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 September 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 October 30, 2013, 48,712,675 shares of common stock were outstanding.

ALLIANCE DATA SYSTEMS CORPORATION

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PART I

Item 1. Financial Statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013	December 31, 2012
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 784,042	$ 893,352
Trade receivables, less allowance for doubtful accounts ($2,505 and $3,919 at September 30, 2013 and December 31, 2012, respectively)	337,332	370,110
Credit card receivables:		
Credit card receivables – restricted for securitization investors	6,185,497	6,597,120
Other credit card receivables	1,271,848	852,512
Loan receivables held for sale	50,950	—
Total credit card receivables	7,508,295	7,449,632
Allowance for loan loss	(462,041)	(481,958)
Credit card receivables, net	7,046,254	6,967,674
Deferred tax asset, net	221,293	237,268
Other current assets	175,500	171,049
Redemption settlement assets, restricted	545,939	492,690
Total current assets	9,110,360	9,132,143
Property and equipment, net	276,097	253,028
Deferred tax asset, net	27,600	30,027
Cash collateral, restricted	33,842	65,160
Intangible assets, net	489,640	582,874
Goodwill	1,741,979	1,751,053
Other non-current assets	285,145	185,854
Total assets	$ 11,964,663	$ 12,000,139
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 258,254	$ 215,470
Accrued expenses	302,417	274,625
Deposits	1,138,905	1,092,753
Non-recourse borrowings of consolidated securitization entities	315,000	1,474,054
Current debt	355,499	803,269
Other current liabilities	132,598	117,283
Deferred revenue	1,001,582	1,055,323
Total current liabilities	3,504,255	5,032,777
Deferred revenue	178,743	193,738
Deferred tax liability, net	265,922	277,354
Deposits	1,171,602	1,135,658
Non-recourse borrowings of consolidated securitization entities	3,666,916	2,656,916
Long-term and other debt	2,327,813	2,051,570
Other liabilities	137,993	123,639
Total liabilities	11,253,244	11,471,652
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; authorized, 200,000 shares; issued, 95,418 shares and 94,963 shares at September 30, 2013 and December 31, 2012, respectively	954	950
Additional paid-in capital	1,487,332	1,454,230
Treasury stock, at cost, 46,752 shares and 45,360 shares at September 30, 2013 and December 31, 2012, respectively	(2,689,177)	(2,458,092)
Retained earnings	1,931,557	1,553,260
Accumulated other comprehensive loss	(19,247)	(21,861)
Total stockholders' equity	711,419	528,487
Total liabilities and stockholders' equity	$ 11,964,663	$ 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share amounts)			
Revenues				
Transaction	$ 84,264	$ 74,904	$ 246,185	$ 235,150
Redemption	131,985	144,144	430,339	491,795
Finance charges, net	507,828	434,824	1,447,971	1,188,933
Database marketing fees and direct marketing services	334,720	225,303	939,821	658,429
Other revenue	37,650	32,317	113,660	95,239
Total revenue	1,096,447	911,492	3,177,976	2,669,546
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	628,386	499,455	1,868,093	1,532,815
Provision for loan loss	90,976	81,250	215,420	183,129
General and administrative	33,845	24,584	84,392	76,115
Depreciation and other amortization	21,395	18,745	61,401	54,845
Amortization of purchased intangibles	33,077	22,987	99,497	65,009
Total operating expenses	807,679	647,021	2,328,803	1,911,913
Operating income	288,768	264,471	849,173	757,633
Interest expense				
Securitization funding costs	22,914	23,296	72,093	68,143
Interest expense on deposits	7,287	6,753	21,296	18,719
Interest expense on long-term and other debt, net	43,814	44,316	146,636	126,222
Total interest expense, net	74,015	74,365	240,025	213,084
Income before income tax	$ 214,753	$ 190,106	$ 609,148	$ 544,549
Provision for income taxes	81,875	70,561	230,851	205,954
Net income	$ 132,878	$ 119,545	$ 378,297	$ 338,595
Basic income per share	$ 2.73	$ 2.39	$ 7.69	$ 6.76
Diluted income per share	$ 2.01	$ 1.84	$ 5.63	$ 5.33
Weighted average shares				
Basic	48,710	49,939	49,199	50,086
Diluted	66,019	65,038	67,168	63,539

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$ 132,878	$ 119,545	$ 378,297	$ 338,595
Other comprehensive income, net of tax				
Net unrealized gain (loss) on securities available-for-sale, net of tax expense of $167, tax expense of $142, tax benefit of $(913) and tax expense of $26 for the three and nine months ended September 30, 2013 and 2012, respectively	50	3,044	(5,404)	4,880
Foreign currency translation adjustments	(247)	(2,107)	8,018	(3,767)
Other comprehensive (loss) income	(197)	937	2,614	1,113
Total comprehensive income, net of tax	$ 132,681	$ 120,482	$ 380,911	$ 339,708

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 378,297	$ 338,595
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	160,898	119,854
Deferred income taxes	4,668	76,356
Provision for loan loss	215,420	183,129
Non-cash stock compensation	43,428	37,605
Fair value gain on interest-rate derivatives	(8,511)	(22,672)
Amortization of discount on debt	57,900	60,915
Change in deferred revenue	(21,951)	(36,364)
Change in other operating assets and liabilities	19,691	120,091
Originations of loan receivables held for sale	(361,151)	—
Sales of loan receivables held for sale	310,201	—
Excess tax benefits from stock-based compensation	(12,492)	(15,237)
Other	12,440	(211)
Net cash provided by operating activities	798,838	862,061
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	(73,803)	41,885
Change in cash collateral, restricted	32,405	101,536
Change in restricted cash	39,827	(43,892)
Change in credit card and loan receivables	(220,571)	(418,514)
Purchase of credit card portfolios	(37,056)	(780,153)
Capital expenditures	(91,759)	(77,340)
Purchases of marketable securities	(23,632)	(4,719)
Maturities/sales of marketable securities	1,639	3,227
Other	(1,383)	(10,587)
Net cash used in investing activities	(374,333)	(1,188,557)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	1,747,000	699,500
Repayments of borrowings	(1,171,428)	(500,428)
Proceeds from convertible note hedge counterparties	1,056,268	—
Repayments of convertible note borrowings	(1,861,239)	—
Issuances of deposits	1,278,687	1,185,049
Repayments of deposits	(1,196,591)	(703,173)
Non-recourse borrowings of consolidated securitization entities	1,633,285	1,672,962
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(1,782,339)	(1,418,133)
Payment of capital lease obligations	(13)	(16)
Payment of deferred financing costs	(22,371)	(30,930)
Excess tax benefits from stock-based compensation	12,492	15,237
Proceeds from issuance of common stock	8,539	15,119
Purchase of treasury shares	(231,085)	(65,358)
Net cash (used in) provided by financing activities	(528,795)	869,829
Effect of exchange rate changes on cash and cash equivalents	(5,020)	6,771
Change in cash and cash equivalents	(109,310)	550,104
Cash and cash equivalents at beginning of period	893,352	216,213
Cash and cash equivalents at end of period	$ 784,042	$ 766,317
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 167,729	$ 149,076
Income taxes paid, net	$ 158,294	$ 91,055

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."

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the governing tax law. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013 and requires prospective application. The Company does not expect the adoption of ASU 2013-11 to have a material impact on the Company's financial condition, results of operations or cash flows.

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

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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(In thousands, except per share amounts)			
Numerator:				
Net income	$ 132,878	$ 119,545	$ 378,297	$ 338,595
Denominator:				
Weighted average shares, basic	48,710	49,939	49,199	50,086
Weighted average effect of dilutive securities:				
Shares from assumed conversion of convertible senior notes	7,512	9,033	9,419	8,378
Shares from assumed conversion of convertible note warrants	9,141	5,263	7,937	4,317
Net effect of dilutive stock options and unvested restricted stock units	656	803	613	758
Denominator for diluted calculations	66,019	65,038	67,168	63,539
Basic net income per share	$ 2.73	$ 2.39	$ 7.69	$ 6.76
Diluted net income per share	$ 2.01	$ 1.84	$ 5.63	$ 5.33

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:

	September 30, 2013	December 31, 2012
	(In thousands)	
Principal receivables	$ 7,107,983	$ 7,097,951
Billed and accrued finance charges	313,195	291,476
Other receivables	87,117	60,205
Total credit card receivables	7,508,295	7,449,632
Less credit card receivables – restricted for securitization investors	6,185,497	6,597,120
Less loan receivables held for sale	50,950	—
Other credit card receivables	$ 1,271,848	$ 852,512

In August 2013, under agreements with subsidiaries of eBay, Inc., including PayPal, Inc. and Bill Me Later, Inc. (collectively, "eBay"), the Company became an issuer for eBay's Bill Me Later® credit products. After issuance, these loan receivables are transferred to eBay at par value plus accrued interest. These transfers qualify for sale treatment as they meet the conditions established in Accounting Standards Codification ("ASC") 860-10, "Transfers and Servicing." Following the sale, eBay owns the loan receivables, bears the risk of loss in the event of loan defaults and is responsible for all servicing functions related to the amounts. The loan receivables originated by the Company that have not yet been sold to eBay are included in loan receivables held for sale in the Company's unaudited condensed consolidated balance sheet at September 30, 2013 and carried at the lower of cost or fair value. The carrying value of these loan receivables approximates fair value due to the short duration between origination and sale. Purchases and sales of these loan receivables held for sale are reflected as operating activities in the Company's unaudited condensed consolidated statement of cash flow for the nine months ended September 30, 2013.

Upon eBay's purchase of the Bill Me Later loan receivables, the Company is obligated to purchase a participating interest in a pool of loan receivables that includes the Bill Me Later loan receivables originated by the Company. Such interest participates on a pro rata basis in the cash flows of the underlying pool of loan receivables, including principal repayments, finance charges, losses, recoveries, and servicing costs. The Company bears the risk of loss related to its participation interest in this pool. Through September 30, 2013, the Company had purchased $15.5 million of these loan receivables, of which $14.5 million was outstanding at September 30, 2013 and included in other credit card receivables in the Company's unaudited condensed consolidated balance sheet.

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 $54.1 million and $44.3 million for the three months ended September 30, 2013 and 2012, respectively, and $167.8 million and $137.5 million for the nine months ended September 30, 2013 and 2012, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance at beginning of period	$ 448,396	$ 432,521	$ 481,958	$ 468,321
Provision for loan loss	90,976	81,250	215,420	183,129
Recoveries	26,204	22,088	84,152	74,802
Principal charge-offs	(103,535)	(87,309)	(319,489)	(277,702)
Other	—	(8)	—	(8)
Balance at end of period	$ 462,041	$ 448,542	$ 462,041	$ 448,542

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. At September 30, 2013, the more than 30 and more than 90 days delinquency rates were 4.5% and 1.9%, respectively. At December 31, 2012, the more than 30 and more than 90 days delinquency rates were 4.0% and 1.7%, respectively.

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 card receivables with the allowance determined under the contingent loss model of ASC 450-20, "Loss Contingencies." If the Company applied accounting under ASC 310-40, "Troubled Debt Restructurings by Creditors," to the modified credit card receivables in these programs, there would not be a material difference in the allowance for loan loss.

The Company had $117.3 million and $117.0 million, respectively, as a recorded investment in impaired credit card receivables with an associated allowance for loan loss of $37.3 million and $39.7 million, respectively, as of September 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 September 30, 2013 and December 31, 2012, respectively.

The average recorded investment in the impaired credit card receivables was $116.7 million and $111.7 million for the three months ended September 30, 2013 and 2012, respectively, and $117.2 million and $114.3 million for the nine months ended September 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 $3.0 million for the three months ended September 30, 2013 and 2012, respectively, and $9.5 million and $9.1 million for the nine months ended September 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 September 30, 2013			Nine Months Ended September 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	37,032	$ 34,169	$ 34,147	109,927	$ 100,270	$ 100,209

	Three Months Ended September 30, 2012			Nine Months Ended September 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	35,000	$ 31,267	$ 31,248	95,039	$ 85,422	$ 85,316

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 September 30, 2013		Nine Months Ended September 30, 2013	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in thousands)			
Troubled debt restructurings that subsequently defaulted – credit card receivables	15,536	$ 14,874	46,729	$ 44,295

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in thousands)			
Troubled debt restructurings that subsequently defaulted – credit card receivables	12,764	$ 12,363	41,971	$ 40,524

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

Age of Credit Card Receivables

The following tables set forth, as of September 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:

	September 30, 2013			
Age of Accounts Since Origination	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding (1)	Percentage of Principal Receivables Outstanding
	(In thousands, except percentages)			
0-12 Months	4,233	27.0%	$ 1,660,718	23.5%
13-24 Months	2,187	13.9	930,082	13.2
25-36 Months	1,514	9.7	684,463	9.7
37-48 Months	1,136	7.2	553,471	7.8
49-60 Months	931	5.9	500,259	7.1
Over 60 Months	5,694	36.3	2,728,040	38.7
Total	15,695	100.0%	$ 7,057,033	100.0%

(1) Excludes $51.0 million of loan receivables held for sale.

	September 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	3,838	25.7%	$ 1,388,049	22.2%
13-24 Months	1,944	13.0	733,807	11.7
25-36 Months	1,424	9.5	621,926	9.9
37-48 Months	1,139	7.6	565,294	9.0
49-60 Months	944	6.3	436,518	7.0
Over 60 Months	5,668	37.9	2,514,645	40.2
Total	14,957	100.0%	$ 6,260,239	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 September 30, 2013 and 2012:

	September 30, 2013		September 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 (1)**	**Percentage of Principal Receivables Outstanding**	**Total Principal Receivables Outstanding**	**Percentage of Principal Receivables Outstanding**
	(In thousands, except percentages)			
No Score	$ 144,336	2.0%	$ 290,008	4.6%
27.1% and higher	330,802	4.7	257,032	4.1
17.1% - 27.0%	669,535	9.5	545,755	8.7
12.6% - 17.0%	746,424	10.6	625,436	10.0
3.7% - 12.5%	2,819,112	39.9	2,521,231	40.3
1.9% - 3.6%	1,487,871	21.1	1,322,943	21.1
Lower than 1.9%	858,953	12.2	697,834	11.2
Total	$ 7,057,033	100.0%	$ 6,260,239	100.0%

(1) Excludes $51.0 million of loan receivables held for sale.

Credit Card Portfolio Acquisition

In March 2013, the Company acquired the existing private label credit card portfolio of Barneys New York. The total purchase price was $37.1 million and consisted of $35.3 million of credit card receivables and $1.8 million of intangible assets that are included in the September 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 September 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 nine months ended September 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 non-recourse secured borrowings and other liabilities for which creditors or beneficial interest holders do not have recourse to the general credit of the Company.

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

	September 30, 2013	December 31, 2012
	(In thousands)	
Total credit card receivables – restricted for securitization investors	$ 6,185,497	$ 6,597,120
Principal amount of credit card receivables – restricted for securitization investors, 90 days or more past due	$ 120,210	$ 112,203

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net charge-offs of securitized principal	$ 70,752	$ 61,441	$ 219,441	$ 184,886

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 nine months ended September 30, 2013 and 2012. The principal components of redemption settlement assets, which are carried at fair value, are as follows:

	September 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	$ 58,579	$ —	$ —	$ 58,579	$ 40,266	$ —	$ —	$ 40,266
Government bonds	—	—	—	—	5,064	53	—	5,117
Corporate bonds	480,761	7,504	(905)	487,360	436,846	10,560	(99)	447,307
Total	$ 539,340	$ 7,504	$ (905)	$ 545,939	$ 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 September 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:

	September 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	$ 98,868	$ (905)	$ —	$ —	$ 98,868	$ (905)
Total	$ 98,868	$ (905)	$ —	$ —	$ 98,868	$ (905)

	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 September 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 September 30, 2013 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 141,764	$ 142,273
Due after one year through five years	397,576	403,666
Total	$ 539,340	$ 545,939

5. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	September 30, 2013			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
		(In thousands)		
Finite Lived Assets				
Customer contracts and lists	$ 440,200	$ (171,600)	$ 268,600	3-12 years—straight line
Premium on purchased credit card portfolios	214,337	(109,837)	104,500	5-10 years—straight line, accelerated
Customer database	161,700	(117,349)	44,351	4-10 years—straight line
Collector database	67,899	(62,335)	5,564	30 years—15% declining balance
Tradenames	58,555	(13,992)	44,563	4-15 years—straight line
Purchased data lists	16,834	(11,099)	5,735	1-5 years—straight line, accelerated
Favorable lease	3,291	(289)	3,002	10 years—straight line
Noncompete agreements	1,300	(325)	975	3 years—straight line
	$ 964,116	$ (486,826)	$ 477,290	
Indefinite Lived Assets				
Tradenames	12,350	—	12,350	Indefinite life
Total intangible assets	$ 976,466	$ (486,826)	$ 489,640	

	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	

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Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 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	(8,898)	(176)	—	—	(9,074)
September 30, 2013	$ 239,172	$ 1,241,075	$ 261,732	$ —	$ 1,741,979

6. DEBT

Debt consists of the following:

Description	September 30, 2013	December 31, 2012	Maturity	Interest Rate
	(Dollars in thousands)			
Long-term and other debt:				
2013 credit facility	$ 269,000	$ —	July 2018	(1)
2013 term loan	1,192,500	—	July 2018	(1)
2011 term loan	—	885,928	—	—
Convertible senior notes due 2013	—	768,831	—	—
Convertible senior notes due 2014	325,499	304,333	May 2014	4.75%
Senior notes due 2017	396,313	395,734	December 2017	5.250%
Senior notes due 2020	500,000	500,000	April 2020	6.375%
Capital lease obligations and other debt	—	13	—	—
Total long-term and other debt	2,683,312	2,854,839		
Less: current portion	(355,499)	(803,269)		
Long-term portion	$ 2,327,813	$ 2,051,570		
Deposits:				
Certificates of deposit	$ 2,050,504	$ 1,974,158	Various – October 2013 – May 2020	0.15% to 5.25%
Money market deposits	260,003	254,253	On demand	0.01% to 0.18%
Total deposits	2,310,507	2,228,411		
Less: current portion	(1,138,905)	(1,092,753)		
Long-term portion	$ 1,171,602	$ 1,135,658		
Non-recourse borrowings of consolidated securitization entities:				
Fixed rate asset-backed term note securities	$ 3,001,916	$ 2,403,555	Various – October 2014 – June 2019	0.91% to 6.75%
Floating rate asset-backed term note securities	—	545,700	—	—
Conduit asset-backed securities	980,000	1,181,715	Various – March 2014 – September 2015	1.18% to 1.71%
Total non-recourse borrowings of consolidated securitization entities	3,981,916	4,130,970		
Less: current portion	(315,000)	(1,474,054)		
Long-term portion	$ 3,666,916	$ 2,656,916		

(1) At September 30, 2013, the weighted average interest rate was 2.18% for both the 2013 Credit Facility and 2013 Term Loan.

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

Credit Agreements

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 Company's credit agreement dated May 24, 2011 (the "2011 Credit Agreement"). The 2011 Credit Agreement provided for a $903.1 million term loan subject to certain principal repayments and a $917.5 million revolving line of credit. Upon entering into the 2013 Credit Agreement, the 2011 Credit Agreement was 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 (the “2013 Term Loan”) with certain principal repayments and a $1,142.5 million revolving line of credit (the “2013 Credit Facility”) with a U.S. $65.0 million sublimit for Canadian dollar borrowings and a $65.0 million sublimit for swing line loans. The 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.

In September 2013, the Company exercised in part the accordion feature of the 2013 Credit Agreement, and increased the borrowings under the 2013 Term Loan by $57.5 million to $1.2 billion and increased the capacity under the 2013 Credit Facility by $57.5 million to $1.2 billion.

Total availability under the 2013 Credit Facility at September 30, 2013 was $931.0 million.

In October 2013, the Company exercised in part the accordion feature of the 2013 Credit Agreement, and increased the borrowings under the 2013 Term Loan and the capacity under the 2013 Credit Facility, each by $25.0 million.

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 September 30, 2013, the Company had outstanding $345.0 million of convertible senior notes scheduled to mature on May 15, 2014 (the “Convertible Senior Notes due 2014”). On August 1, 2013, the Company settled in cash the remaining $772.6 million of convertible senior notes due August 1, 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.

The table below summarizes the carrying value of the components of the convertible senior notes:

	September 30, 2013	December 31, 2012
	(In millions)	
Carrying amount of equity component	$ 115.9	$ 368.7
Principal amount of liability component	$ 345.0	$ 1,150.0
Unamortized discount	(19.5)	(76.8)
Net carrying value of liability component	$ 325.5	$ 1,073.2
If-converted value of common stock	$ 1,533.7	$ 2,534.4

The discount on the liability component will be amortized as interest expense over the remaining life of the Convertible Senior Notes due 2014 which, at September 30, 2013, is a period of 0.6 years.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except percentages)			
Interest expense calculated on contractual interest rate	$ 5,074	$ 7,619	$ 20,073	$ 22,856
Amortization of discount on liability component	12,602	20,865	57,321	60,915
Total interest expense on convertible senior notes	$ 17,676	$ 28,484	$ 77,394	$ 83,771
Effective interest rate (annualized)	13.2%	11.0%	11.8%	11.0%

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. Through September 30, 2013, a de minimis amount of the Convertible Senior Notes due 2014 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.

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 $3.7 million and $4.3 million at September 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 September 30, 2013, is a period of 4.2 years at an effective annual interest rate of 5.5%.

Deposits

As of September 30, 2013, Comenity Bank and Comenity Capital Bank had issued $260.0 million in money market deposits. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

Non-Recourse Borrowings of Consolidated Securitization Entities

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 were 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, $245.0 million of fixed rate Series 2009-D asset-backed term notes matured and were repaid by the Company.

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 September 30, 2013, total capacity under the conduit facilities was $2.1 billion, of which $980.0 million had been drawn and was included in non-recourse borrowings of consolidated securitization entities 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 March 2014 to September 2015 with variable interest rates ranging from 1.18% to 1.71% as of September 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.

In September 2013, the Company renewed its 2009-VFC1 conduit facility under World Financial Network Credit Card Master Note Trust III, extending the maturity to September 24, 2015 and increasing the total capacity from $330.0 million to $440.0 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.”

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

There were no gains on derivative instruments for the three months ended September 30, 2013. Gains on derivative instruments of $7.5 million for the three months ended
September 30, 2012, and $8.5 million and $22.7 million for the nine months ended September 30, 2013 and 2012, respectively, were recognized in securitization funding costs within the unaudited condensed consolidated statements of income.

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 redemption and service revenue 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 on its unaudited condensed consolidated balance sheets. 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	153,669	386,101	539,770
Revenue recognized	(158,381)	(403,754)	(562,135)
Other	—	386	386
Effects of foreign currency translation	(14,248)	(32,509)	(46,757)
September 30, 2013	$ 361,053	$ 819,272	$ 1,180,325
Amounts recognized in the unaudited condensed consolidated balance sheets:			
Current liabilities	$ 182,310	$ 819,272	$ 1,001,582
Non-current liabilities	$ 178,743	$ —	$ 178,743

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 nine months ended September 30, 2013, the Company acquired a total of 1,392,000 shares of its common stock for $231.1 million. As of September 30, 2013, the Company has $168.9 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 nine months ended
September 30, 2013 and 2012 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
		(In thousands)		
Cost of operations	$ 9,812	$ 8,343	$ 29,354	$ 23,864
General and administrative	5,601	4,076	14,074	13,741
Total	$ 15,413	$ 12,419	$ 43,428	$ 37,605

During the nine months ended September 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 nine months ended September 30, 2013, the Company awarded 86,234 service-based restricted stock units with a weighted average grant date fair value per share of $158.40 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 September 30, 2013	Net Unrealized Gains (Losses) on Securities	Foreign Currency Translation Adjustments [1]	Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Balance as of June 30, 2013	$ 4,867	$ (23,917)	$ (19,050)
Changes in other comprehensive income (loss)	50	(247)	(197)
Balance as of September 30, 2013	$ 4,917	$ (24,164)	$ (19,247)

Three Months Ended September 30, 2012	Net Unrealized Gains (Losses) on Securities	Foreign Currency Translation Adjustments [1]	Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Balance as of June 30, 2012	$ 8,789	$ (31,669)	$ (22,880)
Changes in other comprehensive income (loss)	3,044	(2,107)	937
Balance as of September 30, 2012	$ 11,833	$ (33,776)	$ (21,943)

Nine Months Ended September 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)	(5,404)	8,018	2,614
Balance as of September 30, 2013	$ 4,917	$ (24,164)	$ (19,247)

Nine Months Ended September 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)	4,880	(3,767)	1,113
Balance as of September 30, 2012	$ 11,833	$ (33,776)	$ (21,943)

[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 nine months ended September 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.

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

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets				
Cash and cash equivalents	$ 784,042	$ 784,042	$ 893,352	$ 893,352
Trade receivables, net	337,332	337,332	370,110	370,110
Credit card receivables, net	7,046,254	7,046,254	6,967,674	6,967,674
Redemption settlement assets, restricted	545,939	545,939	492,690	492,690
Cash collateral, restricted	33,842	33,842	65,160	65,160
Other investments	102,824	102,824	91,972	91,972
Derivative instruments	—	—	4	4
Financial liabilities				
Accounts payable	258,254	258,254	215,470	215,470
Deposits	2,310,507	2,330,983	2,228,411	2,255,089
Non-recourse borrowings of consolidated securitization entities	3,981,916	3,999,272	4,130,970	4,225,745
Long-term and other debt	2,683,312	3,929,269	2,854,839	4,358,379
Derivative instruments	—	—	8,515	8,515

Fair Value of Assets and Liabilities Held at September 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 — Credit card receivables, net includes both receivables issued or purchased by the Company in the normal course of business and loan receivables held for sale as described in Note 3, “Credit Card Receivables.” 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. Loan receivables held for sale, which were $51.0 million at September 30, 2013, are carried at the lower of cost or fair value, and their carrying amount approximates fair value due to the short duration between origination and sale.

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 September 30, 2013, the Company's other investments consisted of $38.4 million of restricted cash and $64.4 million of marketable securities. The Company had a cost basis in its marketable securities of $67.1 million with unrealized losses of $2.8 million and unrealized gains of $0.1 million. Of the $2.8 million unrealized losses, $2.7 million has been unrealized for less than twelve months and $0.1 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 September 30, 2013 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 6,643	$ 6,549
Due after five years through ten years	4,825	4,862
Due after ten years	55,615	53,033
Total	$ 67,083	$ 64,444

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 nine months ended September 30, 2013 and 2012.

As of September 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.

Non-recourse borrowings of consolidated securitization entities — 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.

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

	Balance at September 30, 2013	Fair Value Measurements at September 30, 2013 Using		
		Level 1	Level 2	Level 3
	(In thousands)			
Corporate bonds [1]	$ 487,360	$ —	$ 487,360	$ —
Cash collateral, restricted	33,842	—	—	33,842
Other investments [2]	102,824	43,322	59,502	—
Total assets measured at fair value	$ 624,026	$ 43,322	$ 546,862	$ 33,842

	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	$ —

(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 September 30, 2013 and 2012:

	Cash Collateral, Restricted			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance at beginning of period	$ 45,951	$ 122,395	$ 62,660	$ 158,727
Total gains (realized or unrealized):				
Included in earnings	296	995	1,087	5,014
Purchases	—	1,287	—	1,287
Sales	—	—	—	—
Issuances	—	—	—	—
Settlements	(12,405)	(62,472)	(29,905)	(102,823)
Transfers in or out of Level 3	—	—	—	—
Balance at end of period	$ 33,842	$ 62,205	$ 33,842	$ 62,205
Gains for the period included in earnings related to assets still held at end of period	$ 296	$ 995	$ 1,087	$ 5,014

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the three and nine months ended September 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 13 to 37 months at September 30, 2013, with a weighted average term of 20 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 nine months ended September 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 September 30, 2013 and December 31, 2012:

	Fair Value Measurements at September 30, 2013			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Cash and cash equivalents	$ 784,042	$ 784,042	$ —	$ —
Credit card and loan receivables, net	7,046,254	—	—	7,046,254
Total assets	$ 7,830,296	$ 784,042	$ —	$ 7,046,254
Deposits	$ 2,330,983	$ —	$ 2,330,983	$ —
Non-recourse borrowings of consolidated securitization entities	3,999,272	—	3,999,272	—
Long-term and other debt	3,929,269	—	3,929,269	—
Total liabilities	$ 10,259,524	$ —	$ 10,259,524	$ —

	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 and loan 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	$ —
Non-recourse borrowings of consolidated securitization entities	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 nine months ended September 30, 2013, the Company utilized an effective tax rate of 38.1% and 37.9%, respectively, to calculate its provision for income taxes. For the three and nine months ended September 30, 2012, the Company utilized an effective tax rate of 37.1% and 37.8%, 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 38.0%.

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.

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 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 September 30, 2013	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
			(In thousands)			
Revenues	$ 213,338	$ 356,035	$ 531,098	$ 40	$ (4,064)	$ 1,096,447
Adjusted EBITDA (1)	62,228	78,431	246,203	(28,209)	—	358,653
Stock compensation expense	2,664	4,689	2,458	5,602	—	15,413
Depreciation and amortization	4,806	34,886	13,161	1,619	—	54,472
Operating income (loss)	54,758	38,856	230,584	(35,430)	—	288,768
Interest expense, net	(381)	(7)	29,575	44,828	—	74,015
Income (loss) before income taxes	55,139	38,863	201,009	(80,258)	—	214,753

Three Months Ended September 30, 2012	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
			(In thousands)			
Revenues	$ 215,654	$ 240,820	$ 455,939	$ 80	$ (1,001)	$ 911,492
Adjusted EBITDA (1)	60,334	64,244	214,476	(20,432)	—	318,622
Stock compensation expense	2,408	3,549	2,386	4,076	—	12,419
Depreciation and amortization	4,834	24,821	11,267	810	—	41,732
Operating income (loss)	53,092	35,874	200,823	(25,318)	—	264,471
Interest expense, net	(533)	(10)	29,217	45,691	—	74,365
Income (loss) before income taxes	53,625	35,884	171,606	(71,009)	—	190,106

Nine Months Ended September 30, 2013	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
			(In thousands)			
Revenues	$ 674,382	$ 1,005,789	$ 1,508,321	$ 40	$ (10,556)	$ 3,177,976
Adjusted EBITDA (1)	191,006	196,441	736,338	(70,286)	—	1,053,499
Stock compensation expense	7,883	13,418	8,053	14,074	—	43,428
Depreciation and amortization	13,465	103,814	39,657	3,962	—	160,898
Operating income (loss)	169,658	79,209	688,628	(88,322)	—	849,173
Interest expense, net	(800)	(46)	91,802	149,069	—	240,025
Income (loss) before income taxes	170,458	79,255	596,826	(237,391)	—	609,148

Nine Months Ended September 30, 2012	LoyaltyOne	Epsilon	Private Label Services and Credit	Corporate/ Other	Eliminations	Total
			(In thousands)			
Revenues	$ 703,013	$ 704,228	$ 1,265,782	$ 372	$ (3,849)	$ 2,669,546
Adjusted EBITDA (1)	179,300	152,845	644,956	(62,009)	—	915,092
Stock compensation expense	6,777	10,599	6,488	13,741	—	37,605
Depreciation and amortization	14,920	74,043	28,614	2,277	—	119,854
Operating income (loss)	157,603	68,203	609,854	(78,027)	—	757,633
Interest expense, net	(895)	(47)	83,537	130,489	—	213,084
Income (loss) before income taxes	158,498	68,250	526,317	(208,516)	—	544,549

(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 nine months ended September 30, 2013, revenue increased 19.0% to $3.2 billion and adjusted EBITDA increased 15.1% to $1.1 billion as compared to the prior year period. See below for discussion of operating results for each of our three segments.

LoyaltyOne®

Revenue decreased 4.1% to $674.4 million and adjusted EBITDA increased 6.5% to $191.0 million for the nine months ended September 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 nine months ended September 30, 2013, as the average foreign currency exchange rate was $0.98 as compared to $1.00 in the prior year period, which lowered revenue and adjusted EBITDA by $14.3 million and $4.4 million, respectively.

AIR MILES® reward miles redeemed during the nine months ended September 30, 2013 decreased 7.4% 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 nine months ended September 30, 2013 increased 0.7% compared to the same period in the prior year due to addition of new sponsors. Timing of sponsor promotional activities can impact issuance growth in a particular quarter, and for the three months ended September 30, 2013, AIR MILES reward miles issued increased 11 percent as compared to the prior year due to increased promotional activity in the credit card and gas sectors, and new sponsor signings. We expect similar promotional activity in the fourth quarter of 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 redemption revenue and service revenue is deferred. Historically, the allocation of the fees received from AIR MILES reward miles issued was allocated to the redemption element based on the fair value of the redemption element, and the service element was determined based on the residual method. The adoption of Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, 2009-13, "Multiple-Deliverable Revenue Arrangements," eliminates the use of the residual method for new sponsor agreements entered into, or existing sponsor agreements that are materially modified, after January 1, 2011. For these agreements, we determine the selling price for all of the deliverables in the arrangement, and use the relative selling price method to allocate the arrangement consideration among the deliverables. Because the relative selling price method is used to allocate the consideration for these agreements, there is also a shift in the allocation of deferred revenue between the redemption element and service element. This shift will impact the classification of revenue between the transaction revenue and redemption revenue; however, this amount is not expected to be material.

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. As part of our analysis, it was determined that in addition to the redemption and service elements, the right to use of the "AIR MILES" brand name met the criteria for a separate deliverable or element under ASU 2009-13.

For those sponsor contracts within the scope of ASU 2009-13, proceeds from the issuance of AIR MILES reward miles are allocated to three elements, the redemption element, the service element, and the brand element, based on the relative selling price method. Revenue for the redemption element is recognized at the time an AIR MILES reward mile is redeemed. For the service element, revenue is recognized over the estimated life of an AIR MILES reward mile. For the brand element, revenue is recognized at the time an AIR MILES reward mile is issued. For the nine months ended September 30, 2013, we have recognized $25.0 million associated with the brand element, which is included as transaction revenue in the unaudited condensed consolidated statements of income.

During the nine months ended September 30, 2013, LoyaltyOne signed new multi-year agreements with Old Navy, a leading retailer of family apparel; Eastlink, a privately-held Canadian telecommunications company; Irving Oil, a regional energy and marketing company; and 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 1.7 million collectors enrolled at September 30, 2013. We expect AIR MILES Cash to account for slightly over 10 percent of AIR MILES reward miles issued during 2013.

Further, CBSM-Companhia Brasileira De Servicos De Marketing, operator of Brazil's dotz coalition loyalty program, or dotz, in which we have an approximate 37% ownership, has approximately 9.6 million collectors enrolled at September 30, 2013, as compared to approximately 4.6 million collectors enrolled at September 30, 2012. In September 2013, we announced the expansion of dotz into the state of Santa Catarina and the city of Curitiba, increasing the total market count to seven. We anticipate that dotz will enter into two additional Brazilian markets by the end of 2013.

Epsilon®

Revenue increased 42.8% to $1.0 billion and adjusted EBITDA increased 28.5% to $196.4 million for the nine months ended September 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 and automotive verticals.

During the nine months ended September 30, 2013, Epsilon announced a new multi-year agreement with the National Football League to provide database and email marketing services. Additionally, Epsilon announced a new multi-year agreement with Dunkin' Donuts to provide technology for its new loyalty initiative. Epsilon also 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.

Epsilon signed a multi-year renewal agreement with Marriott International, Inc., a leading lodging company, to continue to support email deployment, strategy and creative services for its loyalty program. 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 19.2% to $1.5 billion and adjusted EBITDA increased 14.2% to $736.3 million for the nine months ended September 30, 2013 as compared to the same period in 2012.

For the nine months ended September 30, 2013, average credit card receivables increased 24.7% as compared to the same period in the prior year as a result of increased credit sales, recent client signings and recent credit card portfolio acquisitions. Credit sales increased 24.5% for the nine months ended September 30, 2013 due to strong core credit cardholder spending, recent new client signings and recent credit card portfolio acquisitions.

Delinquency rates were 4.5% and 4.2% of principal receivables at September 30, 2013 and 2012, respectively. The principal net charge-off rate improved to 4.5% for the nine months ended September 30, 2013 from 4.8% in the prior year period.

During the nine months ended September 30, 2013, we announced the signings of certain agreements to provide private label credit card services to Orchard Brands, El Dorado Furniture, Aspen Dental and Tiger Direct. We also announced the signing of a new multi-year agreement with Zale Corporation to provide private label credit card services and to acquire the existing credit card portfolio at a future date.

Additionally, we announced the signings of certain agreements to provide co-brand credit card services to The Geddes Group, Ohio University Alumni Association, Caesars Entertainment Corporation and Gander Mountain. We also announced the signing of a new multi-year agreement with Coldwater Creek to provide co-brand and private label credit card services and to acquire the existing co-brand credit card portfolio at a future date.

In August 2013, we announced the signing of new multi-year agreements with subsidiaries of eBay, Inc., or collectively, eBay, to become an issuer for eBay's Bill Me Later® credit products. After issuance, these loan receivables are sold to eBay at par value plus accrued interest. Upon eBay's purchase of the Bill Me Later loan receivables, we are obligated to purchase a participating interest in a pool of loan receivables that includes the Bill Me Later loan receivables originated by us.

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

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$ 132,878	$ 119,545	$ 378,297	$ 338,595
Stock compensation expense	15,413	12,419	43,428	37,605
Provision for income taxes	81,875	70,561	230,851	205,954
Interest expense, net	74,015	74,365	240,025	213,084
Depreciation and other amortization	21,395	18,745	61,401	54,845
Amortization of purchased intangibles	33,077	22,987	99,497	65,009
Adjusted EBITDA	$ 358,653	$ 318,622	$ 1,053,499	$ 915,092

Results of Operations

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Change $	Change %
	(In thousands, except percentages)			
Revenue:				
LoyaltyOne	$ 213,338	$ 215,654	$ (2,316)	(1.1)%
Epsilon	356,035	240,820	115,215	47.8
Private Label Services and Credit	531,098	455,939	75,159	16.5
Corporate/Other	40	80	(40)	nm*
Eliminations	(4,064)	(1,001)	(3,063)	nm*
Total	$ 1,096,447	$ 911,492	$ 184,955	20.3%
Adjusted EBITDA [(1)]:				
LoyaltyOne	$ 62,228	$ 60,334	$ 1,894	3.1%
Epsilon	78,431	64,244	14,187	22.1
Private Label Services and Credit	246,203	214,476	31,727	14.8
Corporate/Other	(28,209)	(20,432)	(7,777)	38.1
Eliminations	—	—	—	—
Total	$ 358,653	$ 318,622	$ 40,031	12.6%
Stock compensation expense:				
LoyaltyOne	$ 2,664	$ 2,408	$ 256	10.6%
Epsilon	4,689	3,549	1,140	32.1
Private Label Services and Credit	2,458	2,386	72	3.0
Corporate/Other	5,602	4,076	1,526	37.4
Total	$ 15,413	$ 12,419	$ 2,994	24.1%
Depreciation and amortization:				
LoyaltyOne	$ 4,806	$ 4,834	$ (28)	(0.6)%
Epsilon	34,886	24,821	10,065	40.6
Private Label Services and Credit	13,161	11,267	1,894	16.8
Corporate/Other	1,619	810	809	99.9
Total	$ 54,472	$ 41,732	$ 12,740	30.5%
Operating income:				
LoyaltyOne	$ 54,758	$ 53,092	$ 1,666	3.1%
Epsilon	38,856	35,874	2,982	8.3
Private Label Services and Credit	230,584	200,823	29,761	14.8
Corporate/Other	(35,430)	(25,318)	(10,112)	39.9
Eliminations	—	—	—	—
Total	$ 288,768	$ 264,471	$ 24,297	9.2%
Adjusted EBITDA margin [(2)]:				
LoyaltyOne	29.2%	28.0%	1.2%	
Epsilon	22.0	26.7	(4.7)	
Private Label Services and Credit	46.4	47.0	(0.6)	
Total	32.7%	35.0%	(2.3)%	
Segment operating data:				
Private label statements generated	47,716	43,050	4,666	10.8 %
Credit sales	$ 3,628,383	$ 3,149,420	$ 478,963	15.2 %
Average credit card receivables	$ 7,154,979	$ 6,121,431	$ 1,033,548	16.9 %
AIR MILES reward miles issued	1,341,468	1,212,523	128,945	10.6 %
AIR MILES reward miles redeemed	887,209	885,647	1,562	0.2 %

(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 $185.0 million, or 20.3%, to $1.1 billion for the three months ended September 30, 2013 from $911.5 million for the three months ended
September 30, 2012. The net increase was due to the following:

- *Transaction*. Revenue increased $9.4 million, or 12.5%, to $84.3 million for the three months ended September 30, 2013. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $9.1 million and other servicing fees charged to our credit cardholders increased $6.6 million, offset by a decrease of $4.8 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 $12.2 million, or 8.4%, to $132.0 million for the three months ended September 30, 2013. Revenue was negatively impacted by both a $5.8 million decrease in redemption revenue due to a lower average exchange rate and the change in our estimate of breakage in December 2012.

- *Finance charges, net.* Revenue increased $73.0 million, or 16.8%, to $507.8 million for the three months ended September 30, 2013. This increase was driven by a 16.9% increase in average credit card receivables, which have increased over $1.0 billion through a combination of recent credit card portfolio acquisitions and strong credit cardholder spending.

- *Database marketing fees and direct marketing.* Revenue increased $109.4 million, or 48.6%, to $334.7 million for the three months ended September 30, 2013. The increase in revenue was driven by increases within our Epsilon segment, including our acquisition of HMI, which added $77.3 million, an increase in agency revenue of $18.6 million due to demand in the telecommunications and automotive verticals and an $11.2 million increase in strategic database revenue due to the addition of new clients.

- *Other revenue.* Revenue increased $5.3 million, or 16.5%, to $37.7 million for the three months ended September 30, 2013 due to additional consulting services provided by Epsilon.

Cost of operations. Cost of operations increased $128.9 million, or 25.8%, to $628.4 million for the three months ended September 30, 2013 from $499.5 million for the three months ended September 30, 2012. The net increase was due to the following:

- Within the LoyaltyOne segment, cost of operations declined $4.0 million due to a $6.5 million decrease in fulfillment costs for the AIR MILES Reward Program, a $1.7 million decrease in payroll and benefits and a decrease in losses associated with international expansion efforts. These decreases were partially offset by an increase in marketing expenses of $4.5 million due to increased promotional activity during the three months ended September 30, 2013.

- Within the Epsilon segment, cost of operations increased $102.2 million due to the HMI acquisition, which added $67.0 million, as well as an increase in direct marketing costs associated with the growth in agency revenue of $23.9 million. Additionally, payroll and benefit costs within strategic database increased $12.6 million to support growth.

- Within the Private Label Services and Credit segment, cost of operations increased by $33.8 million. Payroll and benefits increased $18.6 million due to an increase in the number of associates to support growth, and marketing expenses increased $4.1 million due to the increase in credit sales. Other operating expenses increased by $9.9 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 $9.7 million, or 12.0%, to $91.0 million for the three months ended September 30, 2013 as compared to $81.3 million for the three months ended September 30, 2012. The increase in the provision was a result of the growth in credit card receivables. The net charge-off rate was 4.3% for both the three months ended September 30, 2013 and 2012.

General and administrative. General and administrative expenses increased $9.3 million, or 37.7%, to $33.8 million for the three months ended September 30, 2013 as compared to $24.6 million for the three months ended September 30, 2012 due to higher data processing costs, as well as higher payroll and benefit costs.

Depreciation and other amortization. Depreciation and other amortization increased $2.7 million, or 14.1%, to $21.4 million for the three months ended September 30, 2013, as compared to $18.7 million for the three months ended September 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 $10.1 million, or 43.9%, to $33.1 million for the three months ended September 30, 2013 as compared to $23.0 million for the three months ended September 30, 2012. The increase relates to $8.4 million of additional amortization associated with the intangible assets from the HMI acquisition as well as recent credit card portfolio acquisitions.

Interest expense. Total interest expense, net decreased $0.4 million, or 0.5%, to $74.0 million for the three months ended September 30, 2013 as compared to $74.4 million for the three months ended September 30, 2012 due to the following:

- *Securitization funding costs*. Securitization funding costs decreased $0.4 million due to lower average interest rates for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012, offset by greater borrowings.

- *Interest expense on deposits*. Interest expense on deposits increased $0.5 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 decreased $0.5 million. This was due to the maturity of the 2013 convertible senior notes on August 1, 2013 which resulted in a decrease in interest expense of $10.8 million, including a reduction of the imputed interest. This decrease was offset by an increase of $5.5 million resulting from the issuances of senior notes in 2012 and increases in interest expense associated with our 2013 term debt and credit facility.

Taxes. Income tax expense increased $11.3 million to $81.9 million for the three months ended September 30, 2013 from $70.6 million for the comparable period in 2012 due primarily to an increase in taxable income and an increase in the effective tax rate. The effective tax rate for the three months ended September 30, 2013 increased to 38.1% as compared to 37.1% for the three months ended September 30, 2012 due to the favorable impact of the settlement of certain audits in 2012.

Segment Revenue and Adjusted EBITDA:

Revenue. Total revenue increased $185.0 million, or 20.3%, to $1.1 billion for the three months ended September 30, 2013 from $911.5 million for the three months ended September 30, 2012. The net increase was due to the following:

- *LoyaltyOne*. Revenue decreased $2.3 million, or 1.1%, to $213.3 million for the three months ended September 30, 2013. Redemption revenue decreased $12.2 million, or 8.4%, due to a lower average exchange rate and the change in our estimate of breakage in December 2012. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $9.1 million due to the recognition of revenue associated with the AIR MILES brand. A weaker Canadian dollar negatively impacted revenue for the three months ended September 30, 2013, as the average foreign exchange rate was $0.96 as compared to $1.01 in the prior year period, which lowered revenue by $9.1 million.

- *Epsilon*. Revenue increased $115.2 million, or 47.8%, to $356.0 million for the three months ended September 30, 2013. The acquisition of HMI contributed $77.5 million to revenue. In addition, revenue increased $24.7 million, or 29.2%, due to increased demand in the telecommunications vertical. Additionally, marketing technology revenue increased $10.1 million due to new database builds placed in service during the three months ended September 30, 2013, offset by a decline in our digital business due to declines in email volumes.

- *Private Label Services and Credit*. Revenue increased $75.2 million, or 16.5%, to $531.1 million for the three months ended September 30, 2013. Finance charges and late fees increased by $73.0 million, driven by a 16.9% increase in average credit card receivables due to recent credit card portfolio acquisitions and strong credit cardholder spending. Transaction revenue increased $2.2 million due to an increase in other servicing fees, offset by lower merchant fees resulting from increased royalty payments associated with the signing of new clients.

Adjusted EBITDA. Adjusted EBITDA increased $40.0 million, or 12.6%, to $358.7 million for the three months ended September 30, 2013 from $318.6 million for the three months ended September 30, 2012. The net increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA increased $1.9 million, or 3.1%, to $62.2 million for the three months ended September 30, 2013, and adjusted EBITDA margin also increased to 29.2% for the three months ended September 30, 2013 from 28.0% for the same period in the prior year. Adjusted EBITDA was positively impacted by a reduction in operating expenses, including a decline in expenses associated with international activities.

- *Epsilon*. Adjusted EBITDA increased $14.2 million, or 22.1%, to $78.4 million for the three months ended September 30, 2013. Adjusted EDITDA was positively impacted by both the growth in revenue, including the acquisition of HMI, which added $10.8 million to adjusted EBITDA. Adjusted EBITDA was negatively impacted by a decrease in the margin, which decreased to 22.0% for the three months ended September 30, 2013 from 26.7% 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 $31.7 million, or 14.8%, to $246.2 million for the three months ended September 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 $7.8 million to a loss of $28.2 million for the three months ended September 30, 2013 related to higher payroll and benefit costs of $4.7 million, an increase in data processing costs due to higher volumes and an increase in consulting costs.

Results of Operations

Nine months ended September 30, 2013 compared to the nine months ended September 30, 2012

	Nine Months Ended September 30,		Change	
	2013	2012	$	%
	(In thousands, except percentages)			
Revenue:				
LoyaltyOne	$ 674,382	$ 703,013	$ (28,631)	(4.1)%
Epsilon	1,005,789	704,228	301,561	42.8
Private Label Services and Credit	1,508,321	1,265,782	242,539	19.2
Corporate/Other	40	372	(332)	nm*
Eliminations	(10,556)	(3,849)	(6,707)	nm*
Total	$ 3,177,976	$ 2,669,546	$ 508,430	19.0%
Adjusted EBITDA (1):				
LoyaltyOne	$ 191,006	$ 179,300	$ 11,706	6.5%
Epsilon	196,441	152,845	43,596	28.5
Private Label Services and Credit	736,338	644,956	91,382	14.2
Corporate/Other	(70,286)	(62,009)	(8,277)	13.3
Eliminations	—	—	—	—
Total	$ 1,053,499	$ 915,092	$ 138,407	15.1%
Stock compensation expense:				
LoyaltyOne	$ 7,883	$ 6,777	$ 1,106	16.3%
Epsilon	13,418	10,599	2,819	26.6
Private Label Services and Credit	8,053	6,488	1,565	24.1
Corporate/Other	14,074	13,741	333	2.4
Total	$ 43,428	$ 37,605	$ 5,823	15.5%
Depreciation and amortization:				
LoyaltyOne	$ 13,465	$ 14,920	$ (1,455)	(9.8)%
Epsilon	103,814	74,043	29,771	40.2
Private Label Services and Credit	39,657	28,614	11,043	38.6
Corporate/Other	3,962	2,277	1,685	74.0
Total	$ 160,898	$ 119,854	$ 41,044	34.2%
Operating income:				
LoyaltyOne	$ 169,658	$ 157,603	$ 12,055	7.6%
Epsilon	79,209	68,203	11,006	16.1
Private Label Services and Credit	688,628	609,854	78,774	12.9
Corporate/Other	(88,322)	(78,027)	(10,295)	13.2
Eliminations	—	—	—	—
Total	$ 849,173	$ 757,633	$ 91,540	12.1%
Adjusted EBITDA margin (2):				
LoyaltyOne	28.3%	25.5%	2.8%	
Epsilon	19.5	21.7	(2.2)	
Private Label Services and Credit	48.8	51.0	(2.2)	
Total	33.2%	34.3%	(1.1)%	
Segment operating data:				
Private label statements generated	141,645	119,018	22,627	19.0 %
Credit sales	$ 10,415,809	$ 8,362,968	$ 2,052,841	24.5 %
Average credit card receivables	$ 7,027,830	$ 5,636,812	$ 1,391,018	24.7 %
AIR MILES reward miles issued	3,784,848	3,758,675	26,173	0.7 %
AIR MILES reward miles redeemed	2,925,501	3,160,207	(234,706)	(7.4)%

(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 $508.4 million, or 19.0%, to $3.2 billion for the nine months ended September 30, 2013 from $2.7 billion for the nine months ended September 30, 2012. The net increase was due to the following:

- *Transaction*. Revenue increased $11.0 million, or 4.7%, to $246.2 million for the nine months ended September 30, 2013. AIR MILES reward miles issuance fees, for which we provide marketing and administrative services, increased $31.9 million and other servicing fees charged to our credit cardholders increased $24.5 million, offset by a decrease of $42.5 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 $61.5 million, or 12.5%, to $430.3 million for the nine months ended September 30, 2013 due to the impact of the change in estimate of our breakage rate in December 2012 as well as a 7.4% 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 $259.0 million, or 21.2%, to $1.4 billion for the nine months ended September 30, 2013. This increase was driven by a 24.7% increase in average credit card receivables, which have increased approximately $1.4 billion through a combination of recent credit card portfolio acquisitions and strong credit cardholder spending. This was offset in part by a 70 basis point decline in gross yield primarily due to the onboarding of new credit card portfolios.

- *Database marketing fees and direct marketing.* Revenue increased $281.4 million, or 42.7%, to $939.8 million for the nine months ended September 30, 2013. The increase in revenue was driven by increases within our Epsilon segment, including our acquisition of HMI, which added $225.8 million, and an increase in agency revenue of $47.7 million due to demand in the telecommunications and automotive verticals. Additionally, marketing technology revenue increased $7.6 million due to new database builds which were placed in service during the nine months ended September 30, 2013, offset by our digital business due to declines in email volume.

- *Other revenue.* Revenue increased $18.4 million, or 19.3%, to $113.7 million for the nine months ended September 30, 2013 due to additional consulting services provided by Epsilon.

Cost of operations. Cost of operations increased $335.3 million, or 21.9%, to $1.9 billion for the nine months ended September 30, 2013 from $1.5 billion for the nine months ended September 30, 2012. The net increase was due to the following:

- Within the LoyaltyOne segment, cost of operations decreased $39.2 million due to a $37.0 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 $3.7 million due to a decline in costs associated with the promotion of AIR MILES Cash from 2012 and a reduction in costs associated with international expansion.

- Within the Epsilon segment, cost of operations increased $260.8 million due to the HMI acquisition, which added $198.4 million, as well as an increase of $52.1 million in cost of operations associated with the increase in agency revenue.

- Within the Private Label Services and Credit segment, cost of operations increased by $120.4 million. Payroll and benefits increased $53.5 million due to an increase in the number of associates to support growth, and marketing expenses increased $18.7 million due to the increase in credit sales. Other operating expenses increased by $40.9 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 $32.3 million, or 17.6%, to $215.4 million for the nine months ended September 30, 2013 as compared to $183.1 million for the nine months ended September 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 4.5% for the nine months ended September 30, 2013 as compared to 4.8% for the nine months ended September 30, 2012.

General and administrative. General and administrative expenses increased $8.3 million, or 10.9%, to $84.4 million for the nine months ended September 30, 2013 as compared to $76.1 million for the nine months ended September 30, 2012 due to higher payroll costs and higher data processing costs.

Depreciation and other amortization. Depreciation and other amortization increased $6.6 million, or 12.0%, to $61.4 million for the nine months ended September 30, 2013, as compared to $54.8 million for the nine months ended September 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 $34.5 million, or 53.1%, to $99.5 million for the nine months ended September 30, 2013 as compared to $65.0 million for the nine months ended September 30, 2012. The increase relates to $25.3 million of additional amortization associated with the intangible assets from the HMI acquisition as well as recent credit card portfolio acquisitions.

Interest expense. Total interest expense, net increased $26.9 million, or 12.6%, to $240.0 million for the nine months ended September 30, 2013 as compared to $213.1 million for the nine months ended September 30, 2012 due to the following:

- *Securitization funding costs*. Securitization funding costs increased $4.0 million due to greater borrowings for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012. These increases were offset by lower average interest rates.

- *Interest expense on deposits*. Interest expense on deposits increased $2.6 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 $20.4 million due to an increase of $24.1 million resulting from the issuances of senior notes in 2012 and an increase in borrowings under the credit facility. This was offset in part by the maturity of the 2013 convertible senior notes on August 1, 2013 which resulted in a decrease in interest expense of $6.4 million, including a reduction of the imputed interest, compared to the prior year period.

Taxes. Income tax expense increased $24.9 million to $230.9 million for the nine months ended September 30, 2013 from $206.0 million for the comparable period in 2012 due primarily to an increase in taxable income. The effective tax rate for the nine months ended September 30, 2013 increased slightly to 37.9% as compared to 37.8% for the nine months ended September 30, 2012.

Segment Revenue and Adjusted EBITDA:

Revenue. Total revenue increased $508.4 million, or 19.0%, to $3.2 billion for the nine months ended September 30, 2013 from $2.7 billion for the nine months ended September 30, 2012. The net increase was due to the following:

- *LoyaltyOne*. Revenue decreased $28.6 million, or 4.1%, to $674.4 million for the nine months ended September 30, 2013. Redemption revenue decreased $61.5 million, or 12.5%, due to the impact of the change in estimate of our breakage rate in December 2012 as well as a 7.4% 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 $31.9 million, due to $25.0 million of revenue recognized associated with the AIR MILES brand, as well as increases in the number of AIR MILES reward miles issued in previous quarters.

- *Epsilon*. Revenue increased $301.6 million, or 42.8%, to $1.0 billion for the nine months ended September 30, 2013. The acquisition of HMI contributed $226.5 million to revenue. In addition, agency revenue increased $62.9 million due to increased demand in the telecommunications vertical. Additionally, marketing technology revenue increased $11.2 million due to new database builds placed in service during the nine months ended September 30, 2013, offset by a decline in our digital business due to declines in email volumes.

- *Private Label Services and Credit*. Revenue increased $242.5 million, or 19.2%, to $1.5 billion for the nine months ended September 30, 2013. Finance charges and late fees increased by $259.0 million, driven by a 24.7% increase in average credit card receivables due to recent credit card portfolio acquisitions and strong credit cardholder spending. Transaction revenue decreased $16.5 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 $138.4 million, or 15.1%, to $1.1 billion for the nine months ended September 30, 2013 from $915.1 million for the nine months ended September 30, 2012. The net increase was due to the following:

- *LoyaltyOne*. Adjusted EBITDA increased $11.7 million, or 6.5%, to $191.0 million for the nine months ended September 30, 2013, and adjusted EBITDA margin also increased to 28.3% for the nine months ended September 30, 2013 from 25.5% 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 expansion activities.

- *Epsilon*. Adjusted EBITDA increased $43.6 million, or 28.5%, to $196.4 million for the nine months ended September 30, 2013. Adjusted EDITDA was positively impacted by the growth in revenue, including the acquisition of HMI, which added $28.8 million to adjusted EBITDA, and growth in agency as discussed above, which resulted in an increase in adjusted EBITDA of $11.3 million.

- *Private Label Services and Credit*. Adjusted EBITDA increased $91.4 million, or 14.2%, to $736.3 million for the nine months ended September 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 $8.3 million to a loss of $70.3 million for the nine months ended September 30, 2013 related to an increase in payroll costs and higher data processing 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:

	September 30, 2013	% of Total	December 31, 2012	% of Total
	(In thousands, except percentages)			
Receivables outstanding – principal	$ 7,107,983	100.0%	$ 7,097,951	100.0%
Principal receivables balances contractually delinquent:				
31 to 60 days	114,229	1.6%	100,479	1.4%
61 to 90 days	71,900	1.0	62,546	0.9
91 or more days	135,367	1.9	120,163	1.7
Total	$ 321,496	4.5%	$ 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except percentages)			
Average credit card receivables	$ 7,154,979	$ 6,121,431	$ 7,027,830	$ 5,636,812
Net charge-offs of principal receivables	77,331	65,221	235,337	202,900
Net charge-offs as a percentage of average credit card receivables [1]	4.3%	4.3%	4.5%	4.8%

(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 nine months ended September 30, 2013, the net charge-off rate would have been 4.4% and 4.6%, respectively, if losses associated with the acquired credit card receivables had been reported as net charge-offs. For the three and nine months ended September 30, 2012, the net charge-off rate would have been 4.5% and 4.9%, 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 $798.8 million and $862.1 million for the nine months ended September 30, 2013 and 2012, respectively. The decrease in operating cash flows in 2013 was due to changes in working capital for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, and the impact from the purchases and sales of loan receivables held for sale.

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 $374.3 million and $1.2 billion for the nine months ended September 30, 2013 and 2012, respectively. Significant components of investing activities are as follows:

- *Redemption Settlement Assets*. Cash decreased $73.8 million for the nine months ended September 30, 2013, as compared to a cash increase of $41.9 million for the nine months ended September 30, 2012, due to the increase in funding requirements resulting from the change in our estimate of breakage in December 2012.

- *Credit Card Receivables Funding*. Cash decreased $220.6 million and $418.5 million for the nine months ended September 30, 2013 and 2012, respectively, due to growth in our credit card receivables.

- *Purchase of Credit Card Portfolios*. Cash decreased $37.1 million for the nine months ended September 30, 2013 due to the acquisition of the private label credit card portfolio from Barneys New York. During the nine months ended September 30, 2012, cash decreased $780.2 million due to the acquisition of existing private label credit card portfolios from Pier 1 Imports, Premier Designs, The Bon-Ton Stores, Inc. and The Talbots, Inc.

- *Capital Expenditures*. Our capital expenditures for the nine months ended September 30, 2013 were $91.8 million compared to $77.3 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 $528.8 million for the nine months ended September 30, 2013 as compared to cash provided by financing activities of $869.8 million for the nine months ended September 30, 2012. Our financing activities during the nine months ended September 30, 2013 relate primarily to borrowings under our 2013 credit agreement, repayment of our 2011 credit facility, repayments and borrowings of deposits and non-recourse borrowings of consolidated securitization entities, repayment of convertible senior notes, 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 September 30, 2013, we had $269.0 million in borrowings under our revolving credit facility, with total availability at $931.0 million. Our total leverage ratio, as defined in our credit agreement, was 2.0 to 1 at September 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 15.5%, 15.4% and 16.8%, respectively, at September 30, 2013. The Tier 1 risk-based capital ratio, leverage ratio and total risk-based capital ratio for Comenity Bank were 16.1%, 15.3% and 17.4%, respectively, at September 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 scheduled to mature on May 15, 2014.

As of September 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 September 30, 2013, the WFN Trusts and the WFC Trust had approximately $6.2 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 September 30, 2013, we had $4.0 billion of non-recourse borrowings of consolidated securitization entities, of which $0.3 billion is due within the next 12 months.

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

	2013	2014	2015	2016	2017 & Thereafter	Total
			(In thousands)			
Term notes	$ —	$ 250,000	$ 393,750	$ 600,000	$ 1,758,166	$ 3,001,916
Conduit facilities (1)	—	1,200,000	890,000	—	—	2,090,000
Total (2)	$ —	$ 1,450,000	$ 1,283,750	$ 600,000	$ 1,758,166	$ 5,091,916

(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 were 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 were repaid.

In September 2013, we renewed our 2009-VFC1 conduit facility under World Financial Network Credit Card Master Note Trust III, extending the maturity to September 24, 2015 and increasing the total capacity from $330.0 million to $440.0 million.

2013 Credit Agreement. We entered into a credit agreement dated July 10, 2013 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.

In September 2013, we exercised in part the accordion feature of the 2013 Credit Agreement, and increased the borrowings under the 2013 Term Loan by $57.5 million to $1.2 billion and increased the capacity under the 2013 Credit Facility by $57.5 million to $1.2 billion.

In October 2013, we exercised in part the accordion feature of the 2013 Credit Agreement, and increased the borrowings under the 2013 Term Loan and the capacity under the 2013 Credit Facility, each by $25.0 million.

Convertible Senior Notes due 2013. On August 1, 2013, we settled in cash, with cash on hand and borrowings under the 2013 Credit Agreement, the remaining $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 September 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 September 30, 2013 (the end of our third 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 September 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 September 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:				
July 1-31	4,353	$ 188.95	—	$ 192.0
August 1-31	81,427	198.23	77,745	176.6
September 1-30	41,064	196.56	39,351	168.9
Total	126,844	$ 197.37	117,096	$ 168.9

(1) During the period represented by the table, 9,748 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

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	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).
10.2	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).
10.3	First Amendment to Amended and Restated Service Agreement, dated as of September 9, 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 September 11, 2013, File Nos. 333-60418, 333-60418-01 and 333-113669).
*10.4	Second Amended and Restated Series 2009-VFC1 Supplement, dated as of September 25, 2013, among WFN Credit Company, LLC, Comenity Bank and Deutsche Bank Trust Company Americas.
*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: November 5, 2013

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

Date: November 5, 2013

WFN CREDIT COMPANY, LLC
Transferor

COMENITY BANK
Servicer

and

DEUTSCHE BANK TRUST COMPANY AMERICAS
Trustee

on behalf of the Series 2009-VFC1 Holders

SECOND AMENDED AND RESTATED SERIES 2009-VFC1 SUPPLEMENT

Dated as of September 25, 2013

to

AMENDED AND RESTATED
POOLING AND SERVICING AGREEMENT

Dated as of January 30, 1998
(as amended and restated September 28, 2001 and
further amended as of April 7, 2004, March 23, 2005, October 26, 2007, March 30, 2010, and
September 30, 2011, and, as modified by a Trust Combination Agreement dated as of April 26, 2005)

WORLD FINANCIAL NETWORK CREDIT CARD MASTER TRUST III

Class A Asset-Backed Certificates, Series 2009-VFC1
Class M Asset-Backed Certificates, Series 2009-VFC1
Class B Asset-Backed Certificates, Series 2009-VFC1
Class C Asset-Backed Certificates, Series 2009-VFC1

TABLE OF CONTENTS

SECOND AMENDED AND RESTATED SERIES 2009-VFC1 SUPPLEMENT, dated as of September 25, 2013 (the "*Series Supplement*"), by and among WFN CREDIT COMPANY, LLC, a Delaware limited liability company, as Transferor ("*Transferor*"), COMENITY BANK (formerly known as World Financial Network Bank), a Delaware state bank ("*Comenity*"), as Servicer (in such capacity, "*Servicer*"), and DEUTSCHE BANK TRUST COMPANY AMERICAS, a New York banking corporation (as successor to Union Bank, N.A.), as Trustee ("*Trustee*") under the Amended and Restated Pooling and Servicing Agreement, dated as of January 30, 1998, as amended and restated as of September 28, 2001, as further amended as of April 7, 2004, March 23, 2005, October 26, 2007, March 30, 2010, and September 30, 2011, and as modified by a Trust Combination Agreement dated as of April 26, 2005, and as the same may be further amended from time to time (the "*Agreement*"), by and among Transferor, Servicer and Trustee.

WHEREAS, the parties hereto are party to the Amended and Restated Series 2009-VFC1 Supplement, dated as of September 28, 2012 (the "*Existing Series Supplement*").

NOW THEREFORE, in consideration of the mutual agreements contained herein, the Existing Series Supplement is hereby amended and restated in its entirety pursuant to Section 13.1(b) of the Agreement as follows and each party agrees as follows for the benefit of the other parties hereto and the Series 2009-VFC1 Certificateholders:

Section 6.3 provides, among other things, that Transferor and Trustee may at any time and from time to time enter into a supplement to the Agreement for the purpose of authorizing the delivery by Trustee to Transferor for the execution and redelivery to Trustee for authentication of one or more Series of Certificates.

Pursuant to this Series Supplement, the Transferor, the Servicer and the Trustee shall specify the Principal Terms of a Series of Investor Certificates. The Transferor, the Servicer and the Trustee intend that the execution of this Series Supplement and each of the other Transaction Documents be effective contemporaneously with the delivery of the Certificates to the Transferor.

SECTION 1. *Designation; Ownership Interests*. (a) Pursuant to the Agreement and the Existing Series Supplement, a Series of Investor Certificates was issued known as the "*Series 2009-VFC1 Certificates*." The Series 2009-VFC1 Certificates were issued in four classes, known as the "*Class A Asset-Backed Certificates, Series 2009-VFC1*" or the "*Class A Certificates*," the "*Class M Asset-Backed Certificates, Series 2009-VFC1*" or the "*Class M Certificates*," the "*Class B Asset-Backed Certificates, Series 2009-VFC1*" or the "*Class B Certificates*, and the "*Class C Asset-Backed Certificates, Series 2009-VFC1*" or the "*Class C Certificates*". Each of the Series 2009-VFC1 Certificates shall be a Variable Interest. The Class A Certificates shall be substantially in the form of Exhibit A-1, the Class M Certificates shall be substantially in the form of Exhibit A-2, the Class B Certificates shall be substantially in the form of Exhibit A-3 and the Class C Certificates will be substantially in the form of Exhibit A-4. The Class M Certificates, the Class B Certificates and the Class C Certificates shall be Subject Certificates.

(b) Series 2009-VFC1 shall be included in Group One (as defined below). Series 2009-VFC1 shall not be subordinated to any other Series.

(c) The Class A Certificates may from time to time be divided into separate ownership interests (each, a "*Class A Ownership Interest*") which shall be identical in all respects, except for their respective Class A Maximum Funded Amounts, Class A Funded Amounts and certain matters relating to the rate and payment of interest. The initial allocation of Class A Certificates among Class A Ownership Interests shall be made, and reallocations among such Class A Ownership Interests or new Class A Ownership Interests may be made, as provided in *Section 4* of this Series Supplement and the Class A Certificate Purchase Agreement.

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

SECTION 2. *Definitions*. If any term or provision contained herein shall conflict with or be inconsistent with any provision contained in the Agreement, the terms and provisions of this Series Supplement shall govern. References to any Article or Section are references to Articles or Sections of the Agreement, except as otherwise expressly provided. Unless otherwise specified herein, all capitalized terms not otherwise defined herein are defined in the Agreement or the Class A Certificate Purchase Agreement, as the context may require, and the interpretive provisions set out in *Section 1.2* of the Agreement apply to this Series Supplement. Each capitalized term defined herein relates only to the Investor Certificates and no other Series of Certificates issued by the Trust.

"*Additional Minimum Transferor Amount*" means (a) as of any date of determination falling in November, December and January of each calendar year, the product of (i) 1.0% and (ii) the aggregate Principal Receivables and (b) as of any date of determination falling in any other month, zero; *provided* that the amount specified in *clause (a)* shall be without duplication with the amount specified as the "Additional Minimum Transferor Amount" in any future Supplement that specifies such an amount and indicates that such amount is without duplication of the amount specified in *clause (a)*). The Additional Minimum Transferor Amount is specified pursuant to *Section 17(h)* of this Series Supplement as an amount to be considered part of the Minimum Transferor Amount.

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

"*Aggregate Optional Amortization Amount*" means, as to any date of determination in any Monthly Period, the sum of any Optional Amortization Amounts scheduled to be distributed to one or more Investor Holders on or prior to the related Distribution Date (and which have not already been so distributed prior to that date of determination).

"*Agreement*" shall have the meaning ascribed thereto by the introductory paragraph hereto.

"*Amendment Closing Date*" means September 25, 2013.

“*Applicable Percentage*” means, with respect to any Determination Date, if the Excess Spread Percentage averaged for the three Monthly Periods preceding such Determination Date is greater than the percentage (if any) set forth in the middle column below and less than or equal to the percentage (if any) set forth in the left column below, an amount equal to the percentage set forth opposite such percentage in the right-hand column below:

Less than or Equal to:	Greater Than:	Applicable Percentage:

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

“*Available Funds*” means, as to any Monthly Period, an amount equal to the sum of (a) Collections of Finance Charge Receivables allocated to the Investor Certificates and deposited into the Finance Charge Account for such Monthly Period (or to be deposited in the Finance Charge Account on the related Transfer Date with respect to the preceding Monthly Period pursuant to *Section 4.3(a)*), including, without duplication the Investor Interchange Amount for such Monthly Period, (b) the interest and earnings in the Cash Collateral Account to be treated as Collections of Finance Charge Receivables pursuant to *Section 4.17* on the related Transfer Date and (c) the Excess Finance Charge Collections, if any, allocated to the Investor Certificates pursuant to *Section 4.5* on the Distribution Date related to such Transfer Date.

“*Available Investor Principal Collections*” means, as to any Monthly Period, an amount equal to (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 4.14*, are required to fund the Class A Required Amount and the Class M Required Amount, *plus* (c) the amount of Shared Principal Collections with respect to Group One that are allocated to Series 2009-VFC1 in accordance with *Section 4.15(b)*; *minus* (d) any portion of the foregoing applied to an Optional Amortization Amount pursuant to *Section 4(b)* of this Series Supplement for such Monthly Period.

“*Available Shared Principal Collections*” means Shared Principal Collections held in the Collection Account that are available to be applied to cover any Optional Amortization Amount in accordance with *Section 4.4*.

“*Base Rate*” means, as to any Monthly Period, the annualized percentage (based on actual days during the related Monthly Period, and a 360-day year) equivalent of a fraction, the numerator of which is equal to the sum of the Class A Monthly Interest, the Class M Monthly Interest, the Class B Monthly Interest, the Class C Monthly Interest, the Class A Non-Use Fee and any Class A Senior Additional Amounts, each for the related Distribution Period, and the Investor Servicing Fee with respect to such Monthly Period and the denominator of which is the Weighted Average Invested Amount during such Monthly Period.

"*Breakage Payment*" is defined in *Section 4.8*.

"*Business Day*" means any "Business Day" (as defined in the Agreement) other than a day on which dealings in U.S. Dollar deposits are not carried out on the London InterBank Market.

"*Cash Collateral Account*" is defined in *Section 4.17(a)*.

"*Cash Collateral Account Property*" is defined in *Section 4.17(a)*.

"*Certificate Purchase Agreement*" means, as the context requires, (i) the Class A Certificate Purchase Agreement, the Class M Certificate Purchase Agreement, the Class B Certificate Purchase Agreement and the Class C Certificate Purchase Agreement or (ii) any of the foregoing.

"*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.

"*Class A Additional Amounts*" is defined in *Section 4.8(a)*.

"*Class A Certificate*" means a certificate substantially in the form of *Exhibit A-1* executed by the Transferor and authenticated by the Trustee to be a Class A Asset-Backed Certificate, Series 2009-VFC1.

"*Class A Certificate Purchase Agreement*" means the Third Amended and Restated Class A Certificate Purchase Agreement dated as of the Amendment Closing Date among Transferor, Servicer and each of the Class A Holders, as the same may be amended or otherwise modified from time to time. The Class A Certificate Purchase Agreement is hereby designated as a "Transaction Document" for all purposes of the Agreement and this Series Supplement.

"*Class A Fee Letter*" is defined in the Class A Certificate Purchase Agreement. Each Class A Fee Letter is hereby designated a "Transaction Document" for all purposes of the Agreement and this Series Supplement.

"*Class A Fixed Allocation Percentage*" means, for any Monthly Period, the percentage equivalent (which percentage shall never exceed 100%) of a fraction, (a) the numerator of which is the Class A Invested Amount as of the close of business on the last day of the Revolving Period and (b) the denominator of which is equal to the Invested Amount as of the close of business on the last day of the Revolving Period.

"*Class A Floating Allocation Percentage*" means, for any Monthly Period, the percentage equivalent (which percentage shall never exceed 100%) of a fraction:

(a) the numerator of which is the Class A Invested Amount as of the close of business on the last day of the preceding Monthly Period; and

(b) the denominator of which is equal to the Invested Amount as of the close of business on the last day of the preceding Monthly Period;

provided that with respect to any Monthly Period in which a Reset Date occurs:

(x) if such Reset Date is the result of an Incremental Funding or the issuance of a new Series, the numerator determined pursuant to *clause (a)* shall be (1) the Class A Invested Amount as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, 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 (2) the Class A Invested Amount as of the close of business on such Reset Date, 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); and

(y) if such Reset Date is the result of an Incremental Funding or the issuance of a new Series, the denominator determined pursuant to *clause (b)* shall be (1) the Invested Amount as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, for the period from and including the first day of the current Monthly Period or preceding Reset Date, as applicable, to but excluding such Reset Date and (2) the Invested Amount as of the close of business on such Reset Date, 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);

provided further that, for purposes of this definition, with respect to the first Monthly Period, the Closing Date shall be treated as the last day of the preceding Monthly Period.

"*Class A Funded Amount*" means, on any Business Day, an amount equal to the result of (a) $, *plus* (b) the aggregate amount of all Class A Incremental Funded Amounts for all Class A Incremental Fundings occurring after the Amendment Closing Date and on or prior to that Business Day, *minus* (c) the aggregate amount of principal payments made to Class A Holders after the Amendment Closing Date and on or prior to such date. As applied to any particular Class A Certificate, the "Class A Funded Amount" means the portion of the overall Class A Funded Amount represented by that Class A Certificate. The Class A Funded Amount shall be allocated among the Class A Ownership Interests as provided in the Class A Certificate Purchase Agreement.

"*Class A Funding Agent*" is defined in the Class A Certificate Purchase Agreement.

"*Class A Funding Tranche*" is defined in *Section 4.8(a)*.

"*Class A Holder*" means a Person in whose name a Class A Certificate is registered in the Certificate Register.

"*Class A Incremental Funded Amount*" means the amount of the increase in the Class A Funded Amount occurring as a result of any Class A Incremental Funding, which amount shall equal the aggregate amount of the purchase price paid by the Class A Holders with respect to that Class A Incremental Funding pursuant to the Class A Certificate Purchase Agreement.

"*Class A Incremental Funding*" means any increase in the Class A Funded Amount during the Revolving Period made pursuant to the Class A Certificate Purchase Agreement.

"*Class A Invested Amount*" means, on any date of determination, an amount equal to (a) the Class A Funded Amount on that date, *minus* (b) the excess, if any, of the aggregate amount of reductions to the Class A Invested Amount as a result of Class A Investor Charge-Offs pursuant to *Section 4.12(a)* over Class A Investor Charge-Offs reimbursed pursuant to *Section 4.11(a)(ix)* prior to such date of determination; provided that the Class A Invested Amount may not be reduced below zero.

"*Class A Investor Allocation Percentage*" means, for any Monthly Period, (a) with respect to Default Amounts and Finance Charge Receivables at any time and Principal Receivables during the Revolving Period, the Class A Floating Allocation Percentage and (b) with respect to Principal Receivables during a Fixed Allocation Period, the Class A Fixed Allocation Percentage.

"*Class A Investor Charge-Off*" is defined in *Section 4.12(a)*.

"*Class A Investor Default Amount*" means, as to each Transfer Date, an amount equal to the sum for all days during the related Monthly Period of the product of (a) the Investor Default Amount for such day and (b) the Class A Floating Allocation Percentage applicable on such day.

"*Class A Maximum Funded Amount*" means $, as such amount may be increased or decreased from time to time pursuant to *Section 6* of this Series Supplement. As applied to any particular Class A Certificate, the "Class A Maximum Funded Amount" means the portion of the overall Class A Maximum Funded Amount represented by that Class A Certificate.

"*Class A Monthly Interest*" is defined in *Section 4.10(a)*.

"*Class A Monthly Principal*" is defined in *Section 4.9(a)*.

"*Class A Non-Use Fee*" is defined in *Section 4.8(a)*.

"*Class A Ownership Interest*" is defined in *Section 1(c)* of this Series Supplement.

"*Class A Ownership Group Percentage*" means the "Ownership Group Percentage" as defined in the Class A Certificate Purchase Agreement.

"*Class A Pro Rata Percentage*" means %.

"*Class A Required Amount*" is defined in *Section 4.10(a)*.

"*Class A Senior Additional Amounts*" is defined in *Section 4.8(a)*.

"*Class A Subordinate Additional Amounts*" is defined in *Section 4.8(a)*.

"*Class B Certificate*" means a certificate substantially in the form of *Exhibit A-3* executed by the Transferor and authenticated by the Trustee to be a Class B Asset-Backed Certificate, Series 2009-VFC1.

"*Class B Certificate Purchase Agreement*" means the Class B Certificate Purchase Agreement dated as of the Closing Date among Transferor, Servicer and the Class B Holders, and as the same may be amended or otherwise modified from time to time. The Class B Certificate Purchase Agreement is hereby designated a "Transaction Document" for all purposes of the Agreement and this Series Supplement.

"*Class B Fixed Allocation Percentage*" means, for any Monthly Period, the percentage equivalent (which percentage shall never exceed 100%) of a fraction, (a) the numerator of which is the Class B Invested Amount as of the close of business on the last day of the Revolving Period and (b) the denominator of which is equal to the Invested Amount as of the close of business on the last day of the Revolving Period.

"*Class B Floating Allocation Percentage*" means, for any Monthly Period, the percentage equivalent (which percentage shall never exceed 100%) of a fraction:

(a) the numerator of which is the Class B Invested Amount as of the close of business on the last day of the preceding Monthly Period; and

(b) the denominator of which is equal to the Invested Amount as of the close of business on the last day of the preceding Monthly Period;

provided that with respect to any Monthly Period in which a Reset Date occurs:

(x) if such Reset Date is the result of an Incremental Funding or the issuance of a new Series, the numerator determined pursuant to *clause (a)* shall be (1) the Class B Invested Amount as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, 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 (2) the Class B Invested Amount as of the close of business on such Reset Date, 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); and

(y) if such Reset Date is the result of an Incremental Funding or the issuance of a new Series, the denominator determined pursuant to *clause (b)* shall be (1) the Invested Amount as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, for the period from and including the first day of the current Monthly Period or preceding Reset Date, as applicable, to but excluding such Reset Date and (2) the Invested Amount as of the close of business on such Reset Date, 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);

provided further that, with respect to the first Monthly Period, the Closing Date shall be treated as the last day of the preceding Monthly Period.

"*Class B Funded Amount*" means, on any Business Day, an amount equal to the result of (a) $, *plus* (b) the aggregate amount of all Class B Incremental Funded Amounts for all Class B Incremental Fundings occurring after the Amendment Closing Date and on or prior to that Business Day, *minus* (c) the aggregate amount of principal payments made to the Class B Holder after the Amendment Closing Date and on or prior to such date.

"*Class B Holder*" means a Person in whose name a Class B Certificate is registered in the Certificate Register.

"*Class B Incremental Funded Amount*" means the amount of the increase in the Class B Funded Amount occurring as a result of any Class B Incremental Funding, which amount shall equal the aggregate amount of the purchase price paid by the Class B Holders with respect to that Class B Incremental Funding pursuant to the Class B Certificate Purchase Agreement.

"*Class B Incremental Funding*" means any increase in the Class B Funded Amount during the Revolving Period made pursuant to the Class B Certificate Purchase Agreement.

"*Class B Invested Amount*" means, on any date of determination, an amount equal to (a) the Class B Funded Amount on that date, *minus* (b) the excess, if any, of (x) the aggregate amount of reductions to the Class B Invested Amount as a result of Class B Investor Charge-Offs and Reallocated Principal Collections and reductions of the Class B Invested Amount pursuant to *Sections 4.12(a) and (b)* over (y) reimbursements of such reductions pursuant to *Section 4.11(a)(xiii)* prior to such date of determination; provided that the Class B Invested Amount may not be reduced below zero.

"*Class B Investor Allocation Percentage*" means, for any Monthly Period, (a) with respect to Default Amounts and Finance Charge Receivables at any time and Principal Receivables during the Revolving Period, the Class B Floating Allocation Percentage and (b) with respect to Principal Receivables during a Fixed Allocation Period, the Class B Fixed Allocation Percentage.

"*Class B Investor Charge-Off*" is defined in *Section 4.12(c).*

"*Class B Investor Default Amount*" means, as to each Transfer Date, an amount equal to the sum for all days during the related Monthly Period of the product of (a) the Investor Default Amount for such day and (b) the Class B Floating Allocation Percentage applicable on such day.

"*Class B Maximum Funded Amount*" means $, as such amount may be increased or decreased from time to time pursuant to *Section 6* of this Series Supplement.

"*Class B Monthly Interest*" is defined in *Section 4.10(e).*

"*Class B Monthly Principal*" is defined in *Section 4.9(c).*

"*Class B Pro Rata Percentage*" means %.

"*Class B Reallocated Principal Collections*" means, with respect to any Transfer Date, Collections of Principal Receivables allocable to the related Monthly Period applied in accordance with *Section 4.14* on such Transfer Date in an amount not to exceed the aggregate amount of Collections allocated to the Investor Certificates pursuant to *Sections 4.7(a)(iii)*, *(b)(iii)* and *(c)(iii)* during the Monthly Period relating to such Transfer Date; provided that such amount shall not exceed the Class B Invested Amount after giving effect to any Class B Investor Charge-Offs for such Transfer Date.

"*Class B Required Amount*" is defined in *Section 4.10(e).*

"*Class C Certificate*" means a certificate substantially in the form of *Exhibit A-4* executed by the Transferor and authenticated by the Trustee to be a Class C Asset-Backed Certificate, Series 2009-VFC1.

"*Class C Certificate Purchase Agreement*" means the Class C Certificate Purchase Agreement, dated as of September 28, 2012, among Transferor, Servicer and the Class C Holders, and as the same may be amended or otherwise modified from time to time. The Class C Certificate Purchase Agreement is hereby designated a "Transaction Document" for all purposes of the Agreement and this Series Supplement.

"*Class C Fixed Allocation Percentage*" means, for any Monthly Period, the percentage equivalent (which percentage shall never exceed 100%) of a fraction, (a) the numerator of which is the Class C Invested Amount as of the close of business on the last day of the Revolving Period and (b) the denominator of which is equal to the Invested Amount as of the close of business on the last day of the Revolving Period.

"*Class C Floating Allocation Percentage*" means, for any Monthly Period, the percentage equivalent (which percentage shall never exceed 100%) of a fraction:

(a) the numerator of which is the Class C Invested Amount as of the close of business on the last day of the preceding Monthly Period; and

(b) the denominator of which is equal to the Invested Amount as of the close of business on the last day of the preceding Monthly Period;

provided that with respect to any Monthly Period in which a Reset Date occurs:

(x) if such Reset Date is the result of an Incremental Funding or the issuance of a new Series, the numerator determined pursuant to *clause (a)* shall be (1) the Class C Invested Amount as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, 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 (2) the Class C Invested Amount as of the close of business on such Reset Date, 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); and

(y) if such Reset Date is the result of an Incremental Funding or the issuance of a new Series, the denominator determined pursuant to *clause (b)* shall be (1) the Invested Amount as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, for the period from and including the first day of the current Monthly Period or preceding Reset Date, as applicable, to but excluding such Reset Date and (2) the Invested Amount as of the close of business on such Reset Date, 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);

provided further that, with respect to the first Monthly Period, the Amendment Closing Date shall be treated as the last day of the preceding Monthly Period.

"*Class C Funded Amount*" means, on any Business Day, an amount equal to the result of (a) $, *plus* (b) the aggregate amount of all Class C Incremental Funded Amounts for all Class C Incremental Fundings occurring after the Amendment Closing Date and on or prior to that Business Day, *minus* (c) the aggregate amount of principal payments made to the Class C Holder after the Amendment Closing Date and on or prior to such date.

"*Class C Holder*" means a Person in whose name a Class C Certificate is registered in the Certificate Register.

"*Class C Incremental Funded Amount*" means the amount of the increase in the Class C Funded Amount occurring as a result of any Class C Incremental Funding, which amount shall equal the aggregate amount of the purchase price paid by the Class C Holders with respect to that Class C Incremental Funding pursuant to the Class C Certificate Purchase Agreement.

"*Class C Incremental Funding*" means any increase in the Class C Funded Amount during the Revolving Period made pursuant to the Class C Certificate Purchase Agreement.

"*Class C Invested Amount*" means, on any date of determination, an amount equal to (a) the Class C Funded Amount on that date, *minus* (b) the excess, if any, of (x) the aggregate amount of reductions to the Class C Invested Amount as a result of Class C Investor Charge-Offs and Reallocated Principal Collections and reductions of the Class C Invested Amount pursuant to *Sections 4.12(a), (b) and (c)* over (y) reimbursements of such reductions pursuant to *Section 4.11(a)(xv)* prior to such date of determination; provided that the Class B Invested Amount may not be reduced below zero.

"*Class C Investor Allocation Percentage*" means, for any Monthly Period, (a) with respect to Default Amounts and Finance Charge Receivables at any time and Principal Receivables during the Revolving Period, the Class C Floating Allocation Percentage and (b) with respect to Principal Receivables during a Fixed Allocation Period, the Class C Fixed Allocation Percentage.

"*Class C Investor Charge-Off*" is defined in *Section 4.12(d).*

“*Class C Investor Default Amount*” means, as to each Transfer Date, an amount equal to the sum for all days during the related Monthly Period of the product of (a) the Investor Default Amount for such day and (b) the Class C Floating Allocation Percentage applicable on such day.

“*Class C Maximum Funded Amount*” means $, as such amount may be increased or decreased from time to time pursuant to *Section 6* of this Series Supplement.

“*Class C Monthly Interest*” is defined in *Section 4.10(g).*

“*Class C Monthly Principal*” is defined in *Section 4.9(d).*

“*Class C Pro Rata Percentage*” means %.

“*Class C Reallocated Principal Collections*” means, with respect to any Transfer Date, Collections of Principal Receivables allocable to the related Monthly Period applied in accordance with *Section 4.14* on such Transfer Date in an amount not to exceed the aggregate amount of Collections allocated to the Investor Certificates pursuant to *Sections 4.7(a)(ii), (b)(ii)* and *(c)(ii)* during the Monthly Period relating to such Transfer Date; provided that such amount shall not exceed the Class C Invested Amount after giving effect to any Class C Investor Charge-Offs for such Transfer Date.

“*Class C Required Amount*” is defined in *Section 4.10(g).*

“*Class M Certificate*” means a certificate substantially in the form of *Exhibit A-2* executed by the Transferor and authenticated by the Trustee to be a Class M Asset-Backed Certificate, Series 2009-VFC1.

“*Class M Certificate Purchase Agreement*” means the Class M Certificate Purchase Agreement dated as of the Closing Date among Transferor, Servicer and the Class M Holders, and as the same may be amended or otherwise modified from time to time. The Class M Certificate Purchase Agreement is hereby designated a “Transaction Document” for all purposes of the Agreement and this Series Supplement.

“*Class M Fixed Allocation Percentage*” means, for any Monthly Period, the percentage equivalent (which percentage shall never exceed 100%) of a fraction, (a) the numerator of which is the Class M Invested Amount as of the close of business on the last day of the Revolving Period and (b) the denominator of which is equal to the Invested Amount as of the close of business on the last day of the Revolving Period.

“*Class M Floating Allocation Percentage*” means, for any Monthly Period, the percentage equivalent (which percentage shall never exceed 100%) of a fraction:

(a) the numerator of which is the Class M Invested Amount as of the close of business on the last day of the preceding Monthly Period; and

(b) the denominator of which is equal to the Invested Amount as of the close of business on the last day of the preceding Monthly Period;

provided that with respect to any Monthly Period in which a Reset Date occurs:

(x) if such Reset Date is the result of an Incremental Funding or the issuance of a new Series, the numerator determined pursuant to *clause (a)* shall be (1) the Class M Invested Amount as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, 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 (2) the Class M Invested Amount as of the close of business on such Reset Date, 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); and

(y) if such Reset Date is the result of an Incremental Funding or the issuance of a new Series, the denominator determined pursuant to *clause (b)* shall be (1) the Invested Amount as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, for the period from and including the first day of the current Monthly Period or preceding Reset Date, as applicable, to but excluding such Reset Date and (2) the Invested Amount as of the close of business on such Reset Date, 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);

provided further that, with respect to the first Monthly Period, the Closing Date shall be treated as the last day of the preceding Monthly Period.

"*Class M Funded Amount*" means, on any Business Day, an amount equal to the result of (a) $, *plus* (b) the aggregate amount of all Class M Incremental Funded Amounts for all Class M Incremental Fundings occurring after the Amendment Closing Date and on or prior to that Business Day, *minus* (c) the aggregate amount of principal payments made to the Class M Holders after the Amendment Closing Date and on or prior to such date.

"*Class M Holder*" means a Person in whose name a Class M Certificate is registered in the Certificate Register.

"*Class M Incremental Funded Amount*" means the amount of the increase in the Class M Funded Amount occurring as a result of any Class M Incremental Funding, which amount shall equal the aggregate amount of the purchase price paid by the Class M Holders with respect to that Class M Incremental Funding pursuant to the Class M Certificate Purchase Agreement.

"*Class M Incremental Funding*" means any increase in the Class M Funded Amount during the Revolving Period made pursuant to the Class M Certificate Purchase Agreement.

"*Class M Invested Amount*" means, on any date of determination, an amount equal to (a) the Class M Funded Amount on that date, *minus* (b) the excess, if any, of (x) the aggregate amount of reductions to the Class M Invested Amount as a result of Class M Investor Charge-Offs and Reallocated Principal Collections and reductions of the Class M Invested Amount pursuant to *Section 4.12(a)* over (y) reimbursements of such reductions pursuant to

Section 4.11(a)(xi) prior to such date of determination; provided that the Class M Invested Amount may not be reduced below zero.

"*Class M Investor Allocation Percentage*" means, for any Monthly Period, (a) with respect to Default Amounts and Finance Charge Receivables at any time and Principal Receivables during the Revolving Period, the Class M Floating Allocation Percentage and (b) with respect to Principal Receivables during a Fixed Allocation Period, the Class M Fixed Allocation Percentage.

"*Class M Investor Charge-Off*" is defined in *Section 4.12(b).*

"*Class M Investor Default Amount*" means, as to each Transfer Date, an amount equal to the sum for all days during the related Monthly Period of the product of (a) the Investor Default Amount for such day and (b) the Class M Floating Allocation Percentage applicable on such day.

"*Class M Maximum Funded Amount*" means $, as such amount may be increased or decreased from time to time pursuant to *Section 6* of this Series Supplement.

"*Class M Monthly Interest*" is defined in *Section 4.10(c).*

"*Class M Monthly Principal*" is defined in *Section 4.9(b).*

"*Class M Pro Rata Percentage*" means %.

"Class M Reallocated Principal Collections" means, with respect to any Transfer Date, Collections of Principal Receivables allocable to the related Monthly Period applied in accordance with *Section 4.14* on such Transfer Date in an amount not to exceed the aggregate amount of Collections allocated to the Investor Certificates pursuant to *Sections 4.7(a)(iv), (b)(iv) and (c)(iv)* during the Monthly Period relating to such Transfer Date; provided that such amount shall not exceed the Class M Invested Amount after giving effect to any Class M Investor Charge-Offs for such Transfer Date.

"*Class M Required Amount*" is defined in *Section 4.10(c).*

"*Closing Date*" means March 31, 2009.

"*Comenity*" means Comenity Bank, a Delaware state bank, formerly known as World Financial Network Bank.

"*Controlled Amortization Amount*" means for any Transfer Date with respect to the Controlled Amortization Period, the Invested Amount as of the close of business on the last day of the Revolving Period *divided by* twelve.

"*Controlled Amortization Period*" means, unless an Early Amortization Event shall have occurred prior thereto, the period commencing at the opening of business on the first day of the Monthly Period beginning on or after the Purchase Commitment Expiration Date and ending on the earlier to occur of (a) the commencement of the Early Amortization Period, and (b) the Series 2009-VFC1 Termination Date; *provided* that Transferor may, by five Business Days' prior written notice to Trustee and each Investor Holder (and so long as the Early Amortization Period has not begun), cause the Controlled Amortization Period to begin on any date earlier than the date otherwise specified above.

"*Controlled Amortization Shortfall*" means, with respect to any Transfer Date during the Controlled Amortization Period, the excess, if any, of the Controlled Payment Amount for such Transfer Date over the amounts distributed pursuant to *Sections 4.11(c)(i)*, *(ii)*, *(iii)* and *(iv)* for such Transfer Date.

"*Controlled Payment Amount*" means, with respect to any Transfer Date during the Controlled Amortization Period, the sum of (a) the Controlled Amortization Amount for such Transfer Date and (b) any Controlled Amortization Shortfall from the immediately preceding Transfer Date, *provided* that (a) Transferor may designate any amount greater than the foregoing as the Controlled Payment Amount upon five Business Days' notice to the Investor Holders prior to the related Transfer Date and (b) in no event will the Controlled Payment Amount exceed the Invested Amount.

"*Cumulative Principal Shortfall*" means the sum of the Principal Shortfalls (as such term is defined in each of the related Series Supplements) for each Series in Group One.

"*Day Count Fraction*" means, as to any Class A Ownership Interest or Class A Funding Tranche 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 Interest or Class A Funding Tranche 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 Class A Certificate Purchase Agreement, 360).

"*Delayed Funding Date*" is defined in the Class A Certificate Purchase Agreement.

"*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 Transferor) in such Defaulted Account on the day it became a Defaulted Account.

"*Defaulted Account*" means an Account in which there are Defaulted Receivables.

"*Distribution Account*" is defined in *Section 4.16(a)*.

"*Distribution Date*" means May 15, 2009 and the fifteenth day of each calendar month thereafter, or if such fifteenth day is not a Business Day, the next succeeding Business Day.

"*Distribution Period*" means, with respect to any Distribution Date, the related Accrual Period (as defined in the Class A Certificate Purchase Agreement).

"*Early Amortization Commencement Date*" means the date on which an Early Amortization Event is deemed to occur pursuant to *Section 9.1* or an Early Amortization Event is deemed to occur pursuant to *Section 10* of this Series Supplement.

“*Early Amortization Period*” means the period commencing on the Early Amortization Commencement Date and ending on the Series 2009-VFC1 Termination Date.

“*Excess Spread Percentage*” means, for any Monthly Period, a percentage equal to the Portfolio Yield for each Monthly Period minus the Base Rate for such Monthly Period; *provided* that the Excess Spread Percentages for the February 2009 Monthly Period and the Excess Spread Percentage for the March 2009 Monthly Period shall be deemed to equal the Excess Spread Percentages (as defined in the Series 2005-VFC Supplement to the Agreement) related to the February 2009 and March 2009 Monthly Periods.

“*Finance Charge Account*” is defined in *Section 4.16(a)*.

“*Finance Charge Shortfall*” means, for Series 2009-VFC1 with respect to any Transfer Date, an amount equal to the excess, if any, of (a) the sum of the amounts specified in *subsections 4.11(a)(i) through (xx)* for that Transfer Date over (b) Available Funds (excluding Excess Finance Charge Collections) with respect to such Transfer Date.

“*Fixed Allocation Percentage*” means, with respect to any Monthly Period, the percentage equivalent of a fraction (a) the numerator of which is the Invested Amount as of the close of business on the last day of the Revolving Period and (b) the denominator of which is the greater of (i) the aggregate amount of Principal Receivables in the Trust determined as of the close of business on (A) if only one Series is outstanding, the last day of the Revolving Period and (B) if more than one Series is outstanding, the last day of the prior Monthly Period and (ii) the sum of the numerators used to calculate the Investor Percentages for allocations with respect to Principal Receivables for all outstanding Series on such date of determination; provided that with respect to any Monthly Period in which a Reset Date occurs, (x) the denominator determined pursuant to *subclause (b)(i)* shall be (1) the aggregate amount of Principal Receivables in the Trust as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, 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 (2) the aggregate amount of Principal Receivables in the Trust as of the close of business on such Reset Date, for the period from and including such Reset Date to the later 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) and (y) the denominator determined pursuant to *subclause (b)(ii)* shall be (1) the sum of the numerators used to calculate the Investor Percentages for allocations with respect to Principal Receivables for all outstanding Series as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, 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 (2) the sum of the numerators used to calculate the Investor Percentages for allocations with respect to Principal Receivables for all outstanding Series as of the close of business on such Reset Date, 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).

"*Fixed Allocation Period*" means the Controlled Amortization Period or the Early Amortization Period.

"*Fixed Period*" is defined in *Section 4.8(a).*

"*Floating Allocation Percentage*" means, with respect to any Monthly Period, the percentage equivalent of a fraction:

(a) the numerator of which is the Invested Amount as of the close of business on the last day of the preceding Monthly Period; and

(b) the denominator of which is the greater of (i) the aggregate amount of Principal Receivables as of the close of business on the last day of the preceding Monthly Period and (ii) the sum of the numerators used to calculate the Investor Percentages for allocations with respect to Finance Charge Receivables, Default Amounts or Principal Receivables, as applicable, for all outstanding Series on such date of determination in *subclause (b)(i);*

provided that with respect to any Monthly Period in which a Reset Date occurs:

(x) if such Reset Date is the result of an Incremental Funding or the issuance of a new Series, the numerator determined pursuant to *clause (a)* shall be (1) the Invested Amount as of the close of business on the later of the last day of the preceding Monthly Period or the preceding Reset Date, 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 (2) the Invested Amount as of the close of business on such Reset Date, 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);

(y) the denominator determined pursuant to *subclause (b)(i)* shall be (1) the aggregate amount of Principal Receivables in the Trust as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, for the period from and including the first day of the current Monthly Period or preceding Reset Date, as applicable, to but excluding such Reset Date and (2) the aggregate amount of Principal Receivables in the Trust as of the close of business on such Reset Date, 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); and

(z) the denominator determined pursuant to subclause (b)(ii) shall be (1) the sum of the numerators used to calculate the Investor Percentages for all outstanding Series for allocations with respect to Finance Charge Receivables, Defaulted Receivables or Principal Receivables, as applicable, for all such Series as of the close of business on the later of the last day of the prior Monthly Period or the preceding Reset Date, for the period from and including the first day of the current Monthly Period or preceding Reset Date, as applicable, to but excluding such Reset Date and (2) the sum of the numerators used to calculate the Investor Percentages for all outstanding Series for allocations with respect to Finance Charge Receivables, Defaulted Receivables or Principal Receivables, as applicable, for all such Series as the close of business on such Reset Date, 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).

provided further that, with respect to the first Monthly Period, the Closing Date shall be treated as the last day of the preceding Monthly Period.

"*Funded Amount*" means, as the context requires, (i) the Class A Funded Amount, the Class M Funded Amount, the Class B Funded Amount and the Class C Funded Amount or (ii) any of the foregoing.

"*Group One*" means Series 2009-VFC1 and each other Series specified in the related Supplement to be included in Group One.

"*Holding*" means Alliance Data Systems Corporation, a Delaware corporation.

"*Incremental Funding*" means any increase in the Class A Funded Amount, Class M Funded Amount, the Class B Funded Amount or the Class C Funded Amount during the Revolving Period made pursuant to the applicable Certificate Purchase Agreement.

"*Invested Amount*" means, on any date of determination, an amount equal to the sum of (a) the Class A Invested Amount, (b) the Class M Invested Amount, (c) the Class B Invested Amount and (d) the Class C Invested Amount, each as of such date.

"*Investment Earnings*" means, with respect to any Transfer Date, all interest and earnings on Eligible Investments included in the Spread Account (net of losses and investment expenses) during the Monthly Period immediately preceding such Transfer Date.

"*Investor Certificates*" means the Class A Certificates, the Class M Certificates, the Class B Certificates and the Class C Certificates.

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

"*Investor Holder*" means any Class A Holder, any Class M Holder, any Class B Holder or any Class C Holder.

"*Investor Interchange Amount*" is defined in *Section 4.19*.

"*Investor Percentage*" means, for any Monthly Period, (a) with respect to Finance Charge Receivables and Default Amounts at any time and Principal Receivables during the Revolving Period, the Floating Allocation Percentage and (b) with respect to Principal Receivables during a Fixed Allocation Period, the Fixed Allocation Percentage.

"*Investor Principal Collections*" means, with respect to any Monthly Period, the sum of (a) the aggregate amount allocated to the Investor Holders for such Monthly Period pursuant to *Sections 4.7(a)(ii), (iii), (iv)* and *(v), 4.7(b) (ii), (iii), (iv)* and *(v)* and *4.7(c) (ii), (iii), (iv)* and *(v)*, in each case, as applicable to such Monthly Period, (b) the aggregate amount to be treated as Investor Principal Collections pursuant to *Sections 4.11(a)(viii)* through *(xv)* for such Monthly Period, and (c) the aggregate amount transferred from the Excess Funding Account to the Distribution Account pursuant to *Sections 4.2* and *4.11(c)*.

"*Investor Servicing Fee*" is defined in *Section 3* of this Series Supplement.

"*Majority Series Holders*" means (i) at any time that any Class A Certificate is Outstanding, the Class A Funding Agents for Ownership Groups (as defined in the Class A Certificate Purchase Agreement) evidencing more than 50% of the Class A Funded Amount, and (ii) if there are no Class A Notes Outstanding, Investor Holders evidencing more than 50% of the Invested Amount.

"*Mandatory Limited Amortization Amount*" means, for any Transfer Date with respect to the Mandatory Limited Amortization Period (beginning with the Transfer Date in the month following the month in which the Mandatory Limited Amortization Period begins) and the Transfer Date in the month in which the Controlled Amortization Period commences (unless the Non-Renewing Purchaser Funded Amount shall have been reduced to zero prior to such date), the lesser of (a) the Non-Renewing Purchaser Funded Amount (after giving effect to all reductions thereof on such Transfer Date pursuant to *Section 4.12* and *4.14*) 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 Funded Amount over the Mandatory Limited Amortization Target.

"*Mandatory Limited Amortization Date*" means the Purchase Commitment 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 Commitment Expiration Date, (y) there are one or more Non-Renewing Ownership Groups and (z) the Trust has not repaid the outstanding Non-Renewing Purchaser Funded Amount on or prior to the related Purchase Commitment Expiration Date (without giving effect to the requested extension).

"*Mandatory Limited Amortization Period*" means the period commencing on the first day of the first month that commences on or after the Mandatory Limited Amortization Date and ending on the earliest to occur of (x) the payment in full of the Non-Renewing Purchaser Funded Amount, (y) the commencement of the Controlled Amortization Period or the Early Amortization Period and (z) Series 2009-VFC1 Termination Date.

"*Mandatory Limited Amortization Shortfall*" means, with respect to any Distribution Date, the excess, if any, of (a) the Mandatory Limited Payment Amount for the preceding Distribution Date over (b) the amounts paid pursuant to *Section 4.11(b)* with respect to the Class A Monthly Principal.

"*Mandatory Limited Amortization Target*" means, with respect to any Transfer Date, (a) the Non-Renewing Purchaser Funded Amount 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 months that have elapsed during the Mandatory Limited Amortization Period as of the such Transfer Date (which, for the avoidance of doubt, shall exclude the month in which such Transfer Date falls), and the denominator of which is 12 and (ii) the Non-Renewing Purchaser Funded Amount 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 Distribution Date in the month immediately following the month in which the Mandatory Limited Amortization Period begins, and the Transfer Date in the month in which the Controlled Amortization Period commences (unless the Non-Renewing Purchaser Funded Amount shall have been reduced to zero prior to such date), the sum of (a) the Mandatory Limited Amortization Amount for such Distribution Date, plus (b) any existing Mandatory Limited Amortization Shortfall.

"*Merchant Bankruptcy*" means the failure of a Merchant generally to, or admit in writing its inability to, pay its debts as they become due; or any 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 commencement by a Merchant of 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 or 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 the confirmation of a Chapter 11 Plan under a Debtor Relief Law for a Merchant shall no longer be a Merchant Bankruptcy for such Merchant upon the occurrence of the effective date of such Chapter 11 Plan. For purposes of this definition, a "Chapter 11 Plan" shall mean a plan filed and confirmed pursuant to the provisions of Chapter 11 of the United States Bankruptcy Code (11 U.S.C. §§ 101 et. seq.) but shall exclude a Chapter 11 Plan under which the Merchant liquidates all of its assets and discontinues operations.

"*Monthly Deposit Period*" means any period of time during which any of the following is true: (a) Comenity maintains a short term debt rating of A-1 or better by S&P, P-1 by Moody's and, if rated by Fitch, F1 by Fitch (or such other rating below A-1, P-1 or F1, as the case may be, which satisfies the Rating Agency Condition); or (b) Comenity has provided to Trustee a letter of credit covering collection risk of Servicer that satisfies the Rating Agency Condition.

"*Monthly Period*" is defined in the Agreement, except that the first Monthly Period begins on and includes the Closing Date and ends on and includes April 30, 2009.

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

"*Non-Renewing Purchaser Funded Amount*" means the Class A Funded Amount allocated to Non-Renewing Ownership Groups.

"*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.

"*Notice of Class A Incremental Funding*" has the meaning specified in the Class A Certificate Purchase Agreement.

"*Optional Amortization Amount*" is defined in *Section 4(b)* of this Series Supplement.

"*Optional Amortization Date*" is defined in *Section 4(b)* of this Series Supplement.

"*Optional Amortization Funds*" means the excess of (a) funds deposited into the Principal Account pursuant to *Section 4.7(a)(v)* or *4.7(b)(v),* over (b) (i) during the Controlled Amortization Period, funds deposited into the Principal Account for the payment of the Controlled Payment Amount or (ii) during any Mandatory Limited Amortization Period, funds deposited into the Principal Account for the payment of the Mandatory Limited Payment Amount, if any.

"*Optional Amortization Notice*" is defined in *Section 4(b)* of this Series Supplement.

"*Portfolio Yield*" means, with respect to any Monthly Period, the annualized percentage (based on actual days during the related Monthly Period, and a 360-day year) equivalent of a fraction, the numerator of which is the sum of (a) an amount equal to the amount of Collections of Finance Charge Receivables allocated to the Investor Certificates for such Monthly Period pursuant to *Section 4.7* such amount to be calculated on a cash basis after subtracting the Aggregate Investor Default Amount for such Monthly Period and (b) interest and earnings on the Series Accounts to be treated as Collections of Finance Charge Receivables allocable to the Investor Certificates on the Transfer Date related to such Monthly Period and the denominator of which is the Weighted Average Invested Amount during such Monthly Period.

"*Principal Account*" is defined in *Section 4.16(a).*

"*Principal Shortfall*" means, for Series 2009-VFC1 with respect to any Transfer Date, the excess, if any, of (a) (i) with respect to any Transfer Date relating to the Controlled Amortization Period, the sum of (A) the Aggregate Optional Amortization Amount and (B) the Controlled Payment Amount for such Transfer Date, (ii) with respect to any Transfer Date during the Early Amortization Period, the Invested Amount and (iii) with respect to any Transfer Date relating to the Revolving Period, the Aggregate Optional Amortization Amount over (b) the Investor Principal Collections, *minus* Reallocated Principal Collections.

"*Prior Amendment Date*" means September 28, 2012.

"*Pro Rata Allocation*" has the meaning specified in the Class A Certificate Purchase Agreement.

"*Pro Rata Funding Event*" has the meaning specified in the Class A Certificate Purchase Agreement.

"*Purchase Commitment Expiration Date*" has the meaning specified in the Class A Certificate Purchase Agreement.

"*Rating Agency*" means Fitch Ratings.

"*Rating Agency Condition*" shall mean for purposes of this Series Supplement and the Agreement with respect to Series 2009-VFC1 (i) the consent of all of the Class A Holders, the Class M Holders, the Class B Holders and the Class C Holders and (ii) 10 days' prior written notice (or, if 10 days' advance notice is impracticable, as much advance notice as is practicable) to Fitch delivered electronically to notifications.abs@fitchratings.com.

"*Reallocated Principal Collections*" means, with respect to any Transfer Date the sum of the Class M Reallocated Principal Collections, Class B Reallocated Principal Collections and Class C Reallocated Principal Collections for such Transfer Date.

"*Record Date*" means, for purposes of Series 2009-VFC1 with respect to any Distribution Date or Optional Amortization Date, the date falling five Business Days prior to such date.

"*Refinancing Date*" is defined in *Section 4(c)* of this Series Supplement.

"*Required Cash Collateral Amount*" means, as to any Transfer Date, if a Merchant Bankruptcy has occurred with respect to any Merchant(s), the excess of (a) the aggregate of the Principal Receivables in Accounts relating to such Merchant(s) as of the end of the prior Monthly Period over (b) the product of (i) % and (ii) the aggregate Principal Receivables in all Accounts.

"*Required Class B Funded Amount*" means the product of (a) the quotient of the sum of the Class A Funded Amount and the Class M Funded Amount, *divided by* the sum of the Class A Pro Rata Percentage and the Class M Pro Rata Percentage, multiplied by (b) the Class B Pro Rata Percentage.

"*Required Class C Funded Amount*" means the product of (a) the quotient of the sum of the Class A Funded Amount, the Class M Funded Amount and the Class B Funded Amount, *divided by* the sum of the Class A Pro Rata Percentage, the Class M Pro Rata Percentage and the Class B Pro Rata Percentage, multiplied by (b) the Class C Pro Rata Percentage.

"*Required Class M Funded Amount*" means the product of (a) the quotient of Class A Funded Amount, *divided by* the Class A Pro Rata Percentage, multiplied by (b) the Class M Pro Rata Percentage.

"*Required Draw Amount*" is defined in *Section 4.17(c)*.

“*Required Retained Transferor Percentage*” means, for purposes of Series 2009-VFC1, at any time, 9.0%. So long as Series 2009-VFC1 remains outstanding, the phrase “7% or, if less,” shall be deemed to have been deleted from the definition of “Required Retained Transferor Percentage” in the Agreement.

“*Reset Date*” means each of (a) an Addition Date relating to Supplemental Accounts, (b) a Removal Date on which, if any Series has been paid in full, Principal Receivables in an aggregate amount approximately equal to the initial investor interest of such Series are removed from the Trust, (c) a date on which an Incremental Funding occurs, (d) any date on which a new Series is issued and (e) any date on which the outstanding balance of any Variable Interest is increased.

“*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 Early Amortization Commencement Date. For the avoidance of doubt, the Revolving Period shall not terminate upon the commencement of a Mandatory Limited Amortization period; provided that the Mandatory Limited Amortization Period shall be deemed to be an Amortization Period.

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

“*Series Account*” means, as to Series 2009-VFC1, the Distribution Account, the Finance Charge Account, the Principal Account, the Cash Collateral Account and the Spread Account.

“*Series 2009-VFC1*” means the Series of the World Financial Network Credit Card Master Trust III represented by the Investor Certificates.

“*Series 2009-VFC1 Termination Date*” means the earliest to occur of (a) the Distribution Date falling in a Fixed Allocation Period on which the Invested Amount is paid in full, (b) the termination of the Trust pursuant to the Agreement and (c) the Distribution Date on or closest to the date falling 46 months after the Early Amortization Commencement Date.

“*Series Servicing Fee Percentage*” means 2.0%.

“*Shared Principal Collections*” means, as the context requires, either (a) the amount allocated to the Investor Certificates which may be applied to the Principal Shortfalls (as such term is defined in the Agreement) with respect to other outstanding Series in Group One or (b) the amounts allocated to the investor certificates of other Series in Group One which the applicable Supplements for such Series specify are to be treated as “Shared Principal Collections” and which may be applied to cover the Principal Shortfall with respect to the Investor Certificates.

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

“*Spread Account*” is defined in *Section 4.20*.

"*Spread Account Amount*" shall mean, as of any date, an amount equal to the amount on deposit in the Spread Account (exclusive of Investment Earnings) on such date, after giving effect to all deposits, transfers and withdrawals from the Spread Account on such date.

"*Spread Account Cap*" with respect to any date of determination, shall mean the lesser of (a) the Class B Invested Amount on such date and (b) the result obtained by multiplying the sum of the Class A Invested Amount, the Class M Invested Amount, the Class B Invested Amount and the Class C Invested Amount by the Applicable Percentage in effect on such date.

"*Target Amount*" is defined in *Section 4.7(d)*.

"*Unfunded Mandatory Limited Payment Amount*" means, at any date of determination during a Monthly Period, the excess, if any, of (1) the Mandatory Limited Payment Amount for the Transfer Date in the next following Monthly Period over (2) the amount on deposit in the Principal Account available for payment of such Mandatory Limited Payment Amount.

"*Unfunded Optional Amortization Amount*" means, at any time, the excess, if any, of the (1) the Aggregate Optional Amortization Amount over (2) the amount on deposit in the Principal Account available for payment of the Aggregate Optional Amortization Amount.

"*Weighted Average Class A Funded Amount*" means, as to any Class A Ownership Interest (or Class A Funding Tranche) for any Distribution Period, the quotient of (a) the summation of the portion of the Class A Funded Amount allocated to that Class A Ownership Interest (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.

"*Weighted Average Class A Invested Amount*" means, for any Monthly Period, the quotient of (a) the summation of the Class A Invested Amount determined as of each day in that Monthly Period, divided by (b) the number of days in that Monthly Period.

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

SECTION 3. *Servicing Fee*. The share of the Servicing Fee allocable to Series 2009-VFC1 with respect to any Transfer Date (the "*Investor Servicing Fee*") shall be equal to one-twelfth of the product of (i) the Series Servicing Fee Percentage and (ii) the Weighted Average Invested Amount for the Monthly Period preceding such Transfer Date. The Investor Servicing Fee shall be payable to Servicer solely to the extent amounts are available for distribution in respect thereof pursuant to *Sections 4.11(a)(iv).*

SECTION 4. *Variable Funding Mechanics*. (a) *Incremental Fundings*. (i) From time to time during the Revolving Period and prior to the Purchase Commitment Expiration Date, Transferor and Servicer may notify one or more Class A Holders that a Class A Incremental Funding will occur, subject to the conditions of the Class A Certificate Purchase Agreement on the next or any subsequent Business Day by delivering a Notice of Class A Incremental Funding executed by Transferor and Servicer to the Class A Funding Agent for each such Class A Holder, specifying the amount of such Class A Incremental Funding allocated to each Class A Ownership Interest 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 Funding Agent for a Class A Ownership Interest that is a Non-Renewing Ownership Group if the Class A Incremental Funding would occur on or after the Purchase Commitment Expiration Date (without giving effect to any requested extension of the Purchase Commitment Expiration Date to which the related Non-Renewing Ownership Group did not consent). At any time that a Pro Rata Funding Event has occurred and is continuing, the amount of each Class A Incremental Funding shall be allocated among the Class A Ownership Interests on a *pro rata* basis based on their respective Class A Ownership Group Percentages; *provided* that if a Pro Rata Funding Event has occurred and is continuing, the amount of the Class A Incremental Funding may be allocated among the Class A Ownership Interests on a non-*pro rata* basis if such allocation results in a Pro Rata Allocation among the Class A Ownership Interests on or before the Delayed Funding Date with respect to the related Notice of Class A Incremental Funding, after giving effect to the Class A Incremental Funding, and any Class A Incremental Funding to occur on or before such Delayed Funding Date and any Optional Amortization Amount requested to be allocated to one or more Class A Ownership Interests on or before such Delayed Funding Date. Upon any Class A Incremental Funding, the Class A Floating Allocation Percentage, the Class A Invested Amount, the Floating Allocation Percentage and the Invested Amount shall increase as provided herein. The increase in the Class A Invested Amount and the Class A Funded Amount shall be allocated to the Class A Certificates held by the Class A Holders from which purchase prices were received in connection with the Class A Incremental Funding in proportion to the amount of such purchase prices received.

(ii) From time to time during the Revolving Period, Transferor and Servicer may notify one or more Class M Holders that a Class M Incremental Funding will occur, subject to the conditions of the Class M Certificate Purchase Agreement on the next or any subsequent Business Day by delivering a Class M Incremental Funding Notice (as defined in the Class M Certificate Purchase Agreement) executed by Transferor and Servicer to the Class M Holders, specifying the amount of such Class M Incremental Funding and the Business Day upon which such Class M Incremental Funding is to occur. Upon any Class M Incremental Funding, the Class M Floating Allocation Percentage, the Class M Invested Amount, the Floating Allocation Percentage and the Invested Amount shall increase as provided herein.

(iii) From time to time during the Revolving Period, Transferor and Servicer may notify one or more Class B Holders that a Class B Incremental Funding will occur, subject to the conditions of the Class B Certificate Purchase Agreement on the next or any subsequent Business Day by delivering a Class B Incremental Funding Notice (as defined in the Class B Certificate Purchase Agreement) executed by Transferor and Servicer to the Class B Holders, specifying the amount of such Class B Incremental Funding and the Business Day upon which such Class B Incremental Funding is to occur. Upon any Class B Incremental Funding, the Class B Floating Allocation Percentage, the Class B Invested Amount, the Floating Allocation Percentage and the Invested Amount shall increase as provided herein.

(iv) From time to time during the Revolving Period, Transferor and Servicer may notify one or more Class C Holders that a Class C Incremental Funding will occur, subject to the conditions of the Class C Certificate Purchase Agreement on the next or any subsequent Business Day by delivering a Class C Incremental Funding Notice (as defined in the Class C Certificate Purchase Agreement) executed by Transferor and Servicer to the Class C Holders, specifying the amount of such Class C Incremental Funding and the Business Day upon which such Class C Incremental Funding is to occur. Upon any Class C Incremental Funding, the Class C Floating Allocation Percentage, the Class C Invested Amount, the Floating Allocation Percentage and the Invested Amount shall increase as provided herein.

(b) *Optional Amortization*. On any Business Day in the Revolving Period or the Controlled Amortization Period, Transferor may cause Servicer to provide notice to Trustee and the Investor Holders (an "*Optional Amortization Notice*") at least five Business Days prior to any Business Day (the "*Optional Amortization Date*") stating its intention to cause a full or partial amortization of the Investor Certificates with Optional Amortization Funds and/or Shared 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 Certificates, the Class M Certificates, the Class B Certificates and the Class C Certificates 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 M Invested Amount exceeds an amount equal to the Required Class M Funded Amount, the Class B Invested Amount exceeds an amount equal to the Required Class B Funded Amount or the Class C Invested Amount exceeds an amount equal to the Required Class C Funded Amount, the Optional Amortization Amount may be allocated on a non-pro rata basis among the Classes of Series 2009-VFC1 Certificates in order to first, reduce the Class M Invested Amount to an amount not less than the Required Class M Funded Amount, second, to reduce the Class B Invested Amount to an amount not less than the Required Class B Funded Amount, and third, to reduce the Class C Invested Amount to an amount not less than the Required Class C Funded Amount. The portion of the Optional Amortization Amount allocated to any Class A Ownership Interest shall be in an aggregate amount not less than $3,000,000 or integral multiples of $100,000 in excess thereof, except that the portion of the Optional Amortization Amount allocated to any Class A Ownership Interest may equal the entire Class A Funded Amount of the related Class A Certificate. The Optional Amortization Notice shall state the Optional Amortization Date, the Optional Amortization Amount and the allocation of such Optional Amortization Amount among the various Classes and Class A Ownership Interests; *provided* that at any time that a Pro Rata Funding Event has occurred and is continuing, the Class A Pro Rata Percentage of the Optional Amortization Amount (other than any Optional Amortization Amount to be allocated to a Non-Renewing Ownership Group) shall be allocated among the Class A Ownership Interests (excluding any Non-Renewing Ownership Groups) on a *pro rata* basis based on their respective Class A Ownership Group Percentages; *provided further* that if a Pro Rata Funding Event has occurred and is continuing, and a Pro Rata Allocation does not exist on the related Optional Amortization Date, then the Class A Pro Rata Percentage of the Optional Amortization Amount shall instead be allocated among the Class A Ownership Interests on a non-*pro rata* basis such that a Pro Rata Allocation would exist after giving effect to application of the Optional Amortization Amount, and any requested Class A Incremental Funding that has been requested on or before the related Optional Amortization Date. The Optional Amortization Amount shall be paid from Optional Amortization Funds and/or Shared Principal Collections pursuant to *Section 4.4*. If a Class A Ownership Interest is divided into more than one Class A Funding Tranche, allocation of the Optional Amortization Amount for each Class A Ownership Interest among the various outstanding Class A Funding Tranches shall be at the discretion of Transferor, and accrued interest and any Class A Additional Amounts on the affected Class A Funding Tranches shall be payable on the first Distribution Date on or after the related Optional Amortization Date. On the Business Day prior to each Optional Amortization Date, Servicer shall instruct Trustee in writing (which writing shall be substantially in the form of *Exhibit B*) to withdraw Optional Amortization Funds from the Principal Account and/or Available Shared Principal Collections from the Collection Account in an aggregate amount sufficient to pay the Optional Amortization Amount on that Optional Amortization Date and deposit the same in the Distribution Account, and 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 Investor Holder, cause Servicer to provide notice to Trustee and all of the Investor Holders at least five Business Days prior to any Business Day (the "*Refinancing Date*") stating its intention to cause the Funded Amount to be prepaid in full or in part in an amount not less than $3,000,000 and integral multiples of $100,000 in excess thereof (or, if less, the remaining Funded Amount) on the Refinancing Date with the proceeds from the issuance of a new series of Certificates. Any such prepayment of the Invested Amount shall be accompanied by a payment of (i) accrued and unpaid interest on the Funded Amount (or the portion thereof that is being prepaid) through the Refinancing Date, *plus* (ii) any accrued and unpaid Class A Non-Use Fees and Class A Additional Amounts in respect of the Funded Amount (or portion thereof that is being prepaid) through the Refinancing Date. In the case of any such conveyance, the proceeds of the new issuance in an amount sufficient (together with Collections available for such purpose) to pay the required amounts shall be deposited in the Distribution Account and shall be distributed to the applicable Investor Holder on the Refinancing Date 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 Certificates, shall be allocated among the Class A Ownership Interests as specified by the Transferor. At any time that a Pro Rata Funding Event has occurred and is continuing, the amount of any reduction in the Class A Funded Amount on the Refinancing Date shall be allocated among the Class A Ownership Interests on a *pro rata* basis based on their respective Class A Ownership Group Percentages; *provided however* that if a Pro Rata Funding Event has occurred and is continuing, and a reduction is requested at such time as a Pro Rata Allocation does not exist, then the amount of such reduction shall instead be allocated among the Class A Ownership Interests on a non-*pro rata* basis such that a Pro Rata Allocation would exist among the Class A Ownership Interests after giving effect to the payments made on the Refinancing Date, and any requested Class A Incremental Funding that has been requested on or before the related Refinancing Date.

SECTION 5. *Optional Repurchase; Reassignment and Termination Provisions*. (a) The Investor Certificates shall be subject to purchase by the Servicer at its option on any Distribution Date, on or after the Distribution Date on which the Invested Amount is reduced to an amount less than or equal to 10% of the highest historical Invested Amount by deposit into the Collection Account a final distribution for application in accordance with *Section 12.2* an amount which shall include the amount, if any, on deposit in the Principal Account and will be equal to the sum of (i) the Invested Amount, *plus* (ii) accrued and unpaid interest on the Investor

Certificates through the day preceding the Distribution Date on which the repurchase occurs, *plus* (iii) any accrued and unpaid Class A Non-Use Fees and Class A Additional Amounts in respect of the Investor Certificates through the day preceding the Distribution Date on which the repurchase occurs. Upon the tender of the outstanding Investor Certificates by the Investor Holders, Trustee shall, in accordance with the instructions of the Servicer, distribute the amounts, together with all funds on deposit in the Principal Account that are allocable to the Investor Certificates, to the Investor Holders on the next Distribution Date in repayment of the principal amount and accrued and unpaid interest owing to the Investor Holders. Following any redemption, the Investor Holders shall have no further rights with respect to the Receivables. In the event that Transferor fails for any reason to deposit in the Principal Account the aggregate purchase price for the Investor Certificates, payments shall continue to be made to the Investor Holders in accordance with the terms of the Agreement and this Series Supplement.

(b) The amount required to be deposited by Transferor with respect to the Investor Certificates in connection with any reassignment of Receivables pursuant to *Section 2.6* shall equal the sum of (i) the Invested Amount, *plus* (ii) accrued and unpaid interest on the Investor Certificates through the day preceding the Distribution Date on which the repurchase occurs, *plus* (c) any accrued and unpaid Class A Non-Use Fees and Class A Additional Amounts in respect of the Investor Certificates through the day preceding the Distribution Date on which the repurchase occurs. The amount so deposited shall be distributed to the Investor Holders in final payment of the Invested Amount and all such other amounts on the Distribution Date on which it is deposited.

(c) Proceeds available from the sale of Receivables in accordance with *Section 12.2* on the Series 2009-VFC1 Termination Date shall be treated, to the extent of the Invested Amount, as Collections of Principal Receivables that have been allocated to the Investor Certificates and any excess shall be treated as Collections of Finance Charge Receivables that have been allocated to the Investor Certificates, in each case with respect to the prior Monthly Period.

SECTION 6. *Maximum Funded Amounts*. (a) The initial Class A Maximum Funded Amount of each Class A Certificate is as set forth on the related Class A Certificate. The Class A Maximum Funded Amount of each Class A Certificate may be reduced or increased from time to time as provided in the Class A Certificate Purchase Agreement. Increases and decreases in the overall Class A Maximum Funded Amount are not required to be made ratably among the various Class A Certificates. Any decrease in the Class A Maximum Funded Amount of any Class A Certificate shall be permanent, unless a subsequent increase in the Class A Maximum Funded Amount is made in accordance with the Class A Certificate Purchase Agreement.

(b) The initial Class M Maximum Funded Amount of each Class M Certificate is as set forth on the related Class M Certificate. The Class M Maximum Funded Amount of each Class M Certificate may be reduced or increased from time to time with the written consent of the related Class M Holder and as provided in the Class M Certificate Purchase Agreement. Any decrease in the Class M Maximum Funded Amount of any Class M Certificate shall be permanent, unless a subsequent increase in the Class M Maximum Funded Amount is made in accordance with the Class M Certificate Purchase Agreement.

(c) The initial Class B Maximum Funded Amount of each Class B Certificate is as set forth on the related Class B Certificate. The Class B Maximum Funded Amount of each Class B Certificate may be reduced or increased from time to time with the written consent of the related Class B Holder and as provided in the Class B Certificate Purchase Agreement. Any decrease in the Class B Maximum Funded Amount of any Class B Certificate shall be permanent, unless a subsequent increase in the Class B Maximum Funded Amount is made in accordance with the Class B Certificate Purchase Agreement.

(d) The initial Class C Maximum Funded Amount of each Class C Certificate is as set forth on the related Class C Certificate. The Class C Maximum Funded Amount of each Class C Certificate may be reduced or increased from time to time with the written consent of the related Class C Holder and as provided in the Class C Certificate Purchase Agreement. Any decrease in the Class C Maximum Funded Amount of any Class C Certificate shall be permanent, unless a subsequent increase in the Class C Maximum Funded Amount is made in accordance with the Class C Certificate Purchase Agreement.

SECTION 7. *Delivery of the Investor Certificates*. (a) Transferor represents and warrants that is has delivered the Investor Certificates (in definitive, fully registered form) more fully described in *Section 7(b)* of this Series Supplement to Trustee for authentication in accordance with *Section 6.1*.

(b) Trustee hereby acknowledges Transferor's execution and delivery of the following Investor Certificates (in definitive, fully registered form) to Trustee pursuant to *Section 6.1*: (i) one (1) Class A Certificate designated R-8 in the principal amount of up to $ in the name of JPMorgan Chase Bank, N.A., (ii) one (1) Class A Certificate designated R-9 in the principal amount of up to $ in the name of The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, (iii) one (1) Class A Certificate designated R-10 in the principal amount of up to $ in the name of BNP Paribas, New York Branch, (iv) one (1) Class M Certificate designated R-4 in the principal amount of up to $ in the name of Comenity Bank, (v) one (1) Class B Certificate designated R-4 in the principal amount of up to $ in the name of Comenity Bank and (vi) one (1) Class C Certificate designated R-2 in the principal amount of up to $ in the name of WFN Credit Company, LLC.

(c) Pursuant to *Section 6.2*, Transferor hereby authorizes and directs Trustee to authenticate and deliver each such Investor Certificate delivered in accordance with *Section 7(a)* of this Series Supplement to the Transferor. The Transferor shall deliver such Investor Certificates as directed by the respective entities in whose names such Investor Certificates are held.

(d) This *Section 7* of this Series Supplement constitutes the order of the Transferor delivered pursuant to *Section 6.2*.

SECTION 8. *Article IV of the Agreement*. *Sections 4.1* through *4.5* shall read in their entirety as provided in the Agreement. Article IV (except for *Sections 4.1* through *4.5* thereof) shall read in its entirety as follows and shall be applicable only to the Investor Certificates:

SECTION 4.6. *Rights of Investor Holders*. The Investor Certificates shall represent undivided interests in the Trust, consisting of the right to receive, to the extent necessary to make the required payments with respect to such Investor Certificates at the times and in the amounts specified in this Agreement, (a) the Floating Allocation Percentage and Fixed Allocation Percentage (as applicable from time to time) of Collections received with respect to the Receivables and (b) funds on deposit in the Collection Account, the Finance Charge Account, the Principal Account, the Distribution Account, the Excess Funding Account, the Cash Collateral Account and the Spread Account. The Class M Certificates, the Class B Certificates and the Class C Certificates shall be subordinate to the Class A Certificates to the extent described herein. The Class B Certificates and the Class C Certificates shall be subordinate to the Class M Certificates to the extent described herein. The Class C Certificates shall be subordinate to the Class B Certificates to the extent described herein. The Transferor Certificate shall not represent any interest in the Collection Account, the Finance Charge Account, the Principal Account, the Distribution Account, the Excess Funding Account, the Cash Collateral Account or the Spread Account, except as specifically provided in this *Article IV*.

SECTION 4.7 *Allocations*. (a) *Allocations During the Revolving Period*. During the Revolving Period, Servicer shall allocate Collections to the Investor Holders as follows:

(i) allocate to the Investor Holders an amount equal to the product of (A) the Investor Percentage on the Date of Processing of such Collections and (B) the aggregate amount of Collections processed in respect of Finance Charge Receivables on such Date of Processing;

(ii) allocate to the Investor Holders an amount equal to the product of (A) the Class C Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing;

(iii) allocate to the Investor Holders an amount equal to the product of (A) the Class B Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing;

(iv) allocate to the Investor Holders an amount equal to the product of (A) the Class M Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing; and

(v) allocate to the Investor Holders an amount equal to the lesser of (A) the product of (1) the Class A Investor Allocation Percentage on the Date of Processing of such Collections, (2) the Investor Percentage on the Date of Processing of such

Collections and (3) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing and (B) the sum of any Unfunded Mandatory Limited Payment Amount and any Unfunded Optional Amortization Amount.

In addition, Servicer shall treat as Shared Principal Collections an amount equal to the excess, if any, of (1) the amount calculated pursuant to *clause (v)(A)* above over (2) the amount calculated pursuant to *clause (v)(B)* above.

(b) *Allocations During the Controlled Amortization Period*. During the Controlled Amortization Period, Servicer shall allocate Collections to the Investor Holders as follows:

(i) allocate to the Investor Holders an amount equal to the product of (A) the Investor Percentage on the Date of Processing of such Collections and (B) the aggregate amount of Collections processed in respect of Finance Charge Receivables on such Date of Processing;

(ii) allocate to the Investor Holders an amount equal to the product of (A) the Class C Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing;

(iii) allocate to the Investor Holders an amount equal to the product of (A) the Class B Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing;

(iv) allocate to the Investor Holders an amount equal to the product of (A) the Class M Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing; and

(v) allocate to the Investor Holders an amount equal to the product of (A) the Class A Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing.

(c) *Allocations During the Early Amortization Period*. During the Early Amortization Period, Servicer shall allocate Collections to the Investor Holders as follows:

(i) allocate to the Investor Holders an amount equal to the product of (A) the Investor Percentage on the Date of Processing of such Collections and (B) the aggregate amount of Collections processed in respect of Finance Charge Receivables on each Date of Processing;

(ii) allocate to the Investor Holders an amount equal to the product of (A) the Class C Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing;

(iii) allocate to the Investor Holders an amount equal to the product of (A) the Class B Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing;

(iv) allocate to the Investor Holders an amount equal to the product of (A) the Class M Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing; and

(v) allocate to the Investor Holders an amount equal to the product of (A) the Class A Investor Allocation Percentage on the Date of Processing of such Collections, (B) the Investor Percentage on the Date of Processing of such Collections and (C) the aggregate amount of Collections processed in respect of Principal Receivables on such Date of Processing.

(d) During a Monthly Deposit Period, amounts allocated to the Investor Holders pursuant to *Sections 4.7(a)*, *(b)* and *(c)* during any Monthly Period need not be deposited into the Collection Account or any Series Account prior to the earlier of (i) the Business Day prior to the date on which such amounts are needed to make any payment on a Refinancing Date or an Optional Amortization Date, in which case such amounts shall be deposited only as required by Section 4(b) of this Series Supplement and (ii) the related Transfer Date, and when so deposited, (x) may be deposited net of any amounts required to be distributed to Transferor and the Servicer, if Comenity is 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-VFC1 pursuant to *Section 4.15*)), subject in either case to the *proviso* to the next sentence. At any other time, amounts so allocated to the Investor Holders on each Date of Processing shall be deposited on that Date of Processing 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-VFC1 pursuant to *Section 4.15*)), *provided* that: (w) so long as no draw has been made on the Cash Collateral Account and no Early Amortization Event has occurred with respect to each Monthly Period falling in the Revolving Period, Collections of Finance Charge Receivables shall be deposited into the Finance Charge Account only until such time as the aggregate amount so deposited equals an amount (the "*Target Amount*") equal to the product of (i) the sum of (A) the amounts of Class A Monthly Interest, *plus* the Class M Monthly Interest, *plus* the Class B Monthly Interest, *plus* the Class C Monthly Interest, *plus* the Class A Senior Additional Amounts (if any), (B) if Comenity is not Servicer, the Investor Servicing Fee due on the related Distribution Date, and (C) any amount required to be deposited in the Cash Collateral Account on the related Transfer Date *multiplied by* (ii) 1.20; (x) with respect to each Monthly Period falling in the Revolving Period, Collections of Principal Receivables allocated to the Investor Holders pursuant to *subsections 4.7(a)(ii)*, *(iii)* and *(iv)* shall be paid to Transferor (or, if the Transferor Amount is less than the Specified Transferor Amount, deposited into the Excess Funding Account); (y) with respect to any Monthly Period falling in the Controlled Amortization Period, Collections of Principal Receivables allocated to the Investor Holders pursuant to *subsections 4.7(b)(ii)* through *(v)* are only required to be deposited into the Principal Account until the amount on deposit in the Principal Account equals the sum of (i) the Controlled Payment Amount for the related Transfer Date, *plus* (ii) the Unfunded Optional Amortization Amount, if any, and any Collections of Principal Receivables in excess of such amount shall be paid to the Transferor (or, if the Transferor Amount is less than the Specified Transferor Amount, deposited into the Excess Funding Account) and (z) with respect to any Monthly Period falling in the Early Amortization Period, Collections of Principal Receivables allocated to the Investor Holders pursuant to *subsections 4.7(c)(ii)* through *(v)* are only required to be deposited into the Principal Account until the amount on deposit in the Principal Account equals the Funded Amount, and any Collections of Principal Receivables in excess of such amount shall be paid to the Transferor (or, if the Transferor Amount is less than the Specified Transferor Amount, deposited into the Excess Funding Account).

With respect to any Monthly Period when deposits of Collections of Finance Charge Receivables into the Finance Charge Account are limited in accordance with *clause (x)* of the preceding *proviso*, notwithstanding such limitation: Collections of Finance Charge Receivables released to Transferor pursuant to such *clause (x)* shall be deemed, for purposes of all calculations under this Series Supplement, to have been applied to the items specified in *subsection 4.11(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. Notwithstanding such *clause (x)* above, if on any Business Day 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 Investor Holders for that Monthly Period but not deposited into the Finance Charge Account due to the operation of such *clause (x)* (but not in excess of the amount required so that the aggregate amount deposited for the subject Monthly Period equals the Target Amount). In addition, if on any Transfer Date the Transferor Amount will be less than the Specified Transferor Amount after giving effect to all transfers and deposits on that Transfer Date, Transferor shall, on that Transfer Date, deposit into the Principal Account funds in an amount equal to the amounts of available funds that are required to be treated as Investor Principal Collections pursuant to *Sections 4.11(a)(viii) - (xv)* but are not available from funds in the Finance Charge Account as a result of the operation of *clause (x)*; and *provided further* that, except as provided in the immediately preceding *proviso*, no funds shall be required to be deposited to the Principal Account pursuant to *Sections 4.11(a)(viii) – (xv)* unless such funds are required to make payments pursuant to *Sections 4.11(c)(i) – (iv)* on the related Transfer Date.

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

SECTION 4.8 *Interest, Class A Non-Use Fee and Breakage*. (a) Pursuant to the Class A Certificate Purchase Agreement, certain Class A Ownership Interests may from time to time be divided into one or more subdivisions (each, as further specified in the Class A Certificate Purchase Agreement, a "*Class A Funding Tranche*") which will accrue interest on different bases. For Class A Funding Tranches that accrue interest by reference to a commercial paper rate or the London interbank offered rate, a specified period (each, a "*Fixed Period*") will be designated in the Class A Certificate Purchase Agreement during which that Class A Funding Tranche will accrue interest at a fixed rate.

In addition to Class A Monthly Interest, each Class A Holder (i) shall receive a monthly commitment fee (a "*Class A Non-Use Fee*") with respect to each Distribution Period (or portion thereof) falling in the Revolving Period in an amount specified for each Class A Ownership Interest in the Class A Fee Letter (as defined in the Class A Certificate Purchase Agreement) and (ii) shall be entitled to receive certain other amounts identified as Class A Additional Amounts (such amounts, including Breakage Payments, being "*Class A Additional Amounts*") in the Class A Certificate Purchase Agreement. Class A Additional Amounts payable on any Distribution Date shall, so long as they equal less than 0.5% of the Weighted Average Class A Invested Amount over the related Distribution Period, constitute "*Class A Senior Additional Amounts*." Any Class A Additional Amounts payable on any Distribution Date in excess of the foregoing limitation shall constitute "*Class A Subordinate Additional Amounts*."

(b) If any distribution of principal is made with respect to any Class A Funding Tranche with a Fixed Period and a fixed interest rate for such period other than (i) on the last day of that Fixed Period or (ii) on a Distribution Date during the Controlled Amortization Period, or if the Class A Funded Amount of any Class A Ownership Interest is reduced by an Optional Amortization Amount in an amount greater than the amount (if any) specified in the Certificate Purchase Agreement with respect to that Class A Ownership Interest without the applicable number (as specified in the Certificate Purchase Agreement) of Business Days' prior notice to the affected Class A Holder, and in either case (i) the interest paid by the Class A Holder holding that Class A Funding Tranche to providers of funds to it to fund that Class A Funding Tranche exceeds (ii) returns earned by that Class A Holder through the last day of that Fixed Period by redeployment of such funds in highly rated short-term money market instruments, then, upon written notice (which notice shall be signed by an officer of that Class A Holder with knowledge of and responsibility for such matters and shall set forth in reasonable detail the basis for requesting the amounts, and shall be conclusive with respect to the amounts calculated thereon, absent manifest error) from such Class A Holder to Servicer, such Class A Holder shall be entitled to receive additional amounts in the amount of such excess (each, a "*Breakage Payment*") on the Distribution Date on or immediately succeeding 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 Holder later than noon, New York City time, on any day shall be deemed to have been received on the next day.

SECTION 4.9 *Determination of Monthly Principal*. (a) The amount of monthly principal ("*Class A Monthly Principal*") distributable from the Principal Account with respect to the Class A Certificates (i) on each Transfer Date, beginning with the Transfer Date in the month following the month in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to such Transfer Date) shall be the least of: (x) the Class A Pro Rata Percentage of the Available Investor Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (y) the Class A Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date plus the Class A Pro Rata Percentage of the Unfunded Optional Amortization Amount, if any, for such Transfer Date and (z) the Class A Invested Amount (after giving effect to all reductions thereof on such Transfer Date pursuant to *Sections 4.12* and *4.14*), (ii) on each Transfer Date beginning with the Transfer Date in the month following the month in which the Early Amortization Period begins, the lesser of (x) the Available Investor Principal Collections on deposit in the Principal Account with respect to such Transfer Date and (y) the Class A Invested Amount (after giving effect to all reductions thereof on such Transfer Date pursuant to *Sections 4.12* and *4.14*), and (iii) on each Transfer Date, beginning with the Transfer Date in the month following the month in which the Mandatory Limited Amortization Period begins and on the Transfer Date in the month in which Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to the end of the month immediately preceding such Transfer Date), shall be equal to the least of (x) the Available Investor 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 Mandatory Limited Payment Amount for such Transfer Date and (z) the Non-Renewing Purchaser Funded Amount.

(b) The amount of monthly principal ("*Class M Monthly Principal*") distributable from the Principal Account with respect to the Class M Certificates (i) on each Transfer Date beginning with the Transfer Date in the month following the month in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to such Transfer Date) shall be the least of: (x) the Class M Pro Rata Percentage of the Available Investor Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (y) the Class M Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date plus the Class M Pro Rata Percentage of the Unfunded Optimal Amortization Amount, if any, for such Transfer Date, and (z) the Class M Invested Amount (after giving effect to all reductions thereof on such Transfer Date pursuant to *Sections 4.12 and 4.14*), and (ii) on each Transfer Date beginning with the Transfer Date in the month following the month in which the Early Amortization Period begins, the least of (x) the excess of the Available Investor Principal Collections on deposit in the Principal Account with respect to such Transfer Date over the Available Investor Principal Collections applied to Class A Monthly Principal on such Transfer Date, and (y) the Class M Invested Amount (after giving effect to all reductions thereof on such Transfer Date pursuant to *Sections 4.12 and 4.14*).

(c) The amount of monthly principal ("*Class B Monthly Principal*") distributable from the Principal Account with respect to the Class B Certificates shall be, on each Transfer Date beginning with the first Transfer Date in the month following the month in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to such Transfer Date) shall be the least of: (x) the Class B Pro Rata Percentage of the Available Investor Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (y) the Class B Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date plus the Class B Pro Rata Percentage of the Unfunded Optional Amortization Amount, if any, for such Transfer Date and (z) the Class B Invested Amount (after giving effect to all reductions thereof on such Transfer Date pursuant to *Sections 4.12 and 4.14*) and (ii) on each Transfer Date beginning with the Transfer Date in the month following the month in which the Early Amortization Period begins, the least of (x) the excess of the Available Investor Principal Collections on deposit in the Principal Account with respect to such Transfer Date over the Available Investor Principal Collections applied to Class A Monthly Principal and Class M Monthly Principal on such Transfer Date, and (y) the Class B Invested Amount (after giving effect to all reductions thereof on such Transfer Date pursuant to *Sections 4.12 and 4.14*).

(d) The amount of monthly principal ("*Class C Monthly Principal*") distributable from the Principal Account with respect to the Class C Certificates (i) on each Transfer Date beginning with the first Transfer Date in the month following the month in which the Controlled Amortization Period begins (unless an Early Amortization Period shall have commenced prior to such Transfer Date) shall be the least of: (x) the Class C Pro Rata Percentage of the Available Investor Principal Collections on deposit in the Principal Account with respect to such Transfer Date, (y) the Class C Pro Rata Percentage of the Controlled Payment Amount for such Transfer Date plus the Class C Pro Rata Percentage of the Unfunded Optional Amortization Amount, if any, for such Transfer Date and (z) the Class C Invested Amount (after giving effect to all reductions thereof on such Transfer Date pursuant to *Sections 4.12 and 4.14*) and (ii) on each Transfer Date beginning with the Transfer Date in the month following the month in which the Early Amortization Period begins, the least of (x) the excess of the Available Investor Principal Collections on deposit in the Principal Account with respect to such Transfer Date over the Available Investor Principal Collections applied to Class A Monthly Principal, Class M Monthly Principal and Class C Monthly Principal on such Transfer Date, and (y) the Class C Invested Amount (after giving effect to all reductions thereof on such Transfer Date pursuant to *Sections 4.12 and 4.14*).

(e) Notwithstanding anything to the contrary in this *Section 4.9*, on the date hereof, accrued interest on the Class A Certificates held by Credit Suisse AG, New York Branch shall be payable to Credit Suisse AG, New York Branch, as a Class A Funding Agent. The Servicer shall instruct the 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 Certificate held by Credit Suisse AG, New York Branch through (but excluding) the date hereof and to pay such amount to Credit Suisse AG, New York Branch.

SECTION 4.10 *Coverage of Required Amount*. (a) On or before each Determination Date, Servicer shall determine the amount (the "*Class A Required Amount*") for the related Transfer Date, if any, by which the sum of (i) the Class A Monthly Interest for the related Distribution Period, *plus* (ii) the Class A Non-Use Fee, if any, for the related Distribution Period, *plus* (iii) the Class A Senior Additional Amounts, if any, for the related Transfer Date, *plus* (iv) the Investor Servicing Fee for the prior Monthly Period, *plus* (v) any Class A Non-Use Fee, Class A Senior Additional Amounts and the Investor Servicing Fee included in the Class A Required Amount for any prior Transfer Date but not yet paid exceeds the Available Funds for the related Monthly Period. The "*Class A Monthly Interest*" for any Distribution Period shall equal 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 Class A Certificate Rate (as defined in the Class A Certificate Purchase Agreement) applicable to the related Class A Ownership Interest during that Distribution Period, 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 Funding Agents pursuant to the Class A Certificate Purchase Agreement. The interest accrued on any Class A Funding Tranche for any Distribution Period shall be equal the product of the Weighted Average Class A Funded Amount for that Class A Funding Tranche, the applicable Funding Rate (as defined in the Class A Certificate Purchase Agreement) and the applicable Day Count Fraction.

(b) If the Class A Required Amount for such Transfer Date is greater than zero, (i) Servicer shall give written notice to Trustee of such positive Class A Required Amount on or before such Transfer Date and (ii) the Available Cash Collateral Amount in an amount equal to the Class A Required Amount, to the extent available for such purpose in accordance with *Section 4.17(c)*, shall be distributed from the Cash Collateral Account on such Transfer Date pursuant to *Section 4.17(c)* to cover any deficiency in payments pursuant to *Sections 4.11(a)(i) – (iv)*, in the order of priority specified in *Section 4.11(a)*. If the Class A Required Amount for such Transfer Date exceeds the Available Cash Collateral Amount with respect to such Transfer Date, Reallocated Principal Collections with respect to the prior Monthly Period shall be applied as specified in *Section 4.14*.

(c) On or before each Transfer Date, Servicer shall determine the amount (the "*Class M Required Amount*"), if any, by which the sum of (i) the Class M Monthly Interest for the related Distribution Period, *plus* (ii) any Class M Monthly Interest included in the Class M Required Amount for any prior Transfer Date but not yet paid, exceeds the funds applied to pay such amounts pursuant to *Section 4.11(a)(v)* for the related Monthly Period. The "*Class M Monthly Interest*" for any Distribution Period shall equal the aggregate amount of interest that accrued over that Distribution Period on the Class M Funded Amount, *plus* the aggregate amount of interest that accrued over any prior Distribution Period on the Class M Funded Amount and has not yet been paid, *plus* additional interest (to the extent permitted by law) on such overdue amounts at the Class M Certificate Rate (as defined in the Class M Certificate Purchase Agreement), all as calculated by Servicer in accordance with the Class M Certificate Purchase Agreement on the related Determination Date. For purposes of such determination, Servicer shall rely upon information provided by the Class M Holders pursuant to the Class M Certificate Purchase Agreement.

(d) If the Class M Required Amount for such Transfer Date is greater than zero, (i) Servicer shall give written notice to Trustee of such positive Class M Required Amount on or before such Transfer Date and (ii) the Available Cash Collateral Amount in an amount equal to the Class M Required Amount for such Transfer Date, to the extent available for such purpose in accordance with *Section 4.17(c)*, shall be distributed from the Cash Collateral Account on such Transfer Date pursuant to *Section 4.17(c)* to cover any deficiency in payments pursuant to *Section 4.11(a)(v)*. If the Class M Required Amount for such Transfer Date exceeds the amount of the Available Cash Collateral Amount with respect to such Transfer Date, Reallocated

Principal Collections with respect to the prior Monthly Period shall be applied as specified in *Section 4.14*.

(e) On or before each Transfer Date, Servicer shall determine the amount (the "*Class B Required Amount*"), if any, by which the sum of (i) the Class B Monthly Interest for the related Distribution Period, *plus* (ii) any Class B Monthly Interest included in the Class B Required Amount for any prior Transfer Date but not yet paid, exceeds the funds applied to pay such amounts pursuant to *Section 4.11(a)(vi)* for the related Monthly Period. The "*Class B Monthly Interest*" for any Distribution Period shall equal the aggregate amount of interest that accrued over that Distribution Period on each Class B Funded Amount, *plus* the aggregate amount of interest that accrued over any prior Distribution Period on the Class B Funded Amount and has not yet been paid, *plus* additional interest (to the extent permitted by law) on such overdue amounts at the Class B Certificate Rate (as defined in the Class B Certificate Purchase Agreement), all as calculated by Servicer in accordance with the Class B Certificate Purchase Agreement on the related Determination Date. For purposes of such determination, Servicer shall rely upon information provided by the Class B Holders pursuant to the Class B Certificate Purchase Agreement.

(f) If the Class B Required Amount for such Transfer Date is greater than zero, (i) Servicer shall give written notice to Trustee of such positive Class B Required Amount on or before such Transfer Date and (ii) the Available Cash Collateral Amount in an amount equal to the Class B Required Amount, to the extent available for such purpose in accordance with *Section 4.17(c)*, shall be distributed from the Cash Collateral Account on such Transfer Date pursuant to *Section 4.17(c)* to cover any deficiency in payments pursuant to *Section 4.11(a)(vi)*. If the Class B Required Amount for such Transfer Date exceeds the amount of the Available Cash Collateral Amount with respect to such Transfer Date, Reallocated Principal Collections with respect to the prior Monthly Period shall be applied as specified in *Section 4.14*.

(g) On or before each Transfer Date, Servicer shall determine the amount (the "*Class C Required Amount*"), if any, by which the sum of (i) the Class C Monthly Interest for the related Distribution Period, *plus* (ii) any Class C Monthly Interest included in the Class C Required Amount for any prior Transfer Date but not yet paid, exceeds the funds applied to pay such amounts pursuant to *Section 4.11(a)(vii)* for the related Monthly Period. The "*Class C Monthly Interest*" for any Distribution Period shall equal the aggregate amount of interest that accrued over that Distribution Period on each Class C Funded Amount, *plus* the aggregate amount of interest that accrued over any prior Distribution Period on the Class C Funded Amount and has not yet been paid, *plus* additional interest (to the extent permitted by law) on such overdue amounts at the Class C Certificate Rate (as defined in the Class C Certificate Purchase Agreement), all as calculated by Servicer in accordance with the Class C Certificate Purchase Agreement on the related Determination Date. For purposes of such determination, Servicer shall rely upon information provided by the Class C Holders pursuant to the Class C Certificate Purchase Agreement.

(h) If the Class C Required Amount for such Transfer Date is greater than zero, Servicer shall give written notice to Trustee of such positive Class C Required Amount on or before such Transfer Date and (ii) the Available Cash Collateral Amount in an amount equal to the Class C Required Amount, to the extent available for such purpose in accordance with

Section 4.17(c), shall be distributed from the Cash Collateral Account on such Transfer Date pursuant to *Section 4.17(c)* to cover any deficiency in payments pursuant to *Section 4.11(a)(vii)*.

SECTION 4.11 *Monthly Payments*. On or before each Determination Date, Servicer shall instruct Trustee in writing (which writing shall be substantially in the form of *Exhibit B*) to withdraw, and Trustee, acting in accordance with such instructions, shall withdraw on the related Transfer Date or the related Distribution Date, as applicable, to the extent of available funds, the amounts required to be withdrawn from the Finance Charge Account, the Principal Account and the Distribution Account as follows:

(a) An amount equal to the Available Funds for the related Monthly Period will be distributed on each Transfer Date, to the extent available, in the following priority:

(i) an amount equal to the unpaid Class A Monthly Interest shall be deposited by Trustee into the Distribution Account for distribution to the Class A Holders in accordance with *Section 5.1;*

(ii) an amount equal to the unpaid Class A Non-Use Fee, if any, for the related Distribution Period *plus* any Class A Non-Use Fee due but not paid to the Class A Holders on any prior Distribution Date shall be deposited by Trustee into the Distribution Account for distribution to the Class A Holders in accordance with *Section 5.1;*

(iii) an amount equal to the Class A Senior Additional Amounts, if any, for the related Distribution Period *plus* any Class A Senior Additional Amounts due but not paid to the Class A Holders on any prior Distribution Date shall be deposited by Trustee into the Distribution Account for distribution to the Class A Holders in accordance with *Section 5.1;*

(iv) an amount equal to the Investor Servicing Fee for such Transfer Date *plus* any Investor Servicing Fee due but not paid to Servicer on any prior Transfer Date shall be distributed to Servicer;

(v) an amount equal to the unpaid Class M Monthly Interest shall be deposited by Trustee into the Distribution Account for distribution to the Class M Holders in accordance with *Section 5.1;*

(vi) an amount equal to the unpaid Class B Monthly Interest shall be deposited by Trustee into the Distribution Account for distribution to the Class B Holders in accordance with *Section 5.1;*

(vii) an amount equal to the unpaid Class C Monthly Interest shall be deposited by Trustee into the Distribution Account for distribution to the Class C Holders in accordance with *Section 5.1;*

(viii) an amount equal to the Class A Investor Default Amount, if any, for the preceding Monthly Period shall be treated as a portion of Investor Principal Collections and, subject to *Section 4.7(d)*, deposited into the Principal Account on such Transfer Date;

(ix) an amount equal to the aggregate amount of reductions to the Class A Invested Amount pursuant to *Section 4.12* that have not been previously reimbursed will be treated as a portion of Investor Principal Collections and, subject to *Section 4.7(d)*, deposited into the Principal Account on such Transfer Date;

(x) an amount equal to the Class M Investor Default Amount, if any, for the preceding Monthly Period shall be treated as a portion of Investor Principal Collections and, subject to *Section 4.7(d)*, deposited into the Principal Account on such Transfer Date;

(xi) an amount equal to the aggregate amount of reductions to the Class M Invested Amount pursuant to *Sections 4.12 and 4.14* that have not been previously reimbursed will be treated as a portion of Investor Principal Collections and, subject to *Section 4.7(d)*, deposited into the Principal Account on such Transfer Date;

(xii) an amount equal to the Class B Investor Default Amount, if any, for the preceding Monthly Period shall be treated as a portion of Investor Principal Collections and, subject to *Section 4.7(d)*, deposited into the Principal Account on such Transfer Date;

(xiii) an amount equal to the aggregate amount of reductions to the Class B Invested Amount (pursuant to *Sections 4.12 and 4.14*) that have not been previously reimbursed will be treated as a portion of Investor Principal Collections and, subject to *Section 4.7(d)*, deposited into the Principal Account on such Transfer Date;

(xiv) an amount equal to the Class C Investor Default Amount, if any, for the preceding Monthly Period shall be treated as a portion of Investor Principal Collections and, subject to *Section 4.7(d)*, deposited into the Principal Account on such Transfer Date;

(xv) an amount equal to the aggregate amount of reductions to the Class C Invested Amount pursuant to *Sections 4.12 and 4.13*) that have not been previously reimbursed will be treated as a portion of Investor Principal Collections and, subject to *Section 4.7(d)*, deposited into the Principal Account on such Transfer Date;

(xvi) <u>first</u>, an amount up to the excess, if any, of the Required Cash Collateral Amount (determined after all deposits, withdrawals, reductions, payments and adjustments to be made with respect to such date) over the Available Cash Collateral Amount (without going effect to any deposit made on such date hereunder) shall be deposited in the Cash Collateral Account and, <u>second</u>, an amount equal to the excess of the Spread Account Cap over the Spread Account Amount shall be deposited into the Spread Account;

(xvii) an amount equal to the aggregate Class A Subordinate Additional Amounts shall be deposited by Trustee into the Distribution Account for distribution to the Class A Holders in accordance with *Section 5.1*;

(xviii) an amount equal to all other amounts due under the Class M Certificate Purchase Agreement shall be distributed in accordance with the Class M Certificate Purchase Agreement;

(xix) an amount equal to all other amounts due under the Class B Certificate Purchase Agreement shall be distributed in accordance with the Class B Certificate Purchase Agreement;

(xx) an amount equal to all other amounts due under the Class C Certificate Purchase Agreement shall be distributed in accordance with the Class C Certificate Purchase Agreement; and

(xxi) the balance, if any, after giving effect to the payments made pursuant to *clauses (i)* through *(xx)* shall constitute "Excess Finance Charge Collections" to be applied with respect to other Series in accordance with *Section 4.5*.

In the event of any shortfall in the amount of the Available Funds available for distribution in respect of Class A Monthly Interest, Class A Non-Use Fee or Class A Senior Additional Amounts or Class A Subordinate Additional Amounts, (a) Available Funds shall be allocated ratably to each Class A Ownership Interest in accordance with its Class A Funded Amount and (b) any Available Funds allocated pursuant to the immediately preceding clause (a) to any Class A Ownership Interest in excess of the Class A Monthly Interest, Class A Non-Use Fee, Class A Senior Additional Amounts or Class A Subordinate Additional Amounts for such Class A Ownership Interest shall be reallocated to each Class A Ownership Interest that has a remaining shortfall in the Available Funds allocated to it pursuant to such clause (a) in order to cover its unpaid Class A Monthly Interest, Class A Non-Use Fee, Class A Senior Additional Amounts or Class A Subordinate Additional Amounts, which reallocation shall be made ratably in accordance with the Class A Funded Amounts of all such remaining Class A Ownership Interests;

(b) On each Transfer Date during the Revolving Period and on the Transfer Date in the month in which the Controlled Amortization Period commences, an amount equal to the Available Investor Principal Collections for such Transfer Date shall be treated as Shared Principal Collections; provided, however, during any Mandatory Limited Amortization Period and on the Non-Renewing Purchaser Scheduled Distribution Date, an amount equal to the Available Investor Principal Collections for the related month 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 Holder for each Class A Ownership Interest that is a Non-Renewing Ownership Group, on a pro rata basis, until the Non-Renewing Purchaser Funded Amount has been reduced to zero; and

(ii) the balance shall be treated as Shared Principal Collections.

(c) On each Transfer Date following a Monthly Period falling in a Fixed Allocation Period, an amount equal to the Available Investor Principal Collections for the related Monthly Period (including any amounts in the Excess Funding Account allocable to Series 2009-VFC1 in accordance with *Sections 4.2* and *4.15(d))* will be distributed on each Transfer Date, to the extent available, in the following priority:

(i) an amount equal to the Class A Monthly Principal for such Transfer Date shall be deposited into the Distribution Account to be distributed by Trustee, in accordance with *Section 5.1*, to the Class A Holders on the corresponding Distribution Date;

(ii) an amount equal to the Class M Monthly Principal for such Transfer Date shall be deposited into the Distribution Account to be distributed by Trustee, in accordance with *Section 5.1*, to the Class M Holders on the corresponding Distribution Date;

(iii) an amount equal to the Class B Monthly Principal for such Transfer Date shall be deposited into the Distribution Account to be distributed by Trustee, in accordance with *Section 5.1*, to the Class B Holders on the corresponding Distribution Date;

(iv) an amount equal to the Class C Monthly Principal for such Transfer Date shall be deposited into the Distribution Account to be distributed by Trustee, in accordance with *Section 5.1*, to the Class C Holders on the corresponding Distribution Date; and

(v) an amount equal to the excess, if any, of (A) the Available Investor Principal Collections over (B) the applications specified in *Sections 4.11(c)(i), (ii), (iii) and (iv)* shall be treated as Shared Principal Collections.

SECTION 4.12 *Investor Charge-Offs*. (a) On or before each Transfer Date, Servicer shall calculate the Class A Investor Default Amount. If, on any Transfer Date, the Class A Investor Default Amount for the prior Monthly Period exceeds the Available Funds allocated with respect thereto pursuant to *Section 4.11(a)(viii)*, the Class C Invested Amount will be reduced by the amount of such excess. If such reduction would cause the Class C Invested Amount (after giving effect to reductions for any Class C Investor Charge-Offs and Reallocated Principal Collections on such Transfer Date) to be a negative number, the Class C Invested Amount will be reduced to zero and the Class B Invested Amount will be reduced by the amount by which the Class C Invested Amount would have been reduced below zero. If such reduction would cause the Class B Invested Amount (after giving effect to reductions for any Class B Investor Charge-Offs and Reallocated Principal Collections on such Transfer Date) to be a negative number, the Class B Invested Amount will be reduced to zero and the Class M Invested Amount will be reduced by the amount by which the Class B Invested Amount would have been reduced below zero. If such reduction would cause the Class M Invested Amount (after giving effect to reductions for any Class M Investor Charge-Offs and Reallocated Principal Collections on such Transfer Date) to be a negative number, the Class A Invested Amount will be reduced by the amount by which the Class M Invested Amount would have been reduced below zero, but not by more than the Class A Investor Default Amount for such Transfer Date (a "*Class A Investor Charge-Off*"). If the Class A Invested Amount has been reduced by the amount of any Class A Investor Charge-Offs, it will be reimbursed on any Transfer Date (but not by an amount in excess of the aggregate Class A Investor Charge-Offs) by the amount of Available Funds allocated and available for such purpose, pursuant to *Section 4.11(a)(ix)*.

(b) On or before each Transfer Date, Servicer shall calculate the Class M Investor Default Amount. If, on any Transfer Date, the Class M Investor Default Amount for the prior Monthly Period exceeds the Available Funds allocated with respect thereto pursuant to *Section 4.11(a)(x)*, the Class C Invested Amount will be reduced by the amount of such excess. If such reduction would cause the Class C Invested Amount (after giving effect to reductions for any Class C Investor Charge-Offs and Reallocated Principal Collections and reductions pursuant to *Section 4.12(a)* on such Transfer Date) to be a negative number, the Class C Invested Amount will be reduced to zero and the Class B Invested Amount will be reduced by the amount by which the Class C Invested Amount would have been reduced below zero. If such reduction would cause the Class B Invested Amount (after giving effect to reductions for any Class B Investor Charge-Offs and Reallocated Principal Collections and reductions pursuant to *Section 4.12(a)* on such Transfer Date) to be a negative number, the Class B Invested Amount will be reduced to zero and the Class M Invested Amount will be reduced by the amount by which the Class B Invested Amount would have been reduced below zero, but not by more than the Class M Investor Default Amount for such Transfer Date (a "*Class M Investor Charge-Off*"). If the Class M Invested Amount has been reduced by the amount of any Class M Investor Charge-Offs, it will be reimbursed on any Transfer Date (but not by an amount in excess of the aggregate Class M Investor Charge-Offs) by the amount of Available Funds allocated and available for such purpose, pursuant to *Section 4.11(a)(xi)*.

(c) On or before each Transfer Date, Servicer shall calculate the Class B Investor Default Amount. If, on any Transfer Date, the Class B Investor Default Amount for the prior Monthly Period exceeds the amount of Available Funds allocated with respect thereto pursuant to Section *4.11(a)(xii)*, the Class C Invested Amount will be reduced by the amount of such excess. If such reduction would cause the Class C Invested Amount (after giving effect to reductions for any Class C Investor Charge-Offs and Reallocated Principal Collections and reductions pursuant to *Sections 4.12(a)* and *(b)* for such Transfer Date) to be a negative number, the Class C Invested Amount will be reduced to zero and the Class B Invested Amount will be reduced by the amount by which the Class C Invested Amount would have been reduced below zero, but not by more than the Class B Investor Default Amount for such Transfer Date (a "*Class B Investor Charge-Off*"). The Class B Invested Amount will thereafter be reimbursed on any Transfer Date by the amount of the Available Funds allocated and available for that purpose as described under *Section 4.11(a)(xiii)*.

(d) On or before each Transfer Date, Servicer shall calculate the Class C Investor Default Amount. If, on any Transfer Date, the Class C Investor Default Amount for the prior Monthly Period exceeds the Available Funds allocated with respect thereto pursuant to *Section 4.11(a)(xiv)*, the Class C Invested Amount will be reduced by the amount of such excess (a "*Class C Investor Charge-Off*"). The Class C Invested Amount will thereafter be reimbursed on any Transfer Date (but not by an amount in excess of the aggregate Class C Investor Charge-Offs) by the amount of Available Funds allocated and available for such purpose, pursuant to *Section 4.11(a)(xv)*.

SECTION 4.13 [*Reserved*].

SECTION 4.14 *Reallocated Principal Collections*. On or before each Transfer Date, Servicer shall instruct Trustee in writing (which writing shall be substantially in the form of *Exhibit B*) to, and Trustee in accordance with such instructions shall, withdraw Reallocated Principal Collections with respect to such Transfer Date from the Principal Account, in an amount equal to the sum of the Class A Required Amount, if any, plus the Class M Required Amount, if any, plus the Class B Required Amount, if any, with respect to such Transfer Date (in each case after giving effect to the application of funds on deposit in the Cash Collateral Account in accordance with *Section 4.17(c)*) and such Reallocated Principal Collections shall be applied to fund any deficiency pursuant to and in the priority set forth in *Section 4.11*. On each Transfer Date, the Class C Invested Amount shall be reduced by the amount of Reallocated Principal Collections applied on such Transfer Date. If such reduction would cause the Class C Invested Amount (after giving effect to any Class C Investor Charge-Offs for such Transfer Date) to be a negative number, the Class C Invested Amount shall be reduced to zero and the Class B Invested Amount shall be reduced by the amount by which the Reallocated Principal Collections applied on such Transfer Date exceed the Class C Invested Amount (after giving effect to any Class C Investor Charge-Offs for such Transfer Date). If such reduction would cause the Class B Invested Amount (after giving effect to any Class B Investor Charge-Offs for such Transfer Date) to be a negative number, the Class B Invested Amount shall be reduced to zero and the Class M Invested Amount shall be reduced by the amount by which the Reallocated Principal Collections applied on such Transfer Date exceed the Class B Invested Amount (after giving effect to any Class B Investor Charge-Offs for such Transfer Date).

SECTION 4.15 *Shared Principal Collections; Amounts Transferred from the Excess Funding Account to the Principal Account*. (a) The amount of Shared Principal Collections allocable to Series 2009-VFC1 on any Transfer Date shall be applied as Available Investor Principal Collections pursuant to *Section 4.11* and, pursuant to such *Section 4.11*, shall be deposited in the Distribution Account or distributed in accordance with the Certificate Purchase Agreements.

(b) Shared Principal Collections allocable to Series 2009-VFC1 with respect to any Transfer Date means an amount equal to the Principal Shortfall, if any, with respect to Series 2009-VFC1 for such Transfer Date; *provided* that if the aggregate amount of Shared Principal Collections for all Series in Group One for such Transfer Date is less than the Cumulative Principal Shortfall for such Transfer Date, then Shared Principal Collections allocable to Series 2009-VFC1 on such Transfer Date shall equal the product of (i) Shared Principal Collections for all Series in Group One for such Transfer Date and (ii) a fraction, the numerator of which is the Principal Shortfall with respect to Series 2009-VFC1 for such Transfer Date and the denominator of which is the Cumulative Principal Shortfall for such Transfer Date.

(c) [Reserved]

(d) The aggregate amount allocable to Series 2009-VFC1 which shall be required to be transferred from the Excess Funding Account into the Principal Account with respect to any Transfer Date in a Fixed Allocation Period (commencing with the Transfer Date in the first calendar month after the calendar month in which the Fixed Allocation Period begins) shall equal the Principal Shortfall, if any, with respect to Series 2009-VFC1 for such Transfer Date *minus* the amount of Shared Principal Collections allocated to Series 2009-VFC1 from other Series in

Group One on that Transfer Date; *provided* that if the aggregate amount required to be withdrawn from the Excess Funding Account pursuant to *Section 4.2* for all Series (in each case, whether or not included in Group One) for such Transfer Date is less than the amount on deposit in the Excess Funding Account, then the aggregate amount allocable to Series 2009-VFC1 and required to be transferred on such Transfer Date shall equal the product of (i) the amount on deposit in the Excess Funding Account and (ii) a fraction, (A) the numerator of which is (A) the Principal Shortfall with respect to Series 2009-VFC1 for such Transfer Date *minus* the amount of Shared Principal Collections allocated to Series 2009-VFC1 from other Series in Group One on that Transfer Date and (B) the denominator of which is the aggregate amount required to be withdrawn from the Excess Funding Account pursuant to *Section 4.2* for all Series for such Transfer Date.

SECTION 4.16 *Finance Charge Account, Principal Account and Distribution Account*.

(a) Trustee shall establish and maintain with an Eligible Institution, which may be Trustee, in the name of the Trust, on behalf of the Trust , as Series Accounts for the benefit of the Investor Holders, three segregated trust accounts with the corporate trust department of 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 Investor Holders. 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 Trustee for the benefit of the Investor Holders. If at any time the institution holding the Finance Charge Account, the Principal Account and the Distribution Account ceases to be an Eligible Institution, Transferor shall notify Trustee, and Trustee upon being notified (or Servicer on its behalf) shall, within 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, Principal Account and Distribution Account. Trustee, at the direction of 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 Series Supplement and the Agreement. Trustee at all times shall maintain accurate records reflecting each transaction in the Finance Charge Account, the Principal Account and the Distribution Account and that the funds held therein shall at all times be held in trust for the benefit of the Investor Holders.

(b) Funds on deposit in the Finance Charge Account and the Principal Account shall be invested at the specific written direction of Servicer by Trustee in Eligible Investments. Funds on deposit in the Finance Charge Account and Principal Account on any Transfer Date, after giving effect to any withdrawals from the Principal Account on such Transfer Date, shall be invested in such investments that will mature so that such funds will be available for withdrawal on or prior to the following Transfer Date. The Trustee shall maintain for the benefit of the Investor Holders possession of the negotiable instruments or securities, if any, evidencing such Eligible Investments. Gains from such Eligible Investments shall be deposited into the Finance Charge Account and be treated as Finance Charge Receivables for purposes of this Series

Supplement. No Eligible Investment shall be disposed of prior to its maturity unless prior to the maturity of such Eligible Investment, a default occurs in the payment of principal, interest or any other amount with respect to such Eligible Investment. On each Distribution Date, all interest and other investment earnings (net of losses and investment expenses) on funds on deposit in the Finance Charge Account and the Principal Account shall be treated as Collections of Finance Charge Receivables allocable to Series 2009-VFC1 with respect to the last day of the related Monthly Period.

SECTION 4.17 *Cash Collateral Account*. (a) Servicer shall establish and maintain with an Eligible Institution, which, initially shall be the Trustee, in the name of Trustee, as a Series Account on behalf of the Investor Holders, 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 Investor Holders. In order to provide for the prompt payment to the Investor Holders, to assure availability of the amounts maintained in the Cash Collateral Account and as security for the performance by the Transferor of its obligations hereunder, Transferor, on behalf of itself and its successors and assigns, and solely for the purpose of providing for payment of distributions provided for in *Section 4.17(c)*, hereby grants a security interest in and pledges to the Trustee and its successors and assigns, all right, title and interest in and to the Cash Collateral Account and all proceeds of the foregoing, including all securities, investments, general intangibles, financial assets and investment property from time to time credited to and any security entitlement to the Cash Collateral Account subject to the limitations set forth below (all of the foregoing, subject to the limitations set forth in this section, the "*Cash Collateral Account Property*"), to have and to hold all the aforesaid property, rights and privileges unto Trustee, its successors and assigns, in trust for the uses and purpose, and subject to the terms and provisions, set forth in this Section. Trustee hereby acknowledges such transfer and accepts the trust hereunder and shall hold and distribute the Cash Collateral Account Property in accordance with the terms of this Section. 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 Trustee for the benefit of the Investor Holders. If at any time an Eligible Institution holding the Cash Collateral Account ceases to be an Eligible Institution, Transferor shall notify Trustee, and Trustee upon being notified (or Servicer on its behalf) shall within 10 Business Days establish a new Cash Collateral Account meeting the conditions specified above, and shall transfer any cash or any investments to such new Cash Collateral Account. Trustee, at the direction of Servicer, shall make deposits to and withdrawals from the Cash Collateral Account in the amounts and at the times set forth in this Series Supplement. All withdrawals from the Cash Collateral Account shall be made in the priority set forth below.

(b) Funds on deposit in the Cash Collateral Account from time to time shall be invested and/or reinvested at the specific written direction of Servicer by Trustee in Eligible Investments that will mature so that such funds will be available for withdrawal on the following Transfer Date. No Eligible Investment shall be disposed of prior to its maturity unless prior to the maturity of such Eligible Investment, a default occurs in the payment of principal, interest or any other amount with respect to such Eligible Investment. Trustee shall maintain for the benefit of the Investor Holders possession of the negotiable instruments or securities, if any, evidencing such Eligible Investments. 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 treated as Collections of Finance Charge Receivables allocated to the Invested Amount and shall be part of Available Funds for such Transfer Date. For purposes of determining the availability of funds or the balances in the Cash Collateral Account for any reason under this Series Supplement, all investment 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 specified in *clauses (i)* through *(xv)* of *Section 4.11(a)* with respect to the related Transfer Date exceeds the amount of Available Funds allocated with respect to the related Monthly Period. In the event that for any Transfer Date the Required Draw Amount is greater than zero, Servicer shall give written notice to Trustee and the Investor Holders of such positive Required Draw Amount on the related Determination Date. On the related Transfer Date, the Required Draw Amount, if any, up to the Available Cash Collateral Amount, shall be withdrawn from the Cash Collateral Account and distributed to fund any deficiency pursuant to *Section 4.11(a)(i)* through *(xv)* (in the order of priority set forth in *Section 4.11(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, Trustee, acting in accordance with the instructions of Servicer, shall withdraw an amount equal to such excess from the Cash Collateral Account, and (i) deposit such amounts in the Spread Account, to the extent that the Spread Account Amount is less than the Spread Account Cap and (ii) distribute such amounts remaining after application pursuant to *subsection 4.20(c)* to the Transferor.

(e) On each Transfer Date, Available Funds for the related Monthly Period, to the extent available for such purpose, will be deposited into the Cash Collateral Account in accordance with *Section 4.11(a)(xvi)*. In addition, the Transferor may, in its discretion, deposit additional amounts into the Cash Collateral Account from time to time.

SECTION 4.18 *Transferor's or Servicer's Failure to Make a Deposit or Payment*. If Servicer or Transferor fails to make, or give instructions to make, any payment or deposit required to be made or given by Servicer or Transferor, respectively, at the time specified in the Agreement (including applicable grace periods), Trustee shall make such payment or deposit from the Finance Charge Account, the Excess Funding Account, the Cash Collateral Account, the Principal Account or the Distribution Account without instruction from Servicer or Transferor. Trustee shall be required to make any such payment, deposit or withdrawal hereunder only to the extent that Trustee has sufficient information to allow it to determine the amount thereof. The Trustee shall have no liability for failing to make a payment in the event it reasonably believes it has insufficient information to allow it to determine the amount thereof. Servicer shall, upon request of Trustee, promptly provide Trustee with all information necessary to allow Trustee to make such payment, deposit or withdrawal. Such funds or the proceeds of such withdrawal shall be applied by Trustee in the manner in which such payment or deposit should have been made by Transferor or Servicer, as the case may be.

SECTION 4.19 *Interchange*. On or prior to each Determination Date, Transferor shall cause RPA Seller to notify Servicer of the Account Interchange Amount (as defined in the

Receivable Purchase Agreement). The portion of the Account Interchange Amount to be allocated to the Investor Holders for each Monthly Period (the "*Investor Interchange Amount*") shall be equal to the product of:

(a) the Account Interchange Amount (as defined in the Receivable Purchase Agreement); and

(b) the Floating Allocation Percentage for such Monthly Period (or, if a Reset Date occurs during such Monthly Period, the average Floating Allocation Percentage for such Monthly Period determined as the quotient of the summation of the Floating Allocation Percentages for all days during such Monthly Period, divided by the number of days in such Monthly Period).

On each Transfer Date, Transferor shall pay to Servicer, and, unless the Target Amount shall have been met pursuant to *Section 4.7(d)*, Servicer shall deposit into the Finance Charge Account, in immediately available funds, an amount equal to the Investor Interchange Amount to be included as Collections of Finance Charge Receivables allocable to the Investor Holders with respect to the related Monthly Period.

SECTION 4.20 Spread Account. (a) Not later than the Closing Date, the Servicer shall establish and maintain with an Eligible Institution, which shall initially be the Trustee, in the name of the Trustee, on behalf of the Trust (the "*Spread Account*") bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Class B Holders and the Transferor. In the event that at any time the financial institution holding the Spread Account shall fail to be an Eligible Institution, the Servicer may direct the Spread Account to be moved to an Eligible Institution and all funds on deposit in the Spread Account be transferred to such new Spread Account at such Eligible Institution, whereupon such new Spread Account shall constitute the Spread Account hereunder. Except as otherwise provided in this Agreement, the Class B Holders shall possess all right, title and interest in all funds on deposit from time to time in the Spread Account and in all proceeds thereof. Except as otherwise provided in this Agreement, the Spread Account shall be under the sole dominion and control of the Trustee, on behalf of the Class B Holders and the Transferor. On or prior to each Incremental Funding, the Transferor shall deposit into the Spread Account an amount equal to the excess, if any, of the Spread Account Cap (after giving effect to the Incremental Funding to take place on such date) and the Spread Account Amount on such date.

(b) Funds on deposit in the Spread Account shall be invested at the specific written direction of the Servicer in Eligible Investments; provided, however, that for purposes of the investment of funds on deposit in the Spread Account, references in the definition of "Eligible Investments" to "highest investment category" shall be modified to require a rating of not lower than "A-2" in the case of Standard & Poor's, "P-2" in the case of Moody's or the equivalent rating in the case of any other rating agency. Funds on deposit in the Spread Account on any Transfer Date, after giving effect to any withdrawals from and deposits to the Spread Account on such Transfer Date, shall be invested in such investments that will mature so that such funds will be available for withdrawal on or prior to the following Transfer Date. The holder of the Spread Account shall maintain for the benefit of the Class B Holders and the Transferor possession of the negotiable instruments or securities, if any, evidencing the investment of funds in the Spread

Account in Eligible Investments. On each Transfer Date (but subject to *Section 4.20(c)*), the Investment Earnings, if any, accrued since the preceding Transfer Date on funds on deposit in the Spread Account shall be paid to the Transferor by the holder of the Spread Account and for purposes of determining the availability of funds or the balance in the Spread Account for any reason under this Agreement, all Investment Earnings shall be determined not to be available or on deposit.

(c) If, on any Transfer Date, the aggregate amount available for distribution pursuant to *Section 4.11(a)(vi)* is less than the unpaid Class B Monthly Interest, the Servicer shall direct the holder of the Spread Account to withdraw the amount of such deficiency, up to the Spread Account Amount and, if the Spread Account Amount is less than such deficiency, Investment Earnings credited to the Spread Account, from the Spread Account and distribute such amount to the Class B Holders. If on the Amendment Closing Date or any Transfer Date, after giving effect to all withdrawals from, and deposits to, the Spread Account, the amount on deposit in the Spread Account (excluding Investment Earnings) would exceed the Spread Account Cap then in effect, the Servicer shall direct the holder of the Spread Account to release such excess to the Transferor. On the date on which all amounts payable to the Class B Holders pursuant to the Class B Certificate Purchase Agreement have been paid in full, the Servicer shall direct the holder of the Spread Account to withdraw all amounts then remaining in the Spread Account (including Investment Earnings) and pay such amounts to the Transferor.

SECTION 9. *Article V of the Agreement*. Article V of the Agreement shall read in its entirety as follows and shall be applicable only to the Investor Holders:

ARTICLE V DISTRIBUTIONS AND REPORTS TO INVESTOR HOLDERS

SECTION 5.1 *Distributions*. On each Distribution Date, Refinancing Date and Optional Amortization Date Trustee shall distribute (in accordance with the certificate delivered on or before the related Transfer Date by Servicer to Trustee pursuant to *Section 3.4*), to each Investor Holder of record on the immediately preceding Record Date (other than as provided in *Section 2.5* or *Section 12.2* respecting a final distribution) such Investor Holder's portion (determined in accordance with *Article IV* and *Section 4(b)* of this Series Supplement) of amounts on deposit in the Distribution Account. Distributions of Investor Monthly Interest, Class A Non-Use Fee and Class A Additional Amounts shall be made to each applicable Investor Holder in an amount equal to the amount payable to each or, if less, the aggregate amount allocated for such payment pursuant to *Section 4.11(a)*. Except as permitted by *Section 4(b)*, all distributions with respect to principal shall be made on a pro rata basis. All such payments 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 Investor Holder, has been furnished with appropriate wiring instructions in writing.

SECTION 5.2 *Reports*.

(a) *Monthly Series 2009-VFC1 Servicer's Certificate*. On or before each Distribution Date, Trustee shall forward to each Investor Holder a statement substantially in the form of *Exhibit C* prepared by Servicer, delivered to Trustee.

(b) *Annual Holders' Tax Statement*. On or before January 31 of each calendar year, beginning with calendar year 2010, Trustee shall distribute to each Person who at any time during the preceding calendar year was an Investor Holder, a statement prepared by Servicer setting out the amount of interest and principal distributed to such Investor Holder with respect to its Certificates, during such preceding calendar year or the applicable portion thereof during which such Person was an Investor Holder together with such other customary information (consistent with the treatment of the Class A Certificates as debt) as Servicer deems necessary or desirable to enable the Investor Holders to prepare their tax returns. Such obligations of Trustee shall be deemed to have been satisfied to the extent that substantially comparable information shall be provided by Trustee pursuant to any requirements of the Internal Revenue Code.

SECTION 10. *Early Amortization Events*. If any one of the following events shall occur with respect to the Investor Certificates:

(a) failure on the part of Transferor (i) to make any payment or deposit required by the terms of (A) the Agreement, (B) this Series Supplement, (C) the Certificate Purchase Agreements or (D) any Class A Fee Letter, on or before the date occurring five days after the date such payment or deposit is required to be made herein or therein or (ii) duly to observe or perform in any material respect any covenants or agreements of Transferor set forth in the Agreement, this Series Supplement, the Certificate Purchase Agreements or any Class A Fee Letter, which failure (in the case of this *clause (ii)*) has a material adverse effect on the Investor Holders (which determination shall be made without reference to whether any funds are available from the Cash Collateral Account) and which continues unremedied for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to Transferor by Trustee, or to Transferor and Trustee by any Investor Holder and continues to affect materially and adversely the interests of the Investor Holders for such period;

(b) any representation or warranty made by Transferor in the Agreement or this Series Supplement, or any information contained in an Account Schedule required to be delivered by Transferor pursuant to *Section 2.1* or *2.6*, (i) 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 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to Transferor by Trustee, or to Transferor and Trustee by any Investor Holder, and (ii) as a result of which the interests of the Investor Holders are materially and adversely affected (which determination shall be made without reference to whether any funds are available from the Cash Collateral Account) and continue to be materially and adversely affected for such period; *provided* that an Early Amortization Event pursuant to this *Section 10(b)* shall not be deemed to have occurred hereunder if 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 Agreement;

(c) the average of the Excess Spread Percentages for any three consecutive Monthly Periods is less than zero;

(d) Transferor shall fail to convey Receivables arising under Additional Accounts, or Participations, to the Trust, as required by *Section 2.8(b)*; *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 Invested Amount 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;

(f) the Invested Amount shall not be paid in full on the Scheduled Final Payment Date or the Non-Renewing Purchaser Funded Amount shall not be paid in full on the Non-Renewing Purchaser Scheduled Distribution Date;

(g) as of any Determination Date, the average of the monthly payment rates for that Determination Date and the preceding two Determination Dates is less than 7.75%, where the "monthly payment rate" for any Determination Date equals the percentage equivalent of a fraction (A) the numerator of which is the aggregate Collections received during the related Monthly Period and (B) the denominator of which is equal to the total Receivables held by the Trust at the close of business for the Monthly Period immediately prior to such related Monthly Period; *provided* that the monthly payment rates for the Determination Dates related to the February 2009 and March 2009 Monthly Periods shall be deemed to equal the "monthly payments rates" (calculated in accordance with the Series 2005-VFC Supplement to the Agreement) related to the February 2009 and March 2009 Monthly Periods;

(h) 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, which lien shall secure a liability in excess of $10,000,000 and shall not have been released within 40 days;

(i) a default shall have occurred and be continuing under any instrument or agreement evidencing or securing indebtedness for borrowed money of Comenity 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;

(j) a Change in Control has occurred; or

(k) the Available Cash Collateral Amount shall be less than the Required Cash Collateral Amount for three or more consecutive Monthly Periods following any Monthly Period in which the Supplemental Cash Collateral Account increases from zero to an amount greater than zero;

then, (x) in the case of any event described in *Sections 10(a), (b), (e), (h), (i) or (j) of* this Series Supplement, after the applicable grace period set forth in such *Sections*, either Trustee or the Majority Series Holders by notice then given in writing to Transferor and Servicer (and to Trustee if given by the Investor Holders) may declare that an early amortization event (an "*Early*

Amortization Event") has occurred as of the date of such notice, and (y) in the case of any event described in *Section 10(c), (d), (f), (g) or (k)* of this Series Supplement, an Early Amortization Event shall occur without any notice or other action on the part of Trustee or the Investor Holders immediately upon the occurrence of such event, unless such event shall be waived by the Investor Holders.

SECTION 11. *Series 2009-VFC1 Termination*. The right of the Investor Holders to receive payments from the Trust will terminate on the first Business Day following the Series 2009-VFC1 Termination Date.

SECTION 12. *Periodic Finance Charges and Other Fees*. Transferor hereby agrees that, except as otherwise required by any Requirement of Law, or as is deemed by Transferor to be necessary in order for Transferor to maintain its credit card business, based upon a good faith assessment by Transferor, in its sole discretion, of the nature of the competition in the credit card business, it shall not at any time reduce the Periodic Finance Charges assessed on any Receivable or other fees on any Account if, as a result of such reduction, Transferor's reasonable expectation of the Portfolio Yield as of such date would be less than the then Base Rate.

SECTION 13. *Limitations on Addition of Approved Portfolios*. Subject to *Section 2.8*, Transferor may designate additional Approved Portfolios if on or prior to the Addition Date related to any Account in such Approved Portfolio, (a) such designation shall be consented to in writing by each Investor Holder and (b) Transferor shall have provided the Investor Holders with an Officer's Certificate certifying that the designation of such Approved Portfolios, as of the related Addition Date (and after giving effect to such designation) is not reasonably expected to cause an Early Amortization Event.

SECTION 14. *Counterparts*. This Series Supplement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, but all of which counterparts shall together constitute but one and the same instrument.

SECTION 15. *Governing Law*. THIS SERIES SUPPLEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

SECTION 16. *Additional Reports and Notices*. On each Determination Date, Servicer shall provide copies of each Monthly Report to the Investor Holders. In addition, upon request by any Investor Holder, Servicer shall make Daily Reports available at the office of Servicer for inspection by such Investor Holder on the days specified in *Section 3.4(a)*. Promptly following its receipt, Trustee shall provide copies to each Class A Holder of each notice Trustee receives from the Class M Holders, the Class B Holders, the Class C Holders or the Servicer (excluding Monthly Reports and Daily Reports). Items required to be delivered to Class A Holders pursuant to this *Section 16* shall be delivered to the address of such Class A Holder specified for notices in the Class A Certificate Purchase Agreement.

SECTION 17. *Additional Provisions*. Notwithstanding anything to the contrary in the Agreement, until the Series 2009-VFC1 Termination Date:

(a) Trustee shall not agree to any extension of the 60 day periods referred to in *Section 2.5*, *2.6* or *3.3;*

(b) Servicer shall, in connection with each designation of Removed Accounts pursuant to *Section 2.9(b)*, prepare and provide Trustee prior to the transfer of such Removed Accounts, and Trustee shall forward to each Investor Holder, a statement substantially in the form of *Exhibit C* for each of the three Monthly Periods preceding such designation as if the Receivables in such Removed Accounts never existed.

(c) Without the consent of each Investor Holder (which consent shall not be unreasonably withheld or delayed), Transferor shall not (i) engage in any transaction described in *Section 6.3(d)* or *7.2*, (ii) designate additional or substitute Transferors or Credit Card Originators as permitted by *Section 2.11* or *2.12*, (iii) increase the percentage of Principal Receivables referred to in the proviso to *clause (f)* of the definition of "Eligible Account", (iv) purchase any Investor Certificate (as defined in the Agreement) unless such Investor Certificate is promptly retired, in accordance with the applicable Supplement, (v) amend any Transaction Document in a manner that adversely affects the Investor Holders, (vi) amend the Agreement to permit the addition of receivables arising in VISA, MasterCard or any other type of open end revolving credit card account other than those an Approved Portfolio as of the date hereof and (vii) amend this Series Supplement.

(d) Notwithstanding the provisions of *Section 3.9(a)*, the deposits into the Excess Funding Account required by the penultimate sentence of the first grammatical paragraph of that Section shall be made not later than the Business Day following the day on which the Transferor Amount falls below the Specified Transferor Amount. Amounts deposited in the Excess Funding Account pursuant to this *Section 17(e)* shall be deemed for all purposes of the Agreement to have been deposited pursuant to such penultimate sentence.

(e) Upon the occurrence of a Merchant Bankruptcy (other than with respect to Service Merchandise), Comenity shall cause such Merchant to either segregate or stop In-Store Payments until such time as the Credit Card Processing Agreement of such Merchant is assumed by the trustee, debtor-in-possession, receiver, custodian or other similar official in the insolvency proceeding of that Merchant unless 100% of the Holders of Series 2009-VFC1 Certificateholders shall have consented to continuation of In-Store Payments without the requirement to segregate such In-Store Payments.

(f) Notwithstanding *Section 4.4*, during any Amortization Period for any Series, Transferor may not apply Shared Principal Collections as principal with respect to any Variable Interest (including Series 2009-VFC1), unless such application of principal is made on any Transfer Date or related Distribution Date in connection with the application of Shared Principal Collections pursuant to *Section 4.15* (and for purposes of such application pursuant to *Section 4.15*, the Principal Shortfall for any Variable Interest shall not include amounts required for any optional amortization amount).

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

(h) The Transferor shall deposit into the Collection Account all amounts received from Comenity on account of merchant fees and discounts relating to the Accounts on the date received from Comenity. Such amount shall be treated as Collections of Finance Charge Receivables and allocated in accordance with *Article IV*.

SECTION 18. *Amendments to the Agreement.* Section 6.3(b)(iv) of the Agreement shall read in its entirety as follows "(iv) the Rating Agency Condition shall have been satisfied with respect to such issuance;".

SECTION 19. *No Petition*. Servicer, Transferor (with respect to the Trust only) and Trustee, by entering into this Series Supplement, and each Holder, by accepting a Series 2009-VFC1 Certificate, hereby covenant and agree that they will not at any time institute against the Trust, or join in any institution against the Trust or the Transferor of, any bankruptcy proceedings under any United States Federal or state bankruptcy or similar law in connection with any obligations relating to the Investor Holders, the Agreement or this Series Supplement.

SECTION 20. *GAAP Sale*. The parties hereto intend the transfers of Receivables under the Agreement to be treated as a sale, and not a secured borrowing, for accounting purposes.

SECTION 21. *Consents*. Comenity, in its capacity as Class M Holder and Class B Holder, and WFN Credit Company, LLC, in its capacity as Class C Holder, each, by executing this agreement, consents to (a) an increase in the Class M Maximum Funded Amount, Class B Maximum Funded Amount and Class C Maximum Funded Amount, as applicable, and (b) the execution of this Series Supplement.

IN WITNESS WHEREOF, Transferor, Servicer and Trustee have caused this Series Supplement to be duly executed by their respective officers as of the day and year first above written.

WFN CREDIT COMPANY, LLC, as Transferor

By: /s/ Ronald C. Reed
Name: Ronald C. Reed
Title: Vice President and Treasurer

COMENITY BANK, as Servicer

By: /s/ John J. Coane
Name: John J. Coane
Title: President

DEUTSCHE BANK TRUST COMPANY AMERICAS, not in its individual capacity, but solely as Trustee

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

By: /s/ Sue Kim
Name: Sue Kim
Title: Assistant Vice President

Acknowledged and consented to as to *Section 21* of this Series Supplement in its capacity as Class A Holder, as Class M Holder, as Class B Holder and as Class C Holder.

WFN CREDIT COMPANY, LLC, as Class C Holder

By: /s/ Ronald C. Reed
Name: Ronald C. Reed
Title: Vice President and Treasurer

COMENITY BANK, as Class M Holder and as Class B Holder

By: /s/ John J. Coane
Name: John J. Coane
Title: President

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: November 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: November 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 September 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: November 5, 2013

Subscribed and sworn to before me
this 5th day of November, 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 September 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: November 5, 2013

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