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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from to

Commission File Number: 001-15749

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

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

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

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

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

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

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

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

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

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

ALLIANCE DATA SYSTEMS CORPORATION

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PART I

Item 1. Financial Statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2013	December 31, 2012
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 749,821	$ 893,352
Trade receivables, less allowance for doubtful accounts ($4,339 and $3,919 at June 30, 2013 and December 31, 2012, respectively)	337,458	370,110
Credit card receivables:		
Credit card receivables – restricted for securitization investors	6,074,037	6,597,120
Other credit card receivables	1,156,553	852,512
Total credit card receivables	7,230,590	7,449,632
Allowance for loan loss	(448,396)	(481,958)
Credit card receivables, net	6,782,194	6,967,674
Deferred tax asset, net	223,870	237,268
Other current assets	455,399	171,049
Redemption settlement assets, restricted	509,230	492,690
Total current assets	9,057,972	9,132,143
Property and equipment, net	265,534	253,028
Deferred tax asset, net	28,876	30,027
Cash collateral, restricted	47,501	65,160
Intangible assets, net	520,831	582,874
Goodwill	1,736,054	1,751,053
Other non-current assets	210,544	185,854
Total assets	$ 11,867,312	$ 12,000,139
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 241,437	$ 215,470
Accrued expenses	243,882	274,625
Deposits	1,106,452	1,092,753
Asset-backed securities debt – owed to securitization investors	660,000	1,474,054
Current debt	1,131,374	803,269
Other current liabilities	133,298	117,283
Deferred revenue	968,517	1,055,323
Total current liabilities	4,484,960	5,032,777
Deferred revenue	173,610	193,738
Deferred tax liability, net	268,202	277,354
Deposits	1,148,914	1,135,658
Asset-backed securities debt – owed to securitization investors	3,351,916	2,656,916
Long-term and other debt	1,724,670	2,051,570
Other liabilities	134,192	123,639
Total liabilities	11,286,464	11,471,652
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; authorized, 200,000 shares; issued, 95,376 shares and 94,963 shares at June 30, 2013 and December 31, 2012, respectively	954	950
Additional paid-in capital	1,466,331	1,454,230
Treasury stock, at cost, 46,635 shares and 45,360 shares at June 30, 2013 and December 31, 2012, respectively	(2,666,066)	(2,458,092)
Retained earnings	1,798,679	1,553,260
Accumulated other comprehensive loss	(19,050)	(21,861)
Total stockholders' equity	580,848	528,487
Total liabilities and stockholders' equity	$ 11,867,312	$ 12,000,139

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 245,419	$ 219,050
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	106,426	78,122
Deferred income taxes	1,594	68,865
Provision for loan loss	124,444	101,879
Non-cash stock compensation	28,015	25,186
Fair value gain on interest-rate derivatives	(8,511)	(15,184)
Amortization of discount on debt	45,102	40,050
Change in operating assets and liabilities, net of acquisitions:		
Change in trade accounts receivable	(5,223)	(43,872)
Change in other assets	(20,307)	26,684
Change in accounts payable and accrued expenses	11,510	(8,570)
Change in deferred revenue	(37,269)	(39,323)
Change in other liabilities	36,546	(19,638)
Excess tax benefits from stock-based compensation	(10,103)	(13,564)
Other	12,822	(2,247)
Net cash provided by operating activities	530,465	417,438
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	(47,671)	41,440
Change in restricted cash	(271,132)	(438,665)
Change in credit card receivables	83,403	(61,375)
Purchase of credit card portfolios	(37,061)	(122,237)
Change in cash collateral, restricted	18,450	37,735
Capital expenditures	(58,995)	(55,541)
Purchases of marketable securities	(18,339)	(4,719)
Maturities/sales of marketable securities	1,002	968
Other	(1,383)	(10,587)
Net cash used in investing activities	(331,726)	(612,981)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	—	699,500
Repayments of borrowings	(43,887)	(494,691)
Issuances of deposits	732,754	659,227
Repayments of deposits	(705,799)	(360,050)
Borrowings from asset-backed securities	1,268,285	897,038
Repayments/maturities of asset-backed securities	(1,387,339)	(719,558)
Payment of capital lease obligations	(11)	(11)
Payment of deferred financing costs	(5,971)	(25,624)
Excess tax benefits from stock-based compensation	10,103	13,564
Proceeds from issuance of common stock	5,534	11,411
Purchase of treasury shares	(207,974)	(59,032)
Net cash (used in) provided by financing activities	(334,305)	621,774
Effect of exchange rate changes on cash and cash equivalents	(7,965)	(245)
Change in cash and cash equivalents	(143,531)	425,986
Cash and cash equivalents at beginning of period	893,352	216,213
Cash and cash equivalents at end of period	$ 749,821	$ 642,199
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 111,633	$ 99,257
Income taxes paid, net	$ 95,108	$ 98,243

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Recently Issued Accounting Standards

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

2. SHARES USED IN COMPUTING NET INCOME PER SHARE

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands, except per share amounts)			
Numerator:				
Net income	$ 116,440	$ 103,821	$ 245,419	$ 219,050
Denominator:				
Weighted average shares, basic	49,123	50,161	49,444	50,157
Weighted average effect of dilutive securities:				
Shares from assumed conversion of convertible senior notes	10,611	8,435	10,372	8,051
Shares from assumed conversion of convertible note warrants	7,818	4,399	7,336	3,844
Net effect of dilutive stock options and unvested restricted stock units	615	736	594	738
Denominator for diluted calculations	68,167	63,731	67,746	62,790
Basic net income per share	$ 2.37	$ 2.07	$ 4.96	$ 4.37
Diluted net income per share	$ 1.71	$ 1.63	$ 3.62	$ 3.49

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

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

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

3. CREDIT CARD RECEIVABLES

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

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

Allowance for Loan Loss

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

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

Net charge-offs include the principal amount of losses from credit cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased credit cardholders, less recoveries and exclude charged-off interest, fees and fraud losses. Charged-off interest and fees reduce finance charges, net while fraud losses are recorded as an expense. Credit card receivables, including unpaid interest and fees, are charged-off at the end of the month during which an account becomes 180 days contractually past due, except in the case of customer bankruptcies or death. Credit card receivables, including unpaid interest and fees, associated with customer bankruptcies or death are charged-off at the end of each month subsequent to 60 days after the receipt of notification of the bankruptcy or death, but in any case, not later than the 180-day contractual time frame. The Company records the actual charge-offs for unpaid interest and fees as a reduction to finance charges, net. Actual charge-offs for unpaid interest and fees were $55.0 million and $44.3 million for the three months ended June 30, 2013 and 2012, respectively, and $113.7 million and $93.2 million for the six months ended June 30, 2013 and 2012, respectively.

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

Delinquencies

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

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

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

Modified Credit Card Receivables

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

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

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

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

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

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

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

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

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

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

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in thousands)			
Troubled debt restructurings that subsequently defaulted – credit card receivables	15,698	$ 14,938	31,193	$ 29,421

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

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

Age of Credit Card Receivables

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

	June 30, 2013			
Age of Accounts Since Origination	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
	(In thousands, except percentages)			
0-12 Months	4,162	26.3%	$ 1,567,355	22.8%
13-24 Months	2,132	13.5	868,822	12.7
25-36 Months	1,492	9.4	656,544	9.6
37-48 Months	1,188	7.5	570,969	8.3
49-60 Months	939	5.9	481,828	7.0
Over 60 Months	5,920	37.4	2,721,437	39.6
Total	15,833	100.0%	$ 6,866,955	100.0%

	June 30, 2012			
Age of Accounts Since Origination	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
	(In thousands, except percentages)			
0-12 Months	3,469	26.5%	$ 1,198,107	22.0%
13-24 Months	1,728	13.2	660,098	12.1
25-36 Months	1,335	10.2	605,357	11.1
37-48 Months	1,023	7.8	504,946	9.2
49-60 Months	851	6.5	396,614	7.3
Over 60 Months	4,683	35.8	2,086,155	38.3
Total	13,089	100.0%	$ 5,451,277	100.0%

Credit Quality

The Company uses proprietary scoring models developed specifically for the purpose of monitoring the Company's obligor credit quality. The proprietary scoring models are used as a tool in the underwriting process and for making credit decisions. The proprietary scoring models are based on historical data and require various assumptions about future performance. Information regarding customer performance is factored into these proprietary scoring models to determine the probability of an account becoming 90 or more days past due at any time within the next 12 months. Obligor credit quality is monitored at least monthly during the life of an account. The following table reflects composition of the Company's credit card receivables by obligor credit quality as of June 30, 2013 and 2012:

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

Credit Card Portfolio Acquisition

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

Securitized Credit Card Receivables

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

The WFN Trusts and the WFC Trust are variable interest entities ("VIEs"), and the Company is deemed to be the primary beneficiary for the WFN Trusts and the WFC Trust, as it is the servicer for each of the trusts and is a holder of the residual interest. The Company, through its involvement in the activities of the trusts, has the power to direct the activities that most significantly impact the economic performance of the trust, and the obligation (or right) to absorb losses (or receive benefits) of the trust that could potentially be significant. The assets of these consolidated VIEs include certain credit card receivables that are restricted to settle the obligations of those entities and are not expected to be available to the Company or its creditors. The liabilities of the consolidated VIEs include asset-backed secured borrowings and other liabilities for which creditors or beneficial interest holders do not have recourse to the general credit of the Company.

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

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

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

4. REDEMPTION SETTLEMENT ASSETS

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

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

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

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

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

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

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

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

5. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

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

	December 31, 2012			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
		(In thousands)		
Finite Lived Assets				
Customer contracts and lists	$ 440,200	$ (124,351)	$ 315,849	3-12 years—straight line
Premium on purchased credit card portfolios	237,800	(108,227)	129,573	5-10 years—straight line, accelerated
Customer database	161,700	(102,706)	58,994	4-10 years—straight line
Collector database	70,550	(63,980)	6,570	30 years—15% declining balance
Tradenames	59,102	(10,139)	48,963	4-15 years—straight line
Purchased data lists	14,540	(8,527)	6,013	1-5 years—straight line, accelerated
Favorable lease	3,291	(29)	3,262	10 years—straight line
Noncompete agreements	1,300	—	1,300	3 years—straight line
	$ 988,483	$ (417,959)	$ 570,524	
Indefinite Lived Assets				
Tradenames	12,350	—	12,350	Indefinite life
Total intangible assets	$ 1,000,833	$ (417,959)	$ 582,874	

Goodwill

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

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

ALLIANCE DATA SYSTEMS CORPORATION
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6. DEBT

Debt consists of the following:

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

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

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

Credit Agreements

At June 30, 2013, the Company, as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Data Management, LLC, Comenity LLC, Comenity Servicing LLC and Alliance Data FHC, Inc., as guarantors, were party to a credit agreement (the "2011 Credit Agreement") that provided for a $903.1 million term loan (the "2011 Term Loan") subject to certain principal repayments and a $917.5 million revolving line of credit (the "2011 Credit Facility").

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

In July 2013, the Company, as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Data Management, LLC, Comenity LLC, Comenity Servicing LLC and Aspen Marketing Services, LLC, as guarantors, entered into a credit agreement with various agents and lenders dated July 10, 2013 (the "2013 Credit Agreement"), replacing the 2011 Credit Agreement, which was concurrently terminated. Wells Fargo Bank, N.A. is the administrative agent and letter of credit issuer under the 2013 Credit Agreement. The 2013 Credit Agreement provides for a $1,142.5 million term loan with certain principal repayments and a $1,142.5 million revolving line of credit with a U.S. $65.0 million sublimit for Canadian dollar borrowings and a $65.0 million sublimit for swing line loans. The 2013 Credit Agreement includes an uncommitted accordion feature of up to $500.0 million (in certain circumstances, up to $615.0 million) in the aggregate allowing for future incremental borrowings, subject to certain conditions.

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

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

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

Convertible Senior Notes

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

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

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

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

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

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

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

Senior Notes Due 2017

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

Deposits

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

Asset-backed Securities – Owed to Securitization Investors

Asset-backed Term Notes

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

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

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

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

Conduit Facilities

The Company has access to committed undrawn capacity through three conduit facilities to support the funding of its credit card receivables through Master Trust I, Master Trust III and the WFC Trust. As of June 30, 2013, total capacity under the conduit facilities was $2.0 billion, of which $0.8 billion had been drawn and was included in asset-backed securities debt in the unaudited condensed consolidated balance sheet. Borrowings outstanding under each facility bear interest at a margin above LIBOR or the asset-backed commercial paper costs of each individual conduit provider. The conduits have varying maturities from September 2013 to May 2015 with variable interest rates ranging from 1.19% to 1.72% as of June 30, 2013.

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

Derivative Instruments

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

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

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

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

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

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

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

7. DEFERRED REVENUE

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

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

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

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

8. STOCKHOLDERS' EQUITY

Stock Repurchase Program

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

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

Stock Compensation Expense

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

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

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

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

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

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

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

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

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

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

10. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2012, the Company's other investments consisted of $47.1 million of restricted cash and $44.9 million of marketable securities. The Company had a cost basis in its marketable securities of $45.1 million with unrealized losses of $0.4 million and unrealized gains of $0.2 million. Of the $0.4 million unrealized losses, $0.3 million had been unrealized for less than twelve months and $0.1 million had been unrealized for twelve months or greater.

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

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 6,637	$ 6,540
Due after five years through ten years	4,955	4,527
Due after ten years	50,856	48,281
Total	$ 62,448	$ 59,348

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. There were no realized gains or losses from the sale of other investments for the three and six months ended June 30, 2013 and 2012.

As of June 30, 2013, the Company does not consider the investments to be other-than-temporarily impaired.

Deposits — The fair value is estimated based on the current observable market rates available to the Company for similar deposits with similar remaining maturities.

Asset-backed securities debt – owed to securitization investors — The fair value is estimated based on the current observable market rates available to the Company for similar debt instruments with similar remaining maturities or quoted market prices for the same transaction.

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

Derivative instruments —The 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.

Financial Assets and Financial Liabilities Fair Value Hierarchy

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.

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

The following tables provide information for the assets and liabilities carried at fair value measured on a recurring basis as of June 30, 2013 and December 31, 2012:

	Balance at June 30, 2013	Fair Value Measurements at June 30, 2013 Using Level 1	Level 2	Level 3
		(In thousands)		
Corporate bonds (1)	$ 477,580	$ —	$ 477,580	$ —
Cash collateral, restricted	47,501	1,550	—	45,951
Other investments (2)	377,734	323,319	54,415	—
Total assets measured at fair value	$ 902,815	$ 324,869	$ 531,995	$ 45,951

	Balance at December 31, 2012	Fair Value Measurements at December 31, 2012 Using Level 1	Level 2	Level 3
		(In thousands)		
Government bonds (1)	$ 5,117	$ —	$ 5,117	$ —
Corporate bonds (1)	447,307	6,165	441,142	—
Cash collateral, restricted	65,160	2,500	—	62,660
Other investments (2)	91,972	51,951	40,021	—
Derivative instruments (3)	4	—	4	—
Total assets measured at fair value	$ 609,560	$ 60,616	$ 486,284	$ 62,660
Derivative instruments (4)	$ 8,515	$ —	$ 8,515	$ —
Total liabilities measured at fair value	$ 8,515	$ —	$ 8,515	$ —

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(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 assets in the unaudited condensed consolidated balance sheets.

(3) Amount is included in other assets in the unaudited condensed consolidated balance sheets.

(4) Amount is included in other current liabilities in the unaudited condensed consolidated balance sheets.

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, 2013 and 2012:

	Cash Collateral, Restricted: Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)			
Balance at beginning of period	$ 63,140	$ 141,866	$ 62,660	$ 158,727
Total gains (realized or unrealized):				
Included in earnings	311	2,330	791	4,019
Purchases	—	—	—	—
Sales	—	—	—	—
Issuances	—	—	—	—
Settlements	(17,500)	(21,801)	(17,500)	(40,351)
Transfers in or out of Level 3	—	—	—	—
Balance at end of period	$ 45,951	$ 122,395	$ 45,951	$ 122,395
Gains for the period included in earnings related to assets still held at end of period	$ 311	$ 2,330	$ 791	$ 4,019

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the three and six months ended June 30, 2013 and 2012.

The spread deposits included in cash collateral, restricted are recorded at their fair value based on discounted cash flow models, utilizing the respective term of each instrument which ranged from 1 to 40 months, with a weighted average term of 17 months. The unobservable input used to calculate the fair value was the discount rate of 3.2%, which was based on an interest rate curve that is observable in the market as adjusted for a credit spread. Significant increases (decreases) in the term or the discount rate would result in a lower (higher) fair value.

For the three and six months ended June 30, 2013 and 2012, gains included in earnings attributable to cash collateral, restricted are included in interest in the unaudited condensed consolidated statements of income.

Financial Instruments Disclosed but Not Carried at Fair Value

The following table provides assets and liabilities disclosed but not carried at fair value as of June 30, 2013 and December 31, 2012:

	Fair Value Measurements at June 30, 2013			
	Total	**Level 1**	**Level 2**	**Level 3**
	(In thousands)			
Cash and cash equivalents	$ 749,821	$ 749,821	$ —	$ —
Credit card receivables, net	6,782,194	—	—	6,782,194
Total assets	$ 7,532,015	$ 749,821	$ —	$ 6,782,194
Deposits	$ 2,282,483	$ —	$ 2,282,483	$ —
Asset-backed securities debt - owed to securitization investors	4,045,421	—	4,045,421	—
Long-term and other debt	4,915,377	—	4,915,377	—
Total liabilities	$ 11,243,281	$ —	$ 11,243,281	$ —

	Fair Value Measurements at December 31, 2012			
	Total	**Level 1**	**Level 2**	**Level 3**
	(In thousands)			
Cash and cash equivalents	$ 893,352	$ 893,352	$ —	$ —
Credit card receivables, net	6,967,674	—	—	6,967,674
Total assets	$ 7,861,026	$ 893,352	$ —	$ 6,967,674
Deposits	$ 2,255,089	$ —	$ 2,255,089	$ —
Asset-backed securities debt - owed to securitization investors	4,225,745	—	4,225,745	—
Long-term and other debt	4,358,379	—	4,358,379	—
Total liabilities	$ 10,839,213	$ —	$ 10,839,213	$ —

11. INCOME TAXES

For the three and six months ended June 30, 2013, the Company utilized an effective tax rate of 37.3% and 37.8%, respectively, to calculate its provision for income taxes. For the three and six months ended June 30, 2012, the Company utilized an effective tax rate of 38.0% and 38.2%, respectively, 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 2013 based on all known variables is 38.1%.

12. SEGMENT INFORMATION

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

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

The Company operates in the following reportable segments: LoyaltyOne, Epsilon, and Private Label Services and Credit. Segment operations consist of the following:

- LoyaltyOne includes the Company's Canadian AIR MILES Reward Program;
- Epsilon provides end-to-end, 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.

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

Three Months Ended June 30, 2013	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
			(In thousands)			
Revenues	$ 220,137	$ 331,841	$ 479,875	$ —	$ (3,761)	$ 1,028,092
Adjusted EBITDA [1]	66,175	63,593	231,844	(23,865)	—	337,747
Stock compensation expense	2,800	4,742	3,059	4,390	—	14,991
Depreciation and amortization	4,337	34,708	13,162	1,369	—	53,576
Operating income (loss)	59,038	24,143	215,623	(29,624)	—	269,180
Interest expense, net	(139)	(23)	31,173	52,455	—	83,466
Income (loss) before income taxes	59,177	24,166	184,450	(82,079)	—	185,714

Three Months Ended June 30, 2012	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
			(In thousands)			
Revenues	$ 229,562	$ 235,476	$ 402,497	$ —	$ (1,050)	$ 866,485
Adjusted EBITDA [1]	60,574	48,779	206,078	(22,605)	—	292,826
Stock compensation expense	2,248	3,439	2,267	4,926	—	12,880
Depreciation and amortization	4,967	24,844	8,822	770	—	39,403
Operating income (loss)	53,359	20,496	194,989	(28,301)	—	240,543
Interest expense, net	(202)	(19)	27,876	45,412	—	73,067
Income (loss) before income taxes	53,561	20,515	167,113	(73,713)	—	167,476

Six Months Ended June 30, 2013	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
			(In thousands)			
Revenues	$ 461,044	$ 649,754	$ 977,223	$ —	$ (6,492)	$ 2,081,529
Adjusted EBITDA [1]	128,778	118,010	490,135	(42,077)	—	694,846
Stock compensation expense	5,219	8,729	5,595	8,472	—	28,015
Depreciation and amortization	8,659	68,928	26,496	2,343	—	106,426
Operating income (loss)	114,900	40,353	458,044	(52,892)	—	560,405
Interest expense, net	(420)	(39)	62,227	104,242	—	166,010
Income (loss) before income taxes	115,320	40,392	395,817	(157,134)	—	394,395

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

Six Months Ended June 30, 2012	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
			(In thousands)			
Revenues	$ 487,359	$ 463,408	$ 809,843	$ 292	$ (2,848)	$ 1,758,054
Adjusted EBITDA [(1)]	118,966	88,601	430,480	(41,577)	—	596,470
Stock compensation expense	4,369	7,050	4,102	9,665	—	25,186
Depreciation and amortization	10,086	49,222	17,347	1,467	—	78,122
Operating income (loss)	104,511	32,329	409,031	(52,709)	—	493,162
Interest expense, net	(362)	(37)	54,320	84,798	—	138,719
Income (loss) before income taxes	104,873	32,366	354,711	(137,507)	—	354,443

(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 utilized to assess performance of the segment.

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 on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission, or SEC, on February 28, 2013.

Year in Review Highlights

For the six months ended June 30, 2013, revenue increased 18.4% to $2.1 billion and adjusted EBITDA increased 16.5% to $694.8 million as compared to the prior year period. See below for discussion of operating results for each of our three segments.

LoyaltyOne®

Revenue decreased 5.4% to $461.0 million and adjusted EBITDA increased 8.2% to $128.8 million for the six months ended June 30, 2013 as compared to the same period in 2012.

The LoyaltyOne segment generates revenue primarily from our coalition loyalty program in Canada and, as such, the segment can be impacted by changes in the foreign currency exchange rate between the U.S. dollar and the Canadian dollar. A weaker Canadian dollar negatively impacted the results of operations for the six months ended June 30, 2013, as the average foreign currency exchange rate was $0.98 as compared to $0.99 in the prior year period, which lowered revenue and adjusted EBITDA by $4.6 million and $1.4 million, respectively.

AIR MILES® reward miles redeemed during the six months ended June 30, 2013 decreased 10.4% compared to the same period in the prior year with higher collector redemptions in the prior year attributable to the introduction of a five-year expiry policy.

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 issued during the six months ended June 30, 2013 decreased 4.0% compared to the same period in the prior year due to weakness in consumer credit card spending coupled with reduced promotional activity by our gas and grocer sponsors. Timing of sponsor promotional activities can impact issuance growth in a particular quarter; however, we still anticipate low- to mid-single digit year-over-year issuance growth for 2013.

Because management has determined that the earnings process is not complete at the time an AIR MILES reward mile is issued, the recognition of revenue on fees is deferred. With the adoption of Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, 2009-13, "Multiple-Deliverable Revenue Arrangements," the residual method is no longer utilized to allocate proceeds to the service element for new sponsor agreements entered into or existing sponsor agreements that are materially modified after January 1, 2011. For these agreements, we measure the service element at its estimated selling price. In the first quarter of 2013, we renewed our agreements with Bank of Montreal and Amex Bank of Canada, two of our top five sponsors. We believe there will be a shift in the allocation of deferred revenue between the multiple elements impacting the classification of revenue between transaction and redemption; however, these amounts were not material for the six months ended June 30, 2013.

During the six months ended June 30, 2013, LoyaltyOne also signed new multi-year agreements with Eastlink, a privately-held Canadian telecommunications company; with Irving Oil, a regional energy and marketing company; and with Staples Canada, Inc., Canada's largest supplier of office supplies, technology, office furniture and business services, to participate as sponsors in the AIR MILES Reward Program.

AIR MILES Cash, an instant reward option added to the AIR MILES Reward Program in March 2012, continues to expand with over 1.5 million collectors enrolled at June 30, 2013. We expect approximately 10 percent of AIR MILES reward miles issued during 2013 will be under this option.

Further, CBSM-Companhia Brasileira De Servicos De Marketing, operator of Brazil's dotz coalition loyalty program, or dotz, in which we have a 37% ownership, has approximately 8.2 million collectors enrolled at June 30, 2013, as compared to approximately 2.9 million collectors enrolled at June 30, 2012. We anticipate that dotz will enter into four additional Brazilian markets by the end of 2013.

Epsilon®

Revenue increased 40.2% to $649.8 million and adjusted EBITDA increased 33.2% to $118.0 million for the six months ended June 30, 2013 as compared to the same period in 2012. These increases were driven by the acquisition of the Hyper Marketing group of companies, or HMI, in November 2012 as well as strength in the telecommunications vertical.

During the six months ended June 30, 2013, Epsilon announced a new multi-year agreement with Road Scholar, a not-for-profit organization providing adults with educational travel opportunities worldwide, to provide database marketing services. We also signed multi-year renewal and expansion agreements with AT&T to continue to provide data and agency services, and with Kroger, one of the world's largest retailers, to continue to provide permission-based email marketing deployment and to provide strategic, creative and analytic services. Finally, we renewed multi-year agreements with Guthy-Renker, one of the world's largest direct marketing companies, to continue to provide database, data and permission-based email marketing services, and Carlson Rezidor Hotel Group, one of the world's largest hotel groups, to continue to provide email marketing services.

Private Label Services and Credit

Revenue increased 20.7% to $977.2 million and adjusted EBITDA increased 13.9% to $490.1 million for the six months ended June 30, 2013 as compared to the same period in 2012.

For the six months ended June 30, 2013, average credit card receivables increased 29.1% as compared to the same period in the prior year as a result of increased credit sales, recent client signings and recent credit card portfolio acquisitions. Credit sales increased 30.2% for the six months ended June 30, 2013 due to strong core credit cardholder spending, recent new client signings and recent credit card portfolio acquisitions.

Delinquency rates were 3.9% of principal credit card receivables at both June 30, 2013 and 2012. The principal net charge-off rate was 4.5% for the six months ended June 30, 2013 as compared to 5.1% in the prior year period.

In March 2013, we purchased the existing private label credit card portfolio of Barneys New York for a purchase price of $37.1 million, subject to customary purchase price adjustments.

During the six months ended June 30, 2013, we signed new multi-year agreements to provide private label credit card services to El Dorado Furniture, a multi-channel furniture retailer, Aspen Dental, a provider of dental services, and TigerDirect, a computer and electronics retailer. We also signed new multi-year agreements to provide co-brand credit card services to Ohio University Alumni Association and Caesars Entertainment Corporation.

Additionally, we announced a multi-year renewal and expansion agreement with Orchard Brands, a leading multi-channel retailer of apparel and home products, to continue providing private label credit card services, and we renewed a multi-year agreement to continue providing co-brand credit card services to Gander Mountain, a leading multi-channel retailer of outdoor lifestyle products and services.

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, 2012.

Recent Accounting Pronouncements

See "Recently Issued Accounting Standards" under Note 1, "Summary of Significant Accounting Policies," of the Notes to Unaudited Condensed Consolidated Financial Statements for a discussion of certain accounting standards that have been issued during 2013.

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,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$ 116,440	$ 103,821	$ 245,419	$ 219,050
Stock compensation expense	14,991	12,880	28,015	25,186
Provision for income taxes	69,274	63,655	148,976	135,393
Interest expense, net	83,466	73,067	166,010	138,719
Depreciation and other amortization	20,446	18,496	40,006	36,100
Amortization of purchased intangibles	33,130	20,907	66,420	42,022
Adjusted EBITDA	$ 337,747	$ 292,826	$ 694,846	$ 596,470

Results of Operations

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

	Three Months Ended June 30,		Change	
	2013	2012	$	%
	(In thousands, except percentages)			
Revenue:				
LoyaltyOne	$ 220,137	$ 229,562	$ (9,425)	(4.1)%
Epsilon	331,841	235,476	96,365	40.9
Private Label Services and Credit	479,875	402,497	77,378	19.2
Corporate/Other	—	—	—	nm*
Eliminations	(3,761)	(1,050)	(2,711)	nm*
Total	$ 1,028,092	$ 866,485	$ 161,607	18.7%
Adjusted EBITDA [1]:				
LoyaltyOne	$ 66,175	$ 60,574	$ 5,601	9.2%
Epsilon	63,593	48,779	14,814	30.4
Private Label Services and Credit	231,844	206,078	25,766	12.5
Corporate/Other	(23,865)	(22,605)	(1,260)	5.6
Eliminations	—	—	—	—
Total	$ 337,747	$ 292,826	$ 44,921	15.3%
Stock compensation expense:				
LoyaltyOne	$ 2,800	$ 2,248	$ 552	24.6%
Epsilon	4,742	3,439	1,303	37.9
Private Label Services and Credit	3,059	2,267	792	34.9
Corporate/Other	4,390	4,926	(536)	(10.9)
Total	$ 14,991	$ 12,880	$ 2,111	16.4%
Depreciation and amortization:				
LoyaltyOne	$ 4,337	$ 4,967	$ (630)	(12.7)%
Epsilon	34,708	24,844	9,864	39.7
Private Label Services and Credit	13,162	8,822	4,340	49.2
Corporate/Other	1,369	770	599	77.8
Total	$ 53,576	$ 39,403	$ 14,173	36.0%
Operating income:				
LoyaltyOne	$ 59,038	$ 53,359	$ 5,679	10.6%
Epsilon	24,143	20,496	3,647	17.8
Private Label Services and Credit	215,623	194,989	20,634	10.6
Corporate/Other	(29,624)	(28,301)	(1,323)	4.7
Eliminations	—	—	—	—
Total	$ 269,180	$ 240,543	$ 28,637	11.9%
Adjusted EBITDA margin [2]:				
LoyaltyOne	30.1%	26.4%	3.7%	
Epsilon	19.2	20.7	(1.5)	
Private Label Services and Credit	48.3	51.2	(2.9)	
Total	32.9%	33.8%	(0.9)%	
Segment operating data:				
Private label statements generated	47,309	38,851	8,458	21.8 %
Credit sales	$ 3,691,780	$ 2,869,999	$ 821,781	28.6 %
Average credit card receivables	$ 6,964,945	$ 5,467,489	$ 1,497,456	27.4 %
AIR MILES reward miles issued	1,251,857	1,316,309	(64,452)	(4.9)%
AIR MILES reward miles redeemed	933,964	1,024,738	(90,774)	(8.9)%

(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 $161.6 million, or 18.7%, to $1.0 billion for the three months ended June 30, 2013 from $866.5 million for the three months ended June 30, 2012. The net increase was due to the following:

- *Transaction*. Revenue increased $2.1 million, or 2.7%, to $79.6 million for the three months ended June 30, 2013. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $10.6 million and other servicing fees charged to our credit cardholders increased $8.0 million, offset by a decrease of $15.9 million in merchant fees, which are transaction fees charged to the retailer, due to increased royalty payments associated with the signing of new clients.

- *Redemption*. Revenue decreased $20.8 million, or 13.1%, to $138.3 million for the three months ended June 30, 2013 due to an 8.9% decrease in AIR MILES reward miles redeemed. The introduction of a five-year expiry policy for the AIR MILES Reward Program stimulated redemption activity in the first half of 2012.

- *Finance charges, net.* Revenue increased $84.9 million, or 22.5%, to $462.7 million for the three months ended June 30, 2013. This increase was driven by a 27.4% increase in average credit card receivables, which have increased approximately $1.5 billion through a combination of growth in our existing credit card receivables and recent credit card portfolio acquisitions. This was offset in part by a 110 basis point decline in gross yield primarily due to the onboarding of new credit card portfolios.

- *Database marketing fees and direct marketing.* Revenue increased $90.0 million, or 41.0%, to $309.5 million for the three months ended June 30, 2013. The increase in revenue was driven by our acquisition of HMI, which added $74.8 million, as well as an increase in revenue of $17.1 million due to demand in the telecommunications vertical within the Epsilon segment.

- *Other revenue.* Revenue increased $5.5 million, or 16.8%, to $37.9 million for the three months ended June 30, 2013 due to additional consulting services provided by Epsilon.

Cost of operations. Cost of operations increased $112.8 million, or 22.3%, to $619.3 million for the three months ended June 30, 2013 from $506.5 million for the three months ended June 30, 2012. The net increase was due to the following:

- Within the LoyaltyOne segment, cost of operations decreased $14.5 million due to a $9.5 million decrease in fulfillment costs for the AIR MILES Reward Program associated with the decline in AIR MILES reward miles redeemed. In addition, marketing expenses decreased $4.3 million due to a decline in costs associated with the promotion of AIR MILES Cash from 2012 and a decline in losses associated with international expansion efforts of $2.7 million. These decreases were partially offset by an increase in payroll and benefits of $2.1 million.

- Within the Epsilon segment, cost of operations increased $82.9 million due to the HMI acquisition, which added $65.7 million, as well as an increase in direct marketing costs associated with the increase in revenue.

- Within the Private Label Services and Credit segment, cost of operations increased by $47.2 million. Payroll and benefits increased $19.9 million due to an increase in the number of associates to support growth, and marketing expenses increased $8.9 million due to the increase in credit sales. Other operating expenses increased by $12.4 million, as credit card processing expenses were higher due to an increase in the number of statements generated, and data processing costs increased due to growth in volumes.

Provision for loan loss. Provision for loan loss increased $5.2 million, or 10.0%, to $57.8 million for the three months ended June 30, 2013 as compared to $52.6 million for the three months ended June 30, 2012. The increase in the provision was a result of the growth in credit card receivables, offset in part by improved credit quality. The net charge-off rate improved 30 basis points to 4.6% for the three months ended June 30, 2013 as compared to 4.9% for the three months ended June 30, 2012.

General and administrative. General and administrative expenses increased $0.7 million, or 2.6%, to $28.3 million for the three months ended June 30, 2013 as compared to $27.5 million for the three months ended June 30, 2012 due to higher professional fees and consulting costs, offset in part by lower payroll and benefit costs.

Depreciation and other amortization. Depreciation and other amortization increased $2.0 million, or 10.5%, to $20.4 million for the three months ended June 30, 2013, as compared to $18.5 million for the three months ended June 30, 2012, due to additional assets placed into service resulting from both the HMI acquisition and recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles increased $12.2 million, or 58.5%, to $33.1 million for the three months ended June 30, 2013 as compared to $20.9 million for the three months ended June 30, 2012. The increase relates to $8.4 million of additional amortization associated with the intangible assets from both the HMI acquisition and recent credit card portfolio acquisitions.

Interest expense. Total interest expense, net increased $10.4 million, or 14.2%, to $83.5 million for the three months ended June 30, 2013 as compared to $73.1 million for the three months ended June 30, 2012 due to the following:

- *Securitization funding costs*. Securitization funding costs increased $2.2 million due to greater borrowings for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. These increases were offset by lower average interest rates.

- *Interest expense on deposits*. Interest expense on deposits increased $1.0 million as increases from higher borrowings were offset by lower average interest rates.

- *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net increased $7.2 million due to an increase of $5.3 million resulting from the 2012 issuances of senior notes. In addition, the amortization of imputed interest associated with the convertible senior notes increased $2.4 million as compared to the same period in 2012.

Taxes. Income tax expense increased $5.6 million to $69.3 million for the three months ended June 30, 2013 from $63.7 million for the comparable period in 2012 due primarily to an increase in taxable income, offset in part by a decline in the effective tax rate. The effective tax rate for the three months ended June 30, 2013 declined to 37.3% as compared to 38.0% for the three months ended June 30, 2012 due to a favorable outcome related to certain tax matters.

Segment Revenue and Adjusted EBITDA:

Revenue. Total revenue increased $161.6 million, or 18.7%, to $1.0 billion for the three months ended June 30, 2013 from $866.5 million for the three months ended June 30, 2012. The net increase was due to the following:

- *LoyaltyOne*. Revenue decreased $9.4 million, or 4.1%, to $220.1 million for the three months ended June 30, 2013. Redemption revenue decreased $20.8 million, or 13.1%, due to an 8.9% decline in the number of AIR MILES reward miles redeemed. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $10.6 million.

- *Epsilon*. Revenue increased $96.4 million, or 40.9%, to $331.8 million for the three months ended June 30, 2013. The acquisition of HMI contributed $75.1 million to revenue. In addition, revenue increased $21.0 million, or 25.2%, due to increased demand in the telecommunications vertical.

- *Private Label Services and Credit*. Revenue increased $77.4 million, or 19.2%, to $479.9 million for the three months ended June 30, 2013. Finance charges and late fees increased by $84.9 million, driven by a 27.4% increase in average credit card receivables due to recent credit card portfolio acquisitions and strong credit cardholder spending. Transaction revenue decreased $7.6 million due to lower merchant fees resulting from increased royalty payments associated with the signing of new clients, offset by an increase in other servicing fees.

Adjusted EBITDA. Adjusted EBITDA increased $44.9 million, or 15.3%, to $337.7 million for the three months ended June 30, 2013 from $292.8 million for the three months ended June 30, 2012. The net increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA increased $5.6 million, or 9.2%, to $66.2 million for the three months ended June 30, 2013, and adjusted EBITDA margin also increased to 30.1% for the three months ended June 30, 2013 from 26.4% for the same period in the prior year. Adjusted EBITDA was positively impacted by a reduction in operating expenses, including a decline in marketing expenses due to the promotional activity in 2012 associated with the introduction of AIR MILES Cash, as well as a decline in expenses associated with international activities.

- *Epsilon*. Adjusted EBITDA increased $14.8 million, or 30.4%, to $63.6 million for the three months ended June 30, 2013. Adjusted EDITDA was positively impacted by both the growth in revenue, including the acquisition of HMI, which added $9.7 million to adjusted EBITDA, and the implementation of cost-saving initiatives and operational efficiencies by Epsilon in the second half of 2012. Adjusted EBITDA margin decreased to 19.2% for the three months ended June 30, 2013 from 20.7% for the same period in the prior year. The negative impact to adjusted EBITDA margin was due to a shift in revenue mix attributable to the HMI acquisition.

- *Private Label Services and Credit*. Adjusted EBITDA increased $25.8 million, or 12.5%, to $231.8 million for the three months ended June 30, 2013. Adjusted EBITDA was positively impacted by the increase in finance charges, net, offset in part by both an increase in operating expenses due to increased volumes and an increase in the provision for loan loss due to the increase in credit card receivables.

- *Corporate/Other*. Adjusted EBITDA decreased $1.3 million to a loss of $23.9 million for the three months ended June 30, 2013 related to higher professional fees and consulting costs.

Results of Operations

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

	Six Months Ended June 30,		Change	
	2013	2012	$	%
	(In thousands, except percentages)			
Revenue:				
LoyaltyOne	$ 461,044	$ 487,359	$ (26,315)	(5.4)%
Epsilon	649,754	463,408	186,346	40.2
Private Label Services and Credit	977,223	809,843	167,380	20.7
Corporate/Other	—	292	(292)	nm*
Eliminations	(6,492)	(2,848)	(3,644)	nm*
Total	$ 2,081,529	$ 1,758,054	$ 323,475	18.4%
Adjusted EBITDA (1):				
LoyaltyOne	$ 128,778	$ 118,966	$ 9,812	8.2%
Epsilon	118,010	88,601	29,409	33.2
Private Label Services and Credit	490,135	430,480	59,655	13.9
Corporate/Other	(42,077)	(41,577)	(500)	1.2
Eliminations	—	—	—	—
Total	$ 694,846	$ 596,470	$ 98,376	16.5%
Stock compensation expense:				
LoyaltyOne	$ 5,219	$ 4,369	$ 850	19.5%
Epsilon	8,729	7,050	1,679	23.8
Private Label Services and Credit	5,595	4,102	1,493	36.4
Corporate/Other	8,472	9,665	(1,193)	(12.3)
Total	$ 28,015	$ 25,186	$ 2,829	11.2%
Depreciation and amortization:				
LoyaltyOne	$ 8,659	$ 10,086	$ (1,427)	(14.1)%
Epsilon	68,928	49,222	19,706	40.0
Private Label Services and Credit	26,496	17,347	9,149	52.7
Corporate/Other	2,343	1,467	876	59.7
Total	$ 106,426	$ 78,122	$ 28,304	36.2%
Operating income:				
LoyaltyOne	$ 114,900	$ 104,511	$ 10,389	9.9%
Epsilon	40,353	32,329	8,024	24.8
Private Label Services and Credit	458,044	409,031	49,013	12.0
Corporate/Other	(52,892)	(52,709)	(183)	0.3
Eliminations	—	—	—	—
Total	$ 560,405	$ 493,162	$ 67,243	13.6%
Adjusted EBITDA margin (2):				
LoyaltyOne	27.9%	24.4%	3.5%	
Epsilon	18.2	19.1	(0.9)	
Private Label Services and Credit	50.2	53.2	(3.0)	
Total	33.4%	33.9%	(0.5)%	
Segment operating data:				
Private label statements generated	93,929	75,968	17,961	23.6 %
Credit sales	$ 6,787,426	$ 5,213,548	$ 1,573,878	30.2 %
Average credit card receivables	$ 6,964,255	$ 5,394,502	$ 1,569,753	29.1 %
AIR MILES reward miles issued	2,443,380	2,546,152	(102,772)	(4.0)%
AIR MILES reward miles redeemed	2,038,292	2,274,560	(236,268)	(10.4)%

(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 $323.5 million, or 18.4%, to $2.1 billion for the six months ended June 30, 2013 from $1.8 billion for the six months ended June 30, 2012. The net increase was due to the following:

- *Transaction*. Revenue increased $1.7 million, or 1.0%, to $161.9 million for the six months ended June 30, 2013. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $22.7 million and other servicing fees charged to our credit cardholders increased $17.9 million, offset by a decrease of $37.7 million in merchant fees, which are transaction fees charged to the retailer, due to increased royalty payments associated with the signing of new clients.

- *Redemption*. Revenue decreased $49.3 million, or 14.2%, to $298.4 million for the six months ended June 30, 2013 due to a 10.4% decrease in AIR MILES reward miles redeemed. The introduction of a five-year expiry policy for the AIR MILES Reward Program stimulated redemption activity in the first half of 2012.

- *Finance charges, net.* Revenue increased $186.0 million, or 24.7%, to $940.1 million for the six months ended June 30, 2013. This increase was driven by a 29.1% increase in average credit card receivables, which have increased approximately $1.6 billion through a combination of growth in our existing credit card receivables and recent credit card portfolio acquisitions. This was offset in part by a 100 basis point decline in gross yield primarily due to the onboarding of new credit card portfolios.

- *Database marketing fees and direct marketing.* Revenue increased $172.0 million, or 39.7%, to $605.1 million for the six months ended June 30, 2013. The increase in revenue was driven by our acquisition of HMI, which added $148.6 million, as well as an increase in revenue of $29.1 million due to demand in the telecommunications vertical within the Epsilon segment.

- *Other revenue.* Revenue increased $13.1 million, or 20.8%, to $76.0 million for the six months ended June 30, 2013 due to additional consulting services provided by Epsilon.

Cost of operations. Cost of operations increased $206.3 million, or 20.0%, to $1.2 billion for the six months ended June 30, 2013 from $1.0 billion for the six months ended June 30, 2012. The net increase was due to the following:

- Within the LoyaltyOne segment, cost of operations decreased $35.3 million due to a $30.4 million decrease in fulfillment costs for the AIR MILES Reward Program associated with the decline in AIR MILES reward miles redeemed. In addition, marketing expenses decreased $8.2 million due to a decline in costs associated with the promotion of AIR MILES Cash from 2012 and a decline in losses associated with international expansion efforts of $5.0 million. These decreases were partially offset by an increase in payroll and benefits of $4.2 million.

- Within the Epsilon segment, cost of operations increased $158.6 million due to the HMI acquisition, which added $131.4 million, as well as an increase in direct marketing costs associated with the increase in revenue.

- Within the Private Label Services and Credit segment, cost of operations increased by $86.7 million. Payroll and benefits increased $35.0 million due to an increase in the number of associates to support growth, and marketing expenses increased $14.6 million due to the increase in credit sales. Other operating expenses increased by $31.0 million, as credit card processing expenses were higher due to an increase in the number of statements generated, and data processing costs increased due to growth in volumes.

Provision for loan loss. Provision for loan loss increased $22.6 million, or 22.2%, to $124.4 million for the six months ended June 30, 2013 as compared to $101.9 million for the six months ended June 30, 2012. The increase in the provision was a result of the growth in credit card receivables, offset in part by improved credit quality. The net charge-off rate improved 60 basis points to 4.5% for the six months ended June 30, 2013 as compared to 5.1% for the six months ended June 30, 2012.

General and administrative. General and administrative expenses decreased $1.0 million, or 1.9%, to $50.5 million for the six months ended June 30, 2013 as compared to $51.5 million for the six months ended June 30, 2012 due to lower payroll and benefit costs.

Depreciation and other amortization. Depreciation and other amortization increased $3.9 million, or 10.8%, to $40.0 million for the six months ended June 30, 2013, as compared to $36.1 million for the six months ended June 30, 2012, due to additional assets placed into service resulting from both the HMI acquisition and recent capital expenditures.

Amortization of purchased intangibles. Amortization of purchased intangibles increased $24.4 million, or 58.1%, to $66.4 million for the six months ended June 30, 2013 as compared to $42.0 million for the six months ended June 30, 2012. The increase relates to $16.8 million of additional amortization associated with the intangible assets from both the HMI acquisition and recent credit card portfolio acquisitions.

Interest expense. Total interest expense, net increased $27.3 million, or 19.7%, to $166.0 million for the six months ended June 30, 2013 as compared to $138.7 million for the six months ended June 30, 2012 due to the following:

- *Securitization funding costs*. Securitization funding costs increased $4.3 million due to greater borrowings for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. These increases were offset by lower average interest rates.

- *Interest expense on deposits*. Interest expense on deposits increased $2.0 million as increases from higher borrowings were offset by lower average interest rates.

- *Interest expense on long-term and other debt, net*. Interest expense on long-term and other debt, net increased $20.9 million due to an increase of $18.2 million resulting from the 2012 issuances of senior notes. In addition, the amortization of imputed interest associated with the convertible senior notes increased $4.7 million as compared to the same period in 2012. These increases were offset by a decline in interest expense associated with our credit facility.

Taxes. Income tax expense increased $13.6 million to $149.0 million for the six months ended June 30, 2013 from $135.4 million for the comparable period in 2012 due primarily to an increase in taxable income, offset in part by a decline in the effective tax rate. The effective tax rate for the six months ended June 30, 2013 declined to 37.8% as compared to 38.2% for the six months ended June 30, 2012 due to a favorable outcome related to certain tax matters.

Segment Revenue and Adjusted EBITDA:

Revenue. Total revenue increased $323.5 million, or 18.4%, to $2.1 billion for the six months ended June 30, 2013 from $1.8 billion for the six months ended June 30, 2012. The net increase was due to the following:

- *LoyaltyOne*. Revenue decreased $26.3 million, or 5.4%, to $461.0 million for the six months ended June 30, 2013. Redemption revenue decreased $49.3 million, or 14.2%, due to a 10.4% decline in the number of AIR MILES reward miles redeemed. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $22.7 million.

- *Epsilon*. Revenue increased $186.3 million, or 40.2%, to $649.8 million for the six months ended June 30, 2013. The acquisition of HMI contributed $148.9 million to revenue. In addition, revenue increased $38.1 million, or 22.9%, due to increased demand in the telecommunications vertical.

- *Private Label Services and Credit*. Revenue increased $167.4 million, or 20.7%, to $977.2 million for the six months ended June 30, 2013. Finance charges and late fees increased by $186.0 million, driven by a 29.1% increase in average credit card receivables due to recent credit card portfolio acquisitions and strong credit cardholder spending. Transaction revenue decreased $18.7 million due to lower merchant fees resulting from increased royalty payments associated with the signing of new clients, offset by an increase in other servicing fees.

Adjusted EBITDA. Adjusted EBITDA increased $98.4 million, or 16.5%, to $694.8 million for the six months ended June 30, 2013 from $596.5 million for the six months ended June 30, 2012. The net increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA increased $9.8 million, or 8.2%, to $128.8 million for the six months ended June 30, 2013, and adjusted EBITDA margin also increased to 27.9% for the six months ended June 30, 2013 from 24.4% for the same period in the prior year. Adjusted EBITDA was positively impacted by a reduction in operating expenses, including a decline in marketing expenses due to the promotional activity in 2012 associated with the introduction of AIR MILES Cash, as well as a decline in expenses associated with international activities.

- *Epsilon*. Adjusted EBITDA increased $29.4 million, or 33.2%, to $118.0 million for the six months ended June 30, 2013. Adjusted EDITDA was positively impacted by both the growth in revenue, including the acquisition of HMI, which added $18.0 million to adjusted EBITDA, and the implementation of cost-saving initiatives and operational efficiencies by Epsilon in the second half of 2012.

- *Private Label Services and Credit*. Adjusted EBITDA increased $59.7 million, or 13.9%, to $490.1 million for the six months ended June 30, 2013. Adjusted EBITDA was positively impacted by the increase in finance charges, net, offset in part by both an increase in operating expenses due to increased volumes and an increase in the provision for loan loss due to the increase in credit card receivables.

- *Corporate/Other*. Adjusted EBITDA decreased $0.5 million to a loss of $42.1 million for the six months ended June 30, 2013 related to a decrease in payroll and benefits costs.

Asset Quality

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

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

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

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

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,	
	2013	2012	2013	2012
	(In thousands, except percentages)			
Average credit card receivables	$ 6,964,945	$ 5,467,489	$ 6,964,255	$ 5,394,502
Net charge-offs of principal receivables	80,416	67,514	158,006	137,679
Net charge-offs as a percentage of average credit card receivables (1)	4.6%	4.9%	4.5%	5.1%

(1) We acquired the credit card receivables of The Bon-Ton Stores, Inc. and The Talbots, Inc. in July 2012 and August 2012, respectively. Under GAAP, losses associated with purchased credit card receivables are reflected in the fair value of the purchased credit card receivables and not reported as net charge-offs. For the three and six months ended June 30, 2013, the net charge-off rate would have been 4.8% and 4.7%, respectively, if losses associated with the acquired credit card receivables had been reported as net charge-offs.

See Note 3, “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 generated cash flow from operating activities of $530.5 million and $417.4 million for the six months ended June 30, 2013 and 2012, respectively. The increase in operating cash flows in 2013 was primarily due to increased profitability for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012.

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

Investing Activities. Cash used in investing activities was $331.7 million and $613.0 million for the six months ended June 30, 2013 and 2012, respectively. Significant components of investing activities are as follows:

- *Redemption Settlement Assets*. Cash decreased $47.7 million for the six months ended June 30, 2013, as compared to a cash increase of $41.4 million for the six months ended June 30, 2012, due to the increase in funding requirements resulting from the change in our estimate of breakage in December 2012.

- *Restricted Cash*. Cash decreased $271.1 million for the six months ended June 30, 2013 due to the principal accumulation for the repayment of $245.0 million of asset-backed securities debt that matured in July 2013. During the six months ended June 30, 2012, cash decreased $438.7 million due to the principal accumulation for the repayment of $395.0 million of asset-backed securities debt that matured in July 2012 and $34.5 million for scheduled principal repayments of other asset-based securities debt also repaid in July 2012.

- *Credit Card Receivables Funding*. Cash increased $83.4 million for the six months ended June 30, 2013 due to typical seasonal declines in credit card receivables from December 31, 2012. During the six months ended June 30, 2012, cash decreased $61.4 million as growth in our credit card receivables outpaced the seasonal paydown from December 31, 2011.

- *Purchase of Credit Card Portfolios*. Cash decreased $37.1 million for the six months ended June 30, 2013 due to the acquisition of the private label credit card portfolio from Barneys New York. During the six months ended June 30, 2012, cash decreased $122.2 million due to the acquisition of the private label credit card portfolios from Pier 1 Imports and Premier Designs.

- *Capital Expenditures*. Our capital expenditures for the six months ended June 30, 2013 were $59.0 million compared to $55.5 million for the comparable period in 2012. We anticipate capital expenditures not to exceed approximately 3% of annual revenue for the foreseeable future.

Financing Activities. Cash used in financing activities was $334.3 million for the six months ended June 30, 2013 as compared to cash provided by financing activities of $621.8 million for the six months ended June 30, 2012. Our financing activities during the six months ended June 30, 2013 relate primarily to borrowings and repayments of deposits and asset-backed securities debt, settlements for conversions of convertible senior notes and repurchases of our common stock.

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

As of June 30, 2013, we had no borrowings under our revolving credit facility, with total availability at $917.5 million. Our total leverage ratio, as defined in our credit agreement, was 2.2 to 1 at June 30, 2013, as compared to the maximum covenant ratio of 3.5 to 1. The Tier 1 risk-based capital ratio, leverage ratio and total risk-based capital ratio for Comenity Capital Bank were 16.7%, 16.5% and 18.0%, respectively, at June 30, 2013. The Tier 1 risk-based capital ratio, leverage ratio and total risk-based capital ratio for Comenity Bank were 15.9%, 15.1% and 17.2%, respectively, at June 30, 2013.

We believe that internally generated funds and other sources of liquidity will be sufficient to meet working capital needs, capital expenditures, and other business requirements for at least the next 12 months, including the repayment of the convertible senior notes that matured on August 1, 2013 and the repayment of the convertible senior notes scheduled to mature on May 15, 2014.

As of June 30, 2013, we were in compliance with our covenants. See Note 6, “Debt,” of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding our debt.

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

As of June 30, 2013, the WFN Trusts and the WFC Trust had approximately $6.1 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits, additional receivables and subordinated classes. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and the WFC Trust and by the performance of the private label credit cards in these credit card securitization trusts.

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

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

At June 30, 2013, we had $4.0 billion of asset-backed securities debt – owed to securitization investors, of which $0.7 billion is due within the next 12 months.

The following table shows the maturities of borrowing commitments as of June 30, 2013 for the WFN Trusts and the WFC Trust by year:

	2013	2014	2015	2016	2017 & Thereafter	Total
			(In thousands)			
Term notes	$ 245,000	$ 250,000	$ 393,750	$ 600,000	$ 1,758,166	$ 3,246,916
Conduit facilities (1)	330,000	1,200,000	450,000	—	—	1,980,000
Total (2)	$ 575,000	$ 1,450,000	$ 843,750	$ 600,000	$ 1,758,166	$ 5,226,916

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

(2) Total amounts do not include $1.1 billion of debt issued by the credit card securitization trusts, which was retained by us and has been eliminated in the unaudited condensed consolidated financial statements.

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

In February 2013, World Financial Network Credit Card Master Note Trust issued $500.0 million of asset-backed term securities to investors. The offering consisted of $375.0 million of Class A Series 2013-A asset-backed term notes that have a fixed interest rate of 1.61% per year and mature in February 2018. In addition, we retained an aggregate of $125.0 million of subordinated classes of the Series 2013-A asset-backed term notes that have been eliminated from our unaudited condensed consolidated financial statements.

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

In May 2013, World Financial Network Credit Card Master Note Trust issued $657.9 million of asset-backed term securities to investors. The offering consisted of $500.0 million of Class A Series 2013-B asset-backed term notes that have a fixed interest rate of 0.91% per year and mature in May 2016. In addition, we retained an aggregate of $157.9 million of subordinated classes of the Series 2013-B asset-backed term notes that have been eliminated from our unaudited condensed consolidated financial statements.

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

In July 2013, $245.0 million of fixed rate Series 2009-D asset-backed term notes matured and was repaid.

2013 Credit Agreement. We entered into a credit agreement dated July 10, 2013, or the 2013 Credit Agreement, which provides for a $1,142.5 million term loan subject to certain principal repayments and a $1,142.5 million revolving line of credit with a U.S. $65.0 million sublimit for Canadian dollar borrowings and a $65.0 million sublimit for swing line loans. The 2013 Credit Agreement replaced our previously existing credit agreement, which was concurrently terminated.

On August 1, 2013, we settled in cash, with cash on hand and borrowings under the 2013 Credit Agreement, the $772.6 million of Convertible Senior Notes due 2013, of which $772.5 million was surrendered for conversion for $1,790.3 million, with the remaining principal paid at maturity. We received $1,017.7 million of cash from the counterparties in settlement of the related convertible note hedge transactions.

See Note 6, “Debt,” of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding our debt.

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, 2012 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, 2013, 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, 2013 (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.

Changes in Internal Control Over Financial Reporting

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.

In November 2012, we acquired HMI for $451.8 million, and in December 2012 we acquired Advecor, Inc., or Advecor, for $12.2 million. Because of the timing of the acquisitions, HMI and Advecor were excluded from our evaluation of and conclusion on the effectiveness of internal control over financial reporting as of June 30, 2013. We will expand our evaluation of the effectiveness of the internal controls over financial reporting to include HMI and Advecor in the fourth quarter of 2013.

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," "continue," "could," "estimate," "expect," "intend," "may," "predict," "project," "would" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in the "Risk Factors" section in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012 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, 2012.

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

The following table presents information with respect to purchases of our common stock made during the three months ended June 30, 2013:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
				(Dollars in millions)
During 2013:				
April 1-30	462,355	$ 155.69	457,664	$ 277.1
May 1-31	114,338	178.59	110,305	257.4
June 1-30	381,983	174.31	374,935	192.0
Total	958,676	$ 165.84	942,904	$ 192.0

(1) During the period represented by the table, 15,772 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Savings Plan for the benefit of the employees who participated in that portion of the plan.

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

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

(a) None

(b) None

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Item 6. Exhibits.

(a) *Exhibits:*

EXHIBIT INDEX

Exhibit No.	Description
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	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit No. 3.1 to our Current Report on Form 8-K, filed with the SEC on June 7, 2013, File No. 001-15749).
3.3	Fourth 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 June 7, 2013, 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	Series 2013-B Indenture Supplement, dated as of May 21, 2013, between World Financial Network Credit Card Master Note Trust and Union Bank, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on May 24, 2013, File Nos. 333-60418, 333-60418-01 and 333-113669).
*10.2	Third Amended and Restated Series 2009-VFN Indenture Supplement, dated as of May 24, 2013, between World Financial Capital Master Note Trust and Deutsche Bank Trust Company Americas.
10.3	Amended and Restated Service Agreement, dated as of June 28, 2013, between Comenity Servicing LLC and Comenity Bank (incorporated by reference to Exhibit No. 99.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC, World Financial Network Credit Card Master Trust and World Financial Network Credit Card Master Note Trust on July 3, 2013, File Nos. 333-60418, 333-60418-01 and 333-113669).
10.4	Credit Agreement, dated as of July 10, 2013, by and among Alliance Data Systems Corporation, as borrower, and certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, N.A., as Administrative Agent, and various other agents and lenders (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K, filed with the SEC on July 16, 2013, File No. 001-15749).
*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

* Filed herewith
\+ Management contract, compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, 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 5, 2013

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

Date: August 5, 2013

Exhibit 10.2

WORLD FINANCIAL CAPITAL MASTER NOTE TRUST

Issuer

And

DEUTSCHE BANK TRUST COMPANY AMERICAS

Indenture Trustee

THIRD AMENDED AND RESTATED SERIES 2009-VFN INDENTURE SUPPLEMENT

Dated as of May 24, 2013

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EXHIBITS

THIRD AMENDED AND RESTATED SERIES 2009-VFN INDENTURE SUPPLEMENT, dated as of May 24, 2013 (the "Indenture Supplement"), between WORLD FINANCIAL CAPITAL MASTER NOTE TRUST, a trust organized and existing under the laws of the State of Delaware (herein, the "Issuer" or the "Trust"), and DEUTSCHE BANK TRUST COMPANY AMERICAS, a New York banking corporation, not in its individual capacity, but solely as indenture trustee (herein, together with its successors in the trusts thereunder as provided in the Indenture referred to below, the "Indenture Trustee") under the Master Indenture, dated as of September 29, 2008 (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 Second Amended and Restated Series 2009-VFN Indenture Supplement, dated as of June 1, 2012 (the "Existing Indenture Supplement").

NOW, THEREFORE, in consideration of the mutual agreements contained herein, the Existing Indenture Supplement is hereby amended and restated in its entirety as follows and each party agrees as follows for the benefit of the other party and the Series 2009-VFN Noteholders:

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 Existing Indenture Supplement a Series of Notes was issued known as "World Financial Capital Master Note Trust, Series 2009-VFN" or the "Series 2009-VFN Notes." The Series 2009-VFN Notes were issued in four Classes, known as the "Class A Series 2009-VFN Floating Rate Asset Backed Notes," the "Class M Series 2009-VFN Asset Backed Notes," the "Class B Series 2009-VFN Asset Backed Notes" and the "Class C Series 2009-VFN Asset Backed Notes." The Series 2009-VFN Notes shall be Variable Interests.

(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) The Class M Notes may from time to time be divided into separate ownership tranches (each a "Class M Ownership Tranche") which shall be identical in all respects, except for their respective Class M Maximum Principal Balances, Class M Principal Balances and certain matters relating to the rate and payment of interest. The initial allocation of Class M

Notes among Class M Ownership Tranches shall be made, and reallocations among such Class M Ownership Tranches or new Class M Ownership Tranches may be made, as provided in Section 4.1 of this Indenture Supplement and the Class M Note Purchase Agreement.

(d) 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.

"Administrative Agent" means an "Administrative Agent" as defined in the Class A Note Purchase Agreement or the Class M Note Purchase Agreement, as the context requires.

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

"Aggregate Senior Purchase Limit" means the sum of the Class A Purchase Limit and the Class M Purchase Limit.

"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, Class C 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 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 May 24, 2013.

"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)(viii) and (ix) for the related Distribution 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 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 and Class M Non-Use Fees payable pursuant to clauses 5.4(a)(ii) and (v) and any Class A Additional Amounts and Class M Additional Amounts payable pursuant to clauses 5.4(a)(i) through (vii) each for the related Distribution Period, any Class B Additional Interest 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 Comenity Capital Bank.

"Chapter 11 Plan" means a plan proposed by a Bankrupt Merchant under and in conformance with the provisions of Chapter 11 of Title 11 of the United States Code for restructuring or reorganizing the business of the Bankrupt Merchant.

"Class A Additional Amounts" means Additional Amounts (as defined in the Class A Note Purchase Agreement) payable to the Class A Noteholders pursuant to the Class A Note Purchase Agreement.

"Class A Administrative Agents" means the "Administrative Agents" as defined in the Class A Note Purchase Agreement.

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

"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 and Section 4.1(a) hereof.

"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" means the Class A Non-Use Fee defined in the Class A Note Purchase Agreement.

"Class A Note Purchase Agreement" means the Fourth Amended and Restated Note Purchase Agreement, dated as of the Amendment Date, among Transferor, the Issuer, the Servicer and the initial Class A Noteholders, as supplemented by the various Fee Letters 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 the “Ownership Group” defined in the Class A Note Purchase Agreement.

“Class A Ownership Group Percentage” means the “Ownership Group Percentage” 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 Amendment Date and on or prior to that Business Day, minus (c) the aggregate amount of principal payments made to Class A Noteholders after the Amendment Date and on or prior to such Business Day. 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 Purchase Limit” means the “Purchase Limit” defined in the Class A Note Purchase Agreement.

“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 Senior Percentage” means a percentage equal to the Class A Pro Rata Percentage, divided by the sum of the Class A Pro Rata Percentage and the Class M Pro Rata Percentage.

“Class A Tranche Rate” means, for any Distribution Period, the Class A 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 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 "Maximum Class B Principal Balance" (as defined in the Class B Note Purchase Agreement), 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 0.0%.

"Class B Note Purchase Agreement" means the Second Amended and Restated Note Purchase Agreement, dated as of May 24, 2013, entered into among Comenity Capital Bank, 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-3.

"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 Amendment Date and on or prior to that Business Day, minus (c) the aggregate amount of principal payments made to Class B Noteholders after the Amendment Date and on or prior to such date. As applied to any particular Class B Note, the "Class B Principal Balance" means the portion of the overall 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)(vi) 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 C Additional Interest" is defined in subsection 5.2(d).

"Class C Deficiency Amount" is defined in subsection 5.2(d).

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

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

"Class C Maximum Principal Balance" means the "Maximum Class C Principal Balance" (as defined in the Class C Note Purchase Agreement), as such amount may be increased or decreased from time to time pursuant to the Class C Note Purchase Agreement. As applied to any particular Class C Note, the "Class C Maximum Principal Balance" means the portion of the overall Maximum Principal Balance represented by that Class C Note.

"Class C Monthly Interest" is defined in subsection 5.2(d).

"Class C Monthly Principal" is defined in subsection 5.3(d).

"Class C Note Interest Rate" means 0.0%.

"Class C Note Purchase Agreement" means the Second Amended and Restated Note Purchase Agreement, dated as of May 24, 2013, entered into among Comenity Capital Bank, the Transferor and each party that purchases Class C Notes from the Transferor.

"Class C Noteholder" means the Person in whose name a Class C Note is registered in the Note Register.

"Class C 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-4.

"Class C Principal Balance" means, on any Business Day, an amount equal to the result of (a) $, plus (b) the aggregate amount of all Class C Incremental Principal Balances for all Class C 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 C Noteholders after the Amendment Date and on or prior to such date. As applied to any particular Class C Note, the "Class C Principal Balance" means the portion of the overall Principal Balance represented by that Class C Note.

"Class C Pro Rata Percentage" means %.

"Class M Additional Amounts" means Additional Amounts (as defined in the Class M Note Purchase Agreement) payable to the Class M Noteholders pursuant to the Class M Note Purchase Agreement.

"Class M Administrative Agents" means the "Administrative Agents" as defined in the Class M Note Purchase Agreement.

"Class M Breakage Payment" is defined in subsection 5.2(f).

"Class M Funding Tranche" 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 "Maximum Class M Principal Balance" (as defined in the Class M Note Purchase Agreement), 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 Non-Use Fee" means the Non-Use Fee defined in the Class M Note Purchase Agreement.

"Class M Note Purchase Agreement" means the Third Amended and Restated Class M Note Purchase Agreement, dated as of the Amendment Date, among Transferor, the Issuer, the Servicer and the initial Class M Noteholders party thereto, as supplemented by the various Fee Letters referred to (and defined) therein, and as the same may be amended or otherwise modified from time to time. The Class M Note Purchase Agreement is hereby designated a "Transaction Document" for all purposes of the Agreement and this Indenture Supplement.

"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 Ownership Group" means the "Ownership Group" defined in the Class M Note Purchase Agreement.

"Class M Ownership Group Percentage" means the "Ownership Group Percentage" defined in the Class M Note Purchase Agreement.

"Class M Ownership Tranche" is defined in subsection 1.1(c).

"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 date. As applied to any particular Class M Note, the "Class M Principal Balance" means the portion of the overall Principal Balance represented by that Class M Note.

"Class M Pro Rata Percentage" means %.

"Class M Purchase Limit" means the "Purchase Limit" defined in the Class M Note Purchase Agreement.

"Class M Required Amount" means, for any Distribution Date, an amount equal to the excess of the amount described in clauses 5.4(a)(iv) and (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).

"Class M Scheduled Final Payment Date" means the Distribution Date falling in the twelfth month following the month in which the Controlled Amortization Period begins.

"Class M Senior Percentage" means a percentage equal to the Class M Pro Rata Percentage, divided by the sum of the Class A Pro Rata Percentage and the Class M Pro Rata Percentage

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

"Closing Date" means September 28, 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)(ix) prior to such date.

"Comenity Capital Bank" means Comenity Capital Bank, a Utah industrial bank, formerly known as World Financial Capital Bank.

"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 first day of the first Monthly Period that occurs on or after the Purchase Expiration Date under the Class A Note Purchase Agreement or Class M Note Purchase Agreement.

"Controlled Amortization Period" means, unless a Series 2009-VFN Early Amortization Event or a Trust Early Amortization Event shall have occurred prior thereto, the period commencing at the opening 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 2 Business Days' prior 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, the amount distributed pursuant to subsection 6.2(c) with respect to the Class B Notes for the previous Monthly Period and the amount distributed pursuant to subsection 6.2(d) with respect to the Class C 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 Ownership Tranche or Class M Funding Tranche, any Class B Note or any Class C 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 Ownership Tranche or Class M Funding Tranche, Class B Note or Class C 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 Comenity Capital Bank 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 LIBOR Page" means Reuters Screen LIBOR01 page or such other page as may replace such page on that service or other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates of U.S. dollar deposits.

"Designated Maturity" means, for any LIBOR Determination Date, one month.

"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 15th 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 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.

"Fixed Allocation Period" means either a Controlled Amortization Period or an Early Amortization Period.

"Group One" means Series 2009-VFN and each other Series specified in the related Indenture Supplement to be included in Group One.

"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 3.8(a) of the Transfer and Servicing Agreement but has not been made, provided that, to the extent 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 5.12.

"LIBOR Determination Date" means (i) September 26, 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.

"Mandatory Limited Amortization Amount" means, for any Transfer Date with respect to the Mandatory Limited Amortization Period (beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Mandatory Limited Amortization Period begins) and the Transfer Date in the Monthly Period in which the Controlled Amortization Period commences (unless the Non-Renewing Purchaser Principal Balance shall have been reduced to zero prior to such date), the lesser of (a) the Non-Renewing Purchaser Principal Balance as of the Mandatory Limited Amortization Date, divided by 12 (with the quotient rounded up to the nearest dollar) and (b) the excess of the Non-Renewing Purchaser Principal Balance over the Mandatory Limited Amortization Target.

"Mandatory Limited Amortization Date" means, the Purchase Expiration Date (without giving effect to a requested extension) but only if all of the following have occurred: (x) the Transferor has requested an extension of such Purchase Expiration Date, (y) there are one or more Non-Renewing Ownership Groups and (z) the Issuer has not repaid the outstanding Non-Renewing Purchaser Principal Balance on or prior to the related Purchase Expiration Date (without giving effect to the requested extension).

"Mandatory Limited Amortization Period" means the period commencing on the first day of the first Monthly Period that commences on or after the Mandatory Limited Amortization Date and ending the earliest to occur of (x) the payment in full of the Non-Renewing Purchaser Principal Balance, (y) the commencement of the Controlled Amortization Period or the Early Amortization Period and (z) the Series Termination Date.

"Mandatory Limited Amortization Shortfall" means, with respect to any Payment Date, the excess, if any, of (a) the Mandatory Limited Payment Amount for the preceding Payment Date over (b) the amounts paid pursuant to Section 5.4(b) with respect to Class A Monthly Principal and Class B Monthly Principal.

"Mandatory Limited Amortization Target" means, with respect to any Transfer Date, (a) the Non-Renewing Purchaser Principal Balance as of the Mandatory Limited Amortization Date less (b) the product (rounded up to the nearest dollar) of (i) a fraction, the numerator of which is the number of full Monthly Periods that have elapsed during the Mandatory Limited Amortization Period as of such Transfer Date (which, for the avoidance of doubt, shall exclude the Monthly Period in which such Transfer Date falls), and the denominator of which is 12 and (ii) the Non-Renewing Purchaser Principal Balance as of the Mandatory Limited Amortization Date.

"Mandatory Limited Payment Amount" means, with respect to any Transfer Date with respect to the Mandatory Limited Amortization Period, beginning with the Payment Date in the Monthly Period immediately following the Monthly Period in which the Mandatory Limited Amortization Period begins, and the Transfer Date in the Monthly Period in which the Controlled Amortization Period commences (unless the Non-Renewing Purchaser Principal Balance shall have been reduced to zero prior to such date), the sum of (a) the Mandatory Limited Amortization Amount for such Payment Date, plus (b) any existing Mandatory Limited Amortization Shortfall.

"Maximum Principal Balance" means the sum of (a) the Class A Maximum Principal Balance, (b) the Class M Maximum Principal Balance, (c) the Class B Maximum Principal Balance and (d) the Class C Maximum Principal Balance.

"Monthly Interest" means, for any Distribution Date, the sum of the Class A Monthly Interest, the Class M Monthly Interest, the Class B Monthly Interest and the Class C 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, the Class B Monthly Principal and the Class C 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 Class A Required Amount and (ii) the greater of (A)(x) the sum of the Class M Principal Balance, the Class B Principal Balance and the Class C Principal Balance minus (y) the sum of (I) the amount of unreimbursed Investor Charge-Offs (after giving effect to

Investor Charge-Offs for the related Monthly Period) and (II) unreimbursed Reallocated Principal Collections (as of the previous Distribution Date) and (B) zero; and

(b) the lesser of (i) the Class M Required Amount and (ii) the greater of (A)(x) the sum of the Class B Principal Balance and the Class C Principal Balance minus (y) the sum of (I) the amount of unreimbursed Investor Charge-Offs (after giving effect to Investor Charge-Offs for the related Monthly Period) and (II) unreimbursed Reallocated Principal Collections (as of the previous Distribution Date and as required in clause (a) above for the current Monthly Period) and (B) zero; and

(c) the lesser of (i) the Class B Required Amount and (ii) the greater of (A)(x) the Class C Principal Balance minus (y) the sum of (I) the amount of unreimbursed Investor Charge-Offs (after giving effect to Investor Charge-Offs for the related Monthly Period) and (II) unreimbursed Reallocated Principal Collections (as of the previous Distribution Date and as required in clauses (a) and (b) above for the current Monthly Period) and (B) zero.

"Non-Renewing Ownership Group" means, commencing on the related Mandatory Limited Amortization Date, any Class A Ownership Group or Class M Ownership Group that has not consented to the extension of the Purchase Expiration Date when requested as described in the Class A Note Purchase Agreement or Class M Note Purchase Agreement, as applicable.

"Non-Renewing Purchaser Class A Principal Balance" means the outstanding principal balance of the Class A Notes allocated to Non-Renewing Ownership Groups.

"Non-Renewing Purchaser Class M Principal Balance" means the outstanding principal balance of the Class M Notes allocated to Non-Renewing Ownership Groups.

"Non-Renewing Purchaser Principal Balance" means the sum of the Non-Renewing Purchaser Class A Principal Balance, plus the Non-Renewing Purchaser Class M Principal Balance.

"Non-Renewing Purchaser Scheduled Distribution Date" means the Distribution Date falling in the twelfth month following the month in which the Mandatory Limited Amortization Period begins.

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

"Note Purchase Agreements" means the Class A Note Purchase Agreement, the Class M Note Purchase Agreement, the Class B Note Purchase Agreement and the Class C 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 subsection 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.

"Purchase Expiration Date" has the meaning specified in the Class A Note Purchase Agreement or the Class M Note Purchase Agreement, as applicable.

"Purchaser" means a "Purchaser" as defined in the Class A Note Purchase Agreement or the Class M Note Purchase Agreement, as the context requires.

"Quarterly Excess Spread Percentage" means (a) with respect to the November 2009 Distribution Date, the Excess Spread Percentage for such Distribution Date, (b) with respect to the December 2009 Distribution Date, the percentage equivalent of a fraction the numerator of which is the sum of (i) the Excess Spread Percentage for the November 2009 Distribution Date and (ii) the Excess Spread Percentage with respect to the December 2009 Distribution Date and the denominator of which is two, (c) with respect to the January 2010 Distribution Date, the percentage equivalent of a fraction the numerator of which is the sum of (i) the Excess Spread Percentage for the November 2009 Distribution Date (ii) the Excess Spread Percentage with respect to the December 2009 Distribution Date and (iii) the Excess Spread Percentage with respect to the January 2010 Distribution Date and the denominator of which is three and (d) with respect to the February 2010 Distribution Date and each Distribution Date thereafter, the percentage equivalent of a fraction the numerator of which is the sum of the Excess Spread Percentages determined with respect to such Distribution Date and the immediately preceding two Distribution Dates and the denominator of which is three.

"Quarterly Payment Rate Percentage" means, with respect to any Distribution Date, the percentage equivalent of a fraction, the numerator of which is the sum of the Payment Rate Percentages determined with respect to such Distribution Date and the immediately preceding two Distribution Dates, and the denominator of which is three. For purposes of the foregoing calculation, the "Payment Rate Percentage" for any Distribution Date shall equal the percentage equivalent of a faction, the numerator which is the aggregate Collections received during the immediately preceding Monthly Period, and the denominator of which is the total Principal Receivables held by the Trust as of the opening of business on the first day of such immediately preceding Monthly Period.

"Rating Agency" means, with respect to the Class A Notes, the Class M Notes and the Class B Notes, each of Fitch and DBRS.

"Rating Agency Condition" means, with respect to Series 2009-VFN and any action subject to such condition, (i) if any Class of Series 2009-VFN Notes is rated by a Rating Agency designated for such Class other than Fitch, the notification in writing by each Rating Agency (other than Fitch) to Servicer that such action will not result in the Rating Agency reducing or withdrawing its then existing rating of such Class of Series 2009-VFN Notes, (ii) if Fitch is a Rating Agency for any Class of Series 2009-VFN Notes, 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 and (iii) if there are no Rating Agencies designated for any Class of Series 2009-VFN Notes, the consent of the holders of Series 2009-VFN Notes holding 66 2/3% of the Note Principal Balance of the Series 2009-VFN Notes which are not rated by a Rating Agency.

"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 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 (iv) the amount of Class C Additional Interest, if any, for the related Distribution Date and any Class C 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 and Class M Non-Use Fees, if any, for the related Distribution Date and any Class A Non-Use Fees and Class M Non-Use Fees previously due but not distributed to the Series 2009-VFN Noteholders on a prior Distribution Date, plus (vi) the amount of Class A Additional Amounts and Class M Additional Amounts, if any, for the related Distribution Date and any Class A Additional Amounts and Class M 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).

"Related Class A Ownership Group" means, with respect to any Administrative Agent for, or any Purchaser in, a Class M Ownership Group, any Class A Ownership Group that also includes such Administrative Agent or Purchaser.

"Related Class M Ownership Group" means, with respect to any Administrative Agent for, or any Purchaser in, a Class A Ownership Group, any Class M Ownership Group that also includes such Administrative Agent or Purchaser.

"Required Cash Collateral Amount" means, as of any Determination Date, an amount equal to the excess of (i) the total Principal Receivables outstanding relating to Bankrupt Merchants as of the end of the related Monthly Period over (ii) the product of (A) 20.0% and (B) the total Principal Receivables as of the end of the related Monthly Period.

"Required Cash Collateral Amount Trigger Date" means the date on which the Required Cash Collateral Amount shall first become an amount greater than zero.

"Required Class B Principal Balance" means, as of any date of determination, the product of the Class B Pro Rata Percentage times the Note Principal Balance.

"Required Class C Principal Balance" means, as of any date of determination, the product of the Class C Pro Rata Percentage times the Note Principal Balance.

"Required Class M Principal Balance" means, as of any date of determination, the product of 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, 8.0%.

"Reset Date" means:

(a) each Addition Date relating to Supplemental Accounts;

(b) each Removal Date on which, if any Series of Notes has been paid in full, Principal Receivables equal to the initial Collateral Amount or initial principal balance for that Series are removed from the Issuer;

(c) each date on which there is an increase in the outstanding balance of any Variable Interest; and

(d) each date on which a new Series or Class of Notes is issued.

"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. For the avoidance of doubt, the Revolving Period shall not terminate upon the commencement of a Mandatory Limited Amortization Period; provided that for purposes of Section 8.5 of the Master Indenture, the Mandatory Limited Amortization Period shall be deemed to be an Amortization Period.

"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, a Class B Note or a Class C Note.

"Series 2009-VFN Noteholder" means a Class A Noteholder, a Class M Noteholder, a Class B Noteholder or a Class C Noteholder.

"Series Account" means, (a) with respect to Series 2009-VFN, the Finance Charge Account, the Principal Account, the Distribution Account and the Cash Collateral 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 2.0% per annum.

"Series Termination Date" means the earliest to occur of (a) the Distribution Date falling in a Fixed Allocation Period on which the Collateral Amount is paid in full, (b) the termination of the Trust pursuant to the Agreement, (c) the Distribution Date on or closest to the date falling 46 months after the commencement of the Early Amortization Period and (d) the Distribution Date on or closest to the date falling 58 months after the commencement of the Controlled Amortization Period.

"Specified Transferor Amount" means, as of any date of determination, the Minimum Transferor Amount as of such date of determination.

"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 Class M Principal Balance" means, as to any Class M Ownership Tranche (or Class M Funding Tranche) for any Distribution Period, the quotient of (a) the summation of the portion of the Class M Principal Balance allocated to that Class M Ownership Tranche (or Class M 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 M Ownership Tranche or Class M 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 Indenture, or, if not defined therein, in the Class Note Purchase Agreements or the Class M Note Purchase Agreement, as the context may require.

(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 33/360 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.

ARTICLE IV.

Variable Funding Mechanics

Section 4.1 Variable Funding Mechanics

(a) Class A Incremental Fundings. From time to time during the Revolving Period and prior to the Purchase Expiration Date, Transferor and Servicer may notify one or more Class A Administrative Agents 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 Group(s) on the next or any subsequent Business Day by delivering a Notice of Incremental Funding (as defined in the Class A Note Purchase Agreement) executed by Transferor and Servicer to the Class A Administrative Agent for each such Class A Ownership Group, specifying the amount of such Class A Incremental Funding and the Business Day upon which such Class A Incremental Funding is to occur, provided that a Class A Incremental Funding shall not be requested from a Class A Administrative Agent for an Ownership Group that is a Non-Renewing Ownership Group if the Incremental Funding would occur on or after the Purchase Expiration Date (without giving effect to any requested extension of the Purchase Expiration to which the related Non-Renewing Ownership Group did not consent). The amount of Class A Incremental Funding allocated to each Class A Ownership Group, together with the amount of the Class M Incremental Funding allocated to the Related Class M Ownership Group to be made on the same date, shall be a minimum amount of $1,000,000 or a higher integral multiple thereof for each Class A Ownership Group and the Related Class M 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. For each Class A Incremental Funding, the Class A Principal Balance shall increase in an amount equal to the Class A Incremental Principal Balance. 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, the Class B Noteholders, the Class C Noteholders, the Class A Administrative Agents for affected Class A Ownership Groups and the Class M Administrative Agents for affected Class M Ownership Groups (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, the Class B Notes and the Class C 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, the Class B Notes and the Class C Notes, based on the Class A Pro Rata Percentage, the Class M Pro Rata Percentage, the Class B Pro Rata Percentage and the Class C Pro Rata Percentage, respectively; provided that if as a result of the payment of a Mandatory Limited Payment Amount, the Class B Principal Balance exceeds the Required Class B Principal Balance or the Class C Principal Balance exceeds the Required Class C Principal Balance, the Optional Amortization Amount may be allocated on a non-pro rata basis among the Classes of Series 2009-VFN Notes in order to reduce the Class B Principal Balance to an amount not less than the Required Class B Principal Balance and to reduce the Class C Principal Balance to an amount not less than the Required Class C Principal Balance. The portion of the Optional Amortization Amount allocated to any Class A Ownership Group and the Related Class M 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 and that the Optional Amortization Amount allocated to any Class M Ownership Group may equal the entire Principal Balance of the related Class M Note for such Class M 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, Class A Ownership Groups and Class M Ownership Groups; provided that if the Administrative Agent for, or any Purchaser in, a Class A Ownership Group to which a portion of the Optional Amortization Amount is allocated is also the Administrative Agent for, or a Purchaser in, a Related Class M Ownership Group, then a corresponding portion of the Optional Amortization Amount must be allocated to the Related Class M Ownership Group so that the proportion of the Class A Principal Amount funded by such Class A Ownership Group to the Class M Principal Balance funded by the Related Class M Ownership Group would not change as a result of the allocation of the Optional Amortization Amount. The Optional Amortization Amount shall be paid from Shared Principal Collections pursuant to Section 8.5 of the Master Indenture and Section 5.8. Accrued interest and any Class A Additional Amounts, payable to each affected Class A Ownership Group shall be payable on the first Distribution Date on or after the related Optional Amortization Date. Accrued interest and any Class M Additional Amounts, payable to each affected Class M Ownership Group 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 in 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 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, Class M Non-Use Fees, Class A Additional Amounts and Class M 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 a *pro rata* basis in accordance with the Class A Pro Rata Percentage, Class M Pro Rata Percentage, Class B Pro Rata Percentage and Class C Pro Rata Percentage and, with respect to the Class A Notes, based on the Class A Ownership Group Percentage for each Class A Ownership Group and with respect to the Class M Notes, based on the Class A Ownership Group Percentage for each Class M Ownership Group, on the Refinancing Date in accordance with the terms of this Indenture Supplement and the Indenture; provided that after giving effect to 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, (ii) the Class B Principal Balance shall not be less than the Required Class B Principal Balance, and (iii) the Class C Principal Balance shall not be less than the Required Class C Principal Balance.

(d) Class M Incremental Fundings. From time to time during the Revolving Period and prior to the Purchase Expiration Date, Transferor and Servicer may notify one or more Class M Administrative Agents that a Class M Incremental Funding will occur, subject to the conditions of the Class M Note Purchase Agreement, with respect to the related Class M Ownership Group(s) on the next or any subsequent Business Day by delivering a Notice of Incremental Funding (as defined in the Class M Note Purchase Agreement) executed by Transferor and Servicer to the Class M Administrative Agent for each such Class M Ownership Group, specifying the amount of such Class M Incremental Funding and the Business Day upon which such Class M Incremental Funding is to occur; provided that a Class M Incremental Funding shall not be requested from a Class M Administrative Agent for an Ownership Group that is a Non-Renewing Ownership Group if the Incremental Funding would occur on or after the Purchase Expiration Date (without giving effect to any requested extension of the Purchase Expiration to which the related Non-Renewing Ownership Group did not consent). The amount of Class M Incremental Funding allocated to each Class M Ownership Group, together with the amount of the Class A Incremental Funding allocated to the related Class A Ownership Group to be made on the same date, shall be a minimum amount of $1,000,000 or a higher integral multiple thereof for each Class M Ownership Group and the Related Class A Ownership Group, except that a Class M Incremental Funding may be requested in the entire remaining Class M Purchase Limit of the Related Class M Ownership Group. 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. For each Class M Incremental Funding, the Class M Principal Balance shall increase in an amount equal to the Class M Incremental Principal Balance. The increase in the Class M Principal Balance shall be allocated to the Class M Notes held by the Class M Noteholders from which purchase prices were received in connection with the Class M Incremental Funding in proportion to the amount of such purchase prices received.

(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 Interest Holder, specifying the amount of such Class B Incremental Funding and the Business Day upon which such 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.

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

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 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 Class M Non-Use Fee, if any, (C) the Class A Additional Amounts and the Class M Additional Amounts, if any, (D) if Comenity Capital Bank is not the Servicer, the Noteholder Servicing Fee (and if Comenity Capital Bank is the Servicer, then amounts that otherwise would have been transferred into the Finance Charge Account pursuant to this clause (D) shall instead by returned to Comenity Capital Bank as payment of the Noteholder Servicing Fee), (E) any amount required to be deposited in the Cash Collateral Account on the related Transfer Date and (F) 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 zero 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)(viii) and (ix) 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 and notwithstanding the provisions of Section 8.4(a) of the Indenture: (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*, retained in the Principal Account to the extent necessary, to pay the Mandatory Limited Payment Amount on the related Distribution Date, *second*, 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 for other Principal Sharing Series on the related Distribution Date, *third*, retained in the Principal Account, to the extent necessary, to pay any Optional Amortization Amount on the related Optional Amortization Date, *fourth*, deposited in the Excess Funding Account to the extent necessary so that

the Transferor Amount is not less than the Minimum Transferor Amount and *fifth*, 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*, retained in the Principal Account to pay any Optional Amortization Amount on the related Optional Amortization Date, *third*, deposited in the Excess Funding Account to the extent necessary so that the Transferor Amount is not less than the Minimum Transferor Amount and *fourth*, 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 Minimum Transferor Amount and third paid to the holders of the Transferor Interest.

(c) During any period when Servicer is permitted by 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 Comenity Capital Bank is Servicer, to 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 8.5 of the Indenture)).

(d) On any date, Servicer may direct the Indenture Trustee to 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. 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 Class A 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) Pursuant to the Class M Note Purchase Agreement, certain Class M Ownership Tranches may from time to time be divided into one or more subdivisions (each, as further specified in the Class M Note Purchase Agreement, a "Class M Funding Tranche") which will accrue interest on different bases. 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 aggregate amount of interest that accrued over that Distribution Period on each Class M Funding Tranche (plus the aggregate amount of interest that accrued over any prior Distribution Period on any Class M 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 M 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 Class M Administrative Agents pursuant to the Class M Note Purchase Agreement including estimates of the interest to accrue on any Class M Funding Tranche through the related Distribution Date. The interest accrued on any Class M Ownership Tranche (or related Class M Funding Tranche) for any Distribution Period shall be determined using the applicable Class M Tranche Rate and shall equal the product of (x) the Weighted Average Class M Principal Balance for that Class M Ownership Tranche (or Class M Funding Tranche), (y) the applicable Class M Tranche Rate and (z) the applicable Day Count Fraction.

(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) The amount of monthly interest ("Class C Monthly Interest") distributable from the Distribution Account with respect to the Class C 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 C Note Interest Rate in effect with respect to the related Distribution Period and (ii) the average Class C 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 C Deficiency Amount"), of (x) the aggregate amount accrued pursuant to this subsection 5.2(d) 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 C Deficiency Amount for any Distribution Date is greater than zero, on each subsequent Distribution Date until such Class C Deficiency Amount is fully paid, an additional amount ("Class C 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 C Note Interest Rate in effect with respect to the related Distribution Period and (ii) such Class C Deficiency Amount (or the portion thereof which has not been paid to the Class C Noteholders) shall be payable as provided herein with respect to the Class C Notes. Notwithstanding anything to the contrary herein, Class C Additional Interest shall be payable or distributed to the Class C Noteholders only to the extent permitted by applicable law.

(e) If any distribution of principal is made with respect to any Class A Funding Tranche funded through the issuance of commercial paper notes or accruing interest based on LIBOR other than on (i) the day on which the related funding source, to the extent subject to a contracted maturity date, matures or (ii) a Distribution Date, or if the Class A Principal Balance 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 Series 2009-VFN Noteholder, and in either case (i) the interest paid by the Class A Noteholder 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 Noteholder through the related Distribution Date (or, if earlier, the maturity date for the related funding source) 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 Noteholder 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 Noteholder to Servicer, such Class A Noteholder 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 Class A 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 Noteholder later than noon, New York City time, on any day shall be deemed to have been received on the next day.

(f) If any distribution of principal is made with respect to any Class M Funding Tranche funded through the issuance of commercial paper notes or accruing interest based on LIBOR other than on (i) the day on which the related funding source, to the extent subject to a contracted maturity date, matures or (ii) a Distribution Date, or if the Class M Principal Balance of any Class M Ownership Tranche is reduced by an Optional Amortization Amount in an amount greater than the amount (if any) specified in the Class M Note Purchase Agreement with respect to that Class M Ownership Tranche without the applicable number (as specified in the Class M Note Purchase Agreement) of Business Days' prior notice to the affected Series 2009-VFN Noteholder, and in either case (i) the interest paid by the Class M Noteholder holding that Class M Funding Tranche to providers of funds to it to fund that Class M Funding Tranche exceeds (ii) returns earned by that Class M Noteholder through the related Distribution Date (or, if earlier, the maturity date for the related funding source) 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 M Noteholder with knowledge of and responsibility for such matters and shall set forth in reasonable detail the basis for requesting the amounts) from such Class M Noteholder to Servicer, such Class M Noteholder shall be entitled to receive additional amounts in the amount of such excess (each, a "Class M Breakage Payment") on the Distribution Date on or after the date such distribution of principal is made with respect to that Class M

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 M Noteholder 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, Class B Monthly Principal and Class C 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, (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 and (iii) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Mandatory Limited Amortization Period begins and ending on the Transfer Date in 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 (x) the Class A Senior Percentage of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (y) prior to the Non-Renewing Purchaser Scheduled Distribution Date, the Class A Senior Percentage of the Mandatory Limited Payment Amount for such Transfer Date, and (z) the Non-Renewing Purchaser 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, (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 the Class A Monthly Principal), and (z) the Class M Principal Balance and (iii) on each Transfer Date, beginning with the Transfer Date in the Monthly Period following the Monthly Period in which the Mandatory Limited Amortization Period and ending on the Transfer Date in 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 (x) the Class M Senior Percentage of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (y) prior to the Non-Renewing Purchaser Scheduled Distribution Date, the Class M Percentage of the Mandatory Limited Payment Amount for such Transfer Date, and (z) the Non-Renewing Purchaser 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 Class A Monthly Principal and Class M Monthly Principal), and (z) the Class B Principal Balance.

(d) The amount of monthly principal (the "Class C Monthly Principal") to be transferred from the Principal Account with respect to the Class C 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 C Pro Rata Percentage of the Available Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (x) the Class C 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, Class M Monthly Principal and Class B Monthly Principal), and (z) the Class C 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, Class M Monthly Principal and Class B Monthly Principal, (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, Class M Monthly Principal and Class B Monthly Principal), and (z) the Class C 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 and an amount equal to the Class A Additional Amounts, if any, for the related Distribution Period plus any Class A 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; provided, that the amounts distributed pursuant to this clause 5.4(a)(ii) shall not exceed 0.50% of the Weighted Average Collateral Amount over the Distribution Period;

(iii) 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;

(iv) an amount equal to the unpaid Class M Monthly Interest for such Distribution Date shall be deposited by Servicer or the Indenture Trustee into the

Distribution Account for distribution to the Class M Noteholders in accordance with Section 6.2;

(v) an amount equal to the unpaid Class M Non-Use Fee, if any, not paid by the Transferor pursuant to the Class M Note Purchase Agreement for the related Distribution Period plus any Class M Non-Use Fee due but not paid to the Class M Noteholders on any prior Distribution Date and an amount equal to the Class M Additional Amounts, if any, for the related Distribution Period plus any Class M Additional Amounts due but not paid to the Class M Noteholders on any prior Distribution Date shall be deposited by Servicer or the Indenture Trustee into the Distribution Account for distribution to the Class M Noteholders in accordance with Section 6.2; provided, that the amounts distributed pursuant to this clause 5.4(a)(v) shall not exceed 0.50% of the Weighted Average Collateral Amount over the Distribution Period;

(vi) 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;

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

(viii) 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 to the extent needed to pay Monthly Principal on the related Distribution Date;

(ix) 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 (ix) 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 to the extent needed to pay Monthly Principal on the related Distribution Date;

(x) 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;

(xi) any amounts not distributed pursuant to clause 5.4(a)(ii) because of the proviso in such clause shall be withdrawn from the Finance Charge Account and deposited into the Distribution Account for distribution to the Class A Noteholders;

(xii) any amounts not distributed pursuant to clause 5.4(a)(v) because of the proviso in such clause shall be withdrawn from the Finance Charge Account and deposited into the Distribution Account for distribution to the Class M Noteholders; and

(xiii) 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; provided, however, during any Mandatory Limited Amortization Period and on the Non-Renewing Purchaser Scheduled Distribution Date, 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 shall be deposited into the Distribution Account on such Transfer Date for payment to the Class A Noteholders in each Class A Ownership Group that is a Non-Renewing Ownership Group, on a pro rata basis, until the Non-Renewing Purchaser Class A Principal Balance has been reduced to zero;

(ii) an amount equal to the Class M Monthly Principal shall be deposited into the Distribution Account on such Transfer Date for payment to the Class M Noteholders in each Class M Ownership Group that is a Non-Renewing Ownership Group, on a pro rata basis, until the Non-Renewing Purchaser Class M Principal Balance has been reduced to zero; and

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

(c) On each Transfer Date following any Monthly Period during 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 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 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 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 B Noteholders on the related Distribution Date until the Class B Principal Balance has been paid in full;

(iv) an amount equal to the Class C 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 C Noteholders on the related Distribution Date until the Class C Principal Balance has been paid in full; and

(v) 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), (ii) and (xi) 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)(iv),(v) and (xii) on the preceding Transfer Date, to the Class B Noteholders from the Distribution Account, the amount deposited into the Distribution Account pursuant to clauses 5.4(a)(vi) on the preceding Transfer Date and to the Class C Noteholders from the Distribution Account, the amount deposited into the Distribution Account pursuant to clause 5.4(a)(vii).

(e) Notwithstanding anything to the contrary contained in this Section 5.4, on the date hereof, accrued interest on the Class A Note and Class M Note held by Deutsche Bank AG, New York Branch shall be payable to Deutsche Bank AG, New York Branch, as Class A Administrative Agent and Class M Administrative Agent, respectively. The Servicer shall instruct the Indenture Trustee to withdraw funds from the Finance Charge Account on the date hereof in an amount equal to all interest accrued on the Class A Note and Class M Note held by Deutsche Bank AG, New York Branch through (but excluding) the date hereof and to pay such amount to Deutsche Bank AG, New York Branch.

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, Investor 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 (vi) after giving effect to any withdrawal from the Cash Collateral 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. 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 (xii) 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 8.5 of the Indenture, Shared Principal Collections allocable to Series 2009-VFN on any Transfer Date shall equal the product of (i) the aggregate amount of Shared Principal Collections with respect to all Principal Sharing Series for such Transfer Date and (ii) 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. The "Principal Shortfall" for Series 2009-VFN for any Transfer Date shall equal, the excess, if any, of the sum, without duplication, of any Mandatory Limited Payment Amount, Optional Amortization Amounts, Class A Monthly Principal, Class M Monthly Principal, Class B Monthly Principal and Class C 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 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 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 Servicer shall give a written standing instruction for such investments, and amounts in such accounts will not be invested if the Servicer fails to give such instructions to the Indenture Trustee.

(c) Section 6.14 of the Indenture shall apply to the Series Accounts.

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. The Servicer shall give a written standing instruction for such investments, and amounts in such account will not be invested if the Servicer fails to give such instructions to the Indenture Trustee. 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.

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 (viii) 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, the Servicer shall direct the Indenture Trustee in writing to withdraw from the Cash Collateral Account and distributed to fund any deficiency pursuant to clauses 5.4(a)(i) through (viii) (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 distribute such amounts remaining after application pursuant to subsection 5.10(c) to the Transferor.

Section 5.11 Investment Instructions. Any investment instructions required to be given to the Indenture Trustee pursuant to the terms hereof must be given in the form of a written standing instruction 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. If investment instructions are not given with respect to funds in any Accounts, such funds shall remain uninvested until instructions are delivered to the Indenture Trustee in accordance with the terms hereof.

Section 5.12 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 the Designated LIBOR Page as of 11:00 a.m., London time, on such date. If such rate does not appear on the Designated LIBOR Page, 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. LIBOR for the first Distribution Period will be determined by straight-line interpolation, based on the actual number of days in such Distribution Period from the date of the initial Class A Incremental Funding to but excluding November 16, 2009, between two rates determined in accordance with the preceding paragraph, one of which will be determined for a maturity of one month and one of which will be determined for a maturity of two months.

(b) LIBOR that may be 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 (800) 934-6802 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 or electronic mail, 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 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 portion (determined in accordance with 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 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) On each Distribution Date, the Indenture Trustee shall distribute to each Class C Noteholder of record on the related Record Date (other than as provided in Section 11.2 of the Indenture) such Class C 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 C Noteholders pursuant to this Indenture Supplement.

(e) On each Distribution Date, if a shortfall in the amount of Available Finance Charge Collections available for distribution in accordance with any payment priority in clauses 5.4(a)(i), (ii) and (xi) exists, the Available Finance Charge Collections for such payment priority shall be allocated (a) ratably to each Class A Ownership Group based on its respective Class A Ownership Group Percentage and (b) any Available Finance Charge Collections allocated pursuant to clause (a) to any Class A Ownership Group in excess of the amount owed to such Class A Ownership Group for the related payment priority shall be reallocated to each Class A Ownership Group that has a remaining shortfall in the Available Finance Charge Collections allocated to it pursuant to clause (a) in order to cover the amount owed to such Class A Ownership Group for the related payment priority, which reallocation shall be made ratably in accordance with the portion of the Note Principal Balances of all remaining Class A Ownership Groups represented by the Note Principal Balance of each such remaining Class A Ownership Group.

(f) On each Distribution Date, if a shortfall in the amount of Available Finance Charge Collections available for distribution in accordance with any payment priority in clauses 5.4(a)(iv), (v) and (xii) exists, the Available Finance Charge Collections for such payment priority shall be allocated (a) ratably to each Class M Ownership Group based on its respective Class M Ownership Group Percentage and (b) any Available Finance Charge Collections allocated pursuant to clause (a) to any Class M Ownership Group in excess of the amount owed to such Class M Ownership Group for the related payment priority shall be reallocated to each Class M Ownership Group that has a remaining shortfall in the Available Finance Charge Collections allocated to it pursuant to clause (a) in order to cover the amount owed to such Class M Ownership Group for the related payment priority, which reallocation shall be made ratably in accordance with the portion of the Note Principal Balances of all remaining Class M Ownership Groups represented by the Note Principal Balance of each such remaining Class M Ownership Group.

(g) 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.

(h) 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 make available to each Series 2009-VFN Noteholder via its website (www.usbank.com/abs) 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 and the Indenture Trustee (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.

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 Issuer (i) to make any payment or deposit required to be made by it by the terms of the Transfer and Servicing Agreement, the Class A Note Purchase Agreement, the Class M 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 Class M Note Purchase 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 Issuer, in the Transfer and Servicing Agreement, the Class A Note Purchase Agreement, the Class M Note Purchase Agreement, the Indenture or the Indenture Supplement 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 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 7.1(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;

(c) as of any date of determination, the Quarterly Excess Spread Percentage is less than 2%;

(d) a failure by Transferor 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, 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 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 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 Note Principal Balance shall not be paid in full on the Class A Scheduled Final Payment Date or the Non-Renewing Purchaser Class A Principal Balance shall not be paid in full on the Non-Renewing Purchaser Scheduled Distribution Date;

(g) the Class M Note Principal Balance shall not be paid in full on the Class M Scheduled Final Payment Date or the Non-Renewing Purchaser Class M Principal Balance shall not be paid in full on the Non-Renewing Purchaser Scheduled Distribution Date;

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

(i) as of any date of determination, the Quarterly Payment Rate Percentage shall be less than 8.0%;

(j) a Change in Control has occurred;

(k) as on any Determination Date, 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 8.0%;

(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 Comenity Capital Bank, which lien shall secure a liability in excess of $10,000,000 and shall not have been released within 40 days; or

(m) a default shall have occurred and be continuing under any instrument or agreement evidencing or securing indebtedness for borrowed money of Comenity Capital Bank 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), (k), (l) or (m) of this Indenture Supplement, after the applicable grace period set forth in such Sections, two or more Holders of Outstanding Series 2009-VFN Notes evidencing undivided interests aggregating more than 50% of the Aggregate Senior Purchase Limit of this Series 2009-VFN by notice then given in writing to Transferor and Servicer (and to the Indenture Trustee if given by the Holders) may, and the Indenture Trustee at the direction of such Holders shall, declare that an early amortization event (a "Series 2009-VFN 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), (g), (h), (i), (j) or (n) of this Indenture Supplement, a Series 2009-VFN 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 or a Trust Early Amortization Event, from and after the occurrence of any Series 2009-VFN Early Amortization Event or a Trust 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 Approved Portfolios, Transferor shall no longer permit or require Merchant Adjustment Payments 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 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 and (y) 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) (1) 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, will be distributed to the Class A Noteholders, (C) Class A Non-Use Fees, if any, due and payable to the Class A Noteholders 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) Class M Non-Use Fees, if any, due and payable to the Class M Noteholders on such Distribution Date or any prior Distribution Date and (C) 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 and (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, will be distributed to the Class B Noteholders on such Distribution Date, (iv) (x) the Class C Principal Balance on such Distribution Date will be distributed to the Class C Noteholders and (y) an amount equal to the sum of (A) Class C Monthly Interest for such Distribution Date, (B) any Class C Deficiency Amount for such Distribution Date and (C) the amount of Class C Additional Interest, if any, for such Distribution Date and any Class C Additional Interest previously due but not distributed to the Class C Noteholders on any prior Distribution Date, will be distributed to the Class C Noteholders, and (v) 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.

Section 9.2 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 9.3 Notices. Any required notice shall be made to the addresses specified in the applicable Note Purchase Agreement with respect to the Series 2009-VFN Noteholders.

Section 9.4 Form of Delivery of the Series 2009-VFN Notes. The Class A Notes, the Class M Notes, the Class B Notes and the Class C Notes shall be Definitive Notes and initially shall be registered in the Note Register in the name of the initial purchasers of such Notes identified in the Note Purchase Agreements.

Section 9.5 GOVERNING LAW. THIS INDENTURE SUPPLEMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW), 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 BNY Mellon Trust of Delaware, not in its individual capacity, but solely in its capacity as Owner Trustee of the Trust. Nothing herein contained shall be construed as creating any liability on BNY Mellon Trust of Delaware, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any person claiming by, through or under the parties hereto, and in no event shall BNY Mellon Trust of Delaware 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 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) if the percentage equivalent of a fraction (A) the numerator of which is the total Principal Receivables relating to any one Merchant (other than Blair Corporation, Home Shopping Network 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 12.5%, the Transferor shall suspend the addition of the Automatic Additional Accounts relating to such Merchant program until such time as such percentage is less than 12.5%;

(c) if the percentage equivalent of a fraction (A) the numerator of which is the total Principal Receivables relating to Home Shopping Network as of the end of the 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 65.0%, the Transferor shall suspend the addition of the Automatic Additional Accounts relating to Home Shopping Network until such time as such percentage is less than 65.0%;

(d) if the percentage equivalent of a fraction (A) the numerator of which is the total Principal Receivables relating to Blair Corporation as of the end of the 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 45.0%, the Transferor shall suspend the addition of the Automatic Additional Accounts relating to Blair Corporation until such time as such percentage is less than 45.0%; and

(e) without the consent of each Class A Noteholder, Class M Noteholder and Class B 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 or (iii) increase the percentage of Principal Receivables referred to in the proviso to clause (f) of the definition of "Eligible Account".

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

No Transfer (or purported Transfer) of a Class B Note or Class C Note (or economic interest therein) shall be made by Comenity Capital Bank, the Transferor or any person which is considered the same person as Comenity Capital Bank or the Transferor for U.S. Federal income tax purposes (except to a person which is considered the same person as Comenity Capital Bank 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.

Section 9.11 Amendments to the Indenture. The phrase "including all Initial Accounts and all Additional Accounts" shall be added to the end of the first sentence in the definition of "Account" contained in Annex A to the Indenture. Unless the Class A Administrative Agents and Class B Administrative Agents shall otherwise consent, no commercial account shall be an Eligible Account and the definition of "Eligible Account" in Annex A to the Indenture shall be modified by adding the following words at the end of clause (a) of such definition: "and is not a commercial account".

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 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

DEUTSCHE BANK TRUST COMPANY AMERICAS, as Indenture Trustee

By: /s/ Louis Bodi
Name: Louis Bodi
Title: Vice President

By: /s/ Sue Kim
Name: Sue Kim
Title: AVP

Acknowledged and Accepted:

COMENITY CAPITAL BANK,
as Servicer

By: /s/ Ronald J. Ostler
Name: Ronald J. Ostler
Title: President

WORLD FINANCIAL CAPITAL CREDIT COMPANY, LLC
as Transferor

By: /s/ Dale Garlitz
Name: Dale Garlitz
Title: Chief Financial Officer and Treasurer

Exhibit 31.1

**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/ EDWARD J. HEFFERNAN
Edward J. Heffernan
Chief Executive Officer

Date: August 5, 2013

Exhibit 31.2

**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 5, 2013

Exhibit 32.1

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, 2013 (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/ EDWARD J. HEFFERNAN
Edward J. Heffernan
Chief Executive Officer

Date: August 5, 2013

Subscribed and sworn to before me
this 5th day of August, 2013.

/S/ JANE BAEDKE
Name: Jane Baedke
Title: Notary Public

My commission expires:
October 23, 2016

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.

Exhibit 32.2

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, 2013 (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/ CHARLES L. HORN
Charles L. Horn
Chief Financial Officer

Date: August 5, 2013

Subscribed and sworn to before me
this 5th day of August, 2013.

/S/ JANE BAEDKE
Name: Jane Baedke
Title: Notary Public

My commission expires:
October 23, 2016

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.