycle, LLC to provide credit card services for hearing care patients at its 4,000 hearing care clinics nationwide. We also signed long-term extension agreements with Victoria's Secret, a subsidiary of Limited Brands, Inc., and J.Crew providing for the continuation of credit, loyalty and multi-channel marketing services.

Credit sales increased 7.5% for the first half of 2011 as consumer spending accelerated. Specialty retailers and catalogers were particularly strong during the six months ended June 30, 2011, while some of the larger ticket merchants continued to be impacted by the macroeconomic environment. Average credit card receivables, conversely, declined 3.5% from the first half of 2010 due primarily to increases in customer payment rates as consumers continued to reduce their debt levels. These payment rates reflect cardholder payment behavior returning to pre-recessionary patterns.

While higher payment rates pressure credit card receivables growth, they are beneficial to delinquency levels. Delinquency rates improved to 4.5% of principal receivables at June 30, 2011, down from 5.4% at June 30, 2010. The principal charge-off rate was 7.5% for the six months ended June 30, 2011, representing a 170 basis point improvement over the same prior year period. We expect these metrics to continue to improve throughout the year.

#### **Critical Accounting Policies and Estimates**

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Annual Report filed on Form 10-K for the fiscal year ended December 31, 2010.

#### **Recent Accounting Pronouncements**

In October 2009, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2009-13, "Multiple-Deliverable Revenue Arrangements," which supersedes certain guidance in Accounting Standards Codification, or ASC, 605-25, "Revenue Recognition — Multiple-Element Arrangements," and requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices (the relative-selling-price method). ASU 2009-13 eliminates the use of the residual method of allocation in which the undelivered element is measured at its estimated selling price and the delivered element is measured as the residual of the arrangement consideration, and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables subject to ASU 2009-13. ASU 2009-13 is effective for revenue arrangements entered into or materially modified beginning on or after January 1, 2011. We elected to adopt this ASU prospectively. Revenue associated with the service element of our AIR MILES Reward Program has historically been determined using the residual method. Based on the sponsor contracts expected to be signed, renewed or materially modified in 2011, the adoption of ASU 2009-13 did not and is not expected to have a material impact on our unaudited condensed consolidated financial statements for 2011. Should one of the AIR MILES Reward Program's top five sponsors materially modify its agreement with us in 2011, it could significantly

shift the allocation of deferred revenue between the service element and redemption element. This change in allocation between the deferred revenue elements could impact the timing of revenue recognition, as the redemption element is recognized as AIR MILES reward miles are redeemed while the service element is recognized on a pro-rata basis over the estimated life of an AIR MILES reward mile, or 42 months.

In April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." ASU 2011-02 provides additional guidance to creditors for evaluating whether a modification or restructuring of a receivable is a TDR by clarifying the existing guidance with respect to whether (1) the creditor has granted a concession and (2) the debtor is experiencing financial difficulties. The amendments in ASU 2011-02 will be effective for the first interim or annual period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning of the annual period of adoption. Early adoption is permitted. For purposes of measuring impairment of receivables that are newly considered impaired as a result of ASU 2011-02, the amendments are to be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. ASU 2011-02 will also require additional disclosures about TDR activities along with the disclosures required by ASU 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," that were previously deferred. We do not expect the adoption of ASU 2011-02 to have a material impact on our financial condition, results of operations, or cash flows.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards," or IFRS, which amends ASC 820, "Fair Value Measurement." ASU 2011-04 revises the application of the valuation premise of highest and best use of an asset. It also enhances disclosure requirements and will require entities to disclose, for their recurring Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, with early adoption prohibited. ASU 2011-04 will require prospective application. We do not expect the adoption of ASU 2011-04 to have a material impact on our financial condition, results of operations, or cash flows.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." ASU 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of changes in equity and requires the presentation of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. ASU 2011-05 does not change the items that must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. ASU 2011-05 is effective for interim and annual periods beginning after December 31, 2011. Early adoption is permitted, but full retrospective application is required. ASU 2011-05 impacts financial statement presentation only; accordingly, it will have no impact on our financial condition, results of operations, or cash flows.

### **Use of Non-GAAP Financial Measures**

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

We use adjusted EBITDA as an integral part of our internal reporting to measure the performance of our reportable segments and to evaluate the performance of our senior management. Adjusted EBITDA is considered an important indicator of the operational strength of our businesses. Adjusted EBITDA eliminates the uneven effect across all business segments of considerable amounts of non-cash depreciation of tangible assets and amortization of certain intangible assets that were recognized in business combinations. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Management evaluates the costs of such tangible and intangible assets, as well as asset sales through other financial measures, such as capital expenditures, investment spending and return on capital and therefore the effects are excluded from adjusted EBITDA. Adjusted EBITDA also eliminates the non-cash effect of stock compensation expense. Stock compensation expense is not included in the measurement of segment adjusted EBITDA provided to the chief operating decision maker for purposes of assessing segment performance and decision making with respect to resource allocations. Therefore, we believe that adjusted EBITDA provides useful information to our investors regarding our performance and overall results of operations. Adjusted EBITDA is not intended to be a performance measure that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, adjusted EBITDA is not intended to represent funds available for dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

The adjusted EBITDA measure presented in this Quarterly Report on Form 10-Q may not be comparable to similarly titled measures presented by other companies, and may not be identical to corresponding measures used in our various agreements.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Net income	\$ 69,023	\$ 47,320	\$ 155,399	\$ 93,974
Stock compensation expense	11,106	12,415	20,190	23,021
Provision for income taxes	43,974	29,212	98,047	58,050
Interest expense, net	78,794	83,848	150,253	166,554
Depreciation and other amortization	16,850	16,580	33,604	32,905
Amortization of purchased intangibles	19,170	17,841	37,814	35,687
Adjusted EBITDA	<u>\$ 238,917</u>	<u>\$ 207,216</u>	<u>\$ 495,307</u>	<u>\$ 410,191</u>

## Results of Operations

Three months ended June 30, 2011 compared to the three months ended June 30, 2010

	Three Months Ended June 30,		Change	
	2011	2010	\$	%
(In thousands, except percentages)				
<b>Revenue:</b>				
LoyaltyOne	\$ 203,162	\$ 191,531	\$ 11,631	6.1%
Epsilon	188,456	137,024	51,432	37.5
Private Label Services and Credit	350,718	343,260	7,458	2.2
Corporate/Other	356	388	(32)	(8.2)
Eliminations	(2,234)	(2,485)	251	nm*
Total	<u>\$ 740,458</u>	<u>\$ 669,718</u>	<u>\$ 70,740</u>	10.6%
<b>Adjusted EBITDA <sup>(1)</sup>:</b>				
LoyaltyOne	\$ 52,943	\$ 58,666	\$ (5,723)	(9.8)%
Epsilon	39,324	31,277	8,047	25.7
Private Label Services and Credit	163,671	133,229	30,442	22.8
Corporate/Other	(15,567)	(14,243)	(1,324)	9.3
Eliminations	(1,454)	(1,713)	259	nm*
Total	<u>\$ 238,917</u>	<u>\$ 207,216</u>	<u>\$ 31,701</u>	15.3%
<b>Stock compensation expense:</b>				
LoyaltyOne	\$ 1,365	\$ 2,365	\$ (1,000)	(42.3)%
Epsilon	2,855	2,166	689	31.8
Private Label Services and Credit	1,786	1,777	9	0.5
Corporate/Other	5,100	6,107	(1,007)	(16.5)
Total	<u>\$ 11,106</u>	<u>\$ 12,415</u>	<u>\$ (1,309)</u>	(10.5)%
<b>Depreciation and amortization:</b>				
LoyaltyOne	\$ 5,251	\$ 6,147	\$ (896)	(14.6)%
Epsilon	20,721	18,076	2,645	14.6
Private Label Services and Credit	8,858	8,532	326	3.8
Corporate/Other	1,190	1,666	(476)	(28.6)
Total	<u>\$ 36,020</u>	<u>\$ 34,421</u>	<u>\$ 1,599</u>	4.6%
<b>Operating income:</b>				
LoyaltyOne	\$ 46,327	\$ 50,154	\$ (3,827)	(7.6)%
Epsilon	15,748	11,035	4,713	42.7
Private Label Services and Credit	153,027	122,920	30,107	24.5
Corporate/Other	(21,857)	(22,016)	159	(0.7)
Eliminations	(1,454)	(1,713)	259	nm*
Total	<u>\$ 191,791</u>	<u>\$ 160,380</u>	<u>\$ 31,411</u>	19.6%
<b>Adjusted EBITDA margin <sup>(2)</sup>:</b>				
LoyaltyOne	26.1%	30.6%	(4.5)%	
Epsilon	20.9	22.8	(1.9)	
Private Label Services and Credit	46.7	38.8	7.9	
Total	32.3%	30.9%	1.4 %	
<b>Segment operating data:</b>				
Private label statements generated	34,800	35,559	(759)	(2.1)%
Credit sales	\$ 2,425,363	\$ 2,220,513	\$ 204,850	9.2%
Average credit card receivables	\$ 4,848,715	\$ 4,992,034	\$ (143,319)	(2.9)%
AIR MILES reward miles issued	1,219,695	1,165,089	54,606	4.7%
AIR MILES reward miles redeemed	816,927	801,111	15,816	2.0%

(1) Adjusted EBITDA is equal to net income, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization, and amortization of purchased intangibles. For a reconciliation of adjusted EBITDA to net income, the most directly comparable GAAP financial measure, see "Use of Non-GAAP Financial Measures" included in this report.

(2) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Management uses adjusted EBITDA margin to analyze the operating performance of the segments and the impact revenue growth has on operating expenses.

\* not meaningful

## Consolidated Operating Results :

**Revenue.** Total revenue increased \$70.7 million, or 10.6%, to \$740.5 million for the three months ended June 30, 2011 from \$669.7 million for the three months ended June 30, 2010. The net increase was due to the following:

- **Transaction .** Revenue increased \$0.5 million, or 0.8%, to \$69.9 million for the three months ended June 30, 2011 due primarily to AIR MILES reward mile issuance fees, or service element revenue, which increased \$6.3 million due in part to a favorable foreign currency exchange rate and recent increases in the number of AIR MILES reward miles issued. Our issuance fees, which consist of marketing and administrative services provided to sponsors, are recognized pro rata over the estimated life of an AIR MILES reward mile, or 42 months. This increase was offset by a decline in merchant fees of \$6.9 million due to increased profit sharing and royalty payments to certain clients.
- **Redemption .** Revenue increased \$5.6 million, or 4.4%, to \$133.3 million for the three months ended June 30, 2011. A favorable foreign currency exchange rate contributed \$8.0 million to the increase in revenue. In local currency (Canadian dollars, or CAD), revenue increased approximately CAD \$2.4 million, or 1.9%, due primarily to the net decline in the amortization of deferred revenue related to the conversion of a certain split-fee to a non-split fee program, offset in part by increases in redemption revenue of CAD \$1.9 million attributable to a 2.0% increase in AIR MILES reward miles redeemed.
- **Finance charges, net.** Revenue increased \$13.0 million, or 4.1%, to \$332.3 million for the three months ended June 30, 2011. This increase was driven by improvement in our gross yield of 180 basis points, offset in part by a 2.9% decline in average credit card receivables as a result of higher payment rates. The expansion in our gross yield resulted primarily from changes in cardholder terms made throughout 2010.
- **Database marketing fees and direct marketing.** Revenue increased \$47.3 million, or 35.0%, to \$182.3 million for the three months ended June 30, 2011. Strategic database continues to build from recent client signings and expansion of services to existing clients with revenue increasing \$16.3 million, or 25.8%. Within our targeting sector, the acquisition of DMS added \$10.5 million to revenue. The acquisition of Aspen contributed \$19.7 million to database marketing fees and direct marketing revenue.
- **Other revenue.** Revenue increased \$4.3 million, or 23.2%, to \$22.7 million for the three months ended June 30, 2011 due primarily to the acquisition of Aspen, which added \$4.0 million in revenue associated with strategic consulting initiatives.

**Cost of operations.** Cost of operations increased \$72.5 million, or 20.2%, to \$431.3 million for the three months ended June 30, 2011 as compared to \$358.7 million for the three months ended June 30, 2010. The increase resulted primarily from growth across each of our segments, including the following:

- Within the Epsilon segment, cost of operations increased \$44.1 million due primarily to payroll expense associated with growth, with total marketing technology payroll and benefits increasing by \$14.3 million. The acquisition of DMS and Aspen added \$8.5 million and \$19.9 million to cost of operations, respectively.
- Within the LoyaltyOne segment, cost of operations increased \$13.6 million as the result of the cost of fulfillment for the AIR MILES Reward Program, which increased \$8.9 million as a result of a 2.0% increase in the number of AIR MILES reward miles redeemed. In addition, certain gains in securities and foreign currency translation were realized in 2010 but not in 2011, which impacted costs by \$1.8 million.
- Within the Private Label Services and Credit segment, cost of operations increased by \$11.3 million primarily from increases in payroll and benefits of \$6.1 million resulting from growth and an increase in incentive compensation due to over-performance of the segment. Credit card expenses, including marketing and collection fees, also increased \$3.4 million due to increased volumes.

**Provision for loan loss.** Provision for loan loss decreased \$34.3 million, or 36.2%, to \$60.4 million for the three months ended June 30, 2011 as compared to \$94.7 million for the three months ended June 30, 2010. The provision was impacted by both a decline in the rate and volume of credit card receivables. Average credit card receivables declined 2.9% primarily as a result of higher payment rates. Additionally, the net charge-off rate improved 180 basis points to 7.2% for the quarter ended June 30, 2011 as compared to 9.0% for the same period in 2010, with net losses decreasing \$25.4 million. The decline in the net charge-off rate reflected the continued improvement in credit quality of the credit card receivables. Net charge-off rates continue to trend lower and delinquency rates, historically a good predictor of future losses, improved to 4.5% of principal credit card receivables at June 30, 2011 from 5.4% at June 30, 2010.

*General and administrative.* General and administrative expenses decreased \$0.5 million, or 2.3%, to \$21.0 million for the three months ended June 30, 2011 as compared to \$21.5 million for the three months ended June 30, 2010. The decrease was driven primarily by a decline in stock-based compensation expense, partially offset by an increase in incentive compensation for the three months ended June 30, 2011 as compared to the prior year period.

*Depreciation and other amortization.* Depreciation and other amortization increased slightly to \$16.9 million for the three months ended June 30, 2011 as compared to \$16.6 million for the three months ended June 30, 2010 due to additional capital expenditures, including internally developed software projects placed in service during 2010 and the acquisition of Aspen.

*Amortization of purchased intangibles.* Amortization of purchased intangibles increased \$1.3 million, or 7.4%, to \$19.2 million for the three months ended June 30, 2011. The increase was primarily related to \$1.9 million and \$3.0 million of amortization associated with the intangible assets acquired in the Aspen and DMS acquisitions, respectively, offset in part by certain fully amortized intangible assets at Epsilon.

*Interest expense.* Total interest expense, net decreased \$5.1 million, or 6.0%, to \$78.8 million for the three months ended June 30, 2011 from \$83.8 million for the three months ended June 30, 2010. The decrease was due to the following:

- *Securitization funding costs.* Securitization funding costs decreased \$8.5 million to \$35.1 million primarily as a result of changes in the valuation in our interest rate swaps. In the second quarter of 2011, we incurred a gain of \$4.7 million in the valuation of our interest rate swaps as compared to a \$3.2 million loss in the prior year quarter, which resulted in a net decrease of \$7.9 million for the three months ended June 30, 2011 in the valuation of our interest rate swaps.
- *Interest expense on certificates of deposit.* Interest on certificates of deposit decreased \$2.1 million to \$5.5 million primarily due to lower average borrowings for the three months ended June 30, 2011 as compared to the three months ended June 30, 2010.
- *Interest expense on long-term and other debt, net.* Interest expense on long-term and other debt, net increased \$5.6 million to \$38.2 million primarily due to a \$2.6 million write-off of unamortized debt costs associated with the early extinguishment of the term loans, a \$1.9 million increase in the amortization of imputed interest associated with the convertible senior notes as compared to the same period in the prior year, and interest expense associated with borrowings to acquire Aspen.

*Taxes.* Income tax expense increased \$14.8 million to \$44.0 million for the three months ended June 30, 2011 from \$29.2 million for the comparable period in 2010 due primarily to an increase in taxable income. The effective tax rate increased to 38.9% for the three months ended June 30, 2011 as compared to 38.2% for the three months ended June 30, 2010.

### ***Segment Revenue and Adjusted EBITDA:***

*Revenue.* Total revenue increased \$70.7 million, or 10.6%, to \$740.5 million for the three months ended June 30, 2011 from \$669.7 million for three months ended June 30, 2010. The net increase was due to the following:

- *LoyaltyOne.* Revenue increased \$11.6 million, or 6.1%, to \$203.2 million for the three months ended June 30, 2011. Revenue benefited from a favorable foreign currency exchange rate, which represented \$12.0 million of the increase. Revenue for the AIR MILES Reward Program decreased CAD \$0.3 million, or 0.1%. Redemption revenue decreased a net CAD \$2.4 million, or 1.9%, due to a net decrease in amortized revenue related to the conversion of a certain split-fee to non split-fee program, offset by increases in redemption revenue attributable to a 2.0% increase in AIR MILES reward miles redeemed. Revenue also decreased due to a CAD \$1.2 million decline in investment revenue resulting from lower interest earned on investments. These declines were offset by a CAD \$3.5 million increase in revenue associated with issuance fees, which consist of marketing and administrative services, resulting from recent increases in the number of AIR MILES reward miles issued.

- *Epsilon* . Revenue increased \$51.4 million, or 37.5%, to \$188.5 million for the three months ended June 30, 2011. Marketing technology continues to build from client signings in 2010 and 2011 and the expansion of services to existing clients, growing \$16.8 million, or 20.0%. Additionally, the acquisition of DMS and Aspen added \$10.5 million and \$23.7 million to revenue, respectively.
- *Private Label Services and Credit* . Revenue increased \$7.5 million, or 2.2%, to \$350.7 million for the three months ended June 30, 2011. Finance charges and late fees increased by \$13.0 million driven primarily by an increase in our gross yield of 180 basis points, offset in part by a 2.9% decline in average credit card receivables. The expansion in our gross yield was in part due to changes in cardholder terms made throughout 2010, which positively impacted our gross yield in the second quarter of 2011. This increase was partially offset by a \$5.6 million reduction in transaction revenue as a result of lower merchant fees.
- *Corporate/Other* . Revenue was flat at \$0.4 million for the three months ended June 30, 2011. We are currently earning a minimal amount of revenue related to sublease agreements.

*Adjusted EBITDA*. For purposes of the discussion below, adjusted EBITDA is equal to net income plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization, and amortization of purchased intangibles. Adjusted EBITDA increased \$31.7 million, or 15.3%, to \$238.9 million for the three months ended June 30, 2011 from \$207.2 million for three months ended June 30, 2010. The increase was due to the following:

- *LoyaltyOne* . Adjusted EBITDA decreased \$5.7 million, or 9.8%, to \$52.9 million for the three months ended June 30, 2011. A favorable foreign currency exchange rate contributed \$3.3 million to adjusted EBITDA. Adjusted EBITDA in local currency (CAD) for the AIR MILES Reward Program decreased CAD \$8.1 million, or 13.2%, with adjusted EBITDA margin decreasing to 26.1% from 30.6%. Adjusted EBITDA decreased due to the runoff of amortized revenue.
- *Epsilon* . Adjusted EBITDA increased \$8.0 million, or 25.7%, to \$39.3 million for the three months ended June 30, 2011. Adjusted EBITDA was positively impacted by double digit growth in our strategic database business and the acquisition of DMS and Aspen, which added \$2.2 million and \$3.8 million, respectively, to adjusted EBITDA. Adjusted EBITDA margin decreased to 20.9% for the three months ended June 30, 2011 from 22.8% for the same period in the prior year due to a shift in revenue mix with the acquisition of Aspen.
- *Private Label Services and Credit* . Adjusted EBITDA increased \$30.4 million, or 22.8%, to \$163.7 million for the three months ended June 30, 2011 and adjusted EBITDA margin increased to 46.7% for the three months ended June 30, 2011 compared to 38.8% for the same prior year period. Adjusted EBITDA was positively impacted by the increase in our gross yield as described above and a decline in the provision for loan loss. The net charge-off rate for June 30, 2011 was 7.2% as compared to 9.0% in the same period in 2010. The decline in the net charge-off rate reflected the continued improvement in credit quality of the credit card receivables. Net charge-off rates continue to trend lower and delinquency rates, historically a good predictor of future losses, improved to 4.5% of principal credit card receivables at June 30, 2011 from 5.4% at June 30, 2010.
- *Corporate/Other* . Adjusted EBITDA decreased \$1.3 million to a loss of \$15.6 million for the three months ended June 30, 2011 primarily related to increases in incentive compensation and legal and consulting costs in the second quarter of 2011 as compared to the prior year period.

## Results of Operations

Six months ended June 30, 2011 compared to the six months ended June 30, 2010

	Six Months Ended June 30,		Change	
	2011	2010	\$	%
(In thousands, except percentages)				
<b>Revenue:</b>				
LoyaltyOne	\$ 420,836	\$ 391,201	\$ 29,635	7.6%
Epsilon	344,140	263,331	80,809	30.7
Private Label Services and Credit	719,628	682,464	37,164	5.4
Corporate/Other	713	1,153	(440)	(38.2)
Eliminations	(4,423)	(4,894)	471	nm*
Total	<u>\$ 1,480,894</u>	<u>\$ 1,333,255</u>	<u>\$ 147,639</u>	11.1%
<b>Adjusted EBITDA <sup>(1)</sup>:</b>				
LoyaltyOne	\$ 111,194	\$ 112,253	\$ (1,059)	(0.9)%
Epsilon	72,990	58,563	14,427	24.6
Private Label Services and Credit	347,001	272,984	74,017	27.1
Corporate/Other	(32,970)	(30,183)	(2,787)	9.2
Eliminations	(2,908)	(3,426)	518	nm*
Total	<u>\$ 495,307</u>	<u>\$ 410,191</u>	<u>\$ 85,116</u>	20.8%
<b>Stock compensation expense:</b>				
LoyaltyOne	\$ 3,332	\$ 4,528	\$ (1,196)	(26.4)%
Epsilon	5,148	4,136	1,012	24.5
Private Label Services and Credit	3,430	3,539	(109)	(3.1)
Corporate/Other	8,280	10,818	(2,538)	(23.5)
Total	<u>\$ 20,190</u>	<u>\$ 23,021</u>	<u>\$ (2,831)</u>	(12.3)%
<b>Depreciation and amortization:</b>				
LoyaltyOne	\$ 10,434	\$ 12,284	\$ (1,850)	(15.1)%
Epsilon	40,620	36,092	4,528	12.5
Private Label Services and Credit	17,868	17,021	847	5.0
Corporate/Other	2,496	3,195	(699)	(21.9)
Total	<u>\$ 71,418</u>	<u>\$ 68,592</u>	<u>\$ 2,826</u>	4.1%
<b>Operating income:</b>				
LoyaltyOne	\$ 97,428	\$ 95,441	\$ 1,987	2.1%
Epsilon	27,222	18,335	8,887	48.5
Private Label Services and Credit	325,703	252,424	73,279	29.0
Corporate/Other	(43,746)	(44,196)	450	(1.0)
Eliminations	(2,908)	(3,426)	518	nm*
Total	<u>\$ 403,699</u>	<u>\$ 318,578</u>	<u>\$ 85,121</u>	26.7%
<b>Adjusted EBITDA margin <sup>(2)</sup>:</b>				
LoyaltyOne	26.4%	28.7%	(2.3)%	
Epsilon	21.2	22.2	(1.0)	
Private Label Services and Credit	48.2	40.0	8.2	
Total	33.4%	30.8%	2.6 %	
<b>Segment operating data:</b>				
Private label statements generated	69,546	71,800	(2,254)	(3.1)%
Credit sales	\$ 4,379,062	\$ 4,073,243	\$ 305,819	7.5%
Average credit card receivables	\$ 4,908,587	\$ 5,088,590	\$ (180,003)	(3.5)%
AIR MILES reward miles issued	2,330,233	2,202,768	127,465	5.8%
AIR MILES reward miles redeemed	1,805,572	1,694,264	111,308	6.6%

(1) Adjusted EBITDA is equal to net income, plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization, and amortization of purchased intangibles. For a reconciliation of adjusted EBITDA to net income, the most directly comparable GAAP financial measure, see "Use of Non-GAAP Financial Measures" included in this report.

(2) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Management uses adjusted EBITDA margin to analyze the operating performance of the segments and the impact revenue growth has on operating expenses.

\* not meaningful

**Consolidated Operating Results :**

*Revenue.* Total revenue increased \$147.6 million, or 11.1%, to \$1.48 billion for the six months ended June 30, 2011 from \$1.33 billion for the six months ended June 30, 2010. The net increase was due to the following:

- *Transaction .* Revenue increased \$0.7 million, or 0.5%, to \$146.6 million for the six months ended June 30, 2011 due primarily to AIR MILES reward mile issuance fees, or service element revenue, which increased \$12.1 million due in part to a favorable foreign currency exchange rate and recent increases in the number of AIR MILES reward miles issued. Our issuance fees, which consist of marketing and administrative services provided to sponsors, are recognized pro rata over the estimated life of an AIR MILES reward mile, or 42 months. This increase was offset by a decline in merchant fees of \$15.3 million due to increased profit sharing and royalty payments to certain clients.
- *Redemption .* Revenue increased \$16.7 million, or 6.3%, to \$283.1 million for the six months ended June 30, 2011. A favorable foreign currency exchange rate contributed \$15.8 million to the increase in revenue. In local currency (CAD), revenue increased approximately CAD \$0.8 million, or 0.3%, due primarily to increases in redemption revenue of \$12.8 million attributable to a 6.6% increase in AIR MILES reward miles redeemed, offset in part by the net decline in the amortization of deferred revenue related to the conversion of a certain split-fee to a non-split fee program.
- *Finance charges, net.* Revenue increased \$48.8 million, or 7.8%, to \$674.4 million for the six months ended June 30, 2011. This increase was driven by improvement in our gross yield of 290 basis points, offset in part by a 3.5% decline in average credit card receivables as a result of higher payment rates. The expansion in our gross yield was in part due to changes in cardholder terms made throughout 2010.
- *Database marketing fees and direct marketing.* Revenue increased \$74.8 million, or 28.8%, to \$335.0 million for the six months ended June 30, 2011. Strategic database continues to build from recent client signings and expansion of services to existing clients with revenue increasing \$31.8 million, or 25.8%. Within our targeting sector, the acquisition of DMS added \$21.6 million to revenue. The acquisition of Aspen contributed \$19.7 million to database marketing fees and direct marketing revenue.
- *Other revenue.* Revenue increased \$6.6 million, or 18.9%, to \$41.8 million for the six months ended June 30, 2011, due primarily to the acquisition of Aspen, which added \$4.0 million in revenue associated with strategic consulting initiatives.

*Cost of operations.* Cost of operations increased \$116.1 million, or 16.1%, to \$835.8 million for the six months ended June 30, 2011 as compared to \$719.7 million for the six months ended June 30, 2010. The increase resulted primarily from growth across each of our segments, including the following:

- Within the Epsilon segment, cost of operations increased \$67.4 million due primarily to payroll expense associated with growth, with total marketing technology payroll and benefits increasing by \$25.6 million. The acquisition of DMS and Aspen added \$16.5 million and \$19.9 million to cost of operations, respectively.
- Within the LoyaltyOne segment, cost of operations increased \$29.5 million as the result of the cost of fulfillment for the AIR MILES Reward Program, which increased \$20.9 million as a result of a 6.6% increase in the number of AIR MILES reward miles redeemed. In addition, certain gains in securities and foreign currency translation were realized in 2010 but not in 2011, which impacted costs by \$2.3 million. Additionally, payroll and benefits costs increased \$1.6 million resulting primarily from an increase in incentive compensation due to over-performance of the segment. Cost of operations also increased approximately \$2 million attributable to international coalition loyalty program expenses.
- Within the Private Label Services and Credit segment, cost of operations increased by \$17.7 million primarily from increases in payroll and benefits of \$8.1 million resulting from growth and an increase in incentive compensation due to over-performance of the segment. Credit card expenses, including marketing and collection fees, and other costs increased \$4.2 million and \$2.1 million, respectively, due to increased volumes.

*Provision for loan loss.* Provision for loan loss decreased \$54.7 million, or 29.9%, to \$128.0 million for the six months ended June 30, 2011 as compared to \$182.7 million for the six months ended June 30, 2010. The provision was impacted by both a decline in the rate and volume of credit card receivables. Average credit card receivables

declined 3.5% primarily as a result of higher payment rates. Additionally, the net charge-off rate improved 170 basis points to 7.5% for the six months ended June 30, 2011 as compared to 9.2% for the same period in 2010, with net losses decreasing \$49.6 million. The decline in the net charge-off rate reflected the continued improvement in credit quality of the credit card receivables. Net charge-off rates continue to trend lower and delinquency rates, historically a good predictor of future losses, improved to 4.5% of principal credit card receivables at June 30, 2011 from 5.4% at June 30, 2010.

*General and administrative* . General and administrative expenses decreased \$1.7 million, or 3.9%, to \$42.0 million for the six months ended June 30, 2011 as compared to \$43.7 million for the six months ended June 30, 2010. The decrease was driven primarily by severance and stock-based compensation related to the departure of certain associates in 2010, partially offset by an increase in medical and benefit costs and incentive compensation for the six months ended June 30, 2011 as compared to the prior year period.

*Depreciation and other amortization* . Depreciation and other amortization increased \$0.7 million, or 2.1%, to \$33.6 million for the six months ended June 30, 2011 as compared to \$32.9 million for the six months ended June 30, 2010 due to additional capital expenditures, including internally developed software projects placed in service during 2010 and the acquisition of Aspen.

*Amortization of purchased intangibles* . Amortization of purchased intangibles increased \$2.1 million, or 6.0%, to \$37.8 million for the six months ended June 30, 2011 as compared to \$35.7 million for the six months ended June 30, 2010. The increase was primarily related to \$1.9 million and \$5.9 million of amortization associated with the intangible assets acquired in the Aspen and DMS acquisitions, respectively, offset in part by certain fully amortized intangible assets at Epsilon.

*Interest expense* . Total interest expense, net decreased \$16.3 million, or 9.8%, to \$150.3 million for the six months ended June 30, 2011 from \$166.6 million for the six months ended June 30, 2010. The decrease was due to the following:

- *Securitization funding costs* . Securitization funding costs decreased \$19.2 million to \$66.0 million primarily as a result of changes in the valuation in our interest rate swaps. In the six months ended June 30, 2011, we incurred a gain of \$14.6 million in the valuation of our interest rate swaps as compared to a \$5.4 million loss in the same prior year period, which resulted in a net decrease of \$20.0 million in the valuation of our interest rate swaps.
- *Interest expense on certificates of deposit* . Interest on certificates of deposit decreased \$5.0 million to \$11.2 million primarily due to lower average borrowings for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010.
- *Interest expense on long-term and other debt, net* . Interest expense on long-term and other debt, net increased \$7.9 million to \$73.0 million primarily due to a \$3.7 million increase in the amortization of imputed interest associated with the convertible senior notes as compared to the same period in the prior year, a \$2.6 million write-off of unamortized debt costs associated with the early extinguishment of the term loans, and interest expense associated with borrowings to acquire Aspen.

*Taxes* . Income tax expense increased \$39.9 million to \$98.0 million for the six months ended June 30, 2011 from \$58.1 million for the comparable period in 2010 due primarily to an increase in taxable income. The effective tax rate increased to 38.7% for the six months ended June 30, 2011 as compared to 38.2% for the six months ended June 30, 2010.

#### **Segment Revenue and Adjusted EBITDA:**

*Revenue* . Total revenue increased \$147.6 million, or 11.1%, to \$1.48 billion for the six months ended June 30, 2011 from \$1.33 billion for six months ended June 30, 2010. The net increase was due to the following:

- *LoyaltyOne* . Revenue increased \$29.6 million, or 7.6%, to \$420.8 million for the six months ended June 30, 2011. Revenue benefited from a favorable foreign currency exchange rate, which represented \$23.2 million of the increase. Revenue for the AIR MILES Reward Program increased CAD \$5.9 million, or 1.5%. Redemption revenue increased a net CAD \$0.8 million, or 0.3%, due to a 6.6% increase in AIR MILES reward miles redeemed, which was offset in part by a net decrease in amortized revenue related to the

conversion of a certain split-fee to non split-fee program. Revenue from issuance fees, which consist of marketing and administrative services, increased CAD \$6.9 million due to recent increases in the total number of AIR MILES reward miles issued. These were offset in part by a decline in investment revenue of CAD \$2.4 million due to lower interest earned on its investments.

- *Epsilon* . Revenue increased \$80.8 million, or 30.7%, to \$344.1 million for the six months ended June 30, 2011. Marketing technology continues to build from client signings in 2010 and 2011 and the expansion of services to existing clients, growing \$33.4 million, or 20.3%. Additionally, the acquisition of DMS and Aspen added \$21.6 million and \$23.7 million to revenue, respectively.
- *Private Label Services and Credit* . Revenue increased \$37.2 million, or 5.4%, to \$719.6 million for the six months ended June 30, 2011. Finance charges and late fees increased by \$48.8 million driven primarily by an increase in our gross yield of 290 basis points, offset in part by a 3.5% decline in average credit card receivables. The expansion in our gross yield was in part due to changes in cardholder terms made throughout 2010, which positively impacted our gross yield in the first half of 2011. This increase was partially offset by an \$11.7 million reduction in transaction revenue as a result of lower merchant fees.
- *Corporate/Other* . Revenue was flat for the six months ended June 30, 2011. We are currently earning a minimal amount of revenue related to sublease agreements.

*Adjusted EBITDA* . For purposes of the discussion below, adjusted EBITDA is equal to net income plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization, and amortization of purchased intangibles. Adjusted EBITDA increased \$85.1 million, or 20.8%, to \$495.3 million for the six months ended June 30, 2011 from \$410.2 million for six months ended June 30, 2010. The increase was due to the following:

- *LoyaltyOne* . Adjusted EBITDA decreased \$1.1 million, or 0.9%, to \$111.2 million for the six months ended June 30, 2011. A favorable foreign currency exchange rate contributed \$6.4 million to adjusted EBITDA. Adjusted EBITDA in local currency (CAD) for the AIR MILES Reward Program decreased CAD \$5.8 million, or 4.9%, with adjusted EBITDA margin decreasing to 26.4% from 28.7%. Adjusted EBITDA decreased due to the runoff of amortized revenue.
- *Epsilon* . Adjusted EBITDA increased \$14.4 million, or 24.6%, to \$73.0 million for the six months ended June 30, 2011. Adjusted EBITDA was positively impacted by double digit growth in our strategic database business and the acquisition of DMS and Aspen, which added \$5.5 million and \$3.8 million, respectively, to adjusted EBITDA. Adjusted EBITDA margin decreased to 21.2% for the six months ended June 30, 2011 from 22.2% for the same period in the prior year due to a shift in revenue mix with the acquisition of Aspen.
- *Private Label Services and Credit* . Adjusted EBITDA increased \$74.0 million, or 27.1%, to \$347.0 million for the six months ended June 30, 2011 and adjusted EBITDA margin increased to 48.2% for the six months ended June 30, 2011 compared to 40.0% for the same prior year period. Adjusted EBITDA was positively impacted by the increase in our gross yield as described above and a decline in the provision for loan loss. The net charge-off rate for June 30, 2011 was 7.5% as compared to 9.2% in the same period in 2010. The decline in the net charge-off rate reflected the continued improvement in credit quality of the credit card receivables. Net charge-off rates continue to trend lower and delinquency rates, historically a good predictor of future losses, improved to 4.5% of principal credit card receivables at June 30, 2011 from 5.4% at June 30, 2010.
- *Corporate/Other* . Adjusted EBITDA decreased \$2.8 million to a loss of \$33.0 million for the six months ended June 30, 2011 primarily related to an increase in incentive compensation in the current year period as compared to the prior year period.

## Asset Quality

Our delinquency and net charge-off rates reflect, among other factors, the credit risk of our private label credit card receivables, the average age of our various private label credit card account portfolios, the success of our collection and recovery efforts, and general economic conditions.

**Delinquencies.** A credit card account is contractually delinquent if we do not receive the minimum payment by the specified due date on the cardholder's statement. When an account becomes delinquent, we print a message on the credit cardholder's billing statement requesting payment. After an account becomes 30 days past due, a proprietary collection scoring algorithm automatically scores the risk of the account becoming further delinquent. The collection system then recommends a collection strategy for the past due account based on the collection score and account balance and dictates the contact schedule and collections priority for the account. If we are unable to make a collection after exhausting all in-house collection efforts, we engage collection agencies and outside attorneys to continue those efforts.

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

	June 30, 2011	% of Total	December 31, 2010	% of Total
(In thousands, except percentages)				
Receivables outstanding – principal	\$ 4,716,196	100%	\$ 5,116,111	100%
Principal receivables balances contractually delinquent:				
31 to 60 days	73,982	1.5%	87,252	1.7%
61 to 90 days	48,408	1.0	59,564	1.2
91 or more days	91,977	2.0	130,538	2.5
Total	<u>\$ 214,367</u>	<u>4.5%</u>	<u>\$ 277,354</u>	<u>5.4%</u>

**Net Charge-Offs.** Our net charge-offs include the principal amount of losses from cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased credit cardholders, less recoveries and exclude charged-off interest, fees and fraud losses. Charged-off interest and fees reduce finance charges, net while fraud losses are recorded as an expense. Credit card 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 net charge-off rate is calculated by dividing net charge-offs of principal receivables for the period by the average credit card receivables for the period. Average credit card receivables represent the average balance of the cardholder receivables at the beginning of each month in the periods indicated. The following table presents our net charge-offs for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
(In thousands, except percentages)				
Average credit card receivables	\$ 4,848,715	\$ 4,992,034	\$ 4,908,587	\$ 5,088,590
Net charge-offs of principal receivables	87,066	112,424	185,096	234,690
Net charge-offs as a percentage of average credit card receivables	7.2%	9.0%	7.5%	9.2%

*Age of Credit Card Receivables.* The following table sets forth, as of June 30, 2011, 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:

Age Since Origination	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Receivables Outstanding
(In thousands, except percentages)				
0-12 Months	2,890	24.1%	\$ 890,067	18.9%
13-24 Months	1,605	13.4	637,793	13.5
25-36 Months	1,206	10.1	546,198	11.6
37-48 Months	992	8.3	427,875	9.1
49-60 Months	838	7.0	365,110	7.7
Over 60 Months	4,446	37.1	1,849,153	39.2
Total	11,977	100.0%	\$ 4,716,196	100.0%

See Note 5, “Credit Card Receivables,” of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information related to the securitization of our credit card receivables.

## Liquidity and Capital Resources

*Operating Activities.* We have historically generated cash flows from operations, although that amount may vary based on fluctuations in working capital. Our operating cash flow is seasonal, with cash utilization peaking at the end of December due to increased activity in our Private Label Services and Credit segment related to holiday retail sales.

We generated cash flow from operating activities of \$406.9 million and \$446.5 million for the six months ended June 30, 2011 and 2010, respectively. The decrease in operating cash flows was primarily due to a decrease in cash flows associated with working capital of \$33.3 million for the six months ended June 30, 2011 as compared to the same period in 2010.

*Investing Activities .* Cash used in investing activities was \$276.4 million for the six months ended June 30, 2011 as compared to cash provided by investing activities of \$184.9 million for the six months ended June 30, 2010. Significant components of investing activities are as follows:

- *Payments for Acquired Businesses, Net of Cash .* Cash decreased \$358.2 million due to the Aspen acquisition completed on May 31, 2011.
- *Purchase of Credit Card Receivables .* Cash decreased \$42.7 million for the six months ended June 30, 2011 due to the acquisition of an existing private label credit card portfolio from J.Jill. There were no purchases of credit card portfolios during the six months ended June 30, 2010.
- *Cash Collateral, Restricted .* Cash decreased \$131.2 million for the six months ended June 30, 2011, as compared to \$95.1 million for the six months ended June 30, 2010 due primarily to an increase in excess funding deposits in 2011.
- *Credit Card Receivables Funding .* Cash flow from credit card receivables was \$270.6 million for the six months ended June 30, 2011, as compared to \$276.4 million for the six months ended June 30, 2010. Cash flow from credit card receivables increased in both periods due to a decline in receivables from the seasonal pay down of credit card receivables.
- *Capital Expenditures .* Our capital expenditures for the six months ended June 30, 2011 were \$33.9 million compared to \$31.5 million for the same period in 2010. We do not expect capital expenditures to exceed approximately 3% of annual revenue for the foreseeable future.

*Financing Activities.* Cash used in financing activities was \$37.8 million and \$674.3 million for the six months ended June 30, 2011 and 2010, respectively. Our financing activities during the six months ended June 30, 2011 relate primarily to borrowings and repayments of debt and certificates of deposit, and repurchases of common stock.

*Adoption of ASC 860, “Transfers and Servicing,” and ASC 810, “Consolidation.”* The consolidation of World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust, World Financial Network Credit Card Master Note Trust II, and World Financial Network Credit Card Master Trust III, or

collectively, the WFN Trusts, and World Financial Capital Credit Card Master Note Trust, or the WFC Trust, resulted in \$81.6 million in cash and cash equivalents as of January 1, 2010, which is shown separately from operating, financing and investing activities.

*Liquidity Sources.* In addition to cash generated from operating activities, our primary sources of liquidity include our credit card securitization program, certificates of deposit issued by World Financial Network National Bank, or WFNNB, and World Financial Capital Bank, or WFCB, our credit facility and issuances of equity securities.

As of June 30, 2011, we had \$176.5 million of available borrowing capacity under our credit facility. The key loan covenant ratio, core debt to adjusted EBITDA, was 2.5 to 1 at June 30, 2011, as compared to the covenant ratio of 3.50 to 1. Additionally, available liquidity at the bank subsidiary level totaled \$3.3 billion. The Tier 1 risk-based capital ratio, leverage ratio and total risk-based capital ratio for our main bank subsidiary, WFNNB, were 15.3%, 14.3% and 16.6%, respectively, at June 30, 2011.

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

*Securitization Program.* We regularly securitize our credit card receivables through the WFN Trusts and the WFC Trust as part of our credit card securitization program. These securitization programs are the primary vehicle through which we finance WFNNB's and WFCB's credit card receivables.

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

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

As of June 30, 2011, the WFN Trusts and the WFC Trust had approximately \$4.3 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits and additional receivables. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and the WFC Trust and by the performance of the private label credit cards in these securitization trusts.

At June 30, 2011, we had \$3.3 billion of asset-backed securities debt – owed to securitization investors, of which \$1.5 billion is due within the next 12 months.

During the second quarter of 2011, we renewed our \$1.2 billion 2009-VFN conduit facility under World Financial Network Credit Card Master Note Trust and our \$275.0 million 2009-VFN conduit facility under World Financial Capital Credit Card Master Note Trust, extending their maturities to June 13, 2012 and June 1, 2012, respectively.

The following table shows the maturities of borrowing commitments as of June 30, 2011 for the WFN Trusts and the WFC Trust by year:

	2011	2012	2013	2014	2015 & Thereafter	Total
	(In thousands)					
Term notes	\$ 1,010,000	\$ 700,226	\$ 822,339	\$ —	\$ 393,750	\$ 2,926,315
Conduit facilities <sup>(1)</sup>	450,000	1,475,000	—	—	—	1,925,000
Total <sup>(2)</sup>	<u>\$ 1,460,000</u>	<u>\$ 2,175,226</u>	<u>\$ 822,339</u>	<u>\$ —</u>	<u>\$ 393,750</u>	<u>\$ 4,851,315</u>

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

(2) As of June 30, 2011, with the consolidation of the WFN Trusts and the WFC Trust effective January 1, 2010, \$556.1 million of debt issued by the credit card securitization trusts and retained by us has been eliminated in the unaudited condensed consolidated financial statements.

Early amortization events are generally driven by asset performance. We do not believe it is reasonably likely for an early amortization event to occur due to asset performance. However, if an early amortization event were declared, the trustee of the particular credit card securitization trust would retain the interest in the receivables along with the excess interest income that would otherwise be paid to our bank subsidiary until the credit card securitization investors were fully repaid. The occurrence of an early amortization event would significantly limit or negate our ability to securitize additional credit card receivables.

*Debt*

We are party to a credit agreement, dated May 24, 2011, or the 2011 Credit Agreement, among us as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC, Epsilon Data Management LLC, Comenity LLC and Alliance Data FHC, Inc., as guarantors, SunTrust Bank and Bank of Montreal, as co-administrative agents, and Bank of Montreal as letter of credit issuer, and various other agents and banks. The 2011 Credit Agreement provides for a \$792.5 million term loan, or the 2011 Term Loan, and a \$792.5 million revolving line of credit, or the 2011 Credit Facility, with a U.S. \$65.0 million sublimit for Canadian dollar borrowings and a \$65.0 million sublimit for swing line loans. The 2011 Credit Agreement includes an uncommitted accordion feature of up to \$415.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions. See Note 8, “Debt,” of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding our debt.

Concurrently with entering into the 2011 Credit Agreement, we terminated the following credit facilities: (i) a credit agreement, dated as of September 29, 2006; (ii) a term loan agreement, dated as of May 15, 2009; and (iii) a term loan agreement, dated as of August 6, 2010.

As of June 30, 2011, we were in compliance with our covenants.

We repaid the \$250.0 million aggregate principal amount of the 6.14% Series B senior notes at their scheduled maturity of May 16, 2011.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

#### **Market Risk**

Market risk is the risk of loss from adverse changes in market prices and rates. Our primary market risks include interest rate risk, credit risk, foreign currency exchange rate risk and redemption reward risk.

There has been no material change from our Annual Report on Form 10-K for the year ended December 31, 2010 related to our exposure to market risk from interest rate risk, credit risk, foreign currency exchange risk and redemption reward risk.

### **Item 4. Controls and Procedures.**

#### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

As of June 30, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2011 (the end of our second fiscal quarter), our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In May 2011, we acquired Aspen for approximately \$358.2 million. Because of the timing of the acquisition, it was excluded from our evaluation of and conclusion on the effectiveness of internal control over financial reporting as of June 30, 2011. We will expand our evaluation of the effectiveness of the internal controls over financial reporting to include Aspen beginning in May 2012.

In July 2010, we acquired DMS for \$117.0 million. Because of the timing of the acquisition, it was excluded from our evaluation of and conclusion on the effectiveness of internal control over financial reporting as of June 30, 2011. We will expand our evaluation of the effectiveness of the internal controls over financial reporting to include DMS beginning in July 2011.

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **FORWARD-LOOKING STATEMENTS**

This Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in the "Risk Factors" section in Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2010 and Item 1A. of Part II of this Quarterly Report.

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

## PART II

**Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

There have been no material changes to the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On September 13, 2010, our Board of Directors authorized a stock repurchase program to acquire up to \$400.0 million of our outstanding common stock from September 13, 2010 through December 31, 2011, subject to any restrictions pursuant to the terms of our credit agreements or otherwise.

The following table presents information with respect to purchases of our common stock made during the three months ended June 30, 2011:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup> (In millions)
During 2011:				
April 1-30	435,011	\$ 83.53	432,795	\$ 230.4
May 1-31	2,679	91.59	—	230.4
June 1-30	219,029	88.30	216,094	211.4
Total	<u>656,719</u>	\$ 85.15	<u>648,889</u>	\$ 211.4

(1) During the period represented by the table, 7,830 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Saving Plan for the benefit of the employees who participated in that portion of the plan.

(2) On September 13, 2010, our Board of Directors authorized a stock repurchase program to acquire up to \$400.0 million of our outstanding common stock from September 13, 2010 through December 31, 2011, subject to any restrictions pursuant to the terms of our credit agreements or otherwise.

**Item 3. Defaults Upon Senior Securities.**

None

**Item 4. (Removed and Reserved).****Item 5. Other Information.**

(a) None

(b) None

**Item 6. Exhibits.**

(a) *Exhibits:*

**EXHIBIT INDEX**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
3.1	Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit No. 3.1 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.2	Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.2 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.3	First Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.3 to our Registration Statement on Form S-1 filed with the SEC on May 4, 2001, File No. 333-94623).
3.4	Second Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.4 to our Annual Report on Form 10-K, filed with the SEC on April 1, 2002, File No. 001-15749).
3.5	Third Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.2 to our Current Report on Form 8-K, filed with the SEC on February 18, 2009, File No. 001-15749).
3.6	Fourth Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.2 to our Current Report on Form 8-K, filed with the SEC on December 11, 2009, File No. 001-15749).
4	Specimen Certificate for shares of Common Stock of the Registrant (incorporated by reference to Exhibit No. 4 to our Quarterly Report on Form 10-Q, filed with the SEC on August 8, 2003, File No. 001-15749).
10.1	Credit Agreement, dated as of May 24, 2011, by and among Alliance Data Systems Corporation, as borrower, and certain subsidiaries parties thereto, as guarantors, SunTrust Bank and Bank of Montreal, as Co-Administrative Agents, and various other agents and lenders (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K, filed with the SEC on May 26, 2011, File No. 001-15749).
10.2	Eighth Amendment to Transfer and Servicing Agreement, dated as of June 15, 2011, among World Financial Network National Bank, WFN Credit Company, LLC, and World Financial Network Credit Card Master Note Trust (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by World Financial Network Credit Card Master Note Trust and WFN Credit Company, LLC on June 15, 2011, File Nos. 333-113669 and 333-60418).
*10.3	Second Amended and Restated Series 2009-VFN Indenture Supplement, dated as of June 15, 2011, between World Financial Network Credit Card Master Note Trust and The Bank of New York Mellon Trust Company, N.A.

<u>Exhibit No.</u>	<u>Description</u>
*10.4	Supplemental Indenture No. 1 to the Amended and Restated Series 2009-VFN Indenture Supplement, dated as of June 3, 2011, between World Financial Capital Master Note Trust and U.S. Bank National Association.
*10.5	Second Amendment to Series 2009-VFC1 Supplement, dated as of June 15, 2011, among WFN Credit Company, LLC, World Financial Network National Bank and Union Bank of California, N.A.
+*10.6	Form of Non-employee Director Restricted Stock Unit Award Agreement Under the Alliance Data Systems Corporation 2010 Omnibus Plan.
*31.1	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
*31.2	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
*32.1	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
*32.2	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
**101.INS	XBRL Instance Document
**101.SCH	XBRL Taxonomy Extension Schema Document
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
<hr/>	
*	Filed herewith
**	Furnished herewith
+	Management contract, compensatory plan or arrangement

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### ALLIANCE DATA SYSTEMS CORPORATION

By: /s/ EDWARD J. HEFFERNAN  
Edward J. Heffernan  
*President and Chief Executive Officer*

Date: August 8, 2011

By: /s/ CHARLES L. HORN  
Charles L. Horn  
*Executive Vice President and Chief Financial Officer*

Date: August 8, 2011

**WORLD FINANCIAL NETWORK CREDIT CARD MASTER NOTE TRUST**

Issuer

And

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.**

Indenture Trustee

**SECOND AMENDED AND RESTATED  
SERIES 2009-VFN INDENTURE SUPPLEMENT**

Dated as of June 15, 2011

---

SECOND AMENDED AND RESTATED SERIES 2009-VFN INDENTURE SUPPLEMENT, dated as of June 15, 2011 (the “Indenture Supplement”), between WORLD FINANCIAL NETWORK CREDIT CARD MASTER NOTE TRUST, a trust organized and existing under the laws of the State of Delaware (herein, the “Issuer” or the “Trust”), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A. (formerly known as The Bank of New York Trust Company, N.A. and as successor to BNY Midwest Trust Company), a national banking association, not in its individual capacity, but solely as indenture trustee (herein, together with its successors in the trusts thereunder as provided in the Master Indenture referred to below, the “Indenture Trustee”) under the Master Indenture, dated as of August 1, 2001 (as amended from time to time, the “Indenture”), between the Issuer and the Indenture Trustee (the Indenture, together with this Indenture Supplement, the “Agreement”).

WHEREAS, the parties hereto are party to the Amended and Restated Series 2009-VFN Indenture Supplement, dated as of September 29, 2009 and amended and restated as of June 24, 2010 (the “A&R Indenture Supplement”).

WHEREAS, on the date hereof, the holders of the Series 2009-VFN Notes will surrender their Series 2009-VFN Notes to the Indenture Trustee, and the Issuer will execute and deliver new Series 2009-VFN Notes in exchange therefor in connection with the increase of the Class A Maximum Principal Balance, the Class M Maximum Principal Balance and the Class B Maximum Principal Balance as well as the assignment of the Class M Notes (the “Second Amendment Date Transactions”), pursuant to the Class M Note Assignment (as defined in the Class M Note Purchase Agreement).

In consideration of the mutual agreements contained herein, the A&R Indenture Supplement is hereby amended and restated a second time in its entirety as follows and each party agrees as follows for the benefit of the other party and the Series 2009-VFN Noteholders.

NOW THEREFORE, the parties hereto hereby agree as follows:

Pursuant to Section 2.11 of the Indenture, the Transferor may direct the Issuer to issue one or more Series of Notes. The Principal Terms of this Series are set forth in this Indenture Supplement to the Indenture.

## ARTICLE I.

### Creation of the Series 2009-VFN Notes

#### Section 1.1                      Designation.

(a) Pursuant to the Indenture and the Original Indenture Supplement, a Series of Notes was issued known as “World Financial Network Credit Card Master Note Trust, Series 2009-VFN” or the “Series 2009-VFN Notes.” The Series 2009-VFN Notes were issued in three Classes, known as the “Class A Series 2009-VFN Floating Rate Asset Backed Notes”, the “Class B Series 2009-VFN Asset Backed Notes”, and the “Class M Series 2009-VFN Asset Backed Notes”. The Series 2009-VFN Notes shall be Variable Interests. Notwithstanding anything to the contrary in Section 2.5 of the Indenture, the Administrator shall not be required to deliver a certification as to the requirements of Section 8-401 with respect to any transfer or

---

exchange of the Series 2009-VFN Notes with respect to the Second Amendment Date Transactions and the Class M Note Assignment shall be the only instrument of transfer required in connection with the Second Amendment Date Transactions.

(b) The Class A Notes may from time to time be divided into separate ownership tranches (each a “ Class A Ownership Tranche ” ) which shall be identical in all respects, except for their respective Class A Maximum Principal Balances, Class A Principal Balances and certain matters relating to the rate and payment of interest. The initial allocation of Class A Notes among Class A Ownership Tranches shall be made, and reallocations among such Class A Ownership Tranches or new Class A Ownership Tranches may be made, as provided in Section 4.1 of this Indenture Supplement and the Class A Note Purchase Agreement.

(c) Series 2009-VFN shall be included in Group One and shall be a Principal Sharing Series. Series 2009-VFN shall be an Excess Allocation Series with respect to Group One only. Series 2009-VFN shall not be subordinated to any other Series.

## ARTICLE II.

### Definitions

#### Section 2.1                      Definitions .

(a) Whenever used in this Indenture Supplement, the following words and phrases shall have the following meanings, and the definitions of such terms are applicable to the singular as well as the plural forms of such terms and the masculine as well as the feminine and neuter genders of such terms.

“ Additional Amount s” means, for any date of determination, the sum of (x) the Class A Additional Amounts, (y) the Class M Additional Amounts and (z) the Class B Additional Amounts.

“ Additional Minimum Transferor Amount ” means (a) as of any date of determination falling in November, December and January of each calendar year, the product of (i) 2% and (ii) the sum of (A) the Aggregate Principal Receivables and (B) if such date of determination occurs prior to the Certificate Trust Termination Date, the amount on deposit in the Excess Funding Account and (b) as of any date of determination falling in any other month, zero; provided that the amount specified in clause (a) shall be without duplication with the amount specified as the “Additional Minimum Transferor Amount” in the Series Supplement relating to the Series 2007-VFC Certificates (or in any future supplement to the Pooling and Servicing Agreement that specifies such an amount and indicates that such amount is without duplication of the amount specified in clause (a)) and in the Indenture Supplements relating to the Series 2004-C Notes, Series 2006-A Notes and Series 2008-A Notes, Series 2009-A Notes, Series 2009-B Notes, Series 2009-C Notes, Series 2009-D Notes and the Series 2009-VFN Notes (or in any future Indenture Supplement that specifies such an amount and indicates that such amount is without duplication of the amount specified in clause (a) ). The Additional Minimum Transferor Amount is specified pursuant to Section 9.7 of this Indenture Supplement as an additional amount to be considered part of the Minimum Transferor Amount.

“ Aggregate Investor Default Amount ” means, as to any Monthly Period, the sum of the Investor Default Amounts in respect of such Monthly Period.

“ Allocation Percentage ” means, with respect to any Monthly Period, the percentage equivalent of a fraction:

(a) the numerator of which shall be equal to:

(i) for Principal Collections during the Revolving Period and for Finance Charge Collections and Default Amounts at any time, the Collateral Amount at the end of the last day of the prior Monthly Period (or, in the case of the Monthly Period in which the Closing Date occurs, on the Closing Date), less any reductions to be made to the Collateral Amount on account of principal payments to be made on the Distribution Date falling in the Monthly Period for which the Allocation Percentage is being calculated; provided, however, that with respect to any Monthly Period in which a Reset Date occurs as a result of a Class A Incremental Funding, Class M Incremental Funding, Class B Incremental Funding or the issuance of a new Series, the numerator determined pursuant to this clause (i) shall be (A) the Collateral Amount as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, in each case less any reductions to be made to the Collateral Amount on account of principal payments to be made on the Distribution Date falling in the Monthly Period for which the Allocation Percentage is being calculated (to the extent not already subtracted in determining the Collateral Amount), for the period from and including the first day of the current Monthly Period or the preceding Reset Date, as applicable, to but excluding such Reset Date and (B) the Collateral Amount as of the close of business on such Reset Date, less any reductions to be made to the Collateral Amount on account of principal payments to be made on the Distribution Date falling in the Monthly Period for which the Allocation Percentage is being calculated (to the extent not already subtracted in determining the Collateral Amount), for the period from and including such Reset Date to the earlier of the last day of such Monthly Period (in which case such period shall include such day) or the next succeeding Reset Date (in which case such period shall not include such succeeding Reset Date); or

(ii) for Principal Collections during the Early Amortization Period and the Controlled Amortization Period, the Collateral Amount at the end of the last day of the Revolving Period, provided, however, that the Transferor may, by written notice to the Indenture Trustee, the Servicer and the Rating Agencies, reduce the numerator used for purposes of allocating Principal Collections to Series 2009-VFN at any time if (x) the Rating Agency Condition shall have been satisfied with respect to such reduction and (y) the Transferor shall have delivered to the Indenture Trustee an Officer's Certificate to the effect, based on the facts known to such officer at that time, in the reasonable belief of the Transferor, such designation will not cause a Series 2009-VFN Early Amortization Event or an event that, after the giving of notice or the lapse of time, would cause a Series

2009-VFN Early Amortization Event to occur with respect to Series 2009-VFN; and

(b) the denominator of which shall be the greater of (x) the Aggregate Principal Receivables determined as of the close of business on the last day of the prior Monthly Period and (y) the sum of the numerators used to calculate the allocation percentages for allocations with respect to Finance Charge Collections, Principal Collections or Default Amounts, as applicable, for all outstanding Series and all outstanding Series under (and as defined in) the Pooling and Servicing Agreement (other than any Series represented by the Collateral Certificate) on such date of determination provided, that if one or more Reset Dates occur in a Monthly Period, the Allocation Percentage for the portion of the Monthly Period falling on and after such Reset Date and prior to any subsequent Reset Date will be recalculated for such period as of the close of business on the subject Reset Date.

“ Amendment Date ” means June 24, 2010.

“ Available Cash Collateral Amount ” means with respect to any Transfer Date, an amount equal to the lesser of (a) the amount on deposit in the Cash Collateral Account (before giving effect to any deposit to, or withdrawal from, the Cash Collateral Account made or to be made with respect to such date) and (b) the Required Cash Collateral Amount for such Transfer Date.

“ Available Finance Charge Collections ” means, for any Monthly Period, an amount equal to the sum of (a) the Investor Finance Charge Collections for such Monthly Period, plus (b) the Excess Finance Charge Collections allocated to Series 2009-VFN for such Monthly Period, plus (c) interest and earnings on funds on deposit in the Cash Collateral Account which will be deposited into the Finance Charge Account on the related Transfer Date to be treated as Available Finance Charge Collections pursuant to subsection 5.10(b).

“ Available Principal Collections ” means, for any Monthly Period, an amount equal to the sum of (a) the Investor Principal Collections for such Monthly Period, minus (b) the amount of Reallocated Principal Collections with respect to such Monthly Period which pursuant to Section 5.6 are required to be applied on the related Distribution Date, plus (c) any Shared Principal Collections with respect to other Principal Sharing Series (including any amounts on deposit in the Excess Funding Account that are allocated to Series 2009-VFN for application as Shared Principal Collections), plus (d) the aggregate amount to be treated as Available Principal Collections pursuant to clauses 5.4(a)(ix) and (x) for the related Distribution Date.

“ Available Spread Account Amount ” means, for any Transfer Date, an amount equal to the lesser of (a) the amount on deposit in the Spread Account (exclusive of Investment Earnings on such date and before giving effect to any deposit to, or withdrawal from, the Spread Account made or to be made with respect to such date) and (b) the Required Spread Account Amount, in each case on such Transfer Date.

“ Bankrupt Merchant ” means any Merchant which fails generally to, or admits in writing its inability to, pay its debts as they become due; or any Merchant for which a proceeding shall have been instituted in a court having jurisdiction in the premises seeking a decree or order for relief in respect of such Merchant in an involuntary case under any Debtor Relief Law, or for the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator, conservator or

other similar official for any substantial part of its property, or for the winding-up or liquidation of its affairs, and such proceedings shall continue undismissed or unstayed and in effect for a period of 60 consecutive days or any of the actions sought in such proceeding shall occur; or any Merchant that commences a voluntary case under any Debtor Relief Law, or such Merchant's consent to the entry of an order for relief in an involuntary case under any Debtor Relief Law, or consent to the appointment of a taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator, conservator or other similar official for any substantial part of its property, or any general assignment for the benefit of creditors; or any Merchant or any Affiliate of such Merchant shall have taken any corporate action in furtherance of any of the foregoing actions with respect to such Merchant; provided, however, that a Merchant for which a Chapter 11 Plan is confirmed under a Debtor Relief Law shall no longer be a Bankrupt Merchant upon the occurrence of the Effective Date of such Chapter 11 Plan. For purposes of this definition, a "Chapter 11 Plan" shall mean a plan filed and confirmed pursuant to the provisions of Chapter 11 of the United States Bankruptcy Code (11 U.S.C. §§ 101 et. seq.) but shall exclude a Chapter 11 Plan under which the Bankrupt Merchant liquidates all of its assets and discontinues operations.

"Base Rate" means, as to any Monthly Period, the annualized percentage equivalent of a fraction, the numerator of which is equal to the sum of the Monthly Interest, any Class A Non-Use Fees paid pursuant to clause 5.4(a)(ii) and any Class A Rated Additional Amounts for the related Distribution Period, and the Noteholder Servicing Fee with respect to such Monthly Period, and the denominator of which is the Weighted Average Collateral Amount during such Monthly Period.

"Cash Collateral Account" is defined in subsection 5.10(a).

"Change in Control" means the failure of Holding to own, directly or indirectly, 100% of the outstanding shares of common stock (excluding directors' qualifying shares) of WFN.

"Class A Additional Amounts" is defined in subsection 5.2(d).

"Class A Breakage Payment" is defined in subsection 5.2(e).

"Class A Fixed Period" is defined in subsection 5.2(a).

"Class A Funding Tranche" is defined in subsection 5.2(a).

"Class A Incremental Funding" means any increase in the Class A Principal Balance during the Revolving Period made pursuant to the Class A Note Purchase Agreement.

"Class A Incremental Principal Balance" means the amount of the increase in the Class A Principal Balance occurring as a result of any Class A Incremental Funding, which amount shall equal the aggregate amount of the purchase prices paid by the Class A Noteholders pursuant to the Class A Note Purchase Agreement with respect to such Class A Incremental Funding.

"Class A Maximum Principal Balance" means the "Maximum Class A Principal Balance" (as defined in the Class A Note Purchase Agreement), as such amount may be increased or decreased from time to time pursuant to the Class A Note Purchase Agreement. As

applied to any particular Class A Note, the “Class A Maximum Principal Balance” means the portion of the overall Class A Maximum Principal Balance represented by that Class A Note.

“ Class A Monthly Interest ” is defined in subsection 5.2(a).

“ Class A Monthly Principal ” is defined in subsection 5.3(a).

“ Class A Non-Use Fee ” is defined in subsection 5.2(d).

“ Class A Non-Use Fee Rate ” means, with respect to any Class A Ownership Group, the rate specified as the Class A Non-Use Fee Rate in a fee letter between the Transferor and the Class A Noteholders in such Class A Ownership Group.

“ Class A Note Purchase Agreement ” means the Second Amended and Restated Note Purchase Agreement, dated as of the Second Amendment Date, among Transferor, Servicer and each of the initial Class A Noteholders, as supplemented by the BANA Fee Letter, Jupiter Fee Letter, VFCC Fee Letter, Sheffield Fee Letter, Thunder Bay Fee Letter and the RBS Fee Letter referred to (and defined) therein, and as the same may be amended or otherwise modified from time to time. The Class A Note Purchase Agreement is hereby designated a “Transaction Document” for all purposes of the Agreement and this Indenture Supplement.

“ Class A Noteholder ” means the Person in whose name a Class A Note is registered in the Note Register.

“ Class A Notes ” means any one of the Notes executed by the Issuer and authenticated by or on behalf of the Indenture Trustee, substantially in the form of Exhibit A-1.

“ Class A Ownership Group ” means an Ownership Group (as defined in the Class A Note Purchase Agreement).

“ Class A Ownership Tranche ” is defined in subsection 1.1(b).

“ Class A Principal Balance ” means, on any Business Day, an amount equal to the result of (a) \$ , plus (b) the aggregate amount of all Class A Incremental Principal Balances for all Class A Incremental Fundings occurring after the Closing Date and on or prior to that Business Day (including the increase in the Class A Notes pursuant to Section 3.02(b) of the Class A Note Purchase Agreement), minus (c) the aggregate amount of principal payments made to Class A Noteholders after the Closing Date and on or prior to such Business Day (including any payment described in 3.02(a) of the Note Purchase Agreement). As applied to any particular Class A Note, the “Class A Principal Balance” means the portion of the overall Class A Principal Balance represented by that Class A Note. The Class A Principal Balance shall be allocated among the Class A Ownership Tranches as provided in the Class A Note Purchase Agreement.

“ Class A Pro Rata Percentage ” means %

“ Class A Rated Additional Amounts ” is defined in subsection 5.2(d).

“ Class A Required Amount ” means, for any Distribution Date, an amount equal to the excess of the amounts described in clauses 5.4(a)(i), (ii) and (iii) over the sum of (a) Available Finance Charge Collections applied to pay such amount pursuant to subsection 5.4(a) and (b) any amount withdrawn from the Cash Collateral Account and applied to pay such amount pursuant to subsection 5.10(c).

“ Class A Scheduled Final Payment Date ” means the Distribution Date falling in the twelfth month following the month in which the Controlled Amortization Period begins.

“ Class A Tranche Rate ” means, for any Distribution Period, the Note Rate (as defined in the Class A Note Purchase Agreement) for each Class A Ownership Tranche (or any related Class A Funding Tranche).

“ Class A Unrated Additional Amounts ” is defined in subsection 5.2(d).

“ Class B Additional Amounts ” is defined, if at all, in the applicable Class B Note Purchase Agreement.

“ Class B Additional Interest ” is defined in subsection 5.2(c).

“ Class B Deficiency Amount ” is defined in subsection 5.2(c).

“ Class B Incremental Funding ” means any increase in the Class B Principal Balance during the Revolving Period made pursuant to the applicable Class B Note Purchase Agreement.

“ Class B Incremental Principal Balance ” means the amount of the increase in the Class B Principal Balance occurring as a result of any Class B Incremental Funding, which amount shall equal the aggregate amount of the purchase prices paid by the Class B Noteholders pursuant to the Class B Note Purchase Agreement with respect to such Class B Incremental Funding.

“ Class B Maximum Principal Balance ” means the product of (a) a fraction, the numerator of which is the Class A Maximum Principal Balance and the denominator of which is the Class A Pro Rata Percentage and (b) the Class B Pro Rata Percentage, as such amount may be increased or decreased from time to time pursuant to the Class B Note Purchase Agreement. As applied to any particular Class B Note, the “Class B Maximum Principal Balance” means the portion of the overall Class B Maximum Principal Balance represented by that Class B Note.

“ Class B Monthly Interest ” is defined in subsection 5.2(c).

“ Class B Monthly Principal ” is defined in subsection 5.3(c).

“ Class B Note Interest Rate ” means     %.

“ Class B Note Purchase Agreement ” means any of the Note Purchase Agreements, entered into among WFN, the Transferor and each party that purchases Class B Notes from the Transferor.

“ Class B Noteholder ” means the Person in whose name a Class B Note is registered in the Note Register.

“ Class B Notes ” means any one of the Notes executed by the Issuer and authenticated by or on behalf of the Indenture Trustee, substantially in the form of Exhibit A-2.

“ Class B Principal Balance ” means, on any Business Day, an amount equal to the result of (a) \$ , plus (b) the aggregate amount of all Class B Incremental Principal Balances for all Class B Incremental Fundings occurring after the Closing Date and on or prior to that Business Day, minus (c) the aggregate amount of principal payments made to Class B Noteholders after the Closing Date and on or prior to such Business Day. As applied to any particular Class B Note, the “Class B Principal Balance” means the portion of the overall Class B Principal Balance represented by that Class B Note.

“ Class B Pro Rata Percentage ” means %.

“ Class B Required Amount ” means, for any Distribution Date, an amount equal to the excess of the amount described in clause 5.4(a) (viii) over the sum of (a) Available Finance Charge Collections applied to pay such amount pursuant to subsection 5.4(a) and (b) any amount withdrawn from the Cash Collateral Account and applied to pay such amount pursuant to subsection 5.10(c).

“ Class M Additional Amounts ” is defined, if at all, in the applicable Class M Note Purchase Agreement.

“ Class M Additional Interest ” is defined in subsection 5.2(b).

“ Class M Deficiency Amount ” is defined in subsection 5.2(b).

“ Class M Incremental Funding ” means any increase in the Class M Principal Balance during the Revolving Period made pursuant to the applicable Class M Note Purchase Agreement.

“ Class M Incremental Principal Balance ” means the amount of the increase in the Class M Principal Balance occurring as a result of any Class M Incremental Funding, which amount shall equal the aggregate amount of the purchase prices paid by the Class M Noteholders pursuant to the Class M Note Purchase Agreement with respect to such Class M Incremental Funding.

“ Class M Maximum Principal Balance ” means the product of (a) a fraction, the numerator of which is the Class A Maximum Principal Balance and the denominator of which is the Class A Pro Rata Percentage and (b) the Class M Pro Rata Percentage, as such amount may be increased or decreased from time to time pursuant to the Class M Note Purchase Agreement. As applied to any particular Class M Note, the “Class M Maximum Principal Balance” means the portion of the overall Class M Maximum Principal Balance represented by that Class M Note.

“ Class M Monthly Interest ” is defined in subsection 5.2(b).

“Class M Monthly Principal” is defined in subsection 5.3(b).

“Class M Note Interest Rate” means     %.

“Class M Note Purchase Agreement” means any of the Note Purchase Agreements, entered into among WFN, the Transferor and each party that purchases Class M Notes from the Transferor.

“Class M Noteholder” means the Person in whose name a Class M Note is registered in the Note Register.

“Class M Notes” means any one of the Notes executed by the Issuer and authenticated by or on behalf of the Indenture Trustee, substantially in the form of Exhibit A-2.

“Class M Principal Balance” means, on any Business Day, an amount equal to the result of (a) \$     , plus (b) the aggregate amount of all Class M Incremental Principal Balances for all Class M Incremental Fundings occurring after the Amendment Date and on or prior to that Business Day, minus (c) the aggregate amount of principal payments made to Class M Noteholders after the Amendment Date and on or prior to such Business Day. As applied to any particular Class M Note, the “Class M Principal Balance” means the portion of the overall Class M Principal Balance represented by that Class M Note.

“Class M Pro Rata Percentage” means     %.

“Class M Required Amount” means, for any Distribution Date, an amount equal to the excess of the amount described in clause 5.4(a)(v) over the sum of (a) Available Finance Charge Collections applied to pay such amount pursuant to subsection 5.4(a) and (b) any amount withdrawn from the Cash Collateral Account and applied to pay such amount pursuant to subsection 5.10(c).

“Closing Date” means September 29, 2009.

“Collateral Amount” means, as of any date of determination, an amount equal to (a) the Note Principal Balance minus (b) the excess, if any, of the aggregate amount of Investor Charge-Offs and Reallocated Principal Collections over the reimbursement of such amounts pursuant to clause 5.4(a)(x) prior to such date.

“Controlled Amortization Amount” means for any Transfer Date with respect to the Controlled Amortization Period prior to the payment in full of the Note Principal Balance, an amount equal to (a) the Note Principal Balance as of the close of business on the last day of the Revolving Period divided by (b) twelve.

“Controlled Amortization Date” means the “Purchase Expiration Date” (as such term is defined in the Class A Note Purchase Agreement).

“Controlled Amortization Period” means, unless a Series 2009-VFN Early Amortization Event shall have occurred prior thereto, the period commencing at the close of business on the first Controlled Amortization Date to occur (without being extended as provided in the

applicable Note Purchase Agreement) and ending on the earlier to occur of (a) the commencement of the Early Amortization Period, and (b) the Series Termination Date, provided that Transferor may, by written notice to the Indenture Trustee and each Series 2009-VFN Noteholder (and so long as the Early Amortization Period has not begun), cause the Controlled Amortization Period to begin on any date earlier than the one otherwise specified above.

“Controlled Amortization Shortfall” initially means zero and thereafter means, with respect to any Monthly Period during the Controlled Amortization Period, the excess, if any, of the Controlled Payment Amount for the previous Monthly Period over the sum of the amount distributed pursuant to subsection 6.2(a) with respect to the Class A Notes for the previous Monthly Period, the amount distributed pursuant to subsection 6.2(b) with respect to the Class M Notes for the previous Monthly Period and the amount distributed pursuant to subsection 6.2(c) with respect to the Class B Notes for the previous Monthly Period.

“Controlled Payment Amount” means, with respect to any Transfer Date, the sum of (a) the Controlled Amortization Amount for such Transfer Date and (b) any existing Controlled Amortization Shortfall.

“Day Count Fraction” means, as to any Class A Ownership Tranche (or Class A Funding Tranche), any Class M Note or any Class B Note for any Distribution Period, a fraction (a) the numerator of which is the number of days in that Distribution Period (or, if less, the number of days during that Distribution Period during which that Class A Ownership Tranche, Class A Funding Tranche, Class M Note or Class B Note was outstanding, including the first, but excluding the last, such day) and (b) the denominator of which is the actual number of days in the related calendar year (or, if so specified in the related Note Purchase Agreement, 360).

“DBRS” means DBRS, Inc.

“Default Amount” means, as to any Defaulted Account, the amount of Principal Receivables (other than Ineligible Receivables, unless there is an Insolvency Event with respect to WFN or the Transferor) in such Defaulted Account on the day it became a Defaulted Account.

“Defaulted Account” means an Account in which there are Defaulted Receivables.

“Designated Maturity” means, for any LIBOR Determination Date, one month; provided that LIBOR for the initial Distribution Period will be determined by straight-line interpolation (based on actual number of days in the initial Distribution Period) between two rates determined in accordance with the definitions of LIBOR, one of which will be determined for a Designated Maturity of one month and the other of which will be determined for a Designated Maturity of two months.

“Dilution” means any downward adjustment made by Servicer in the amount of any Receivable (a) because of a rebate, refund or billing error to an accountholder, (b) because such Receivable was created in respect of merchandise which was refused or returned by an accountholder or (c) for any other reason other than receiving Collections therefor or charging off such amount as uncollectible.

“Distribution Account” is defined in subsection 5.9(a).

“ Distribution Date ” means November 16, 2009 and the 15<sup>th</sup> day of each calendar month thereafter, or if such 15th day is not a Business Day, the next succeeding Business Day.

“ Distribution Period ” means, for any Distribution Date, the period from and including the Distribution Date immediately preceding such Distribution Date (or, in the case of the first Distribution Date, from and including the Closing Date) to but excluding such Distribution Date.

“ Early Amortization Period ” means the period commencing on the date on which a Trust Early Amortization Event or a Series 2009-VFN Early Amortization Event is deemed to occur and ending on the Series Termination Date.

“ Eligible Investments ” is defined in Annex A to the Indenture; provided that solely for purposes of Section 5.11(b), references to the “highest investment category” of S&P shall mean A-2 and of Moody’s shall mean P-2; and provided, further, in no event shall any Eligible Investment be an equity security or cause the Trust to have any voting rights in respect of such Eligible Investment.

“ Excess Spread Percentage ” means, for any Monthly Period, a percentage equal to the Portfolio Yield for such Monthly Period, minus the Base Rate for such Monthly Period.

“ Finance Charge Account ” is defined in Section 5.9(a).

“ Finance Charge Collections ” means Collections of Finance Charge Receivables.

“ Finance Charge Shortfall ” is defined in Section 5.7.

“ Group One ” means Series 2004-C, Series 2006-A, Series 2008-A, Series 2009-A, Series 2009-B, Series 2009-C, Series 2009-D, Series 2009-VFN, the outstanding Series under (and as defined in) the Pooling and Servicing Agreement (other than Series represented by the Collateral Certificate) and each other Series hereafter specified in the related Indenture Supplement to be included in Group One.

“ Incremental Funding ” means a Class A Incremental Funding, a Class M Incremental Funding or a Class B Incremental Funding.

“ Investment Earnings ” means, for any Distribution Date, all interest and earnings on Eligible Investments included in the Spread Account (net of losses and investment expenses) during the Monthly Period immediately preceding such Distribution Date.

“ Investor Charge-Offs ” is defined in Section 5.5.

“ Investor Default Amount ” means, with respect to any Defaulted Account, an amount equal to the product of (a) the Default Amount and (b) the Allocation Percentage on the day such Account became a Defaulted Account.

“ Investor Finance Charge Collections ” means, for any Monthly Period, an amount equal to the aggregate amount of Finance Charge Collections (including Net Recoveries treated as

Finance Charge Collections) retained or deposited in the Finance Charge Account for Series 2009-VFN pursuant to clause 5.1(b)(i) for such Monthly Period.

“ Investor Principal Collections ” means, for any Monthly Period, an amount equal to the aggregate amount of Principal Collections retained or deposited in the Principal Account for Series 2009-VFN pursuant to clause 5.1(b)(ii) for such Monthly Period.

“ Investor Uncovered Dilution Amount ” means an amount equal to the product of (x) the Series Allocation Percentage for the related Monthly Period (determined on a weighted average basis, if one or more Reset Dates occur during that Monthly Period), times (y) the aggregate Dilutions occurring during that Monthly Period as to which any deposit is required to be made to the Excess Funding Account pursuant to subsection 3.9(a) of the Transfer and Servicing Agreement or subsection 3.9(a) of the Pooling and Servicing Agreement but has not been made, provided that, if the Transferor Amount is greater than zero at the time the deposit referred to in clause (y) is required to be made, the Investor Uncovered Dilution Amount for such amount to be deposited shall be deemed to be zero.

“ LIBOR ” means, for any Distribution Period, an interest rate per annum for each Distribution Period determined by the Indenture Trustee in accordance with the provisions of Section 5.13.

“ LIBOR Determination Date ” means (i) September 27, 2009 for the period from and including the Closing Date through and including November 15, 2009 and (ii) the second London Business Day prior to the commencement of the second and each subsequent Distribution Period.

“ London Business Day ” means any day on which dealings in deposits in United States dollars are transacted in the London interbank market.

“ Maximum Principal Balance ” means the sum of (a) the Class A Maximum Principal Balance, (b) the Class M Maximum Principal Balance and (c) the Class B Maximum Principal Balance.

“ Minimum Transferor Amount ” means (a) prior to the Certificate Trust Termination Date, the “Minimum Transferor Amount” under (and as defined in) the Pooling and Servicing Agreement and (b) on and after the Certificate Trust Termination Date, the “Minimum Transfer Amount” as defined in Annex A to the Indenture.

“ Monthly Interest ” means, for any Distribution Date, the sum of the Class A Monthly Interest, the Class M Monthly Interest and the Class B Monthly Interest for such Distribution Date.

“ Monthly Period ” means the period from and including the first day of the calendar month preceding a related Distribution Date to and including the last day of such calendar month; provided that the Monthly Period related to the November 2009 Distribution Date shall mean the period from and including the Closing Date to and including the last day of October 2009.

“ Monthly Principal ” means, on any Distribution Date, the sum of the Class A Monthly Principal, the Class M Monthly Principal and the Class B Monthly Principal with respect to such date.

“ Monthly Principal Reallocation Amount ” means, for any Monthly Period, an amount equal to the sum of: (a) the lesser of (i) the sum of Class A Required Amount and the Servicing Fee Required Amount and (ii) the excess, if any, of the Collateral Amount over the Class A Principal Balance on the related Distribution Date (after giving effect to Investor Charge-Offs for the related Monthly Period) and (b) the lesser of (i) the Class M Required Amount and (ii) the Collateral Amount over the sum of the Class A Principal Balance and the Class M Principal Balance on the related Distribution Date (after giving effect to Investor Charge-Offs for the related Monthly Period and unreimbursed Reallocated Principal Collections (as of the previous Payment Date and as required in clause (a) above for the current Monthly Period)).

“ Note Principal Balance ” means, as of any Business Day, the sum of (a) the Class A Principal Balance, (b) the Class M Principal Balance and (c) the Class B Principal Balance.

“ Note Purchase Agreements ” means the Class A Note Purchase Agreement, the Class M Note Purchase Agreement and the Class B Note Purchase Agreement.

“ Noteholder Servicing Fee ” is defined in Section 3.1 .

“ Optional Amortization Amount ” is defined in subsection 4.1(b) .

“ Optional Amortization Date ” is defined in subsection 4.1(b) .

“ Optional Amortization Notice ” is defined in subsection 4.1(b) .

“ Percentage Allocation ” is defined in paragraph 5.1(b)(ii)(y) .

“ Portfolio Yield ” means, for any Monthly Period, the annualized percentage equivalent of a fraction, (a) the numerator of which is equal to (i) the Available Finance Charge Collections (excluding any Excess Finance Charge Collections), minus (ii) the Aggregate Investor Default Amount and the Investor Uncovered Dilution Amount for such Monthly Period and (b) the denominator of which is the Weighted Average Collateral Amount during such Monthly Period.

“ Principal Account ” is defined in subsection 5.9(a) .

“ Principal Collections ” means Collections of Principal Receivables.

“ Principal Shortfall ” is defined in Section 5.8 .

“ Rating Agency ” means each of Fitch and DBRS.

“ Rating Agency Condition ” means, notwithstanding anything to the contrary in the Indenture, with respect to Series 2009-VFN and any action subject to such condition, (i) DBRS shall have notified the Issuer in writing that such action will not result in a reduction or withdrawal of their respective ratings of any outstanding Class of Series 2009-VFN Notes for

which such Rating Agency provides a rating and (ii) 10 days' prior written notice (or, if 10 days' advance notice is impracticable, as much advance notice as is practicable) to Fitch delivered electronically to notifications.abs@fitchratings.com.

“ Reallocated Principal Collections ” means, for any Transfer Date, Investor Principal Collections applied in accordance with Section 5.6 in an amount not to exceed the Monthly Principal Reallocation Amount for the related Monthly Period.

“ Reassignment Amount ” means, for any Transfer Date, after giving effect to any deposits and distributions otherwise to be made on the related Distribution Date, the sum of (i) the Note Principal Balance on the related Distribution Date, plus (ii) Monthly Interest for the related Distribution Date and any Monthly Interest previously due but not distributed to the Series 2009-VFN Noteholders, plus (iii) the amount of Class M Additional Interest, if any, for the related Distribution Date and any Class M Additional Interest previously due but not distributed to the Series 2009-VFN Noteholders on a prior Distribution Date, plus (iv) the amount of Class B Additional Interest, if any, for the related Distribution Date and any Class B Additional Interest previously due but not distributed to the Series 2009-VFN Noteholders on a prior Distribution Date, plus (v) the amount of Class A Non-Use Fees, if any, for the related Distribution Date and any Class A Non-Use Fees previously due but not distributed to the Series 2009-VFN Noteholders on a prior Distribution Date, plus (vi) the amount of Additional Amounts, if any, for the related Distribution Date and any Additional Amounts previously due but not distributed to the Series 2009-VFN Noteholders on a prior Distribution Date.

“Record Date” means, for purposes of Series 2009-VFN with respect to any Distribution Date or Optional Amortization Date, the date falling five Business Days prior to such date.

“ Reference Banks ” means four major banks in the London interbank market selected by the Servicer.

“ Refinancing Date ” is defined in subsection 4.1(c) .

“ Required Cash Collateral Amount ” means on any date of determination, the sum of (i) % of the Note Principal Balance, after any adjustments (including any increase in the Note Principal Balance) to be made on such date of determination plus (ii) the on such date of determination.

“ Required Class B Principal Balance ” means on any date of determination, the Class B Pro Rata Percentage times the Note Principal Balance.

“ Required Class M Principal Balance ” means on any date of determination, the Class M Pro Rata Percentage times the Note Principal Balance.

“ Required Draw Amount ” is defined in subsection 5.10(c) .

“ Required Retained Transferor Percentage ” means, for purposes of Series 2009-VFN, 4% .

“ Required Spread Account Amount ” means, for any Distribution Date, (a) the product of (i) the Spread Account Percentage in effect on such date and (ii) during (x) the Revolving Period, the Collateral Amount and (y) thereafter, the Collateral Amount as of the last day of the Revolving Period; provided, that in no event will the Required Spread Account Amount exceed the Class B Principal Balance (after taking into account any payments to be made on such Distribution Date).

“ Reset Date ” means:

(a) each Addition Date and each “Addition Date” (as such term is defined in the Pooling and Servicing Agreement), in each case relating to Supplemental Accounts;

(b) each Removal Date and each “Removal Date” (as such term is defined in the Pooling and Servicing Agreement) on which, if any Series of Notes or any Series under (and as defined in) the Pooling and Servicing Agreement has been paid in full, Principal Receivables equal to the initial Collateral Amount or initial Principal Balance for that Series are removed from the Receivables Trust;

(c) each date on which there is an increase in the outstanding balance of any Variable Interest or “Variable Interest” (as such term is defined in the Pooling and Servicing Agreement); and

(d) each date on which a new Series or Class of Notes is issued and each date on which a new “Series” or “Class” (each as defined in the Pooling and Servicing Agreement) of investor certificates is issued by the Certificate Trust.

“Revolving Period” means the period from and including the Closing Date to, but not including, the earlier of (a) the day the Controlled Amortization Period commences and (b) the day the Early Amortization Period commences.

“ Second Amendment Date ” means June 15, 2011.

“ Series 2009-VFN ” means the Series of Notes the terms of which are specified in this Indenture Supplement.

“ Series 2009-VFN Early Amortization Event ” is defined in Section 7.1 .

“ Series 2009-VFN Note ” means a Class A Note, a Class M Note or a Class B Note.

“ Series 2009-VFN Noteholder ” means a Class A Noteholder, a Class M Noteholder or a Class B Noteholder.

“ Series Account ” means, (a) with respect to Series 2009-VFN, the Finance Charge Account, the Principal Account, the Distribution Account, the Cash Collateral Account and the Spread Account, and (b) with respect to any other Series, the “Series Accounts” for such Series as specified in the Indenture and the applicable Indenture Supplement for such Series.

“ Series Allocation Percentage ” means, with respect to any Monthly Period, the percentage equivalent of a fraction, the numerator of which is the Allocation Percentage for Finance Charge Collections for that Monthly Period and the denominator of which is the sum of the Allocation Percentage for Finance Charge Receivables for all outstanding Series on such date of determination; provided that if one or more Reset Dates occur in a Monthly Period, the Series Allocation Percentages for the portion of the Monthly Period falling on and after each such Reset Date and prior to any subsequent Reset Date will be determined using a denominator which is equal to the sum of the numerators used in determining the Allocation Percentage for Finance Charge Receivables for all outstanding Series as of the close of business on the subject Reset Date.

“ Series Servicing Fee Percentage ” means     % per annum.

“ Series Termination Date ” means the earliest to occur of (a) the Distribution Date falling in the Controlled Amortization Period or an Early Amortization Period on which the Collateral Amount is paid in full, (b) the termination of the Trust pursuant to the Agreement and (c) the Distribution Date on or closest to the date falling 46 months after the commencement of the Early Amortization Period.

“ Servicing Fee Required Amount ” means, for any Distribution Date, an amount equal to the excess of the amount described in clause 5.4(a)(iv) over the (a) Available Finance Charge Collections applied to pay such amount pursuant to subsection 5.4(a) and (b) any amount withdrawn from the Cash Collateral Account and applied to pay such amount pursuant to subsection 5.10(c).

“ Specified Transferor Amount ” means, at any time, the Minimum Transferor Amount (including the Additional Minimum Transferor Amount, if any) at that time.

“ Spread Account ” is defined in subsection 5.11(a).

“ Spread Account Deficiency ” means the excess, if any, of the Required Spread Account Amount over the Available Spread Account Amount.

“ Spread Account Percentage ” is defined in the applicable Class B Note Purchase Agreement.

“ Target Amount ” is defined in clause 5.1(b)(i).

“ Transfer ” means any sale, transfer, assignment, exchange, participation, pledge, hypothecation, rehypothecation, or other grant of a security interest in or disposition of, a Note.

“Weighted Average Class A Principal Balance” means, as to any Class A Ownership Tranche (or Class A Funding Tranche) for any Distribution Period, the quotient of (a) the summation of the portion of the Class A Principal Balance allocated to that Class A Ownership Tranche (or Class A Funding Tranche) determined as of each day in that Distribution Period, divided by (b) the number of days in that Distribution Period (or, if less, the number of days during that Distribution Period during which that Class A Ownership Tranche or Class A Funding Tranche was outstanding).

“Weighted Average Collateral Amount” means, for any Monthly Period, the quotient of (a) the summation of the Collateral Amount determined as of each day in that Monthly Period, divided by (b) the number of days in that Monthly Period.

(b) Each capitalized term defined herein shall relate to the Series 2009-VFN Notes and no other Series of Notes issued by the Trust, unless the context otherwise requires. All capitalized terms used herein and not otherwise defined herein have the meanings ascribed to them in Annex A to the Master Indenture, or, if not defined therein, in the Note Purchase Agreements.

(c) The interpretive rules specified in Section 1.2 of the Indenture also apply to this Indenture Supplement. If any term or provision contained herein shall conflict with or be inconsistent with any term or provision contained in the Indenture, the terms and provisions of this Indenture Supplement shall be controlling.

### ARTICLE III.

#### Noteholder Servicing Fee

Section 3.1 Servicing Compensation. The share of the Servicing Fee allocable to Series 2009-VFN for any Transfer Date (the “Noteholder Servicing Fee”) shall be equal to one-twelfth of the product of (a) the Series Servicing Fee Percentage and (b) the Weighted Average Collateral Amount for the preceding Monthly Period; provided, however, that with respect to the first Transfer Date, the Noteholder Servicing Fee shall instead equal 32/360 of such product. The remainder of the Servicing Fee shall be paid by the holders of the Transferor Interest or the noteholders of other Series (as provided in the related Indenture Supplements) and in no event shall the Trust, the Indenture Trustee or the Series 2009-VFN Noteholders be liable for the share of the Servicing Fee to be paid by the holders of the Transferor Interest or the noteholders of any other Series.

Section 3.2 Representations and Warranties. The parties hereto agree that the representations, warranties and covenants set forth in Schedule I shall be a part of this Indenture Supplement for all purposes.

### ARTICLE IV.

#### Variable Funding Mechanics

Section 4.1 Variable Funding Mechanics

(a) Class A Incremental Fundings. From time to time during the Revolving Period, Transferor and Servicer may notify one or more Class A Noteholders that a Class A Incremental Funding will occur, subject to the conditions of the Class A Note Purchase Agreement, with respect to the related Class A Ownership Tranche(s) on the next or any subsequent Business Day by delivering a Notice of Class A Incremental Funding (as defined in the Class A Note Purchase Agreement) executed by Transferor and Servicer to the Administrative Agent for each such Class A Noteholder, specifying the amount of such Class A Incremental Funding and the Business Day upon which such Class A Incremental Funding is to occur. The amount of Class A Incremental Funding allocated to each Class A Ownership Group shall be a minimum amount of \$1,000,000 or a higher integral multiple thereof for each Class A Ownership Group, except that a Class A Incremental Funding may be requested in the entire remaining Class A Purchase Limit of the related Class A Ownership Group. Upon any Class A Incremental Funding, the Class A Principal Balance, the Collateral Amount, the Note Principal Balance and the Allocation Percentage shall increase as provided herein. The increase in the Class A Principal Balance shall be allocated to the Class A Notes held by the Class A Noteholders from which purchase prices were received in connection with the Class A Incremental Funding in proportion to the amount of such purchase prices received.

(b) Optional Amortization. On any Business Day in the Revolving Period or the Controlled Amortization Period, Transferor may cause Servicer to provide notice to the Indenture Trustee and the affected Noteholders (an “Optional Amortization Notice”) at least two Business Days prior to any Business Day (the “Optional Amortization Date”) stating its intention to cause a full or partial amortization of the Class A Notes, the Class M Notes and the Class B Notes with Available Principal Collections on the Optional Amortization Date, in full, or in part in an amount (the “Optional Amortization Amount”), which shall be allocated among the Class A Notes, the Class M Notes and the Class B Notes, based on the Class A Pro Rata Percentage, the Class M Pro Rata Percentage and the Class B Pro Rata Percentage, respectively. The portion of the Optional Amortization Amount allocated to any Class A Ownership Group shall be in an aggregate amount not less than \$1,000,000 or a higher integral multiple thereof, except that the Optional Amortization Amount allocated to any Class A Ownership Group may equal the entire Principal Balance of the related Class A Note for such Class A Ownership Group. The Optional Amortization Notice shall state the Optional Amortization Date, the Optional Amortization Amount and the allocation of such Optional Amortization Amount among the various Classes and Class A Ownership Groups. The Optional Amortization Amount shall be paid from Shared Principal Collections pursuant to Section 5.8. Allocation of the Optional Amortization Amount among the various outstanding Class A Funding Tranches shall be at the discretion of Transferor, and accrued interest and any Class A Additional Amounts on the affected Class A Funding Tranches shall be payable on the first Distribution Date on or after the related Optional Amortization Date. On the Business Day prior to each Optional Amortization Date, Servicer shall instruct the Indenture Trustee in writing (which writing shall be substantially in the form of Exhibit B) to withdraw from the Collection Account and deposit into the Distribution Account, to the extent of the available funds held therein as Shared Principal Collections pursuant to Section 5.8, an amount sufficient to pay the Optional Amortization Amount on that Optional Amortization Date, and the Indenture Trustee, acting in accordance with such instructions, shall on such Business Day make such withdrawal and deposit.

(c) Refinanced Optional Amortization. On any Business Day in the Revolving Period or the Controlled Amortization Period, Transferor may, with the consent of each affected Series 2009-VFN Noteholder, cause Servicer to provide notice to the Indenture Trustee and all of the Series 2009-VFN Noteholders at least five Business Days prior to any Business Day (the “Refinancing Date”) stating its intention to cause the Series 2009-VFN Notes to be prepaid in full or in part on the Refinancing Date by causing the all or a portion of the Collateral Amount to be conveyed to one or more Persons (who may be the Noteholders of a new Series issued substantially contemporaneously with such prepayment) for a cash purchase price in an amount equal to the sum of (i) the Collateral Amount (or the portion thereof that is being conveyed), plus (ii) accrued and unpaid interest on the Collateral Amount (or the portion thereof that is being conveyed) through the Refinancing Date, plus (iii) any accrued and unpaid Class A Non-Use Fees and Class A Additional Amounts in respect of the Collateral Amount (or portion thereof that is being conveyed) through the Refinancing Date. In the case of any such conveyance, the purchase price shall be deposited in the Collection Account and shall be distributed to the applicable Series 2009-VFN Noteholders on the Refinancing Date in accordance with the terms of this Indenture Supplement and the Indenture; provided that after giving effect to any such conveyance and application of the purchase price, (i) the Class M Principal Balance shall not be less than the Required Class M Principal Balance, and (ii) the Class B Principal Balance shall not be less than the Required Class B Principal Balance.

(d) Class M Incremental Fundings. From time to time during the Revolving Period, Transferor and Servicer may, to the extent permitted by the applicable Class M Note Purchase Agreement, notify the Class M Noteholders that a Class M Incremental Funding will occur, subject to the conditions, if any, of the applicable Class M Note Purchase Agreements, on any Business Day by delivering a Notice of Class M Incremental Funding (as defined in the applicable Class M Note Purchase Agreement) executed by Transferor and Servicer to the Class M Noteholder, specifying the amount of such Class M Incremental Funding and the Business Day upon which such Class M Incremental Funding is to occur (which shall fall at least three Business Days after the date of such Notice). Upon any Class M Incremental Funding, the Class M Principal Balance, the Collateral Amount, the Note Principal Balance and the Allocation Percentage shall increase as provided herein.

(e) Class B Incremental Fundings. From time to time during the Revolving Period, Transferor and Servicer may, to the extent permitted by the applicable Class B Note Purchase Agreement, notify the Class B Noteholders that a Class B Incremental Funding will occur, subject to the conditions, if any, of the applicable Class B Note Purchase Agreements, on any Business Day by delivering a Notice of Class B Incremental Funding (as defined in the applicable Class B Note Purchase Agreement) executed by Transferor and Servicer to the Class B Noteholder, specifying the amount of such Class B Incremental Funding and the Business Day upon which such Class B Incremental Funding is to occur (which shall fall at least three Business Days after the date of such Notice). Upon any Class B Incremental Funding, the Class B Principal Balance, the Collateral Amount, the Note Principal Balance and the Allocation Percentage shall increase as provided herein.

Section 4.2 Maximum Principal Balances. The initial Maximum Principal Balances of each Series 2009-VFN Note is as set forth on the related Series 2009-VFN Notes. The Maximum Principal Balance of each Series 2009-VFN Note may be reduced or increased

from time to time as provided in the related Note Purchase Agreement. Increases and decreases in the overall Maximum Principal Balance are not required to be made ratably among the various Classes of Notes. Any decrease in the Maximum Principal Balance of any Series 2009-VFN Note shall be permanent, unless a subsequent increase in the Maximum Principal Balance is made in accordance with the related Note Purchase Agreement.

## ARTICLE V.

### Rights of Series 2009-VFN Noteholders and Allocation and Application of Collections

#### Section 5.1 Collections and Allocations

(a) Allocations. Finance Charge Collections, Principal Collections and Defaulted Receivables allocated to Series 2009-VFN pursuant to Article VIII of the Indenture shall be allocated and distributed as set forth in this Article.

(b) Allocations to the Series 2009-VFN Noteholders. The Servicer shall on the Date of Processing, allocate to the Series 2009-VFN Noteholders the following amounts as set forth below:

(i) Allocations of Finance Charge Collections. The Servicer shall allocate to the Series 2009-VFN Noteholders an amount equal to the product of (A) the Allocation Percentage and (B) the aggregate Finance Charge Collections processed on such Date of Processing and shall deposit such amount into the Finance Charge Account, provided that, with respect to each Monthly Period falling in the Revolving Period (and with respect to that portion of each Monthly Period in the Controlled Amortization Period falling on or after the day on which Collections of Principal Receivables equal to the related Controlled Amortization Amount have been allocated pursuant to clause 5.1(b)(ii)), so long as the Available Cash Collateral Amount is not less than the Required Cash Collateral Amount on such Date of Processing, Collections of Finance Charge Receivables shall be transferred into the Finance Charge Account only until such time as the aggregate amount so deposited equals the product of (x) 1.5 and (y) the sum (the “Target Amount”) of (A) the Monthly Interest for the related Distribution Date, (B) the Class A Non-Use Fee and the Class A Rated Additional Amounts, if any, (C) if WFN is not the Servicer, the Noteholder Servicing Fee (and if WFN is the Servicer, then amounts that otherwise would have been transferred into the Finance Charge Account pursuant to this clause (C) shall instead be returned to WFN as payment of the Noteholder Servicing Fee), (D) any amount required to be deposited in the Spread Account and the Cash Collateral Account on the related Transfer Date and (E) the sum of the Investor Default Amounts for the prior Monthly Period and any Investor Uncovered Dilution Amount for the prior Monthly Period; provided further, that, notwithstanding the preceding proviso, if on any Business Day the Servicer determines that the Target Amount for a Monthly Period exceeds the Target Amount for that Monthly Period as previously calculated by Servicer, then (x) Servicer shall (on the same Business Day) inform Transferor of such determination, and (y) within two Business Days of receiving such notice Transferor shall deposit into the Finance Charge Account funds in an amount equal to the amount of Collections of Finance Charge Receivables allocated to the Noteholders for that Monthly Period but not deposited into the Finance Charge Account

due to the operation of the preceding proviso (but not in excess of the amount required so that the aggregate amount deposited for the subject Monthly Period equals the Target Amount); and provided, further, if on any Transfer Date the Transferor Amount is less than the Specified Transferor Amount after giving effect to all transfers and deposits on that Transfer Date, Transferor shall, on that Transfer Date, deposit into the Principal Account funds in an amount equal to the amounts of Available Finance Charge Collections that are required to be treated as Available Principal Collections pursuant to clause 5.4(a)(ix) and (x) but are not available from funds in the Finance Charge Account as a result of the operation of second preceding proviso.

With respect to any Monthly Period when deposits of Collections of Finance Charge Receivables into the Finance Charge Account are limited to deposits up to 1.5 times the Target Amount in accordance with clause (i) above, notwithstanding such limitation: (1) “ Reallocated Principal Collections ” for the related Transfer Date shall be calculated as if the full amount of Finance Charge Collections allocated to the Noteholders during that Monthly Period had been deposited in the Finance Charge Account and applied on such Transfer Date in accordance with subsection 5.4(a); and (2) Collections of Finance Charge Receivables released to Transferor pursuant to such Section 5.1(b)(i) shall be deemed, for purposes of all calculations under this Indenture Supplement, to have been retained in the Finance Charge Account and applied to the items specified in subsections 5.4(a) to which such amounts would have been applied (and in the priority in which they would have been applied) had such amounts been available in the Finance Charge Account on such Transfer Date. To avoid doubt, the calculations referred to in the preceding clause (2) include the calculations required by clause (b) of the definition of Collateral Amount and by the definition of Portfolio Yield.

(ii) Allocations of Principal Collections. The Servicer shall allocate to the Series 2009-VFN Noteholders the following amounts as set forth below:

(x) Allocations During the Revolving Period.

(1) During the Revolving Period an amount equal to the product of the Allocation Percentage and the aggregate amount of Principal Collections processed on such Date of Processing, shall be allocated to the Series 2009-VFN Noteholders and first, if an Optional Amortization Notice has been given or any other Principal Sharing Series is outstanding and in its accumulation period or amortization period, retained in the Principal Account for application, to the extent necessary, as Optional Amortization and as Shared Principal Collections for other Principal Sharing Series on the related Distribution Date, second deposited in the Excess Funding Account to the extent necessary so that the Transferor Amount is not less than the Specified Transferor Amount and third paid to the holders of the Transferor Interest.

(2) With respect to each Monthly Period falling in the Revolving Period, to the extent that Collections of Principal Receivables allocated to the Series 2009-VFN Noteholders pursuant to this clause 5.1(b)(ii) are paid to Transferor, Transferor shall make an amount equal to the Reallocated Principal Collections for the related Transfer Date available on that Transfer Date for application in accordance with Section 5.6.

(y) Allocations During the Controlled Amortization Period. During the Controlled Amortization Period an amount equal to the product of the Allocation Percentage and the aggregate amount of Principal Collections processed on such Date of Processing (the product for any such date is hereinafter referred to as a “Percentage Allocation”) shall be allocated to the Series 2009-VFN Noteholders and transferred to the Principal Account until applied as provided herein; provided, however, that if the sum of such Percentage Allocation and all preceding Percentage Allocations with respect to the same Monthly Period exceeds the Controlled Payment Amount during the Controlled Amortization Period for the related Distribution Date, then such excess shall not be treated as a Percentage Allocation and shall be first, if any other Principal Sharing Series is outstanding and in its accumulation period or amortization period, retained in the Principal Account for application, to the extent necessary, as Shared Principal Collections to other Principal Sharing Series on the related Distribution Date, second deposited in the Excess Funding Account to the extent necessary so that the Transferor Amount is not less than the Specified Transferor Amount and third paid to the holders of the Transferor Interest.

(z) Allocations During the Early Amortization Period. During the Early Amortization Period, an amount equal to the product of the Allocation Percentage and the aggregate amount of Principal Collections processed on such Date of Processing shall be allocated to the 2009-VFN Noteholders and transferred to the Principal Account until applied as provided herein; provided, however, that after the date on which an amount of such Principal Collections equal to the Note Principal Balance has been deposited into the Principal Account such amount shall be first, if any other Principal Sharing Series is outstanding and in its accumulation period or amortization period, retained in the Principal Account for application, to the extent necessary, as Shared Principal Collections to other Principal Sharing Series on the related Distribution Date, second deposited in the Excess Funding Account to the extent necessary so that the Transferor Amount is not less than the Specified Transferor Amount and third paid to the holders of the Transferor Interest.

(c) During any period when Servicer is permitted by Section 4.3 of the Pooling and Servicing Agreement or Section 8.4 of the Indenture to make a single monthly deposit to the Collection Account, amounts allocated to the Noteholders pursuant to Sections 5.1(a) and (b) with respect to any Monthly Period need not be deposited into the Collection Account or any Series Account prior to the related Transfer Date, and, when so deposited, (x) may be deposited net of any amounts required to be distributed to Transferor and, if WFN is Servicer, Servicer, and (y) shall be deposited into the Finance Charge Account (in the case of Collections of Finance Charge Receivables) and the Principal Account (in the case of Collections of Principal Receivables (not including any Shared Principal Collections allocated to Series 2009-VFN pursuant to Section 4.15 of the Pooling and Servicing Agreement or Section 8.5 of the Indenture)).

(d) On any date, Servicer may withdraw from the Collection Account or any Series Account any amounts inadvertently deposited in such account that should have not been so deposited.

Section 5.2 Determination of Monthly Interest.

(a) Pursuant to the Class A Note Purchase Agreement, certain Class A Ownership Tranches may from time to time be divided into one or more subdivisions (each, as further specified in the Class A Note Purchase Agreement, a “Class A Funding Tranche”) which will accrue interest on different bases. For Class A Funding Tranches that accrue interest by reference to a commercial paper rate or LIBOR, a specified period (each, a “Class A Fixed Period”) will be designated in the Class A Note Purchase Agreement during which that Class A Funding Tranche may accrue interest at a fixed rate. The amount of monthly interest (“Class A Monthly Interest”) distributable from the Distribution Account with respect to the Class A Notes on any Distribution Date shall be an amount equal to the aggregate amount of interest that accrued over that Distribution Period on each Class A Funding Tranche (plus the aggregate amount of interest that accrued over any prior Distribution Period on any Class A Funding Tranche and has not yet been paid, plus additional interest (to the extent permitted by law) on such overdue amounts at the weighted average interest rate applicable to the related Class A Ownership Tranche during that Distribution Period, and minus any overpayment of interest on the prior Distribution Date as a result of the estimation referred to below), all as determined by Servicer on the related Determination Date. For purposes of such determination, Servicer shall rely upon information provided by the various Administrative Agents pursuant to the Class A Note Purchase Agreement including estimates of the interest to accrue on any Class A Funding Tranche through the related Distribution Date. The interest accrued on any Class A Ownership Tranche (or related Class A Funding Tranche) for any Distribution Period shall be determined using the applicable Class A Tranche Rate and shall equal the product of (x) the Weighted Average Class A Principal Balance for that Class A Ownership Tranche (or Class A Funding Tranche), (y) the applicable Class A Tranche Rate and (z) the applicable Day Count Fraction.

(b) The amount of monthly interest (“Class M Monthly Interest”) distributable from the Distribution Account with respect to the Class M Notes on any Distribution Date shall be an amount equal to the product of (i) (A) a fraction, the numerator of which is the actual number of days in the related Distribution Period and the denominator of which is 360, times (B) the Class M Note Interest Rate in effect with respect to the related Distribution Period and (ii) the average Class M Principal Balance outstanding during the preceding Monthly Period.

On the Determination Date preceding each Distribution Date, the Servicer shall determine the excess, if any (the “Class M Deficiency Amount”), of (x) the aggregate amount accrued pursuant to this subsection 5.2(c) as of the prior Distribution Date over (y) the amount of funds actually transferred from the Distribution Account for payment of such amount. If the Class M Deficiency Amount for any Distribution Date is greater than zero, on each subsequent Distribution Date until such Class M Deficiency Amount is fully paid, an additional amount (“Class M Additional Interest”) equal to the product of (i) (A) a fraction, the numerator of which is the actual number of days in the related Distribution Period and the denominator of which is 360, times (B) the Class M Note Interest Rate in effect with respect to the related Distribution Period and (ii) such Class M Deficiency Amount (or the portion thereof which has not been paid to the Class M Noteholders) shall be payable as provided herein with respect to the Class M

Notes. Notwithstanding anything to the contrary herein, Class M Additional Interest shall be payable or distributed to the Class M Noteholders only to the extent permitted by applicable law.

(c) The amount of monthly interest (“Class B Monthly Interest”) distributable from the Distribution Account with respect to the Class B Notes on any Distribution Date shall be an amount equal to the product of (i) (A) a fraction, the numerator of which is the actual number of days in the related Distribution Period and the denominator of which is 360, times (B) the Class B Note Interest Rate in effect with respect to the related Distribution Period and (ii) the average Class B Principal Balance outstanding during the preceding Monthly Period.

On the Determination Date preceding each Distribution Date, the Servicer shall determine the excess, if any (the “Class B Deficiency Amount”), of (x) the aggregate amount accrued pursuant to this subsection 5.2(c) as of the prior Distribution Date over (y) the amount of funds actually transferred from the Distribution Account for payment of such amount. If the Class B Deficiency Amount for any Distribution Date is greater than zero, on each subsequent Distribution Date until such Class B Deficiency Amount is fully paid, an additional amount (“Class B Additional Interest”) equal to the product of (i) (A) a fraction, the numerator of which is the actual number of days in the related Distribution Period and the denominator of which is 360, times (B) the Class B Note Interest Rate in effect with respect to the related Distribution Period and (ii) such Class B Deficiency Amount (or the portion thereof which has not been paid to the Class B Noteholders) shall be payable as provided herein with respect to the Class B Notes. Notwithstanding anything to the contrary herein, Class B Additional Interest shall be payable or distributed to the Class B Noteholders only to the extent permitted by applicable law.

(d) In addition to Class A Monthly Interest, each Class A Noteholder (i) shall receive a monthly commitment fee (a “Class A Non-Use Fee”) with respect to each Distribution Period (or portion thereof) falling in the Revolving Period accruing at the Class A Non-Use Fee Rate based on its portion of the excess of the average Class A Maximum Principal Balance over the average Class A Principal Balance for such period and (ii) shall be entitled to receive certain other amounts identified as Class A Additional Amounts (such amounts, including Class A Breakage Payments, being “Class A Additional Amounts”) in the Class A Note Purchase Agreement. The Class A Non-Use Fee shall accrue based upon the number of days in the related Distribution Period (or the portion thereof falling in the Revolving Period) and a year of 365 or 366 days, as applicable. Class A Additional Amounts payable on any Distribution Date shall, so long as they equal less than % of the Weighted Average Collateral Amount over the related Distribution Period, constitute “Class A Rated Additional Amounts.” Any Class A Additional Amounts payable on any Distribution Date in excess of the foregoing limitation shall constitute “Class A Unrated Additional Amounts.”

(e) If any distribution of principal is made with respect to any Class A Funding Tranche with a Fixed Period and a fixed interest rate other than on the last day of that Fixed Period, or if the Class A Funded Amount of any Class A Ownership Tranche is reduced by an Optional Amortization Amount in an amount greater than the amount (if any) specified in the Class A Note Purchase Agreement with respect to that Class A Ownership Tranche without the applicable number (as specified in the Class A Note Purchase Agreement) of Business Days’

prior notice to the affected Holder, and in either case (i) the interest paid by the Class A Holder holding that Class A Funding Tranche to providers of funds to it to fund that Class A Funding Tranche exceeds (ii) returns earned by that Class A Holder through the last day of that Fixed Period by redeployment of such funds in highly rated short-term money market instruments, then, upon written notice (which notice shall be signed by an officer of that Class A Holder with knowledge of and responsibility for such matters and shall set forth in reasonable detail the basis for requesting the amounts) from such Class A Holder to Servicer, such Class A Holder shall be entitled to receive additional amounts in the amount of such excess (each, a “Class A Breakage Payment”) on the Distribution Date on or after the date such distribution of principal is made with respect to that Funding Tranche, so long as such written notice is received not later than noon, New York City time, on the Transfer Date related to such Distribution Date. For purposes of calculations under this paragraph, any payment received by a Class A Holder later than noon, New York City time, on any day shall be deemed to have been received on the next day.

Section 5.3                      Determination of Class A Monthly Principal, Class M Monthly Principal and Class B Monthly Principal .

(a)        The amount of monthly principal (the “Class A Monthly Principal”) to be transferred from the Principal Account with respect to the Class A Notes (i) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to the end of the Monthly Period immediately preceding such Transfer Date), shall be equal to the least of (w) the Class A Pro Rata Percentage of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (x) the Class A Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6), and (z) the Class A Principal Balance, and (ii) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Early Amortization Period begins, shall be equal to the least of (x) the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6), and (z) the Class A Principal Balance.

(b)        The amount of monthly principal (the “Class M Monthly Principal”) to be transferred from the Principal Account with respect to the Class M Notes (i) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to the end of the Monthly Period immediately preceding such Transfer Date), shall be equal to the least of (w) the Class M Pro Rata Percentage of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (x) the Class M Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6 and the payment of Class A Monthly Principal), and (z) the Class M Principal Balance, and (ii) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Early Amortization Period begins, shall be equal to the least of (x) the excess of the

Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, over the portion of such Available Principal Collections applied to Class A Monthly Principal on such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6 and the payment of Class A Monthly Principal), and (z) the Class M Principal Balance.

(c) The amount of monthly principal (the “ Class B Monthly Principal ”) to be transferred from the Principal Account with respect to the Class B Notes (i) on each Transfer Date beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to the end of the Monthly Period immediately preceding such Transfer Date), shall be equal to the least of (w) the Class B Pro Rata Percentage of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (x) the Class B Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6 and the payment of Class A Monthly Principal and Class M Monthly Principal), and (z) the Class B Principal Balance, and (ii) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Early Amortization Period begins, shall be equal to the least of (x) the excess of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, over the portion of such Available Principal Collections applied to Class A Monthly Principal and Class M Monthly Principal on such Transfer Date, (y) the Collateral Amount (after taking into account any adjustments to be made on such Transfer Date and the related Distribution Date pursuant to Sections 5.5 and 5.6 and the payment of the Class A Monthly Principal and Class M Monthly Principal), and (z) the Class B Principal Balance.

Section 5.4                      Application of Available Finance Charge Collections and Available Principal Collections. On or before each Transfer Date, the Servicer shall instruct the Indenture Trustee in writing (which writing shall be substantially in the form of Exhibit B) to withdraw and the Indenture Trustee, acting in accordance with such instructions, shall withdraw on such Transfer Date or related Distribution Date, as applicable, to the extent of available funds, the amount required to be withdrawn from the Finance Charge Account, the Principal Account, the Principal Funding Account and the Distribution Account as follows:

(a) On each Transfer Date, an amount equal to the Available Finance Charge Collections with respect to the related Distribution Date will be distributed or deposited in the following priority:

(i) an amount equal to the unpaid Class A Monthly Interest for such Distribution Date shall be deposited by Servicer or the Indenture Trustee into the Distribution Account for distribution to the Class A Noteholders in accordance with Section 6.2;

(ii) an amount equal to the unpaid Class A Non-Use Fee, if any, not paid by the Transferor pursuant to the Class A Note Purchase Agreement for the related Distribution Period plus any Class A Non-Use Fee due but not paid to the Class A

Noteholders on any prior Distribution Date shall be deposited by Servicer or the Indenture Trustee into the Distribution Account for distribution to the Class A Noteholders in accordance with Section 6.2;

(iii) an amount equal to the Class A Rated Additional Amounts, if any, for the related Distribution Period plus any Class A Rated Additional Amounts due but not paid to the Class A Noteholders on any prior Distribution Date shall be deposited by Servicer or the Indenture Trustee into the Distribution Account for distribution to the Class A Noteholders in accordance with Section 6.2;

(iv) an amount equal to the Noteholder Servicing Fee for such Transfer Date, plus the amount of any Noteholder Servicing Fee previously due but not distributed to the Servicer on a prior Transfer Date, shall be distributed to the Servicer;

(v) an amount equal to Class M Monthly Interest for such Distribution Date, plus any Class M Deficiency Amount, plus the amount of any Class M Additional Interest for such Distribution Date, plus the amount of any Class M Additional Interest previously due but not distributed to Class M Noteholders on a prior Distribution Date shall be deposited by the Servicer or Indenture Trustee into the Distribution Account;

(vi) [RESERVED];

(vii) [RESERVED];

(viii) an amount equal to Class B Monthly Interest for such Distribution Date, plus any Class B Deficiency Amount, plus the amount of any Class B Additional Interest for such Distribution Date, plus the amount of any Class B Additional Interest previously due but not distributed to Class B Noteholders on a prior Distribution Date shall be deposited by the Servicer or Indenture Trustee into the Distribution Account;

(ix) an amount equal to the Aggregate Investor Default Amount and any Investor Uncovered Dilution Amount for such Distribution Date shall be treated as a portion of Available Principal Collections for such Distribution Date and, during the Controlled Amortization Period or the Early Amortization Period, deposited into the Principal Account on the related Transfer Date;

(x) an amount equal to the sum of the aggregate amount of Investor Charge-Offs and the amount of Reallocated Principal Collections which have not been previously reimbursed pursuant to this clause (x) shall be treated as a portion of Available Principal Collections for such Distribution Date;

(xi) an amount equal to the excess, if any, of the Required Cash Collateral Amount over the Available Cash Collateral Amount shall be deposited into the Cash Collateral Account;

(xii) an amount equal to the amounts required to be deposited in the Spread Account pursuant to subsection 5.11(f) shall be deposited into the Spread Account as provided in subsection 5.11(f);

(xiii) an amount equal to the aggregate Class A Unrated Additional Amounts will be paid to the Class A Noteholders; and, in the event of any shortfall in the amount of Available Finance Charge Collections available for distribution in respect of Class A Unrated Additional Amounts, (x) the Available Finance Charge Collections shall be allocated ratably to each Class A Ownership Tranche in accordance with its Class A Principal Balance and (y) any Available Finance Charge Collections allocated pursuant to clause (x) to any Class A Ownership Tranche in excess of its Class A Unrated Additional Amounts shall be reallocated to each Class A Ownership Tranche that has a remaining shortfall in the Available Finance Charge Collections allocated to it pursuant to clause (xii) in order to cover its Class A Unrated Additional Amounts, which reallocation shall be made ratably in accordance with the portion of the Principal Balances of all remaining Class A Ownership Tranches represented by the Principal Balance of such remaining Class A Ownership Tranche;

(xiv) an amount equal to any payments owed to any Class M Noteholders or any other Person pursuant to any Class M Note Purchase Agreement shall be paid to such Class M Noteholder or other person;

(xv) an amount equal to any payments owed to any Class B Noteholders or any other Person pursuant to any Class B Note Purchase Agreement shall be paid to such Class B Noteholder or other person; and

(xvi) the balance, if any, will constitute a portion of Excess Finance Charge Collections for such Distribution Date.

(b) During the Revolving Period, an amount equal to the Available Principal Collections for the related Monthly Period will be treated as Shared Principal Collections and applied in accordance with Section 8.5 of the Indenture.

(c) On each Transfer Date with respect to the Controlled Amortization Period or the Early Amortization Period, an amount equal to the Available Principal Collections for the related Monthly Period shall be distributed or deposited in the following order of priority:

(i) an amount equal to the Class A Monthly Principal for such Transfer Date shall be deposited into the Distribution Account on such Transfer Date and on each subsequent Transfer Date for payment to the Class A Noteholders on the related Distribution Date until the Class A Principal Balance has been paid in full;

(ii) an amount equal to the Class M Monthly Principal, if any, shall be deposited into the Distribution Account on such Transfer Date and on each subsequent Transfer Date for payment to the Class M Noteholders on the related Distribution Date until the Class M Principal Balance has been paid in full;

(iii) an amount equal to the Class B Monthly Principal, if any, shall be deposited into the Distribution Account on such Transfer Date and on each subsequent Transfer Date for payment to the Class B Noteholders on the related Distribution Date until the Class B Principal Balance has been paid in full; and

(iv) the balance shall be treated as Shared Principal Collections and applied in accordance with Section 8.5 of the Indenture.

(d) On each Distribution Date, the Indenture Trustee shall pay in accordance with Section 6.2 to the Class A Noteholders from the Distribution Account, the amount deposited into the Distribution Account pursuant to clauses 5.4(a)(i) through (iii) and (xiii) on the preceding Transfer Date, to the Class M Noteholders from the Distribution Account, the amount deposited into the Distribution Account pursuant to clauses 5.4(a)(v) through (vii) and (xiv) and to the Class B Noteholders from the Distribution Account, the amount deposited into the Distribution Account pursuant to clauses 5.4(a)(viii) and (xv).

**Section 5.5** Investor Charge-Offs. On each Determination Date, the Servicer shall calculate the Aggregate Investor Default Amount and any Investor Uncovered Dilution Amount for the related Distribution Date. If, on any Distribution Date, the sum of the Aggregate Investor Default Amount and any Investor Uncovered Dilution Amount for such Distribution Date exceeds the sum of the amount of Available Finance Charge Collections and the amount withdrawn from the Cash Collateral Account allocated with respect thereto pursuant to 5.10(c) with respect to such Distribution Date, the Collateral Amount will be reduced (but not below zero) by the amount of such excess (such reduction, an “Investor Charge-Off”).

**Section 5.6** Reallocated Principal Collections. On each Transfer Date, the Servicer shall apply, or shall instruct the Indenture Trustee in writing to apply, Reallocated Principal Collections with respect to that Transfer Date, to fund any deficiency pursuant to and in the priority set forth in clauses 5.4(a)(i) through (vii) after giving effect to any withdrawal from the Cash Collateral Account or the Spread Account to cover such payments. On each Transfer Date, the Collateral Amount shall be reduced by the amount of Reallocated Principal Collections for such Transfer Date.

**Section 5.7** Excess Finance Charge Collections. Series 2009-VFN shall be an Excess Allocation Series with respect to Group One only. For this purpose, each outstanding series of certificates issued by World Financial Network Master Trust (other than series represented by the Collateral Certificate) shall be deemed to be a Series in Group One. Subject to Section 8.6 of the Indenture, Excess Finance Charge Collections with respect to the Excess Allocation Series in Group One for any Transfer Date will be allocated to Series 2009-VFN in an amount equal to the product of (x) the aggregate amount of Excess Finance Charge Collections with respect to all the Excess Allocation Series in Group One for such Distribution Date and (y) a fraction, the numerator of which is the Finance Charge Shortfall for Series 2009-VFN for such Distribution Date and the denominator of which is the aggregate amount of Finance Charge Shortfalls for all the Excess Allocation Series in Group One for such Distribution Date. The “Finance Charge Shortfall” for Series 2009-VFN for any Distribution Date will be equal to the excess, if any, of (a) the full amount required to be paid, without duplication, pursuant to clauses 5.4(a)(i) through (x) on such Distribution Date over (b) the Available Finance Charge Collections with respect to such Distribution Date (excluding any portion thereof attributable to Excess Finance Charge Collections).

**Section 5.8** Shared Principal Collections. Subject to Section 4.4 of the Pooling and Servicing Agreement and Section 8.5 of the Indenture, Shared Principal Collections allocable to Series 2009-VFN on any Transfer Date will be equal to the product of (x) the

aggregate amount of Shared Principal Collections with respect to all Principal Sharing Series for such Transfer Date and (y) a fraction, the numerator of which is the Principal Shortfall for Series 2009-VFN for such Transfer Date and the denominator of which is the aggregate amount of Principal Shortfalls for all the Series which are Principal Sharing Series for such Transfer Date. For this purpose, each outstanding series of certificates issued by World Financial Network Master Trust (other than series represented by the Collateral Certificate) shall be deemed to be a Principal Sharing Series. The “Principal Shortfall” for Series 2009-VFN for any Transfer Date shall equal, the excess, if any, of the sum of any Optional Amortization Amounts, Class A Monthly Principal, Class M Monthly Principal and Class B Monthly Principal with respect to such Transfer Date over the amount of Available Principal Collections for such Transfer Date (excluding any portion thereof attributable to Shared Principal Collections).

Section 5.9

Certain Series Accounts .

(a) The Indenture Trustee shall establish and maintain with an Eligible Institution, which may be the Indenture Trustee in the name of the Trust, on behalf of the Trust, for the benefit of the Noteholders, three segregated trust accounts with such Eligible Institution (the “Finance Charge Account”, the “Principal Account” and the “Distribution Account”), bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Series 2009-VFN Noteholders. The Indenture Trustee shall possess all right, title and interest in all funds on deposit from time to time in the Finance Charge Account, the Principal Account and the Distribution Account and in all proceeds thereof. The Finance Charge Account, the Principal Account and the Distribution Account shall be under the sole dominion and control of the Indenture Trustee for the benefit of the Series 2009-VFN Noteholders. If at any time the institution holding the Finance Charge Account, the Principal Account and the Distribution Account ceases to be an Eligible Institution, the Transferor shall notify the Indenture Trustee in writing, and the Indenture Trustee upon being notified (or the Servicer on its behalf) shall, within ten (10) Business Days, establish a new Finance Charge Account, a new Principal Account, a new Principal Accumulation Account and a new Distribution Account meeting the conditions specified above with an Eligible Institution, and shall transfer any cash or any investments to such new Finance Charge Account, new Principal Account, new Principal Accumulation Account and new Distribution Account. The Indenture Trustee, at the written direction of the Servicer, shall make withdrawals from the Finance Charge Account, the Principal Account and the Distribution Account from time to time, in the amounts and for the purposes set forth in this Indenture Supplement. Indenture Trustee at all times shall maintain accurate records reflecting each transaction in the Finance Charge Account, the Principal Account and the Distribution Account.

(b) Funds on deposit in the Finance Charge Account , the Principal Account and the Distribution Account , from time to time shall be invested and reinvested at the direction of the Servicer by the Indenture Trustee in Eligible Investments that will mature so that such funds will be available for withdrawal on or prior to the following Transfer Date.

The Indenture Trustee shall hold such of the Eligible Investments as consists of instruments, deposit accounts, negotiable documents, money, goods, letters of credit, and advices of credit in the State of New York and/or Illinois. The Indenture Trustee shall hold such of the Eligible Investments as constitutes investment property through a securities intermediary, which

securities intermediary shall agree with the Indenture Trustee that (a) such investment property shall at all times be credited to a securities account of the Indenture Trustee, (b) such securities intermediary shall treat the Indenture Trustee as entitled to exercise the rights that comprise each financial asset credited to such securities account, (c) all property credited to such securities account shall be treated as a financial asset, (d) such securities intermediary shall comply with entitlement orders originated by the Indenture Trustee without the further consent of any other person or entity, (e) such securities intermediary will not agree with any person or entity other than the Indenture Trustee to comply with entitlement orders originated by such other person or entity, (f) such securities accounts and the property credited thereto shall not be subject to any lien, security interest or right of set-off in favor of such securities intermediary or anyone claiming through it (other than the Indenture Trustee), and (g) such agreement shall be governed by the laws of the State of New York. Terms used in the preceding sentence that are defined in the New York UCC and not otherwise defined herein shall have the meaning set forth in the New York UCC.

Section 5.10

Cash Collateral Account.

(a) The Indenture Trustee shall establish and maintain with an Eligible Institution, which may be the Indenture Trustee in the name of the Trust, on behalf of the Trust, for the benefit of the Series 2009-VFN Noteholders, a segregated trust account (the “Cash Collateral Account”), bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Series 2009-VFN Noteholders. The Indenture Trustee shall possess all right, title and interest in all funds on deposit from time to time in the Cash Collateral Account and in all proceeds thereof. The Cash Collateral Account shall be under the sole dominion and control of the Indenture Trustee for the benefit of the Series 2009-VFN Noteholders. If at any time the institution holding the Cash Collateral Account ceases to be an Eligible Institution, the Transferor shall notify the Indenture Trustee, and the Indenture Trustee upon being notified (or the Servicer on its behalf) shall, within ten (10) Business Days, establish a new Cash Collateral Account meeting the conditions specified above with an Eligible Institution, and shall transfer any cash or any investments to such new Cash Collateral Account.

(b) Funds on deposit in the Cash Collateral Account shall be invested at the written direction of the Servicer by the Indenture Trustee in Eligible Investments. Funds on deposit in the Cash Collateral Account on any Transfer Date, after giving effect to any withdrawals from the Cash Collateral Account on such Transfer Date, shall be invested in such investments that will mature so that such funds will be available for withdrawal on or prior to the following Transfer Date.

The Indenture Trustee shall hold such of the Eligible Investments as consists of instruments, deposit accounts, negotiable documents, money, goods, letters of credit, and advices of credit in the State of New York. The Indenture Trustee shall hold such of the Eligible Investments as constitutes investment property through a securities intermediary, which securities intermediary shall agree with the Indenture Trustee that (a) such investment property shall at all times be credited to a securities account of the Indenture Trustee, (b) such securities intermediary shall treat the Indenture Trustee as entitled to exercise the rights that comprise each financial asset credited to such securities account, (c) all property credited to such securities account shall be treated as a financial asset, (d) such securities intermediary shall comply with

entitlement orders originated by the Indenture Trustee without the further consent of any other person or entity, (e) such securities intermediary will not agree with any person or entity other than the Indenture Trustee to comply with entitlement orders originated by such other person or entity, (f) such securities accounts and the property credited thereto shall not be subject to any lien, security interest, or right of set-off in favor of such securities intermediary or anyone claiming through it (other than the Indenture Trustee), and (g) such agreement shall be governed by the laws of the State of New York. Terms used in the preceding sentence that are defined in the New York UCC and not otherwise defined herein shall have the meaning set forth in the New York UCC.

On each Transfer Date, all interest and earnings (net of losses and investment expenses) accrued since the preceding Transfer Date on funds on deposit in the Cash Collateral Account shall be retained in the Cash Collateral Account (to the extent that the Available Cash Collateral Account Amount is less than the Required Cash Collateral Account Amount) and the balance, if any, shall be deposited into the Finance Charge Account and included in Available Finance Charge Collections for such Transfer Date. For purposes of determining the availability of funds or the balance in the Cash Collateral Account for any reason under this Indenture Supplement, except as otherwise provided in the preceding sentence, interest and earnings on such funds shall be deemed not to be available or on deposit.

(c) On each Determination Date, Servicer shall calculate the amount (the “Required Draw Amount”) by which the sum of the amounts required to be distributed pursuant to clauses 5.4(a)(i) through (ix) with respect to the related Transfer Date exceeds the amount of Available Finance Charge Collections with respect to the related Monthly Period. If the Required Draw Amount for any Transfer Date is greater than zero, Servicer shall give written notice to the Indenture Trustee of such positive Required Draw Amount on the related Determination Date. On the related Transfer Date, the Required Draw Amount, if any, up to the Available Cash Collateral Amount, shall be withdrawn from the Cash Collateral Account and distributed to fund any deficiency pursuant to clauses 5.4(a)(i) through (ix) (in the order of priority set forth in subsection 5.4(a)).

(d) If, after giving effect to all deposits to and withdrawals from the Cash Collateral Account with respect to any Transfer Date, the amount on deposit in the Cash Collateral Account exceeds the Required Cash Collateral Amount, the Indenture Trustee acting in accordance with the instructions of the Servicer, shall withdraw an amount equal to such excess from the Cash Collateral Account and (i) deposit such amounts in the Spread Account, to the extent that funds on deposit in the Spread Account are less than the Required Spread Account Amount and (ii) distribute such amounts remaining after application pursuant to subsection 5.10(d) to the Transferor.

#### Section 5.11                      Spread Account .

(a) On or prior to the Closing Date, the Indenture Trustee shall establish and maintain with an Eligible Institution, which may be the Indenture Trustee in the name of the Trust, on behalf of the Trust, for the benefit of the Class B Noteholders and the Transferor, a segregated account (the “Spread Account”), bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Class B Noteholders and the Transferor. Except as

otherwise provided in this Section 5.11, the Indenture Trustee shall possess all right, title and interest in all funds on deposit from time to time in the Spread Account and in all proceeds thereof. The Spread Account shall be under the sole dominion and control of the Indenture Trustee for the benefit of the Class B Noteholders and the holder of the Transferor Interest. If at any time the institution holding the Spread Account ceases to be an Eligible Institution, the Servicer shall notify the Indenture Trustee in writing, and the Indenture Trustee upon being notified (or the Servicer on its behalf) shall, within ten (10) Business Days (or such longer period as to which the Rating Agencies may consent) establish a new Spread Account meeting the conditions specified above with an Eligible Institution and shall transfer any cash or any investments to such new Spread Account. The Indenture Trustee, at the written direction of the Servicer, shall (i) make withdrawals from the Spread Account from time to time in an amount up to the Available Spread Account Amount at such time, for the purposes set forth in this Indenture Supplement, and (ii) on each Transfer Date prior to termination of the Spread Account, make a deposit into the Spread Account in the amount specified in, and otherwise in accordance with, subsection 5.11(e).

(b) Funds on deposit in the Spread Account shall be invested at the written direction of the Servicer by the Indenture Trustee in Eligible Investments. Funds on deposit in the Spread Account on any Transfer Date, after giving effect to any withdrawals from and deposits to the Spread Account on such Transfer Date, shall be invested in such investments that will mature so that such funds will be available for withdrawal on or prior to the following Transfer Date.

The Indenture Trustee shall hold such of the Eligible Investments as consists of instruments, deposit accounts, negotiable documents, money, goods, letters of credit, and advices of credit in the State of New York. The Indenture Trustee shall hold such of the Eligible Investments as constitutes investment property through a securities intermediary, which securities intermediary shall agree with the Indenture Trustee that (a) such investment property shall at all times be credited to a securities account of the Indenture Trustee, (b) such securities intermediary shall treat the Indenture Trustee as entitled to exercise the rights that comprise each financial asset credited to such securities account, (c) all property credited to such securities account shall be treated as a financial asset, (d) such securities intermediary shall comply with entitlement orders originated by the Indenture Trustee without the further consent of any other person or entity, (e) such securities intermediary will not agree with any person or entity other than the Indenture Trustee to comply with entitlement orders originated by such other person or entity, (f) such securities accounts and the property credited thereto shall not be subject to any lien, security interest, or right of set-off in favor of such securities intermediary or anyone claiming through it (other than the Indenture Trustee), and (g) such agreement shall be governed by the laws of the State of New York. Terms used in the preceding sentence that are defined in the New York UCC and not otherwise defined herein shall have the meaning set forth in the New York UCC. Except as permitted by this subsection 5.11(b), the Indenture Trustee shall not hold Eligible Investments through an agent or a nominee.

On each Transfer Date (but subject to subsection 5.11(c)), the Investment Earnings, if any, accrued since the preceding Transfer Date on funds on deposit in the Spread Account shall be paid to the holders of the Transferor Interest by the Indenture Trustee upon written direction of the Servicer. For purposes of determining the availability of funds or the balance in the Spread Account for any reason under this Indenture Supplement (subject to subsection 5.11(c)),

all Investment Earnings shall be deemed not to be available or on deposit; provided that after the maturity of the Series 2009-VFN Notes has been accelerated as a result of an Event of Default, all Investment Earnings shall be added to the balance on deposit in the Spread Account and treated like the rest of the Available Spread Account Amount.

(c) If, on any Transfer Date, the aggregate amount of Available Finance Charge Collections and the amount, if any, withdrawn from the Cash Collateral Account available for deposit into the Distribution Account pursuant to subsection 5.10(c), is less than the aggregate amount required to be deposited pursuant to clause 5.4(a)(xii), the Indenture Trustee, at the written direction of the Servicer, shall withdraw from the Spread Account the amount of such deficiency up to the Available Spread Account Amount and, if the Available Spread Account Amount is less than such deficiency, Investment Earnings credited to the Spread Account, and deposit such amount in the Distribution Account for payment to the Class B Noteholders in respect of interest on the Class B Notes.

(d) On the earlier of Series Termination Date and the date on which the Note Principal Balance has been paid in full, after applying any funds on deposit in the Spread Account as described in subsection 5.11(c), the Indenture Trustee at the written direction of the Servicer shall withdraw from the Spread Account an amount equal to the lesser of (i) the Class B Principal Balance (after any payments to be made pursuant to subsection 5.4(c) on such date) and (ii) the Available Spread Account Amount and, if the Available Spread Account Amount is not sufficient to reduce the Class B Principal Balance to zero, Investment Earnings credited to the Spread Account up to the amount required to reduce the Class B Principal Balance to zero, and the Indenture Trustee upon the written direction of the Servicer or the Servicer shall deposit such amounts into the Collection Account for distribution to the Class B Noteholders in accordance with subsection 6.2(c).

(e) On any day following the occurrence of an Event of Default with respect to Series 2009-VFN and acceleration of the maturity of the Series 2009-VFN Notes pursuant to Section 5.3 of the Indenture, Servicer shall withdraw from the Spread Account an amount equal to the Available Spread Account Amount and Indenture Trustee or Servicer shall deposit such amounts into the Distribution Account for distribution to the Class B Noteholders, the Class A Noteholders and the Class M Noteholders, in that order of priority, in accordance with Section 6.2, to fund any shortfalls in amounts owed to such Noteholders.

(f) If on any Transfer Date, after giving effect to all withdrawals from the Spread Account, the Available Spread Account Amount is less than the Required Spread Account Amount then in effect, Available Finance Charge Collections, to the extent available, shall be deposited into the Spread Account pursuant to clause 5.4(a)(xii) up to the amount of the Spread Account Deficiency.

(g) If, after giving effect to all deposits to and withdrawals from the Spread Account with respect to any Transfer Date, the amount on deposit in the Spread Account exceeds the Required Spread Account Amount, the Indenture Trustee acting in accordance with the instructions of the Servicer, shall withdraw an amount equal to such excess from the Spread Account and distribute such amount to the Transferor. On the date on which the Class B Principal Balance has been paid in full, after making any payments to the Noteholders required

pursuant to subsections 5.11(c), (d) and (e), the Indenture Trustee, at the written direction of Servicer, shall withdraw from the Spread Account all amounts then remaining in the Spread Account and pay such amounts to the holders of the Transferor Interest.

Section 5.12                      Investment Instructions. Any investment instructions required to be given to the Indenture Trustee pursuant to the terms hereof must be given to the Indenture Trustee no later than 11:00 a.m., New York City time, on the date such investment is to be made. In the event the Indenture Trustee receives such investment instruction later than such time, the Indenture Trustee may, but shall have no obligation to, make such investment. In the event the Indenture Trustee is unable to make an investment required in an investment instruction received by the Indenture Trustee after 11:00 a.m., New York City time, on such day, such investment shall be made by the Indenture Trustee on the next succeeding Business Day. In no event shall the Indenture Trustee be liable for any investment not made pursuant to investment instructions received after 11:00 a.m., New York City time, on the day such investment is requested to be made.

Section 5.13                      Determination of LIBOR.

(a)                      On each LIBOR Determination Date in respect of a Distribution Period, the Indenture Trustee shall determine LIBOR on the basis of the rate for deposits in United States dollars for a period of the Designated Maturity which appears on Reuters Screen 01 as of 11:00 a.m., London time, on such date. If such rate does not appear on Reuters Screen 01, the rate for that Distribution Period Determination Date shall be determined on the basis of the rates at which deposits in United States dollars are offered by the Reference Banks at approximately 11:00 a.m., London time, on that day to prime banks in the London interbank market for a period of the Designated Maturity. The Indenture Trustee shall request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two (2) such quotations are provided, the rate for that Distribution Period shall be the arithmetic mean of the quotations. If fewer than two (2) quotations are provided as requested, the rate for that Distribution Period will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Servicer, at approximately 11:00 a.m., New York City time, on that day for loans in United States dollars to leading European banks for a period of the Designated Maturity.

(b)                      LIBOR applicable to the then current and the immediately preceding Distribution Periods may be obtained by telephoning the Indenture Trustee at its corporate trust office at (312) 827-8500 or such other telephone number as shall be designated by the Indenture Trustee for such purpose by prior written notice by the Indenture Trustee to each Series 2009-VFN Noteholder from time to time.

(c)                      On each LIBOR Determination Date, the Indenture Trustee shall send to the Servicer by facsimile transmission notification of LIBOR for the following Distribution Period.

## ARTICLE VI.

### Delivery of Series 2009-VFN Notes; Distributions; Reports to Series 2009-VFN Noteholders

Section 6.1                      Delivery and Payment for the Series 2009-VFN Notes.

The Issuer shall execute and issue, and the Indenture Trustee shall authenticate, the Series 2009-VFN Notes in accordance with Section 2.3 of the Indenture. The Indenture Trustee shall deliver the Series 2009-VFN Notes to or upon the written order of the Trust when so authenticated.

Section 6.2                      Distributions .

(a)        On each Distribution Date, the Indenture Trustee shall distribute to each Class A Noteholder of record on the related Record Date (other than as provided in Section 11.2 of the Indenture) such Class A Noteholder's portion (determined in accordance with Section 4.2 and Article V) of the amounts on deposit in the Distribution Account that are allocated and available on such Distribution Date and as are payable to the Class A Noteholders pursuant to this Indenture Supplement.

(b)        On each Distribution Date, the Indenture Trustee shall distribute to each Class M Noteholder of record on the related Record Date (other than as provided in Section 11.2 of the Indenture) such Class M Noteholder's pro rata share of the amounts on deposit in the Distribution Account that are allocated and available on such Distribution Date and as are payable to the Class M Noteholders pursuant to this Indenture Supplement.

(c)        On each Distribution Date, the Indenture Trustee shall distribute to each Class B Noteholder of record on the related Record Date (other than as provided in Section 11.2 of the Indenture) such Class B Noteholder's pro rata share of the amounts on deposit in the Distribution Account that are allocated and available on such Distribution Date and as are payable to the Class B Noteholders pursuant to this Indenture Supplement.

(d)        The distributions to be made pursuant to this Section 6.2 are subject to the provisions of Sections 2.6 , 6.1 and 7.1 of the Transfer and Servicing Agreement, Section 11.2 of the Indenture and Section 7.1 of this Indenture Supplement.

(e)        All payments set forth herein shall be made by wire transfer of immediately available funds, provided that the Paying Agent, not less than five Business Days prior to the Record Date relating to the first distribution to such Series 2009-VFN Noteholder, has been furnished with appropriate wiring instructions in writing.

Section 6.3                      Reports and Statements to Series 2009-VFN Noteholders .

(a)        On each Distribution Date, the Indenture Trustee shall forward to each Series 2009-VFN Noteholder a statement substantially in the form of Exhibit C prepared by the Servicer.

(b)        Not later than the second Business Day preceding each Distribution Date, the Servicer shall deliver to the Owner Trustee, the Indenture Trustee and each Rating Agency (i) a statement substantially in the form of Exhibit B prepared by the Servicer and (ii) a certificate of an Authorized Officer substantially in the form of Exhibit D ; provided that the Servicer may amend the form of Exhibit B from time to time, with the prior written consent of the Indenture Trustee.

(c) A copy of each statement or certificate provided pursuant to paragraph (a) or (b) may be obtained by any Series 2009-VFN Noteholder by a request in writing to the Servicer.

(d) On or before January 31 of each calendar year, beginning with January 31, 2010, the Indenture Trustee shall furnish or cause to be furnished to each Person who at any time during the preceding calendar year was a Series 2009-VFN Noteholder, a statement prepared by the Servicer containing the information which is required to be contained in the statement to Series 2009-VFN Noteholders, as set forth in paragraph (a) above, aggregated for such calendar year or the applicable portion thereof during which such Person was a Series 2009-VFN Noteholder, together with other information as is required to be provided by an issuer of indebtedness under the Code. Such obligation of the Indenture Trustee shall be deemed to have been satisfied to the extent that substantially comparable information shall be provided by the Servicer pursuant to any requirements of the Code as from time to time in effect.

## ARTICLE VII.

### Series 2009-VFN Early Amortization Events

Section 7.1 Series 2009-VFN Early Amortization Events. If any one of the following events shall occur with respect to the Series 2009-VFN Notes:

(a) failure on the part of Transferor or the “Transferor” under the Pooling and Servicing Agreement (i) to make any payment or deposit required to be made by it by the terms of the Pooling and Servicing Agreement, the Collateral Series Supplement, the Transfer and Servicing Agreement, the Class A Note Purchase Agreement, the Indenture or this Indenture Supplement on or before the date occurring five (5) Business Days after the date such payment or deposit is required to be made therein or herein or (ii) duly to observe or perform in any material respect any other of its covenants or agreements set forth in the Transfer and Servicing Agreement, the Class A Note Purchase Agreement, the Pooling and Servicing Agreement, the Indenture or this Indenture Supplement, which failure has a material adverse effect on the Series 2009-VFN Noteholders and which continues unremedied for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Transferor by the Indenture Trustee, or to the Transferor and the Indenture Trustee by any Holder of the Series 2009-VFN Notes;

(b) any representation or warranty made by Transferor or the “Transferor” under the Pooling and Servicing Agreement, in the Transfer and Servicing Agreement, the Class A Note Purchase Agreement or the Pooling and Servicing Agreement or any information contained in a computer file or microfiche list required to be delivered by it pursuant to Section 2.1 or subsection 2.6(c) of the Transfer and Servicing Agreement or Section 2.1 or subsection 2.6(c) of the Pooling and Servicing Agreement shall prove to have been incorrect in any material respect when made or when delivered, which continues to be incorrect in any material respect for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Transferor by the Indenture Trustee, or to the Transferor and the Indenture Trustee by any Holder of the Series 2009-VFN Notes and as a result of which the interests of the Series 2009-VFN Noteholders are materially and adversely affected for such period; provided, however, that a Series 2009-VFN Early Amortization Event pursuant to this subsection 6.1(b) shall not be deemed to have occurred hereunder if the

Transferor has accepted reassignment of the related Receivable, or all of such Receivables, if applicable, during such period in accordance with the provisions of the Transfer and Servicing Agreement or the Pooling and Servicing Agreement;

(c) the Portfolio Yield averaged over three consecutive Monthly Periods is less than the Base Rate averaged over such period;

(d) a failure by Transferor or the “Transferor” under the Pooling and Servicing Agreement to convey Receivables in Additional Accounts or Participations to the Receivables Trust within five (5) Business Days after the day on which it is required to convey such Receivables pursuant to subsection 2.6(b) of the Transfer and Servicing Agreement or subsection 2.8(b) of the Pooling and Servicing Agreement, respectively, provided that such failure shall not give rise to an Early Amortization Event if, prior to the date on which such conveyance was required to be completed, Transferor causes a reduction in the principal balance of any Variable Interest to occur, so that, after giving effect to that reduction (i) the Transferor Amount is not less than the Minimum Transferor Amount (including the Additional Minimum Transferor Amount, if any) and (ii) the sum of the aggregate amount of Principal Receivables plus amounts on deposit in the Excess Funding Account is not less than the Required Principal Balance;

(e) any Servicer Default or any “Servicer Default” under the Pooling and Servicing Agreement shall occur which would have a material adverse effect on the Series 2009-VFN Holders (which determination shall be made without reference to whether any funds are available under the Cash Collateral Account);

(f) the Class A Principal Balance shall not be paid in full on the Class A Scheduled Final Payment Date;

(g) [RESERVED]

(h) at any time that (A) the is equal to zero or (B) the has been greater than zero for three or more consecutive Monthly Periods immediately following the Monthly Period in which a occurs, the Available Cash Collateral Amount shall be less than the Required Cash Collateral Amount;

(i) at any time the is greater than zero, the Available Cash Collateral Amount shall be less than the greater of (x) the product of (1) the Required Cash Collateral Amount and (2) % and (y) an amount equal to (1) the Required Cash Collateral Amount minus (2) the ;

(j) a Change in Control has occurred;

(k) as on any Determination Date:

(i) the percentage equivalent of a fraction (A) the numerator of which is the sum of (1) the aggregate Principal Receivables outstanding that have remained unpaid more than 60 days after their contractual due date as of the end of the related Monthly Period plus (2) the aggregate of the Default Amounts for all Accounts that became Defaulted Accounts during the related Monthly Period and

%;  
(B) the denominator of which is the total Principal Receivables as of the end of the related Monthly Period is greater than

(ii) the average of the dilution ratio for that Determination Date and the preceding two Determination Dates is greater than (x) % for any Determination Date falling in December, January or February and (y) % for any other Determination Date, where the “dilution ratio” for any Determination Date equals the percentage equivalent of a fraction (A) the numerator of which is the aggregate amount of Dilution for the prior Monthly Period (B) the denominator of which is the total Principal Receivables as of the last day of the Monthly Period immediately prior to the Monthly Period related to such Determination Date;

(iii) the average of the default ratio for that Determination Date and the preceding two Determination Dates is greater than %, where the “default ratio” for any Determination Date equals the percentage equivalent of a fraction (A) the numerator of which is the aggregate of the Default Amounts for all Accounts that became Defaulted Accounts during the related Monthly Period and (B) the denominator of which is the total Principal Receivables as of the end of the related Monthly Period;

(iv) the percentage equivalent of a fraction (A) the numerator of which is the aggregate Collections received during the related Monthly Period and (B) the denominator of which is equal to the total Principal Receivables held by the Trust at the close of business for the Monthly Period immediately prior to such related Monthly Period shall be less than %; and

(v) the percentage equivalent of a fraction (A) the numerator of which is the total Principal Receivables relating to any one Merchant (other than Redcats, Limited Brands or any Merchant affiliated with any of the foregoing) as of the end of any related Monthly Period and (B) the denominator of which is the aggregate total Principal Receivables as of the end of such related Monthly Period exceeds %.

(l) the Pension Benefit Guaranty Corporation shall file notice of a lien pursuant to Section 4068 of the Employee Retirement Income Security Act of 1974 with regard to any of the assets of WFN, which lien shall secure a liability in excess of \$10,000,000 and shall not have been released within 40 days;

(m) a default shall have occurred and be continuing under any instrument or agreement evidencing or securing indebtedness for borrowed money of WFN in excess of \$10,000,000 which default (i) is a default in payment of any principal or interest on such indebtedness when due or within any applicable grace period or (ii) shall have resulted in acceleration of the maturity of such indebtedness; or

(n) without limiting the foregoing, the occurrence of an Event of Default with respect to Series 2009-VFN and acceleration of the maturity of the Series 2009-VFN Notes pursuant to Section 5.3 of the Indenture.

then, in the case of any event described in subsections 7.1(a), (b), (e), (l) or (m) of this Indenture Supplement, after the applicable grace period set forth in such Sections, either Indenture Trustee or Holders of Class A Notes evidencing undivided interests aggregating more than 50% of the Class A Principal Balance by notice then given in writing to Transferor and Servicer (and to the Indenture Trustee if given by the Holders) may declare that an early amortization event (a “ Early Amortization Event ” ) has occurred as of the date of such notice, and in the case of any event described in subsections 7.1(c), (d), (f), (h), (i), (j), (k) or (n) of this Indenture Supplement, an Early Amortization Event shall occur without any notice or other action on the part of Indenture Trustee or the Series 2009-VFN Noteholders immediately upon the occurrence of such event.

In addition to the other consequences of a Series 2009-VFN Early Amortization Event specified herein, from and after the occurrence of any Series 2009-VFN Early Amortization Event (until the same shall have been waived by all of the Series 2009-VFN Noteholders), with respect to any Account included in the Identified Portfolio, Transferor shall no longer permit or require Merchant Adjustment Payments (except those owed by Redcats) or In-Store Payments to be netted against amounts owed to Transferor by the applicable Merchant but shall instead exercise its rights to require each Merchant (other than Redcats) to transfer to Servicer, not later than the third Business Day following receipt by such Merchant of any In-Store Payments or the occurrence of any event giving rise to Merchant Adjustment Payments, an amount equal to the sum of such In-Store Payments and Merchant Adjustment Payments. In addition, if any bankruptcy or other insolvency proceeding has been commenced against a Merchant, Servicer shall require that Merchant to (i) stop accepting In-Store Payments and (ii) inform Obligors who wish to make In-Store Payments that payment should instead be sent to Servicer, provided that Servicer shall not be required to take such action if (x) Servicer or Trustee has been provided a letter of credit, surety bond or other similar instrument covering collection risk with respect to In-Store Payments, (y) the Rating Agency Condition is satisfied with respect to such letter of credit, surety bond or other similar instrument and (z) each of the Series 2009-VFN Noteholders consents to such arrangement.

## ARTICLE VIII.

### Redemption of Series 2009-VFN Notes; Series Termination

#### Section 8.1                      Optional Redemption of Series 2009-VFN Notes; Final Distributions.

(a)            On any Business Day occurring on or after the date on which the outstanding principal balance of the Series 2009-VFN Notes is reduced to 10% or less of the greatest ever Note Principal Balance, the Servicer shall have the option to redeem the Series 2009-VFN Notes, at a purchase price equal to (i) if such day is a Distribution Date, the Reassignment Amount for such Distribution Date or (ii) if such day is not a Distribution Date, the Reassignment Amount for the Distribution Date following such day.

(b)            Servicer shall give the Indenture Trustee at least thirty (30) days prior written notice of the date on which Servicer intends to exercise such optional redemption. Not later than 12:00 noon, New York City time, on such day Servicer shall deposit into the Collection Account in immediately available funds the excess of the Reassignment Amount over the amount, if any, on deposit in the Principal Account. Such redemption option is subject to payment in full of the

Reassignment Amount. Following such deposit into the Collection Account in accordance with the foregoing, the Collateral Amount for Series 2009-VFN shall be reduced to zero and the Series 2009-VFN Noteholders shall have no further security interest in the Receivables. The Reassignment Amount shall be distributed as set forth in subsection 8.1(d).

(c) (i) The amount to be paid by the Transferor with respect to Series 2009-VFN in connection with a reassignment of Receivables to the Transferor pursuant to subsection 2.4(e) of the Transfer and Servicing Agreement shall equal the Reassignment Amount for the first Distribution Date following the Monthly Period in which the reassignment obligation arises under the Transfer and Servicing Agreement.

(ii) The amount to be paid by the Transferor with respect to Series 2009-VFN in connection with a repurchase of the Notes pursuant to Section 7.1 of the Transfer and Servicing Agreement shall equal the Reassignment Amount for the Distribution Date of such repurchase.

(d) With respect to (a) the Reassignment Amount deposited into the Distribution Account pursuant to Section 8.1 or (b) the proceeds of any sale of Receivables pursuant to clause 5.5(a)(iii) of the Indenture with respect to Series 2009-VFN, the Indenture Trustee shall, in accordance with the written direction of the Servicer, not later than 12:00 noon, New York City time, on the related Distribution Date, make distributions of the following amounts (in the priority set forth below and, in each case, after giving effect to any deposits and distributions otherwise to be made on such date) in immediately available funds: (i) (x) the Class A Principal Balance on such Distribution Date will be distributed to the Class A Noteholders and (y) an amount equal to the sum of (A) Class A Monthly Interest for such Distribution Date, (B) any Class A Monthly Interest previously due but not distributed to the Class A Noteholders on any prior Distribution Date, (C) Class A Non-Use Fees, if any, due and payable on such Distribution Date or any prior Distribution Date and (D) Class A Additional Amounts, if any, due and payable on such Distribution Date or any prior Distribution Date will be distributed to the Class A Noteholders, (ii)(x) the Class M Principal Balance on such Distribution Date will be distributed to the Class M Noteholders and (y) an amount equal to the sum of (A) Class M Monthly Interest for such Distribution Date, (B) any Class M Deficiency Amount for such Distribution Date, (C) the amount of Class M Additional Interest, if any, for such Distribution Date and any Class M Additional Interest previously due but not distributed to the Class M Noteholders on any prior Distribution Date, and (D) Class M Additional Amounts, if any, due and payable on such Distribution Date or any prior Distribution Date will be distributed to the Class M Noteholders, (iii)(x) the Class B Principal Balance on such Distribution Date will be distributed to the Class B Noteholders and (y) an amount equal to the sum of (A) Class B Monthly Interest for such Distribution Date, (B) any Class B Deficiency Amount for such Distribution Date, (C) the amount of Class B Additional Interest, if any, for such Distribution Date and any Class B Additional Interest previously due but not distributed to the Class B Noteholders on any prior Distribution Date, and (D) Class B Additional Amounts, if any, due and payable on such Distribution Date or any prior Distribution Date will be distributed to the Class B Noteholders, and (iv) any excess shall be released to the Issuer.

Section 8.2                      Series Termination. The right of the Series 2009-VFN Noteholders to receive payments from the Trust will terminate on the first Business Day following the Series Termination Date.

## ARTICLE IX.

### Miscellaneous Provisions

Section 9.1                      Ratification of Indenture; Amendments. As supplemented by this Indenture Supplement, the Indenture is in all respects ratified and confirmed and the Indenture as so supplemented by this Indenture Supplement shall be read, taken and construed as one and the same instrument. This Indenture Supplement may be amended only by a Supplemental Indenture entered in accordance with the terms of Section 10.1 or 10.2 of the Indenture. For purposes of the application of Section 10.2 to any amendment of this Indenture Supplement, the Series 2009-VFN Noteholders shall be the only Noteholders whose vote shall be required. The Transferor shall provide notice of any amendment to this Indenture Supplement to S&P.

Section 9.2                      Form of Delivery of the Series 2009-VFN Notes. The Class A Notes, the Class M Notes and the Class B Notes shall be Definitive Notes and shall be registered in the Note Register in the name of the initial purchasers of such Notes identified in the Note Purchase Agreements.

Section 9.3                      Notices. Any required notice shall be made to the Rating Agencies and the Noteholders at the following:

- (a) If to Fitch: Fitch, Inc., One State Street Plaza, New York, New York 10004.
- (b) If to DBRS: DBRS, Inc., 140 Broadway, 35<sup>th</sup> Floor, New York, New York, 10005 and ABS\_Surveillance@dbrs.com.
- (c) If to the Series 2009-VFN Noteholders, to the address specified in the applicable Note Purchase Agreement.

Section 9.4                      Counterparts. This Indenture Supplement may be executed in two or more counterparts, and by different parties on separate counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

Section 9.5                      GOVERNING LAW. THIS INDENTURE SUPPLEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

Section 9.6                      Limitation of Liability. Notwithstanding any other provision herein or elsewhere, this Agreement has been executed and delivered by U.S. Bank Trust National Association, not in its individual capacity, but solely in its capacity as Owner Trustee of the Trust, in no event shall U.S. Bank Trust National Association in its individual capacity have any liability in respect of the representations, warranties, or obligations of the Trust hereunder or under any other document, as to all of which recourse shall be had solely to the assets of the

Trust, and for all purposes of this Agreement and each other document, the Owner Trustee (as such or in its individual capacity) shall be subject to, and entitled to the benefits of, the terms and provisions of the Trust Agreement.

Section 9.7                      Rights of the Indenture Trustee. The Indenture Trustee shall have herein the same rights, protections, indemnities and immunities as specified in the Master Indenture.

Section 9.8                      Additional Provisions. Notwithstanding anything to the contrary in any Transaction Document, until the Series Termination Date:

(a)            The Indenture Trustee shall not agree to any extension of the 60 day periods referred to in Section 2.4 or 3.3 of the Transfer and Servicing Agreement ;

(b)            Notwithstanding subsection 3.3(j) of the Transfer and Servicing Agreement, neither Transferor nor Servicer will take any action to cause any Receivable to be evidenced by, or to constitute, chattel paper, and each represents that none of the Receivables is evidenced by, or constitutes, chattel paper.

(c)            Without the consent of each Class A Noteholder (which consent shall not be unreasonably withheld or delayed), Transferor shall not (i) engage in any transaction described in Section 4.2 of the Transfer and Servicing Agreement , (ii) designate additional or substitute Transferors or Credit Card Originators as permitted by Section 2.9 or 2.10 of the Transfer and Servicing Agreement , (iii) increase the percentage of Principal Receivables referred to in the proviso to clause (f) of the definition of “Eligible Account”, (iv) amend any Transaction Document in a manner that adversely affects the Class A Noteholders, (v) amend the Transfer and Servicing Agreement to permit the addition of receivables arising in VISA, MasterCard or any other type of open end revolving credit card account other than those in the Identified Portfolio or (vi) amend this Indenture Supplement.

(d)            The Additional Minimum Transferor Amount is hereby specified as an additional amount to be considered part of the Minimum Transferor Amount pursuant to clause (b) of the definition of Minimum Transferor Amount.

(e)            The Transferor may designate additional Approved Portfolios if (a) the Rating Agency Condition is satisfied with respect to that designation and (b) the Transferor delivers to the Indenture Trustee an Opinion of Counsel that all UCC financing statements or amendments required to perfect the interest of the Trust and, if the date of determination is prior to the Certificate Trust Termination Date, the Trustee in Receivables arising in accounts included in each such Additional Portfolio have been made.

Section 9.9                      No Petition. The Issuer and the Indenture Trustee, by entering into this Indenture Supplement, and each Series 2009-VFN Noteholder, by accepting a Series 2009-VFN Note, hereby covenant and agree that they will not at any time institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy proceedings under any United States Federal or state bankruptcy or similar law in connection with any obligations relating to the Series 2009-VFN Noteholders, the Indenture or this Indenture Supplement; provided, however, that nothing herein shall prohibit the Indenture Trustee from filing proofs of claim or

otherwise participating in such proceedings instituted by any other person. The provisions of this Section 9.8 shall survive the termination of this Indenture Supplement.

Section 9.10                      Additional Requirements for Registration of and Limitations on Transfer and Exchange of Notes.

(a)            All Transfers will be subject to the transfer restrictions set forth on the Notes.

(b)            No Transfer (or purported Transfer) of a Class M Note or Class B Note (or economic interest therein) shall be made by WFN, the Transferor or any person which is considered the same person as WFN or the Transferor for U.S. Federal income tax purposes (except to a person which is considered the same person as WFN for such purposes) and any such Transfer (or purported Transfer) of such Notes shall be void ab initio unless an Opinion of Counsel is first delivered to the Indenture Trustee to the effect that such Notes will constitute debt for U.S. federal income tax purposes.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned have caused this Indenture Supplement to be duly executed and delivered by their respective duly authorized officers on the day and year first above written.

WORLD FINANCIAL NETWORK CREDIT  
CARD MASTER NOTE TRUST, as Issuer

By: U. S. Bank Trust National Association,  
not in its individual capacity, but solely as  
Owner Trustee

By: /s/ Annette E. Morgan  
Name: Annette E. Morgan  
Title: Assistant Vice President

THE BANK OF NEW YORK MELLON  
TRUST COMPANY, N.A., as Indenture Trustee

By: /s/ John D. Ask  
Name: John D. Ask  
Title: Senior Associate

Acknowledged and Accepted:

WFN CREDIT COMPANY, LLC  
as Transferor

By: /s/ Daniel T. Groomes  
Name: Daniel T. Groomes  
Title: President

---

**SUPPLEMENTAL INDENTURE NO. 1 TO THE  
AMENDED AND RESTATED SERIES 2009-VFN INDENTURE SUPPLEMENT**

This **SUPPLEMENTAL INDENTURE NO. 1 TO THE AMENDED AND RESTATED SERIES 2009-VFN INDENTURE SUPPLEMENT**, dated as of June 3, 2011 (this “Supplement”) is made between World Financial Capital Master Note Trust (the “Issuer”) and U.S. Bank National Association, as indenture trustee (the “Indenture Trustee”). Capitalized terms used and not otherwise defined in this Supplement are used as defined in that certain Master Indenture, dated as of September 29, 2008 (the “Master Indenture”), between the Indenture Trustee and the Issuer, as supplemented by that certain Amended and Restated Series 2009-VFN Indenture Supplement, dated as of June 4, 2010 (the “Indenture Supplement”), between the Issuer and the Indenture Trustee.

*Background*

- A. The parties hereto have entered into the Master Indenture and the Indenture Supplement.
- B. The parties hereto wish to amend the Indenture Supplement as set forth in this Supplement.

*Agreement*

1. *Amendment of the Indenture Supplement*. The definition of “Bankrupt Merchant” in Section 2.1 is hereby amended to read in its entirety as follows:

“Bankrupt Merchant” means any Merchant which fails generally to, or admits in writing its inability to, pay its debts as they become due; or any Merchant for which a proceeding shall have been instituted in a court having jurisdiction in the premises seeking a decree or order for relief in respect of such Merchant in an involuntary case under any Debtor Relief Law, or for the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator, conservator or other similar official for any substantial part of its property, or for the winding-up or liquidation of its affairs, and such proceedings shall continue undismissed or unstayed and in effect for a period of 60 consecutive days or any of the actions sought in such proceeding shall occur; or any Merchant that commences a voluntary case under any Debtor Relief Law, or such Merchant’s consent to the entry of an order for relief in an involuntary case under any Debtor Relief Law, or consent to the appointment of a taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator, conservator or other similar official for any substantial part of its property, or any general assignment for the benefit of creditors; or any Merchant or any Affiliate of such Merchant shall have taken any corporate action in furtherance of any of the foregoing actions with respect to such Merchant; provided, however, that a Merchant for which a Chapter 11 Plan is confirmed under a Debtor Relief Law shall no longer be a Bankrupt Merchant upon the occurrence of the Effective Date of such Chapter 11 Plan. For purposes of this definition, a Chapter 11 Plan shall exclude a Chapter 11 Plan under which the Bankrupt Merchant liquidates all of its assets and discontinues operations.

2. *Binding Effect; Ratification* . (a) This Supplement shall become effective, as of the date first set forth above, when (i) counterparts hereof shall have been executed and delivered by the parties hereto, and thereafter shall be binding on the parties hereto and their respective successors and assigns, (ii) the Noteholders shall have given their written consent pursuant to Section 10.2 of the Master Indenture.

(b) On and after the execution and delivery hereof, this Supplement shall be a part of the Indenture Supplement and each reference in the Indenture Supplement to “this Indenture Supplement” or “hereof”, “hereunder” or words of like import, and each reference in any other Transaction Document to the Indenture Supplement shall mean and be a reference to such Indenture Supplement as amended hereby.

(c) Except as expressly amended hereby, the Indenture Supplement shall remain in full force and effect and is hereby ratified and confirmed by the parties hereto.

3. *Miscellaneous* . (a) THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS.

(b) Headings used herein are for convenience of reference only and shall not affect the meaning of this Supplement.

(c) This Supplement may be executed in any number of counterparts, and by the parties hereto on separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same agreement. Counterparts of this Supplement may be delivered by facsimile or electronic transmission.

(d) The Trustee shall not be responsible for the validity or sufficiency of this Supplement, nor for the recitals contained herein.

[ *Signature Page Follows* ]

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

WORLD FINANCIAL CAPITAL MASTER NOTE TRUST, as Issuer

By: BNY Mellon Trust of Delaware, not in its individual capacity, but solely

as Owner Trustee

By: /s/ Kristine K. Gullo  
Name: Kristine K. Gullo  
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION, as Indenture Trustee

By: /s/ Michelle Moeller  
Name: Michelle Moeller  
Title: Vice President

*Supplemental Indenture No. 1*

**SECOND AMENDMENT TO  
SERIES 2009-VFC1 SUPPLEMENT**

This **SECOND AMENDMENT TO SERIES 2009-VFC1 SUPPLEMENT**, dated as of June 15, 2011 (this “*Amendment*”) is made among World Financial Network National Bank, a national banking association (“*WFN*”), as Servicer (“*Servicer*”), WFN Credit Company, LLC, a Delaware limited liability company (“*WFN Credit*”), as Transferor (“*Transferor*”) and Union Bank, N.A. (formerly known as Union Bank of California, N.A., successor in interest to JPMorgan Chase Bank, N.A.), not in its individual capacity but solely as Trustee (“*Trustee*”) under the Amended and Restated Pooling and Servicing Agreement, dated as of January 30, 1998, as amended and restated as of September 28, 2001 (as further amended as of April 7, 2004, March 23, 2005, October 26, 2007, and March 30, 2010, and as modified by a Trust Combination Agreement dated as of April 26, 2005, and as further amended, restated and otherwise modified from time to time, the “*Agreement*”). Capitalized terms used and not otherwise defined in this Amendment are used as defined in the Agreement, as supplemented by that certain Series 2009-VFC1 Supplement, dated as of March 31, 2009 (as amended by the First Amendment to Series 2009-VFC1 Supplement, dated as of March 30, 2010), among the Servicer, the Transferor and the Trustee (as amended, restated and otherwise modified from time to time, the “*Series Supplement*”).

*Background*

- A. The parties hereto have entered into the Agreement and the Series Supplement.
- B. The parties hereto wish to amend the Series Supplement as set forth in this Amendment.

*Agreement*

1. *Amendment of the Series Supplement*. Section 1 of the Series Supplement is hereby amended by adding a new subsection (d) to read in its entirety as follows:

(d) The Series 2009-VFC1 Certificates shall be “Designated Investor Certificates” for the purposes of Section 2.9(c) of the Agreement.

2. *Binding Effect; Ratification*. (a) This Amendment shall become effective, as of the date first set forth above, when counterparts hereof shall have been executed and delivered by the parties hereto, and thereafter shall be binding on the parties hereto and their respective successors and assigns.

(b) On and after the execution and delivery hereof, this Amendment shall be a part of the Series Supplement and each reference in the Series Supplement to “this Series Supplement” or “hereof”, “hereunder” or words of like import, and each reference in any other Transaction Document to the Series Supplement shall mean and be a reference to such Series Supplement as amended hereby.

(c) Except as expressly amended hereby, the Series Supplement shall remain in full force and effect and is hereby ratified and confirmed by the parties hereto.

3. *Miscellaneous* . (a) THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS.

(b) Headings used herein are for convenience of reference only and shall not affect the meaning of this Amendment.

(c) This Amendment may be executed in any number of counterparts, and by the parties hereto on separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same agreement. Counterparts of this Amendment may be delivered by facsimile or electronic transmission.

(d) The Trustee shall not be responsible for the validity or sufficiency of this Amendment, nor for the recitals contained herein.

[ *Signature Page Follows* ]

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

WORLD FINANCIAL NETWORK NATIONAL BANK, as Servicer

By: /s/ Ronald C. Reed  
Name: Ronald C. Reed  
Title: Treasurer

WFN CREDIT COMPANY, LLC, as Transferor

By: /s/ Daniel T. Groomes  
Name: Daniel T. Groomes  
Title: President

UNION BANK, N.A., not in its individual capacity, but solely as Trustee

By: /s/ Eva Aryeetey  
Name: Eva Aryeetey  
Title: Vice President

**NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT AWARD AGREEMENT  
UNDER THE ALLIANCE DATA SYSTEMS CORPORATION  
2010 OMNIBUS PLAN**

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the “**Agreement**”), made as of June 30, 2011 (the “**Grant Date**”) by and between Alliance Data Systems Corporation (the “**Company**”) and [NAME] (the “**Participant**”) who is a non-employee director of the Company.

WHEREAS, pursuant to the Company’s 2010 Omnibus Plan (the “**Plan**”), the Company desires to afford the Participant the opportunity to acquire, or enlarge his ownership of, the Company’s common stock, \$0.01 par value per share (“**Stock**”), so that he may have a direct proprietary interest in the Company’s success.

WHEREAS, the Company desires to have the Participant continue to serve on the Company’s Board of Directors (“**Board**”) and to provide the Participant with an incentive.

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereto agree as follows:

1. **Restricted Stock Units Awarded.**

(a) The Company hereby awards to the Participant, in the aggregate, [# SHARES] Restricted Stock Units which shall be subject to the conditions set forth in the Plan and this Agreement.

(b) Restricted Stock Units shall be evidenced by an account established and maintained for the Participant, which shall be credited for the number of Restricted Stock Units granted to the Participant. By accepting this Award, the Participant acknowledges that the Company does not have an adequate remedy in damages for the breach by the Participant of the conditions and covenants set forth in this Agreement and agrees that the Company is entitled to and may obtain an order or a decree of specific performance against the Participant issued by any court having jurisdiction.

(c) Except as provided in the Plan or this Agreement, prior to vesting as provided in Section 2 of this Agreement, the Restricted Stock Units will be forfeited by the Participant and all of the Participant’s rights to Stock underlying the Award shall immediately terminate without any payment or consideration by the Company, in the event of a Participant’s early termination of service as provided in Section 3 below.

2. **Vesting.** Subject to Sections 1 and 3 of this Agreement, the restrictions thereon will lapse and Award will vest upon the earlier of:

(a) The Participant's termination of service, which for the purposes of this Agreement is defined as (i) the Participant's separation of service from the Board at the end of the Participant's elected term of service; (ii) the Participant's death; or (iii) the Participant's Disability; or

(b) June 29, 2021.

Notwithstanding the foregoing, subject to the limitations of the Plan, the Committee may accelerate the vesting of all or part of the Award at any time and for any reason. As soon as practicable after the Award vests and consistent with Section 409A of the Code, payment shall be made in Stock (based upon the Fair Market Value of the Stock on the day all restrictions lapse). The Committee shall cause a Stock certificate to be delivered to the Participant or the Participant's electronic account with respect to such Stock free of all restrictions or the Stock may be delivered electronically.

3. **Forfeiture for Early Termination of Service**. Unless otherwise determined by the Committee at time of grant or thereafter or as otherwise provided in the Plan, if the Participant terminates his service prior to the end of his elected term, any unvested portion of any outstanding Award held by a Participant at the time of such early termination of service will be forfeited upon such termination.

4. **Company; Participant**.

(a) The term "**Company**" as used in this Agreement with reference to employment shall include the Company and its Affiliates, as appropriate.

(b) Whenever the word "**Participant**" is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the beneficiaries, the executors, the administrators, or the person or persons to whom the Restricted Stock Units may be transferred by will or by the laws of descent and distribution, the word "**Participant**" shall be deemed to include such person or persons.

5. **Adjustments; Change in Control**.

(a) In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or exchange of Stock or other securities, liquidation, dissolution, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares that may be issued in respect of Restricted Stock Units. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate or in response to changes in applicable laws, regulations, or accounting principles.

(b) In connection with a Change in Control, the Committee may, in its sole discretion, accelerate the vesting with respect to the Award. If the Award is not assumed, substituted for an award of equal value, or otherwise continued after a Change in Control, the

Award shall automatically vest prior to the Change in Control at a time designated by the Committee. Timing of any payment or delivery of shares of Stock under this provision shall be subject to Section 409A of the Code.

6. **Compliance with Law**. Notwithstanding any of the provisions hereof, the Company will not be obligated to issue or transfer any Stock to the Participant hereunder, if the exercise thereof or the issuance or transfer of such Stock shall constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority. Any determination in this connection by the Committee shall be final, binding and conclusive. The Company shall in no event be obliged to register any securities pursuant to the Securities Act of 1933 (as now in effect or as hereafter amended) or to take any other affirmative action in order to cause the issuance or transfer of Stock pursuant thereto to comply with any law or regulation of any governmental authority.

7. **No Right to Re-election or Continued Service**. Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue in the service of the Company as a non-employee director nor shall the Agreement be deemed to create any obligation of the Board to nominate any of its members for re-election by the Company stockholders nor confer on the Participant the right to remain a member of the Board for any period of time or at any particular rate of compensation. This Agreement shall not interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved. Participant acknowledges and agrees that the continued vesting of the Restricted Stock Units granted hereunder is premised upon his provision of future services as a member of the Board and such Restricted Stock Units shall not accelerate upon his termination of service for any reason unless specifically provided for herein.

8. **Representations and Warranties of Participant**. The Participant represents and warrants to the Company that:

(a) **Agrees to Terms of the Plan**. The Participant has received a copy of the Plan, which is incorporated herein by reference, and has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Agreement, the Plan shall govern and control. All capitalized terms not defined herein shall have the meaning ascribed to them as set forth in the Plan. The Participant acknowledges that there may be adverse tax consequences upon the vesting of Restricted Stock Units or later disposition of the shares of Stock once the Award has vested, and that the Participant should consult a tax adviser prior to such time.

(b) **Cooperation**. The Participant agrees to sign such additional documentation as may reasonably be required from time to time by the Company.

9. **Taxes and Share Withholding**. At such time as the Participant has taxable income in connection with an Award (a “**Taxable Event**”), the Participant may be required to pay to the Company, prior to the issuance of shares of Stock, an amount in cash equal to the federal, state and local income taxes and other amounts as may be required by law to be withheld (the “**Withholding Taxes**”) with respect to the Restricted Stock Units. The Participant may be given the opportunity to make a written election (the “**Tax Election**”) to have withheld a portion of shares of Stock issuable to him upon vesting of the Restricted Stock Units, having an aggregate Fair Market Value equal to the Withholding Taxes in connection with the Taxable Event.

10. **Rights as Stockholder**. The Participant shall have no rights as a stockholder with respect to any Restricted Stock Unit until he shall have become the holder of record of such Stock, and no adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date upon which Participant shall become the holder of record thereof.

11. **Notice**. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided, that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to him or her at his or her address as recorded in the records of the Company. Notwithstanding the foregoing, at such time as the Company institutes a policy for delivery of notice by e-mail, notice may be given in accordance with such policy.

12. **Governing Law**. This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to its conflict of law principles.

13. **Electronic Transmission**. The Company reserves the right to deliver any notice or Award by email in accordance with its policy or practice for electronic transmission and any written Award or notice referred to herein or under the Plan may be given in accordance with such electronic transmission policy or practice.

\* \* \* \* \*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ALLIANCE DATA SYSTEMS CORPORATION

By:

/s/ \_\_\_\_\_ Jae \_\_\_\_\_ Lynn \_\_\_\_\_ Rangel

**Jae Lynn Rangel**  
**SVP, Human Resources**

PARTICIPANT

\_\_\_\_\_  
**NAME**

**CERTIFICATION OF THE  
CHIEF EXECUTIVE OFFICER  
OF  
ALLIANCE DATA SYSTEMS CORPORATION**

I, Edward J. Heffernan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alliance Data Systems Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/ S / E DWARD J. H EFFERNAN

**Edward J. Heffernan**  
**Chief Executive Officer**

Date: August 8, 2011

**CERTIFICATION OF THE  
CHIEF FINANCIAL OFFICER  
OF  
ALLIANCE DATA SYSTEMS CORPORATION**

I, Charles L. Horn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alliance Data Systems Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ CHARLES L. HORN  
**Charles L. Horn**  
**Chief Financial Officer**

Date: August 8, 2011

**CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER  
OF  
ALLIANCE DATA SYSTEMS CORPORATION**

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2011 (the "Form 10-Q") of Alliance Data Systems Corporation (the "Registrant").

I, Edward J. Heffernan, certify that to the best of my knowledge:

(i) the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/ S / E DWARD J. H EFFERNAN

**Edward J. Heffernan**  
**Chief Executive Officer**

Date: August 8, 2011

Subscribed and sworn to before me  
this 8<sup>th</sup> day of August, 2011.

/ S / J ANE B AEDKE

**Name: Jane Baedke**  
**Title: Notary Public**

My commission expires:  
*October 23, 2012*

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

---

**CERTIFICATION OF  
CHIEF FINANCIAL OFFICER  
OF  
ALLIANCE DATA SYSTEMS CORPORATION**

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2011 (the "Form 10-Q") of Alliance Data Systems Corporation (the "Registrant").

I, Charles L. Horn, certify that to the best of my knowledge:

(i) the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/ S / C HARLES L. H ORN

**Charles L. Horn**  
**Chief Financial Officer**

Date: August 8, 2011

Subscribed and sworn to before me  
this 8<sup>th</sup> day of August, 2011.

/ S / J ANE B AEDKE

**Name: Jane Baedke**

**Title: Notary Public**

My commission expires:

*October 23, 2012*

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

---