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

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**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended **June 30, 2017**

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)



**AllianceData.**

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**31-1429215**  
(I.R.S. Employer Identification No.)

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

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

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	(Do not check if a smaller reporting company)
Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 26, 2017, 55,483,440 shares of common stock were outstanding.

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## ALLIANCE DATA SYSTEMS CORPORATION

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## PART I

## Item 1. Financial Statements.

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

	June 30, 2017	December 31, 2016
	(In millions, except per share amounts)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,945.9	\$ 1,859.2
Accounts receivable, net, less allowance for doubtful accounts (\$6.6 and \$4.5 at June 30, 2017 and December 31, 2016 respectively)	697.2	797.2
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	10,987.1	11,437.1
Other credit card and loan receivables	5,334.8	5,106.8
Total credit card and loan receivables	16,321.9	16,543.9
Allowance for loan loss	(1,069.3)	(948.0)
Credit card and loan receivables, net	15,252.6	15,595.9
Credit card and loan receivables held for sale	384.0	417.3
Inventories, net	246.5	271.3
Other current assets	765.7	324.0
Redemption settlement assets, restricted	547.2	324.4
Total current assets	19,839.1	19,589.3
Property and equipment, net	609.2	586.0
Deferred tax asset, net	21.6	20.1
Intangible assets, net	875.9	1,003.3
Goodwill	3,848.4	3,800.7
Other non-current assets	534.1	514.7
Total assets	\$ 25,728.3	\$ 25,514.1
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 406.9	\$ 568.3
Accrued expenses	301.7	346.8
Current portion of deposits	4,753.2	4,673.0
Current portion of non-recourse borrowings of consolidated securitization entities	1,619.0	1,639.0
Current portion of long-term and other debt	540.6	814.5
Other current liabilities	364.9	399.8
Deferred revenue	818.3	788.1
Total current liabilities	8,804.6	9,229.5
Deferred revenue	117.6	143.4
Deferred tax liability, net	261.5	334.8
Deposits	3,969.3	3,718.9
Non-recourse borrowings of consolidated securitization entities	4,942.4	5,316.4
Long-term and other debt	5,882.3	4,786.9
Other liabilities	325.8	326.0
Total liabilities	24,303.5	23,855.9
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; authorized, 200.0 shares; issued, 112.7 shares and 112.5 shares at June 30, 2017 and December 31, 2016, respectively	1.1	1.1
Additional paid-in capital	3,063.6	3,046.1
Treasury stock, at cost, 57.2 shares and 55.1 shares at June 30, 2017 and December 31, 2016, respectively	(5,218.8)	(4,733.1)
Retained earnings	3,720.5	3,494.8
Accumulated other comprehensive loss	(141.6)	(150.7)
Total stockholders' equity	1,424.8	1,658.2
Total liabilities and stockholders' equity	\$ 25,728.3	\$ 25,514.1

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
(In millions, except per share amounts)				
<b>Revenues</b>				
Services	\$ 626.5	\$ 604.4	\$ 1,238.1	\$ 1,194.5
Redemption	184.5	262.1	435.3	540.2
Finance charges, net	1,010.8	882.3	2,027.4	1,690.3
Total revenue	1,821.8	1,748.8	3,700.8	3,425.0
<b>Operating expenses</b>				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	1,014.4	1,027.9	2,056.5	2,031.9
Provision for loan loss	288.1	227.8	603.2	399.7
General and administrative	42.4	42.9	87.0	70.5
Depreciation and other amortization	45.2	41.1	89.9	80.9
Amortization of purchased intangibles	80.3	88.5	160.4	177.1
Total operating expenses	1,470.4	1,428.2	2,997.0	2,760.1
Operating income	351.4	320.6	703.8	664.9
<b>Interest expense</b>				
Securitization funding costs	36.6	30.0	71.8	60.4
Interest expense on deposits	28.6	20.2	54.6	37.4
Interest expense on long-term and other debt, net	72.3	53.5	136.3	104.7
Total interest expense, net	137.5	103.7	262.7	202.5
Income before income taxes	213.9	216.9	441.1	462.4
Provision for income taxes	76.2	76.2	157.0	162.8
Net income	\$ 137.7	\$ 140.7	\$ 284.1	\$ 299.6
Less: Net income attributable to non-controlling interest	—	—	—	1.8
Net income attributable to common stockholders	\$ 137.7	\$ 140.7	\$ 284.1	\$ 297.8
<b>Net income attributable to common stockholders per share:</b>				
Basic (Note 2)	\$ 2.48	\$ 1.24	\$ 5.07	\$ 3.61
Diluted (Note 2)	\$ 2.47	\$ 1.24	\$ 5.05	\$ 3.60
<b>Weighted average shares:</b>				
Basic (Note 2)	55.6	58.8	56.0	59.3
Diluted (Note 2)	55.8	59.0	56.3	59.6
Dividends declared per share:	\$ 0.52	\$ —	\$ 1.04	\$ —

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
(In millions)				
Net income	\$ 137.7	\$ 140.7	\$ 284.1	\$ 299.6
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available-for-sale	(2.7)	2.1	(2.0)	5.1
Tax benefit (expense)	(0.1)	(0.3)	(0.1)	(1.4)
Unrealized gain (loss) on securities available-for-sale, net of tax	(2.8)	1.8	(2.1)	3.7
Unrealized gain (loss) on cash flow hedges	(0.8)	1.5	(1.2)	(1.8)
Tax benefit (expense)	0.2	(0.4)	0.3	0.5
Unrealized gain (loss) on cash flow hedges, net of tax	(0.6)	1.1	(0.9)	(1.3)
Unrealized gain (loss) on net investment hedges	(38.6)	8.3	(43.7)	(7.3)
Tax benefit (expense)	14.8	—	16.3	—
Unrealized gain (loss) on net investment hedges, net of tax	(23.8)	8.3	(27.4)	(7.3)
Foreign currency translation adjustments	34.5	(14.2)	39.5	11.0
Other comprehensive income (loss), net of tax	7.3	(3.0)	9.1	6.1
Total comprehensive income, net of tax	\$ 145.0	\$ 137.7	\$ 293.2	\$ 305.7
Less: Comprehensive income attributable to non-controlling interest	—	—	—	1.2
Comprehensive income attributable to common stockholders	\$ 145.0	\$ 137.7	\$ 293.2	\$ 304.5

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
(In millions)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 284.1	\$ 299.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	250.3	258.0
Deferred income taxes	(61.0)	(14.0)
Provision for loan loss	603.2	399.7
Non-cash stock compensation	45.2	41.4
Amortization of deferred financing costs	21.2	16.8
Change in deferred revenue	(28.4)	(49.5)
Change in other operating assets and liabilities, net of acquisitions	(150.9)	(278.8)
Originations of credit card and loan receivables held for sale	(3,923.1)	(3,386.5)
Sales of credit card and loan receivables held for sale	3,920.7	3,393.9
Other	73.1	74.3
Net cash provided by operating activities	<u>1,034.4</u>	<u>754.9</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in redemption settlement assets	(207.9)	18.4
Change in restricted cash	(433.8)	(0.3)
Change in credit card and loan receivables	(286.4)	(352.6)
Purchase of credit card portfolios	—	(749.1)
Capital expenditures	(116.8)	(107.6)
Purchases of other investments	(4.9)	(9.5)
Maturities/sales of other investments	33.0	32.7
Other	(4.2)	(0.8)
Net cash used in investing activities	<u>(1,021.0)</u>	<u>(1,168.8)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under debt agreements	5,856.9	2,449.9
Repayments of borrowings	(5,103.8)	(1,766.2)
Issuances of deposits	1,801.4	2,431.8
Repayments of deposits	(1,469.3)	(1,168.3)
Non-recourse borrowings of consolidated securitization entities	1,465.0	1,205.0
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(1,860.0)	(1,690.0)
Acquisition of non-controlling interest	—	(360.7)
Payment of deferred financing costs	(44.1)	(11.1)
Dividends paid	(58.0)	—
Purchase of treasury shares	(499.9)	(522.6)
Other	(15.1)	(11.3)
Net cash provided by financing activities	<u>73.1</u>	<u>556.5</u>
Effect of exchange rate changes on cash and cash equivalents	0.2	5.9
Change in cash and cash equivalents	86.7	148.5
Cash and cash equivalents at beginning of period	1,859.2	1,168.0
Cash and cash equivalents at end of period	<u>\$ 1,945.9</u>	<u>\$ 1,316.5</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$ 251.1	\$ 193.7
Income taxes paid, net	<u>\$ 181.9</u>	<u>\$ 258.9</u>

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 consolidated subsidiaries and variable interest entities (“VIEs”), 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 on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 27, 2017.

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

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

For purposes of comparability, certain prior period amounts have been reclassified to conform to the current year presentation in accordance with GAAP. Specifically, beginning in the first quarter of 2017, the Company combined its transaction, marketing services and other revenue to the financial statement line item caption “Services,” as all of these items represent revenue from services. These reclassifications had no effect on previously reported total revenue or net income.

***Recently Issued Accounting Standards***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Companies may adopt ASU 2014-09 using a full retrospective approach or report the cumulative effect as of the date of adoption. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and to permit early adoption of the standard, but not before the original effective date of December 15, 2016. ASU 2014-09 does not apply to financial instruments and other contractual rights or obligations (for example, interest income and late fees from credit card and loan receivables), and therefore, the Company’s finance charges, net will not be affected by the adoption of the standard. Management is reviewing the Company’s contracts and current accounting policies and practices to identify potential differences that would result from applying the new requirements to the Company’s revenue contracts, including an evaluation of the performance obligations, and variable consideration. Management continues to make significant progress on contract reviews and is also in the process of evaluating the impact, if any, on changes to its business processes, systems and controls to support recognition and disclosures under the new guidance. The Company has not yet determined the impact of this standard on its financial statements, but expects to adopt the standard on January 1, 2018 using a modified retrospective method.

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 requires that equity investments be measured at fair value with changes in fair value recognized in net income. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost adjusted for changes in observable prices minus impairment. Additionally, ASU 2016-01 requires entities that elect the fair value option for financial liabilities to recognize changes in fair value related to instrument-specific credit risk in other comprehensive income. Finally, entities must assess valuation allowances for deferred tax assets related to available-for-sale debt securities in combination with their other

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

deferred tax assets. ASU 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the impact that adoption of ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," that replaces existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is evaluating the impact that adoption of ASU 2016-02 will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires entities to utilize a financial instrument impairment model that is based on expected losses over the life of the exposure rather than a model based on an incurred loss approach to establish an allowance. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance. In addition, ASU 2016-13 modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted beginning after December 15, 2018. The Company is evaluating the impact that adoption of ASU 2016-13 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 will make eight targeted changes on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash." ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company plans to adopt this standard on January 1, 2018, and the standard will result in changes to its consolidated statements of cash flows such that restricted cash amounts will be included in the beginning-of-period and end-of-period cash and cash equivalents totals.

***Recently Adopted Accounting Standards***

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." ASU 2015-11 changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company prospectively adopted this standard as of January 1, 2017. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies certain aspects of share-based transactions, including income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification in the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company adopted this standard as of January 1, 2017. The adoption of this standard did not have a material impact on the Company's provision for income taxes or diluted earnings per share for the three and six months ended June 30, 2017. The Company's retrospective adoption of the presentation requirements for cash flows related to employee taxes paid for withheld shares resulted in an increase in cash flows from operating activities of \$23.8 million and a decrease in cash flows from financing activities of \$23.8 million for the six months ended June 30, 2016. The Company



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

prospectively adopted the presentation requirements for cash flows related to excess tax benefits, and prior period amounts were not adjusted. Further, the Company elected to continue to estimate forfeitures at each grant date.

## 2. EARNINGS PER SHARE

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	2017	2016	2017	2016
	(In millions except per share amounts)			
<b>Numerator:</b>				
Net income attributable to common stockholders	\$ 137.7	\$ 140.7	\$ 284.1	\$ 297.8
Less: Accretion of redeemable non-controlling interest	—	67.6	—	83.5
Net income attributable to common stockholders after accretion of redeemable non-controlling interest	<u>\$ 137.7</u>	<u>\$ 73.1</u>	<u>\$ 284.1</u>	<u>\$ 214.3</u>
<b>Denominator:</b>				
Weighted average shares, basic	55.6	58.8	56.0	59.3
Weighted average effect of dilutive securities:				
Net effect of dilutive stock options and unvested restricted stock	0.2	0.2	0.3	0.3
Denominator for diluted calculation	<u>55.8</u>	<u>59.0</u>	<u>56.3</u>	<u>59.6</u>
<b>Net income attributable to common stockholders per share:</b>				
Basic	<u>\$ 2.48</u>	<u>\$ 1.24</u>	<u>\$ 5.07</u>	<u>\$ 3.61</u>
Diluted	<u>\$ 2.47</u>	<u>\$ 1.24</u>	<u>\$ 5.05</u>	<u>\$ 3.60</u>

The Company adjusted the carrying amount of the redeemable non-controlling interest by \$67.6 million and \$83.5 million during the three and six months ended June 30, 2016, respectively, to the redemption value. Effective April 1, 2016, the Company acquired the remaining 20% interest in BrandLoyalty to bring its ownership percentage to 100%.

For the three and six months ended June 30, 2017 and 2016, a de minimis amount of restricted stock units was excluded from each calculation of weighted average dilutive common shares as the effect would have been anti-dilutive.

## 3. CREDIT CARD AND LOAN RECEIVABLES

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

	<u>June 30,</u>	<u>December 31,</u>
	2017	2016
	(In millions)	
Principal receivables	\$ 15,497.3	\$ 15,754.0
Billed and accrued finance charges	745.0	708.6
Other	79.6	81.3
Total credit card and loan receivables	16,321.9	16,543.9
Less: Credit card receivables – restricted for securitization investors	10,987.1	11,437.1
Other credit card and loan receivables	<u>\$ 5,334.8</u>	<u>\$ 5,106.8</u>

### *Allowance for Loan Loss*

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

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

In estimating the allowance for principal loan losses, management utilizes a migration analysis of delinquent and current credit card and loan receivables. Migration analysis is a technique used to estimate the likelihood that a credit card or loan receivable will progress through the various stages of delinquency 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 and growth, account collection strategies, economic conditions, bankruptcy filings, policy changes, payment rates and forecasting uncertainties.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Balance at beginning of period	\$ 1,020.2	\$ 727.2	\$ 948.0	\$ 741.6
Provision for loan loss	288.1	227.8	603.2	399.7
Allowance associated with credit card and loan receivables transferred to held for sale	—	—	—	(15.0)
Change in estimate for uncollectible unpaid interest and fees	5.0	—	10.0	5.0
Recoveries	53.9	52.9	101.8	109.8
Principal charge-offs	(297.9)	(225.3)	(593.7)	(458.5)
Balance at end of period	<u>\$ 1,069.3</u>	<u>\$ 782.6</u>	<u>\$ 1,069.3</u>	<u>\$ 782.6</u>

Net charge-offs include the principal amount of losses from credit cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased credit cardholders, less recoveries and exclude charged-off interest, fees and fraud losses. Charged-off interest and fees reduce finance charges, net while fraud losses are recorded as an expense. Credit card and loan receivables, including unpaid interest and fees, are charged-off in the month during which an account becomes 180 days contractually past due, except in the case of customer bankruptcies or death. Credit card and loan receivables, including unpaid interest and fees, associated with customer bankruptcies or death are charged-off in 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 \$160.7 million and \$110.6 million for the three months ended June 30, 2017 and 2016, respectively, and \$317.3 million and \$228.8 million for the six months ended June 30, 2017 and 2016, respectively.

### ***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.

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

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

	June 30, 2017	% of Total	December 31, 2016	% of Total
(In millions, except percentages)				
Receivables outstanding - principal	\$ 15,497.3	100.0 %	\$ 15,754.0	100.0 %
Principal receivables balances contractually delinquent:				
31 to 60 days	261.4	1.7 %	249.8	1.6 %
61 to 90 days	190.4	1.2	169.3	1.1
91 or more days	331.5	2.2	337.8	2.1
Total	<u>\$ 783.3</u>	<u>5.1 %</u>	<u>\$ 756.9</u>	<u>4.8 %</u>

**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 each 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 Accounting Standards Codification (“ASC”) 450-20, “Loss Contingencies.” If the Company applied accounting under ASC 310-40, “Troubled Debt Restructurings by Creditors,” to the modified credit card receivables in these programs, there would not be a material difference in the allowance for loan loss.

The Company had \$223.6 million and \$216.5 million, respectively, as a recorded investment in impaired credit card receivables with an associated allowance for loan loss of \$53.8 million and \$46.4 million, respectively, as of June 30, 2017 and December 31, 2016. These modified credit card receivables represented less than 2% of the Company’s total credit card receivables as of both June 30, 2017 and December 31, 2016.

The average recorded investment in impaired credit card receivables was \$219.2 million and \$186.6 million for the three months ended June 30, 2017 and 2016, respectively, and \$216.7 million and \$180.7 million for the six months ended June 30, 2017 and 2016, 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 \$4.8 million and \$4.6 million for the three months ended June 30, 2017 and 2016, respectively, and \$9.5 million and \$9.0 million for the six months ended June 30, 2017 and 2016, respectively, in interest income associated with modified credit card receivables during the period that such credit card receivables were impaired.

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

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

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in millions)					
Troubled debt restructurings – credit card receivables	47,624	\$ 60.9	\$ 60.9	92,872	\$ 119.6	\$ 119.5

  

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance	Number of Restructurings	Pre-modification Outstanding Balance	Post-modification Outstanding Balance
	(Dollars in millions)					
Troubled debt restructurings – credit card receivables	47,267	\$ 56.5	\$ 56.4	98,028	\$ 117.1	\$ 117.0

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

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in millions)			
Troubled debt restructurings that subsequently defaulted – credit card receivables	24,060	\$ 29.5	50,681	\$ 61.6

  

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Number of Restructurings	Outstanding Balance	Number of Restructurings	Outstanding Balance
	(Dollars in millions)			
Troubled debt restructurings that subsequently defaulted – credit card receivables	24,529	\$ 27.3	48,222	\$ 52.7

**Age of Credit Card and Loan Receivable Accounts**

The following tables set forth, as of June 30, 2017 and December 31, 2016, the number of active credit card and loan receivable accounts with balances and the related principal balances outstanding, based upon the age of the active credit card and loan receivable accounts from origination:

Age of Accounts Since Origination	June 30, 2017			
	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
	(In millions, except percentages)			
0-12 Months	6.8	28.8 %	\$ 3,768.9	24.3 %
13-24 Months	3.7	15.8	2,519.8	16.3
25-36 Months	2.9	12.4	2,186.6	14.1
37-48 Months	1.9	8.2	1,459.8	9.4
49-60 Months	1.4	6.0	1,069.2	6.9
Over 60 Months	6.7	28.8	4,493.0	29.0
Total	23.4	100.0 %	\$ 15,497.3	100.0 %

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

Age of Accounts Since Origination	December 31, 2016			
	Number of Active Accounts with Balances	Percentage of Active Accounts with Balances	Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
	(In millions, except percentages)			
0-12 Months	7.3	28.5 %	\$ 3,896.9	24.8 %
13-24 Months	4.1	15.8	2,618.2	16.6
25-36 Months	3.0	11.6	2,050.8	13.0
37-48 Months	2.0	8.0	1,436.8	9.1
49-60 Months	1.5	5.9	1,021.7	6.5
Over 60 Months	7.7	30.2	4,729.6	30.0
Total	25.6	100.0 %	\$ 15,754.0	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 91 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 and loan receivables by obligor credit quality as of June 30, 2017 and December 31, 2016:

Probability of an Account Becoming 91 or More Days Past Due or Becoming Charged-off (within the next 12 months)	June 30, 2017		December 31, 2016	
	Total Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding	Total Principal Receivables Outstanding	Percentage of Principal Receivables Outstanding
	(In millions, except percentages)			
No Score	\$ 145.6	1.0 %	\$ 183.8	1.2 %
27.1% and higher	1,213.4	7.8	1,168.0	7.4
17.1% - 27.0%	751.6	4.9	761.1	4.8
12.6% - 17.0%	1,058.9	6.8	820.9	5.2
3.7% - 12.5%	6,481.3	41.8	5,770.8	36.6
1.9% - 3.6%	2,807.7	18.1	3,444.9	21.9
Lower than 1.9%	3,038.8	19.6	3,604.5	22.9
Total	\$ 15,497.3	100.0 %	\$ 15,754.0	100.0 %

**Transfer of Financial Assets**

The Company originates loans under an agreement with one of its clients, and after origination, these loan receivables are sold to the client at par value plus accrued interest. These transfers qualify for sale treatment as they meet the conditions established in ASC 860-10, "Transfers and Servicing." Following the sale, the client 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 loan receivables. The loan receivables originated by the Company that have not yet been sold to the client were \$70.2 million and \$67.6 million at June 30, 2017 and December 31, 2016, respectively, and are included in credit card and loan receivables held for sale in the Company's unaudited condensed consolidated balance sheets 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 the date of origination and sale. Originations and sales of these loan receivables held for sale are reflected as operating activities in the Company's unaudited condensed consolidated statements of cash flows.

Upon the client's purchase of the originated loan receivables, the Company is obligated to purchase a participating interest in a pool of loan receivables that includes the 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

**ALLIANCE DATA SYSTEMS CORPORATION**  
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repayments, finance charges, losses and recoveries. The Company bears the risk of loss related to its participation interest in this pool.

During the six months ended June 30, 2017 and 2016, the Company purchased \$196.0 million and \$169.6 million, respectively of loan receivables under these agreements.

The total outstanding balance of these loan receivables was \$297.2 million and \$282.6 million as of June 30, 2017 and December 31, 2016, respectively, and was included in other credit card and loan receivables in the Company's unaudited condensed consolidated balance sheets.

***Portfolios Held for Sale***

The Company has certain credit card portfolios held for sale, which are carried at the lower of cost or fair value, of \$313.8 million and \$349.7 million as of June 30, 2017 and December 31, 2016, respectively.

***Portfolio Acquisitions***

During the six months ended June 30, 2016, the Company acquired three credit card portfolios for approximately \$749.1 million, which consisted of approximately \$682.0 million of credit card receivables and \$67.1 million of intangible assets.

***Securitized Credit Card Receivables***

The Company regularly securitizes its credit card receivables through its credit card securitization trusts, consisting of World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust ("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 Company's unaudited condensed consolidated statements of income for the three and six months ended June 30, 2017 and 2016.

The WFN Trusts and the WFC Trust are VIEs and the assets of these consolidated VIEs include certain credit card receivables that are restricted to settle the obligations of those entities and are not expected to be available to the Company or its creditors. The liabilities of the consolidated VIEs include 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.

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

	June 30, 2017	December 31, 2016
	(In millions)	
Total credit card receivables – restricted for securitization investors	\$ 10,987.1	\$ 11,437.1
Principal amount of credit card receivables – restricted for securitization investors, 91 days or more past due	\$ 222.8	\$ 236.5
	(In millions)	
	Three Months Ended June 30,	
	2017	2016
	Six Months Ended June 30,	
	2017	2016
Net charge-offs of securitized principal	\$ 176.4	\$ 144.7
	\$ 362.4	\$ 289.1

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

**4. INVENTORIES, NET**

Inventories, net of \$246.5 million and \$271.3 million at June 30, 2017 and December 31, 2016, respectively, primarily consist of finished goods to be utilized as rewards in the Company's loyalty programs. Inventories, net are stated at the lower of cost and net realizable value and valued primarily on a first-in-first-out basis. The Company records valuation adjustments to its inventories if the cost of inventory exceeds the amount it expects to realize from the ultimate sale or disposal of the inventory. These estimates are based on management's judgment regarding future market conditions and an analysis of historical experience.

**5. OTHER INVESTMENTS**

Other investments consist of marketable securities and U.S. Treasury bonds and are included in other current assets and other non-current assets in the Company's unaudited condensed consolidated balance sheets. The principal components of other investments, which are carried at fair value, are as follows:

	June 30, 2017				December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In millions)							
Marketable securities	\$ 120.9	\$ 0.3	\$ (1.9)	\$ 119.3	\$ 124.5	\$ 0.2	\$ (2.4)	\$ 122.3
U.S. Treasury bonds	50.0	0.1	—	50.1	75.0	0.3	—	75.3
Total	<u>\$ 170.9</u>	<u>\$ 0.4</u>	<u>\$ (1.9)</u>	<u>\$ 169.4</u>	<u>\$ 199.5</u>	<u>\$ 0.5</u>	<u>\$ (2.4)</u>	<u>\$ 197.6</u>

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of June 30, 2017 and December 31, 2016, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	June 30, 2017					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Marketable securities	\$ 72.8	\$ (1.5)	\$ 11.3	\$ (0.4)	\$ 84.1	\$ (1.9)
Total	<u>\$ 72.8</u>	<u>\$ (1.5)</u>	<u>\$ 11.3</u>	<u>\$ (0.4)</u>	<u>\$ 84.1</u>	<u>\$ (1.9)</u>

  

	December 31, 2016					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Marketable securities	\$ 75.3	\$ (2.0)	\$ 12.4	\$ (0.4)	\$ 87.7	\$ (2.4)
Total	<u>\$ 75.3</u>	<u>\$ (2.0)</u>	<u>\$ 12.4</u>	<u>\$ (0.4)</u>	<u>\$ 87.7</u>	<u>\$ (2.4)</u>

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

The amortized cost and estimated fair value of the marketable securities and U.S. Treasury bonds at June 30, 2017 by contractual maturity are as follows:

	Amortized Cost	Fair Value
	(In millions)	
Due in one year or less	\$ 32.0	\$ 31.8
Due after one year through five years	25.0	25.1
Due after five years through ten years	3.3	3.4
Due after ten years	110.6	109.1
Total	<u>\$ 170.9</u>	<u>\$ 169.4</u>

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the security's issuer, and the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company typically invests in highly-rated securities with low probabilities of default and has the intent and ability to hold the investments until maturity. As of June 30, 2017, the Company does not consider the investments to be other-than-temporarily impaired.

There were no realized gains or losses from the sale of investment securities for the three and six months ended June 30, 2017 and 2016.

#### 6. REDEMPTION SETTLEMENT ASSETS

Redemption settlement assets consist of restricted cash 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. The principal components of redemption settlement assets, which are carried at fair value, are as follows:

	June 30, 2017				December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In millions)							
Restricted cash	\$ 87.2	\$ —	\$ —	\$ 87.2	\$ 58.1	\$ —	\$ —	\$ 58.1
Mutual funds	26.7	—	(0.2)	26.5	25.7	—	(0.2)	25.5
Corporate bonds	436.1	0.1	(2.7)	433.5	241.0	0.4	(0.6)	240.8
Total	<u>\$ 550.0</u>	<u>\$ 0.1</u>	<u>\$ (2.9)</u>	<u>\$ 547.2</u>	<u>\$ 324.8</u>	<u>\$ 0.4</u>	<u>\$ (0.8)</u>	<u>\$ 324.4</u>

The following tables show the unrealized losses and fair value for those investments that were in an unrealized loss position as of June 30, 2017 and December 31, 2016, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	June 30, 2017					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Mutual funds	\$ 26.5	\$ (0.2)	\$ —	\$ —	\$ 26.5	\$ (0.2)
Corporate bonds	344.3	(2.4)	19.5	(0.3)	363.8	(2.7)
Total	<u>\$ 370.8</u>	<u>\$ (2.6)</u>	<u>\$ 19.5</u>	<u>\$ (0.3)</u>	<u>\$ 390.3</u>	<u>\$ (2.9)</u>



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

	December 31, 2016					
	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Mutual funds	\$ 25.5	\$ (0.2)	\$ —	\$ —	\$ 25.5	\$ (0.2)
Corporate bonds	111.2	(0.6)	—	—	111.2	(0.6)
Total	<u>\$ 136.7</u>	<u>\$ (0.8)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 136.7</u>	<u>\$ (0.8)</u>

The amortized cost and estimated fair value of the securities at June 30, 2017 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	\$ 134.8	\$ 134.6
Due after one year through five years	328.0	325.4
Total	<u>\$ 462.8</u>	<u>\$ 460.0</u>

Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the security's issuer, and the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company typically invests in highly-rated securities with low probabilities of default and has the intent and ability to hold the investments until maturity. As of June 30, 2017, the Company does not consider the investments to be other-than-temporarily impaired.

Realized gains or losses from the sale of investment securities for the three and six months ended June 30, 2017 were de minimis. There were no realized gains or losses from the sale of investment securities for the three and six months ended June 30, 2016.

## 7. INTANGIBLE ASSETS AND GOODWILL

### Intangible Assets

Intangible assets consist of the following:

	June 30, 2017			Amortization Life and Method
	Gross Assets	Accumulated Amortization	Net	
	(In millions)			
<i>Finite Lived Assets</i>				
Customer contracts and lists	\$ 1,135.5	\$ (544.1)	\$ 591.4	3-12 years—straight line
Premium on purchased credit card portfolios	356.0	(206.1)	149.9	3-13 years—straight line
Customer database	63.6	(54.3)	9.3	3 years—straight line
Collector database	54.0	(51.7)	2.3	5 years—straight line
Publisher networks	140.2	(70.6)	69.6	5-7 years—straight line
Tradenames	75.7	(43.2)	32.5	8-15 years—straight line
Purchased data lists	11.5	(6.4)	5.1	1-5 years—straight line, accelerated
Favorable lease	6.9	(3.5)	3.4	3-10 years—straight line
	<u>\$ 1,843.4</u>	<u>\$ (979.9)</u>	<u>\$ 863.5</u>	
<i>Indefinite Lived Assets</i>				
Tradenames	12.4	—	12.4	Indefinite life
Total intangible assets	<u>\$ 1,855.8</u>	<u>\$ (979.9)</u>	<u>\$ 875.9</u>	

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

	December 31, 2016			Amortization Life and Method
	Gross Assets	Accumulated Amortization	Net	
	(In millions)			
<i>Finite Lived Assets</i>				
Customer contracts and lists	\$ 1,108.6	\$ (451.8)	\$ 656.8	3-12 years—straight line
Premium on purchased credit card portfolios	357.3	(172.3)	185.0	3-13 years—straight line
Customer databases	63.6	(43.7)	19.9	3 years—straight line
Collector database	52.1	(49.7)	2.4	30 years—15% declining balance
Publisher networks	140.2	(56.8)	83.4	5-7 years—straight line
Tradenames	83.5	(49.4)	34.1	3-15 years—straight line
Purchased data lists	11.6	(6.2)	5.4	1-5 years—straight line, accelerated
Favorable lease	6.9	(3.0)	3.9	3-10 years—straight line
	<u>\$ 1,823.8</u>	<u>\$ (832.9)</u>	<u>\$ 990.9</u>	
<i>Indefinite Lived Assets</i>				
Tradenames	12.4	—	12.4	Indefinite life
Total intangible assets	<u>\$ 1,836.2</u>	<u>\$ (832.9)</u>	<u>\$ 1,003.3</u>	

The estimated amortization expense related to intangible assets for the next five years and thereafter is as follows:

	For the Years Ending December 31, (In millions)
2017 (excluding the six months ended June 30, 2017)	\$ 133.6
2018	239.4
2019	190.8
2020	127.1
2021	76.5
Thereafter	96.1

**Goodwill**

The changes in the carrying amount of goodwill are as follows:

	LoyaltyOne®	Epsilon®	Card Services (In millions)	Corporate/ Other	Total
<b>Balance at January 1, 2016</b>	\$ 663.5	\$ 2,888.9	\$ 261.7	\$ —	\$ 3,814.1
Goodwill acquired during year	—	—	—	—	—
Effects of foreign currency translation	(10.2)	(3.2)	—	—	(13.4)
<b>Balance at December 31, 2016</b>	\$ 653.3	\$ 2,885.7	\$ 261.7	\$ —	\$ 3,800.7
Goodwill acquired during year	—	—	—	—	—
Effects of foreign currency translation	46.8	0.9	—	—	47.7
<b>Balance at June 30, 2017</b>	<u>\$ 700.1</u>	<u>\$ 2,886.6</u>	<u>\$ 261.7</u>	<u>\$ —</u>	<u>\$ 3,848.4</u>

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

**8. DEBT**

Debt consists of the following:

Description	June 30, 2017	December 31, 2016	Maturity	Interest Rate
(Dollars in millions)				
<i>Long-term and other debt:</i>				
2017 revolving line of credit	\$ 415.0	\$ —	June 2022	(1)
2017 term loans	3,052.6	—	June 2022	(1)
2013 revolving line of credit	—	235.0	—	—
2013 term loans	—	2,837.3	—	—
BrandLoyalty credit agreement	209.8	254.3	June 2020	(2)
Senior notes due 2017	400.0	400.0	December 2017	5.250%
Senior notes due 2020	500.0	500.0	April 2020	6.375%
Senior notes due 2021	500.0	500.0	November 2021	5.875%
Senior notes due 2022	600.0	600.0	August 2022	5.375%
Senior notes due 2022 (€400.0 million)	457.0	—	March 2022	4.500%
Senior notes due 2023 (€300.0 million)	342.8	315.5	November 2023	5.250%
Capital lease obligations and other debt	10.0	6.0	Various – January 2019 – May 2021	2.89% to 3.72%
Total long-term and other debt	6,487.2	5,648.1		
Less: Unamortized discount and debt issuance costs	64.3	46.7		
Less: Current portion	540.6	814.5		
Long-term portion	<u>\$ 5,882.3</u>	<u>\$ 4,786.9</u>		
<i>Deposits:</i>				
Certificates of deposit	\$ 5,843.3	\$ 5,937.9	Various – July 2017 – June 2022	0.80% to 2.80%
Money market deposits	2,901.0	2,474.3	On demand	(3)
Total deposits	8,744.3	8,412.2		
Less: Unamortized discount and debt issuance costs	21.8	20.3		
Less: Current portion	4,753.2	4,673.0		
Long-term portion	<u>\$ 3,969.3</u>	<u>\$ 3,718.9</u>		
<i>Non-recourse borrowings of consolidated securitization entities:</i>				
Fixed rate asset-backed term note securities	\$ 4,362.5	\$ 4,262.5	Various – July 2017 – June 2021	1.44% to 4.55%
Floating rate asset-backed term note securities	360.0	360.0	April 2018	(4)
Conduit asset-backed securities	1,850.0	2,345.0	Various – April 2018 – Nov 2018	(5)
Total non-recourse borrowings of consolidated securitization entities	6,572.5	6,967.5		
Less: Unamortized discount and debt issuance costs	11.1	12.1		
Less: Current portion	1,619.0	1,639.0		
Long-term portion	<u>\$ 4,942.4</u>	<u>\$ 5,316.4</u>		

- (1) The interest rate is based upon the London Interbank Offered Rate (“LIBOR”) plus an applicable margin. At June 30, 2017, the weighted average interest rate was 3.22% and 3.23% for the revolving line of credit and term loans, respectively.
- (2) The interest rate is based upon the Euro Interbank Offered Rate plus an applicable margin. At June 30, 2017, the weighted average interest rate was 1.10% and 1.85% for the BrandLoyalty revolving line of credit and term loans, respectively.
- (3) The interest rates are based on the Federal Funds rate plus an applicable margin. At June 30, 2017, the interest rates ranged from 1.01% to 2.37%.
- (4) The interest rate is based upon LIBOR plus an applicable margin. At June 30, 2017, the interest rate was 1.64%.
- (5) The interest rate is based upon LIBOR or the asset-backed commercial paper costs of each individual conduit provider plus an applicable margin. At June 30, 2017, the interest rates ranged from 2.17% to 2.55%.

At June 30, 2017, the Company was in compliance with its financial covenants.

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***Long-term and Other Debt***

*Credit Agreement*

In June 2017, the Company, as borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Aspen Marketing Services, LLC, Commission Junction LLC, Conversant LLC, Epsilon Data Management, LLC, Comenity LLC and Comenity Servicing LLC, as guarantors, entered into a credit agreement with various agents and lenders dated June 14, 2017 (the “2017 Credit Agreement”), replacing in its entirety the Company’s credit agreement dated July 10, 2013 (the “2013 Credit Agreement”), which was concurrently terminated, and amended the 2017 Credit Agreement on June 16, 2017 to increase the total amount of the borrowings.

At June 30, 2017, the 2017 Credit Agreement, as amended, provided for a \$3,052.6 million term loan (the “2017 Term Loan”), subject to certain principal repayments, and a \$1,572.4 million revolving credit facility (the “2017 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 2017 Credit Agreement includes an uncommitted accordion feature of up to \$750.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions.

Total availability under the 2017 Credit Facility at June 30, 2017 was \$1,157.4 million.

The loans under the 2017 Credit Agreement are scheduled to mature on June 14, 2022. The 2017 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, 2017. The 2017 Credit Agreement is unsecured.

The 2017 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; and make acquisitions. The negative covenants are subject to certain exceptions as specified in the 2017 Credit Agreement. The 2017 Credit Agreement also requires the Company to satisfy certain financial covenants, including a maximum total leverage ratio and a minimum ratio of consolidated operating EBITDA to consolidated interest expense, each as determined in accordance with the 2017 Credit Agreement. The 2017 Credit Agreement also includes customary events of default.

*BrandLoyalty Credit Agreement*

As of June 30, 2017, amounts outstanding under the revolving lines of credit and the term loans under the BrandLoyalty Credit Agreement were €23.6 million and €160.0 million (\$27.0 million and \$182.8 million), respectively. The entire €23.6 million (\$27.0 million) outstanding under the revolving lines of credit was uncommitted.

*Senior Notes due 2022 (€400.0 million)*

In March 2017, the Company issued and sold €400.0 million aggregate principal amount of 4.500% senior notes due March 15, 2022 (the “Notes”). Interest is payable semiannually in arrears, on March 15 and September 15 of each year, beginning on September 15, 2017.

The Notes are governed by an indenture dated as of March 14, 2017. The indenture includes usual and customary negative covenants and events of default for transactions of these types. The Notes are unsecured and are guaranteed on a senior unsecured basis by certain of the Company’s existing and future domestic subsidiaries that guarantee the 2017 Credit Agreement.

The Company may redeem some or all of the Notes at any time at a redemption price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date and the applicable premium specified in the indenture. Prior to March 15, 2019, the applicable premium is a “make-whole” amount; on or after such date, the applicable premium is specified in a table in the indenture. In addition, upon the occurrence of certain kinds of changes of control, the Company must offer to purchase the Notes at 101% of their principal amount, plus accrued and unpaid interest to the date of purchase. In addition, at any time prior to March 15,

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2019, the Company may, with an amount equal to the net cash proceeds of one or more qualified equity offerings, as defined in the indenture, redeem up to 35% of the aggregate principal amount of the outstanding Notes at a redemption price equal to 104.500% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date, provided that such redemption occurs within 90 days following the closing of such qualified equity offering.

***Non-Recourse Borrowings of Consolidated Securitization Entities***

*Asset-Backed Term Notes*

In May 2017, \$389.6 million of Series 2015-C asset-backed term notes, \$89.6 million of which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets, matured and were repaid.

In May 2017, Master Trust I issued \$450.7 million of Series 2017-A asset-backed term notes, which mature in May 2020. The offering consisted of \$400.0 million of Class A notes with a fixed interest rate of 2.12% per year and \$50.7 million of notes that were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets.

In July 2017, \$433.3 million of Series 2012-B asset-backed term notes, \$108.3 million of which were retained by the Company and eliminated from the Company's unaudited condensed consolidated balance sheets, matured and were repaid.

*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.

In April 2017, Master Trust III renewed its 2009-VFC1 conduit facility, increasing the capacity from \$900.0 million to \$925.0 million and extending the maturity to April 2018.

As of June 30, 2017, total capacity under the conduit facilities was \$2.9 billion, of which \$1.9 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the unaudited condensed consolidated balance sheets.

**9. DERIVATIVE INSTRUMENTS**

The Company uses derivatives to manage risks associated with certain assets and liabilities arising from the potential adverse impact of fluctuations in interest rates and foreign currency exchange rates. The Company was not a party to any interest rate derivative instruments at June 30, 2017 or December 31, 2016.

The Company limits its exposure on derivatives by entering into contracts with institutions that are established dealers who maintain certain minimum credit criteria established by the Company. At June 30, 2017, the Company does not maintain any derivative instruments subject to master agreements that would require the Company to post collateral or that contain any credit-risk related contingent features.

The Company enters into foreign currency derivatives to reduce the volatility of the Company's cash flows resulting from changes in foreign currency exchange rates associated with certain inventory transactions, some of which are designated as cash flow hedges. The Company generally hedges foreign currency exchange rate risks for periods of 12 months or less. As of June 30, 2017, the maximum term over which the Company is hedging its exposure to the variability of future cash flows associated with certain inventory transactions is nine months.

Certain foreign currency exchange forward contracts are not designated as hedges as they do not meet the specific hedge accounting requirements of ASC 815, "Derivatives and Hedging." Changes in the fair value of the derivative instruments not designated as hedging instruments are recorded in the unaudited condensed consolidated statements of

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income as they occur. Gains and losses on derivatives not designated as hedging instruments are included in other operating activities in the unaudited condensed consolidated statements of cash flows for all periods presented.

The following tables present the fair values of the derivative instruments included within the Company's unaudited condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016:

	June 30, 2017			
	Notional Amount	Fair Value	Balance Sheet Location	Maturity
	(In millions)			
<i>Designated as hedging instruments:</i>				
Foreign currency exchange hedges	\$ 20.3	\$ 0.2	Other current assets	July 2017 to December 2017
Foreign currency exchange hedges	\$ 26.9	\$ 1.2	Other current liabilities	July 2017 to March 2018
<i>Not designated as hedging instruments:</i>				
Foreign currency exchange forward contracts	\$ 160.0	\$ 7.9	Other current assets	February 2018
Foreign currency exchange forward contract	\$ 63.9	\$ 1.5	Other current liabilities	March 2018

  

	December 31, 2016			
	Notional Amount	Fair Value	Balance Sheet Location	Maturity
	(In millions)			
<i>Designated as hedging instruments:</i>				
Foreign currency exchange hedges	\$ 34.4	\$ 1.2	Other current assets	January 2017 to August 2017
Foreign currency exchange hedges	\$ 27.6	\$ 0.9	Other current liabilities	January 2017 to August 2017

***Derivatives Designated as Hedging Instruments***

Losses of \$0.6 million and \$0.9 million, net of tax, were recognized in other comprehensive income for the three and six months ended June 30, 2017, respectively, related to foreign currency exchange hedges designated as effective. Changes in the fair value of these hedges, excluding any ineffective portion are recorded in other comprehensive income (loss) until the hedged transactions affect net income. The ineffective portion of these cash flow hedges impacts net income when the ineffectiveness occurs. For the three and six months ended June 30, 2017, losses of \$0.3 million and de minimis losses, respectively, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations), and a de minimis amount of ineffectiveness was recorded. At June 30, 2017, \$0.5 million is expected to be reclassified from accumulated other comprehensive income into net income in the coming 12 months.

Gains of \$1.1 million and losses of \$1.3 million, net of tax, were recognized in other comprehensive income for the three and six months ended June 30, 2016, respectively, related to foreign currency exchange hedges designated as effective. For the three and six months ended June 30, 2016, losses of \$0.1 million and \$0.6 million, respectively, net of tax, were reclassified from accumulated other comprehensive income into net income (cost of operations) and a de minimis amount of ineffectiveness was recorded.

***Derivatives Not Designated as Hedging Instruments***

For the three and six months ended June 30, 2017, gains of \$9.1 million and \$6.4 million, respectively, related to foreign currency exchange forward contracts not designated as hedging instruments were recognized in general and administrative expense in the Company's unaudited condensed consolidated statements of income.

For the six months ended June 30, 2016, losses of \$0.1 million related to foreign currency exchange forward contracts not designated as hedging instruments were recognized in general and administrative expense in the Company's unaudited condensed consolidated statements of income. There were no gains or losses recognized on derivatives not designated as hedging instruments for the three months ended June 30, 2016.

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**Net Investment Hedges**

In November 2015, the Company designated its Euro-denominated Senior Notes due 2023 (€300.0 million) as a net investment hedge of its investment in BrandLoyalty, which has a functional currency of the Euro, in order to reduce the volatility in stockholders' equity caused by the changes in foreign currency exchange rates of the Euro with respect to the U.S. dollar. Additionally, in March 2017, the Company designated €200.0 million of its Euro-denominated Senior Notes due 2022 (€400.0 million) as a net investment hedge of its investment in BrandLoyalty. The change in fair value of the net investment hedges due to remeasurement of the effective portion is recorded in other comprehensive income (loss). The ineffective portion of this hedging instrument impacts net income when the ineffectiveness occurs. For the three and six months ended June 30, 2017, losses of \$23.8 million and \$27.4 million, net of tax, respectively, were recognized in other comprehensive income and no ineffectiveness was recorded on the net investment hedges. For the three and six months ended June 30, 2016, gains of \$8.3 million and losses of \$7.3 million, net of tax, respectively, were recognized in other comprehensive income and no ineffectiveness was recorded on the net investment hedges.

**10. DEFERRED REVENUE**

The AIR MILES Reward Program collects fees from its sponsors based on the number of AIR MILES reward miles issued and, in limited circumstances, the number of AIR MILES reward miles redeemed. 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.

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

	Deferred Revenue		
	Service	Redemption	Total
	(In millions)		
<b>Balance at December 31, 2016</b>	\$ 297.7	\$ 633.8	\$ 931.5
Cash proceeds	87.4	164.0	251.4
Revenue recognized	(111.1)	(169.8)	(280.9)
Other	—	1.1	1.1
Effects of foreign currency translation	10.0	22.8	32.8
<b>Balance at June 30, 2017</b>	<b>\$ 284.0</b>	<b>\$ 651.9</b>	<b>\$ 935.9</b>
Amounts recognized in the consolidated balance sheets:			
Current liabilities	\$ 166.4	\$ 651.9	\$ 818.3
Non-current liabilities	\$ 117.6	\$ —	\$ 117.6

**11. STOCKHOLDERS' EQUITY**

**Stock Repurchase Program**

On January 1, 2017, the Company's Board of Directors authorized a stock repurchase program to acquire up to \$500.0 million of the Company's outstanding common stock from January 1, 2017 through December 31, 2017. The stock repurchase program is subject to any restrictions pursuant to the terms of the Company's credit agreements, indentures, and applicable securities laws or otherwise.

On January 30, 2017, under the authorization of the existing 2017 repurchase program, the Company entered into a \$350.0 million fixed dollar accelerated share repurchase program agreement ("ASR Agreement"), with an investment bank counterparty. Pursuant to the ASR Agreement, the Company received an initial delivery of 1.4 million shares of its common stock on February 6, 2017. The final settlement was based upon the volume weighted average price of its common stock, purchased by the counterparty during the period, less a specified discount, subject to a collar with a specified forward cap price and forward cap floor. The final settlement was on April 17, 2017 and resulted in the delivery of an additional 0.1 million shares. As a result of this transaction, the Company purchased a total of 1.5 million shares of its common stock at a settlement price per share of \$238.34.

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For the six months ended June 30, 2017, the Company acquired a total of 2.1 million shares of its common stock for \$499.9 million, including those amounts under the ASR Agreement. As of June 30, 2017, the Company had \$0.1 million remaining under the stock repurchase program.

On July 25, 2017, the Company's Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2017 to acquire an additional \$500.0 million of the Company's outstanding common stock through July 31, 2018, for a total authorization of \$1.0 billion.

***Stock Compensation Expense***

Total stock-based compensation expense recognized in the Company's unaudited condensed consolidated statements of income for the three and six months ended June 30, 2017 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Cost of operations	\$ 14.9	\$ 15.6	\$ 28.8	\$ 30.4
General and administrative	6.8	5.9	16.4	11.0
<b>Total</b>	<b>\$ 21.7</b>	<b>\$ 21.5</b>	<b>\$ 45.2</b>	<b>\$ 41.4</b>

During the six months ended June 30, 2017, the Company awarded 96,143 service-based restricted stock units with a weighted average grant date fair value per share of \$234.05 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.

During the six months ended June 30, 2017, the Company awarded 267,171 performance-based restricted stock units with a weighted average grant date fair value per share of \$230.57 as determined on the date of grant with pre-defined vesting criteria that permit a range from 0% to 150% to be earned. If the performance targets are met, the restrictions will lapse with respect to 33% of the award on February 15, 2018, an additional 33% of the award on February 15, 2019 and the final 34% of the award on February 18, 2020, provided that the participant is employed by the Company on each such vesting date.

Additionally during the six months ended June 30, 2017, the Company awarded 15,140 performance-based restricted stock units with a weighted average grant date fair value per share of \$230.57 as determined on the date of grant with pre-defined vesting criteria that permit a range from 0% to 150% to be earned. If the performance targets are met, the restrictions will lapse with respect to 50% of the award on February 15, 2018 and the remaining 50% of the award on February 15, 2019, provided that the participant is employed by the Company on each such vesting date.

During the six months ended June 30, 2017, the Company also awarded 28,172 restricted stock units with a market-based condition subject to pre-defined vesting criteria that permit a range from 0% to 175% to be earned. The fair market value of these awards is \$199.19 and was estimated utilizing Monte Carlo simulations of the Company's stock price correlation, projected dividend yields, expected volatility and risk-free rate over two-year time horizons matching the performance period. Upon such determination of the market condition, the restrictions will lapse with respect to 100% of the award on February 15, 2019, provided that the participant is employed by the Company on such vesting date.

***Dividends***

On January 26, 2017, the Company's Board of Directors declared a quarterly cash dividend of \$0.52 per share on the Company's common stock to stockholders of record at the close of business on February 15, 2017, resulting in a dividend payment of \$29.0 million on March 17, 2017.

On April 20, 2017, the Company's Board of Directors declared a quarterly cash dividend of \$0.52 per share on the Company's common stock, payable to stockholders of record at the close of business on May 15, 2017, resulting in a dividend payment of \$29.0 million on June 19, 2017.



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On July 20, 2017, the Company's Board of Directors declared a quarterly cash dividend of \$0.52 per share on the Company's common stock, payable on September 19, 2017, to stockholders of record at the close of business on August 14, 2017.

**12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

Three Months Ended June 30, 2017	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedges (In millions)	Foreign Currency Translation Adjustments <sup>(1)</sup>	Accumulated Other Comprehensive Income (Loss)
<b>Balance at March 31, 2017</b>	\$ (0.9)	\$ 0.1	\$ 0.5	\$ (148.6)	\$ (148.9)
Changes in other comprehensive income (loss) before reclassifications	(3.0)	(0.3)	(23.8)	34.5	7.4
Amounts reclassified from other comprehensive income (loss)	0.2	(0.3)	—	—	(0.1)
Changes in other comprehensive income (loss)	(2.8)	(0.6)	(23.8)	34.5	7.3
<b>Balance at June 30, 2017</b>	<b>\$ (3.7)</b>	<b>\$ (0.5)</b>	<b>\$ (23.3)</b>	<b>\$ (114.1)</b>	<b>\$ (141.6)</b>

Three Months Ended June 30, 2016	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedge (In millions)	Foreign Currency Translation Adjustments <sup>(1)</sup>	Accumulated Other Comprehensive Income (Loss)
<b>Balance at March 31, 2016</b>	\$ 1.8	\$ (1.1)	\$ (19.4)	\$ (109.5)	\$ (128.2)
Changes in other comprehensive income (loss) before reclassifications	1.8	1.0	8.3	(14.2)	(3.1)
Amounts reclassified from other comprehensive income (loss)	—	0.1	—	—	0.1
Changes in other comprehensive income (loss)	1.8	1.1	8.3	(14.2)	(3.0)
<b>Balance at June 30, 2016</b>	<b>\$ 3.6</b>	<b>\$ —</b>	<b>\$ (11.1)</b>	<b>\$ (123.7)</b>	<b>\$ (131.2)</b>

Six Months Ended June 30, 2017	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedges (In millions)	Foreign Currency Translation Adjustments <sup>(1)</sup>	Accumulated Other Comprehensive Income (Loss)
<b>Balance at December 31, 2016</b>	\$ (1.6)	\$ 0.4	\$ 4.1	\$ (153.6)	\$ (150.7)
Changes in other comprehensive income (loss) before reclassifications	(2.1)	(0.9)	(27.4)	39.5	9.1
Amounts reclassified from other comprehensive income (loss)	—	—	—	—	—
Changes in other comprehensive income (loss)	(2.1)	(0.9)	(27.4)	39.5	9.1
<b>Balance at June 30, 2017</b>	<b>\$ (3.7)</b>	<b>\$ (0.5)</b>	<b>\$ (23.3)</b>	<b>\$ (114.1)</b>	<b>\$ (141.6)</b>

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**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**

Six Months Ended June 30, 2016	Net Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Net Investment Hedge	Foreign Currency Translation Adjustments <sup>(1)</sup>	Accumulated Other Comprehensive Income (Loss)
	(In millions)				
<b>Balance at December 31, 2015</b>	\$ (0.1)	\$ 1.3	\$ (3.8)	\$ (134.7)	\$ (137.3)
Changes in other comprehensive income (loss) before reclassifications	3.7	(1.9)	(7.3)	11.0	5.5
Amounts reclassified from other comprehensive income (loss)	—	0.6	—	—	0.6
Changes in other comprehensive income (loss)	3.7	(1.3)	(7.3)	11.0	6.1
<b>Balance at June 30, 2016</b>	<b>\$ 3.6</b>	<b>\$ —</b>	<b>\$ (11.1)</b>	<b>\$ (123.7)</b>	<b>\$ (131.2)</b>

(1) Primarily related to the impact of changes in the Canadian dollar and Euro foreign currency exchange rates.

### 13. 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:

	June 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
<b>Financial assets</b>				
Credit card and loan receivables, net	\$ 15,252.6	\$ 16,101.2	\$ 15,595.9	\$ 16,423.2
Credit card and loan receivables held for sale	384.0	391.6	417.3	428.7
Redemption settlement assets, restricted	547.2	547.2	324.4	324.4
Other investments	169.4	169.4	197.6	197.6
Derivative instruments	8.1	8.1	1.2	1.2
<b>Financial liabilities</b>				
Derivative instruments	2.7	2.7	0.9	0.9
Deposits	8,722.5	8,755.0	8,391.9	8,432.2
Non-recourse borrowings of consolidated securitization entities	6,561.4	6,583.2	6,955.4	6,973.8
Long-term and other debt	6,422.9	6,564.6	5,601.4	5,641.0

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

**Credit card and loan receivables, net** — The Company utilizes a discounted cash flow model using unobservable inputs, including estimated yields (interest and fee income), loss rates, payment rates and discount rates to estimate the fair value measurement of the credit card and loan receivables.

**Credit card and loan receivables held for sale** — The fair value of credit card portfolios held for sale is based on significant unobservable inputs, including forecasted yields and net loss estimates. Loan receivables held for sale are recorded at the lower of cost or fair value, and their carrying amount approximates fair value due to the short duration of the holding period of the loan receivables prior to sale.

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*Redemption settlement assets, restricted* — Redemption settlement assets, restricted are recorded at fair value based on quoted market prices for the same or similar securities.

*Other investments* — Other investments consist of marketable securities and U.S. Treasury bonds and are included in other current assets and other non-current assets in the unaudited condensed consolidated balance sheets. Other investments are recorded at fair value based on quoted market prices for the same or similar securities.

*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 Company's foreign currency cash flow hedges are recorded at fair value based on a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs. The fair value of the foreign currency forward contracts is estimated based on published quotations of spot foreign currency rates and forward points which are converted into implied foreign currency rates.

***Financial Assets and Financial Liabilities Fair Value Hierarchy***

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

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

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

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

The following tables provide information for the assets and liabilities carried at fair value measured on a recurring basis as of June 30, 2017 and December 31, 2016:

	Balance at June 30, 2017	Fair Value Measurements at June 30, 2017 Using		
		Level 1	Level 2	Level 3
		(In millions)		
Mutual funds <sup>(1)</sup>	\$ 26.5	\$ 26.5	\$ —	\$ —
Corporate bonds <sup>(1)</sup>	433.5	—	433.5	—
Marketable securities <sup>(2)</sup>	119.3	5.0	114.3	—
U.S. Treasury bonds <sup>(2)</sup>	50.1	50.1	—	—
Derivative instruments <sup>(3)</sup>	8.1	—	8.1	—
Total assets measured at fair value	<u>\$ 637.5</u>	<u>\$ 81.6</u>	<u>\$ 555.9</u>	<u>\$ —</u>
Derivative instruments <sup>(3)</sup>	\$ 2.7	\$ —	\$ 2.7	\$ —
Total liabilities measured at fair value	<u>\$ 2.7</u>	<u>\$ —</u>	<u>\$ 2.7</u>	<u>\$ —</u>

	Balance at December 31, 2016	Fair Value Measurements at December 31, 2016 Using		
		Level 1	Level 2	Level 3
		(In millions)		
Mutual funds <sup>(1)</sup>	\$ 25.5	\$ 25.5	\$ —	\$ —
Corporate bonds <sup>(1)</sup>	240.8	—	240.8	—
Marketable securities <sup>(2)</sup>	122.3	5.0	117.3	—
U.S. Treasury bonds <sup>(2)</sup>	75.3	75.3	—	—
Derivative instruments <sup>(3)</sup>	1.2	—	1.2	—
Total assets measured at fair value	<u>\$ 465.1</u>	<u>\$ 105.8</u>	<u>\$ 359.3</u>	<u>\$ —</u>
Derivative instruments <sup>(3)</sup>	\$ 0.9	\$ —	\$ 0.9	\$ —
Total liabilities measured at fair value	<u>\$ 0.9</u>	<u>\$ —</u>	<u>\$ 0.9</u>	<u>\$ —</u>

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

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the three and six months ended June 30, 2017 and 2016, respectively.

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

*Financial Instruments Disclosed but Not Carried at Fair Value*

The following tables provide assets and liabilities disclosed but not carried at fair value as of June 30, 2017 and December 31, 2016:

	Fair Value Measurements at June 30, 2017			
	Total	Level 1	Level 2	Level 3
	(In millions)			
<b>Financial assets:</b>				
Credit card and loan receivables, net	\$ 16,101.2	\$ —	\$ —	\$ 16,101.2
Credit card and loan receivables held for sale	391.6	—	—	391.6
Total	<u>\$ 16,492.8</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,492.8</u>

<b>Financial liabilities:</b>				
Deposits	\$ 8,755.0	\$ —	\$ 8,755.0	\$ —
Non-recourse borrowings of consolidated securitization entities	6,583.2	—	6,583.2	—
Long-term and other debt	6,564.6	—	6,564.6	—
Total	<u>\$ 21,902.8</u>	<u>\$ —</u>	<u>\$ 21,902.8</u>	<u>\$ —</u>

	Fair Value Measurements at December 31, 2016			
	Total	Level 1	Level 2	Level 3
	(In millions)			
<b>Financial assets:</b>				
Credit card and loan receivables, net	\$ 16,423.2	\$ —	\$ —	\$ 16,423.2
Credit card and loan receivables held for sale	428.7	—	—	428.7
Total	<u>\$ 16,851.9</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,851.9</u>

<b>Financial liabilities:</b>				
Deposits	\$ 8,432.2	\$ —	\$ 8,432.2	\$ —
Non-recourse borrowings of consolidated securitization entities	6,973.8	—	6,973.8	—
Long-term and other debt	5,641.0	—	5,641.0	—
Total	<u>\$ 21,047.0</u>	<u>\$ —</u>	<u>\$ 21,047.0</u>	<u>\$ —</u>

#### 14. INCOME TAXES

The Company utilized an effective tax rate of 35.6% for each of the three and six months ended June 30, 2017 to calculate its provision for income taxes. For the three and six months ended June 30, 2016, the Company utilized an effective tax rate of 35.1% and 35.2%, respectively.

#### 15. 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.

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

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

- LoyaltyOne provides coalition and short-term loyalty programs through the Company’s Canadian AIR MILES Reward Program and BrandLoyalty;
- Epsilon provides end-to-end, integrated marketing solutions that leverage rich data, analytics, creativity and technology to help clients more effectively acquire, retain and grow relationships with their customers; and
- Card Services provides risk management solutions, account origination, funding, transaction processing, customer care, collections and marketing services for the Company’s private label and co-brand credit card programs.

Corporate and 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.”

<u>Three Months Ended June 30, 2017</u>	<u>LoyaltyOne</u>	<u>Epsilon</u>	<u>Card Services</u>	<u>Corporate/ Other</u>	<u>Eliminations</u>	<u>Total</u>
	(In millions)					
Revenues	\$ 280.0	\$ 543.8	\$ 1,005.0	\$ —	\$ (7.0)	\$ 1,821.8
Income (loss) before income taxes	\$ 33.5	\$ 19.9	\$ 276.1	\$ (115.6)	\$ —	\$ 213.9
Interest expense, net	1.0	0.1	65.2	71.2	—	137.5
Operating income (loss)	34.5	20.0	341.3	(44.4)	—	351.4
Depreciation and amortization	19.5	77.9	26.1	2.0	—	125.5
Stock compensation expense	2.7	8.9	3.3	6.8	—	21.7
Adjusted EBITDA <sup>(1)</sup>	56.7	106.8	370.7	(35.6)	—	498.6
Less: Securitization funding costs	—	—	36.6	—	—	36.6
Less: Interest expense on deposits	—	—	28.6	—	—	28.6
Less: Adjusted EBITDA attributable to non-controlling interest	—	—	—	—	—	—
Adjusted EBITDA, net <sup>(1)</sup>	\$ 56.7	\$ 106.8	\$ 305.5	\$ (35.6)	\$ —	\$ 433.4

<u>Three Months Ended June 30, 2016</u>	<u>LoyaltyOne</u>	<u>Epsilon</u>	<u>Card Services</u>	<u>Corporate/ Other</u>	<u>Eliminations</u>	<u>Total</u>
	(In millions)					
Revenues	\$ 352.3	\$ 518.8	\$ 885.8	\$ 0.1	\$ (8.2)	\$ 1,748.8
Income (loss) before income taxes	\$ 53.3	\$ 10.8	\$ 250.5	\$ (97.7)	\$ —	\$ 216.9
Interest expense, net	0.9	—	50.2	52.6	—	103.7
Operating income (loss)	54.2	10.8	300.7	(45.1)	—	320.6
Depreciation and amortization	22.5	82.4	22.4	2.3	—	129.6
Stock compensation expense	2.6	9.4	3.5	6.0	—	21.5
Adjusted EBITDA <sup>(1)</sup>	79.3	102.6	326.6	(36.8)	—	471.7
Less: Securitization funding costs	—	—	30.0	—	—	30.0
Less: Interest expense on deposits	—	—	20.2	—	—	20.2
Less: Adjusted EBITDA attributable to non-controlling interest	—	—	—	—	—	—
Adjusted EBITDA, net <sup>(1)</sup>	\$ 79.3	\$ 102.6	\$ 276.4	\$ (36.8)	\$ —	\$ 421.5

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

Six Months Ended June 30, 2017	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
	(In millions)					
Revenues	\$ 613.0	\$ 1,073.1	\$ 2,028.2	\$ —	\$ (13.5)	\$ 3,700.8
Income (loss) before income taxes	\$ 69.9	\$ 18.3	\$ 577.9	\$ (225.0)	\$ —	\$ 441.1
Interest expense, net	2.1	0.1	126.4	134.1	—	262.7
Operating income (loss)	72.0	18.4	704.3	(90.9)	—	703.8
Depreciation and amortization	38.6	155.8	51.9	4.0	—	250.3
Stock compensation expense	4.8	17.6	6.4	16.4	—	45.2
Adjusted EBITDA <sup>(1)</sup>	115.4	191.8	762.6	(70.5)	—	999.3
Less: Securitization funding costs	—	—	71.8	—	—	71.8
Less: Interest expense on deposits	—	—	54.6	—	—	54.6
Less: Adjusted EBITDA attributable to non-controlling interest	—	—	—	—	—	—
Adjusted EBITDA, net <sup>(1)</sup>	\$ 115.4	\$ 191.8	\$ 636.2	\$ (70.5)	\$ —	\$ 872.9

Six Months Ended June 30, 2016	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Eliminations	Total
	(In millions)					
Revenues	\$ 706.9	\$ 1,012.1	\$ 1,721.3	\$ 0.2	\$ (15.5)	\$ 3,425.0
Income (loss) before income taxes	\$ 109.1	\$ (1.7)	\$ 534.3	\$ (179.3)	\$ —	\$ 462.4
Interest expense, net	0.8	—	97.8	103.9	—	202.5
Operating income (loss)	109.9	(1.7)	632.1	(75.4)	—	664.9
Depreciation and amortization	43.4	167.1	42.4	5.1	—	258.0
Stock compensation expense	5.2	18.0	7.2	11.0	—	41.4
Adjusted EBITDA <sup>(1)</sup>	158.5	183.4	681.7	(59.3)	—	964.3
Less: Securitization funding costs	—	—	60.4	—	—	60.4
Less: Interest expense on deposits	—	—	37.4	—	—	37.4
Less: Adjusted EBITDA attributable to non-controlling interest	5.5	—	—	—	—	5.5
Adjusted EBITDA, net <sup>(1)</sup>	\$ 153.0	\$ 183.4	\$ 583.9	\$ (59.3)	\$ —	\$ 861.0

- (1) Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable financial measure based on GAAP plus stock compensation expense, provision for income taxes, interest expense, net, depreciation and other amortization and amortization of purchased intangibles. Adjusted EBITDA, net is also a non-GAAP financial measure equal to adjusted EBITDA less securitization funding costs, interest expense on deposits and adjusted EBITDA attributable to the non-controlling interest. Adjusted EBITDA and adjusted EBITDA, net are presented in accordance with ASC 280 as they are the primary performance metrics utilized to assess performance of the segments.

### Caution Regarding 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. Forward-looking statements give our expectations or forecasts of future events and can generally be identified by the use of words such as “believe,” “expect,” “anticipate,” “estimate,” “intend,” “project,” “plan,” “likely,” “may,” “should” or other words or phrases of similar import. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. We believe that our expectations are based on reasonable assumptions. Forward-looking statements, however, are subject to a number of risks and uncertainties that could cause actual results to differ materially from the projections, anticipated results or other expectations expressed in this report, and no assurances can be given that our expectations will prove to have been correct. These risks and uncertainties include, but are not limited to, the following:

- loss of, or reduction in demand for services from, significant clients;
- increases in net charge-offs in credit card and loan receivables;
- increases in the cost of doing business, including market interest rates;
- loss of active AIR MILES Reward Program collectors;
- disruptions in the airline or travel industries;
- failure to identify or successfully integrate business acquisitions;
- increased redemptions by AIR MILES Reward Program collectors;
- inability to access the asset-backed securitization funding market;
- unfavorable fluctuations in foreign currency exchange rates;
- limitations on consumer credit, loyalty or marketing services from new legislative or regulatory actions related to consumer protection and consumer privacy;
- increases in FDIC, Delaware or Utah regulatory capital requirements for banks;
- failure to maintain exemption from regulation under the Bank Holding Company Act;
- loss or disruption, due to cyber attack or other service failures, of data center operations or capacity;
- loss of consumer information due to compromised physical or cyber security; and
- those factors set forth in the Risk Factors section in our Annual Report on Form 10-K for the most recently ended fiscal year as well as those factors discussed in Item 1A of this Form 10-Q, elsewhere in this Form 10-Q and in the documents incorporated by reference in this Form 10-Q.

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 Form 10-Q speak only as of the date made, and we undertake no obligation, other than as required by applicable law, to update or revise any forward-looking statements, whether as a result of new information, subsequent events, anticipated or unanticipated circumstances or otherwise.



## 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, 2016, filed with the Securities and Exchange Commission, or SEC, on February 27, 2017.

### 2017 Highlights and Recent Developments

- For the six months ended June 30, 2017, as compared to the six months ended June 30, 2016:
  - Revenue increased 8% to \$3.7 billion.
  - Net income decreased 5% to \$284.1 million.
  - Earnings per share increased 40% to \$5.05. Excluding \$1.40 in accretion charges related to the acquisitions of the remaining interests in BrandLoyalty in the prior year period, earnings per share increased 1%.
  - Adjusted EBITDA, net increased 1% to \$872.9 million.
- In January 2017, we entered into a \$350.0 million fixed dollar accelerated share repurchase agreement with final settlement in April. As a result of this transaction, we purchased a total of 1.5 million shares of our common stock at a settlement price per share of \$238.34.
- In March 2017, we issued and sold €400.0 million aggregate principal amount of 4.500% senior notes due March 15, 2022.
- We paid quarterly dividends of \$29.0 million, or \$0.52 per share, in each of March 2017 and June 2017.
- In June 2017, we entered into a new credit agreement with various agents and lenders, replacing our credit agreement dated July 10, 2013 in its entirety. The new credit agreement provides for a \$3,052.6 million term loan and a \$1,572.4 million revolving line of credit.

### 2017 Outlook

Within our LoyaltyOne segment, our AIR MILES Reward Program continued to be impacted by the change in the breakage rate from 26% to 20%. As LoyaltyOne implements program changes, our adjusted EBITDA margins have improved and are trending to a mid-20% range for the year. Although AIR MILES reward miles issued declined approximately 2% for the six months ended June 30, 2017, we expect issuance growth to turn positive in the second half of the year. In 2017, we continue to see steady improvement in collector engagement and activation. We expect the burn rate, measured in each period as AIR MILES reward miles redeemed divided by AIR MILES reward miles issued, to approximate 78% for 2017. With respect to BrandLoyalty, timing of programs in market can impact our quarterly financial results and in 2017, we expect major programs to launch in the fourth quarter. However, BrandLoyalty results have been soft; with the third quarter not developing as originally expected, we anticipate a negative impact on both our segment and consolidated operating results for the full year 2017.

Within our Epsilon segment, we had a strong first half with revenue and adjusted EBITDA growth both exceeding our expectations. For the year, we continue to expect 4% growth in revenue and adjusted EBITDA. With respect to our Technology platform, which represents approximately 25% of Epsilon's revenue, we have standardized our product and adjusted our cost structure, which will provide for a faster time to market and allow Epsilon to be more price competitive. With these changes, we expect negative growth in this product offering to become flat by the end of the year, positively impacting the overall growth of the segment.

Within our Card Services segment, for the full year 2017, we expect double-digit growth for revenue and approximately 10% growth for adjusted EBITDA, net. We expect credit card and loan receivables growth of 15% with stable gross yields. Delinquencies continue to track to our estimates for 2017. Our net loss rates have been negatively impacted by a weaker third-party recovery market. Credit sales increased 6% for the six months ended June 30, 2017, with over 30% of those sales through digital channels, reflecting the changing retail landscape. Recognizing the shift to digital sales, we recently introduced new digital capabilities to promote our retailers' online channels.

## Consolidated Results of Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
(in millions, except percentages)						
<b>Revenues</b>						
Services	\$ 626.5	\$ 604.4	4 %	\$ 1,238.1	\$ 1,194.5	4 %
Redemption	184.5	262.1	(30)	435.3	540.2	(19)
Finance charges, net	1,010.8	882.3	15	2,027.4	1,690.3	20
Total revenue	1,821.8	1,748.8	4	3,700.8	3,425.0	8
<b>Operating expenses</b>						
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	1,014.4	1,027.9	(1)	2,056.5	2,031.9	1
Provision for loan loss	288.1	227.8	26	603.2	399.7	51
General and administrative	42.4	42.9	(1)	87.0	70.5	23
Depreciation and other amortization	45.2	41.1	10	89.9	80.9	11
Amortization of purchased intangibles	80.3	88.5	(9)	160.4	177.1	(9)
Total operating expenses	1,470.4	1,428.2	3	2,997.0	2,760.1	9
Operating income	351.4	320.6	10	703.8	664.9	6
<b>Interest expense</b>						
Securitization funding costs	36.6	30.0	22	71.8	60.4	19
Interest expense on deposits	28.6	20.2	42	54.6	37.4	46
Interest expense on long-term and other debt, net	72.3	53.5	35	136.3	104.7	30
Total interest expense, net	137.5	103.7	33	262.7	202.5	30
Income before income tax	213.9	216.9	(1)	441.1	462.4	(5)
Provision for income taxes	76.2	76.2	—	157.0	162.8	(4)
Net income	\$ 137.7	\$ 140.7	(2)%	\$ 284.1	\$ 299.6	(5)%
<b>Key Operating Metrics:</b>						
Credit card statements generated	71.4	69.7	2 %	143.6	135.3	6 %
Credit sales	\$ 7,515.4	\$ 7,098.8	6 %	\$ 14,094.6	\$ 13,277.0	6 %
Average credit card and loan receivables	\$ 15,739.9	\$ 13,505.3	17 %	\$ 15,712.7	\$ 13,521.0	16 %
AIR MILES reward miles issued	1,422.6	1,432.5	(1)%	2,658.6	2,718.7	(2)%
AIR MILES reward miles redeemed	1,076.5	1,232.2	(13)%	2,302.8	2,516.1	(8)%

### Three months ended June 30, 2017 compared to the three months ended June 30, 2016

**Revenue.** Total revenue increased \$73.0 million, or 4%, to \$1,821.8 million for the three months ended June 30, 2017 from \$1,748.8 million for the three months ended June 30, 2016. The net increase was due to the following:

- **Services.** Revenue increased \$22.1 million, or 4%, to \$626.5 million for the three months ended June 30, 2017 as a result of an increase in services provided to our Epsilon clients, driven by double-digit growth in the automotive, agency and CRM offerings as a result of new client signings and strength in existing client relationships. This increase was offset in part by a \$4.5 million reduction in merchant fees, which are transaction fees charged by Card Services to the retailer.
- **Redemption.** Revenue decreased \$77.6 million, or 30%, to \$184.5 million for the three months ended June 30, 2017 as our coalition loyalty program was negatively impacted by the change in breakage rate in December 2016 and a 13% decrease in AIR MILES reward miles redeemed, while our short-term loyalty programs were negatively impacted by the timing of programs in market.
- **Finance charges, net.** Revenue increased \$128.5 million, or 15%, to \$1,010.8 million for the three months ended June 30, 2017, driven by higher average credit card and loan receivables, which impacted revenue by \$134.0 million. The increase in average credit card and loan receivables was a result of a combination of recent credit card portfolio acquisitions and a 6% increase in credit sales.

**Cost of operations.** Cost of operations decreased \$13.5 million, or 1%, to \$1,014.4 million for the three months ended June 30, 2017 as compared to \$1,027.9 million for the three months ended June 30, 2016. The net decrease was due to the following:

- Within the LoyaltyOne segment, cost of operations decreased \$49.7 million due to a \$50.9 million decrease in cost of redemptions associated with the decrease in redemption revenue.

- Within the Epsilon segment, cost of operations increased \$20.3 million due to an increase in direct costs associated with the increase in revenue. Cost controls implemented in 2016 held the increase in payroll and benefit costs to 1% as compared to the prior year quarter.
- Within the Card Services segment, cost of operations increased \$14.7 million due to higher payroll and benefit expenses and higher credit card processing costs due to increases in volume associated with growth in credit card and loan receivables.

*Provision for loan loss.* Provision for loan loss increased \$60.3 million, or 26%, to \$288.1 million for the three months ended June 30, 2017 as compared to \$227.8 million for the three months ended June 30, 2016. The increase in the provision for loan loss was driven by higher principal loss rates as well as an increase in credit card and loan receivables.

*General and administrative.* General and administrative expenses decreased \$0.5 million, or 1%, to \$42.4 million for the three months ended June 30, 2017, as compared to \$42.9 million for the three months ended June 30, 2016, as decreases in corporate expenses, driven by lower payroll and benefit costs, were offset in part by net foreign currency exchange losses realized.

*Depreciation and other amortization.* Depreciation and other amortization increased \$4.1 million, or 10%, to \$45.2 million for the three months ended June 30, 2017, as compared to \$41.1 million for the three months ended June 30, 2016, due to additional assets placed into service from recent capital expenditures.

*Amortization of purchased intangibles.* Amortization of purchased intangibles decreased \$8.2 million, or 9%, to \$80.3 million for the three months ended June 30, 2017 as compared to \$88.5 million for the three months ended June 30, 2016, as the amortization associated with the intangible assets from recent portfolio acquisitions was more than offset by certain fully amortized intangible assets.

*Interest expense, net.* Total interest expense, net increased \$33.8 million, or 33%, to \$137.5 million for the three months ended June 30, 2017 as compared to \$103.7 million for the three months ended June 30, 2016. The increase was due to the following:

- *Securitization funding costs.* Securitization funding costs increased \$6.6 million due to higher average borrowings and higher average interest rates.
- *Interest expense on deposits.* Interest expense on deposits increased \$8.4 million due to higher average borrowings and higher average interest rates.
- *Interest expense on long-term and other debt, net.* Interest expense on long-term and other debt, net increased \$18.8 million primarily due to the issuance of new senior notes in October 2016 and March 2017, which increased interest expense by \$12.2 million. Additionally, amortization of debt issuance costs increased \$2.1 million, interest expense on term debt increased \$2.8 million and interest expense on the revolving line of credit increased \$1.3 million. The increase in interest expense on the term debt and revolving line of credit was due to higher average balances and higher average interest rates due to increases in the LIBOR rate.

*Taxes.* Income tax expense was flat at \$76.2 million for each of the three months ended June 30, 2017 and the three months ended June 30, 2016 due to a decrease in taxable income, offset by an increase in the effective tax rate. The effective tax rate for the current year quarter was 35.6% as compared to 35.1% for the prior year quarter.

#### **Six months ended June 30, 2017 compared to the six months ended June 30, 2016**

*Revenue.* Total revenue increased \$275.8 million, or 8%, to \$3,700.8 million for the three months ended June 30, 2017 from \$3,425.0 million for the six months ended June 30, 2016. The net increase was due to the following:

- *Services.* Revenue increased \$43.6 million, or 4%, to \$1,238.1 million for the six months ended June 30, 2017 as a result of an increase in services provided to our Epsilon clients, driven by double-digit growth in the automotive, agency and CRM offerings as a result of new client signings and strength in existing client relationships. This increase was offset in part by a \$20.9 million reduction in merchant fees, which are transaction fees charged by Card Services to the retailer.

- *Redemption.* Revenue decreased \$104.9 million, or 19%, to \$435.3 million for the six months ended June 30, 2017 as our coalition loyalty program was negatively impacted by the change in breakage rate in December 2016 and an 8% decrease in AIR MILES reward miles redeemed, while our short-term loyalty programs were negatively impacted by the timing of programs in market.
- *Finance charges, net.* Revenue increased \$337.1 million, or 20%, to \$2,027.4 million for the six months ended June 30, 2017, driven by a combination of higher average credit card and loan receivables, which impacted revenue by \$283.0 million, and a higher finance yield of 70 basis points, which impacted revenue by \$54.1 million. The increase in average credit card and loan receivables was a result of a combination of recent credit card portfolio acquisitions and a 6% increase in credit sales, while the increase in our finance yield benefitted from higher late fees.

*Cost of operations.* Cost of operations increased \$24.6 million, or 1%, to \$2,056.5 million for the six months ended June 30, 2017 as compared to \$2,031.9 million for the six months ended June 30, 2016. The net increase was due to the following:

- Within the LoyaltyOne segment, cost of operations decreased \$51.2 million as a \$61.2 million decrease in cost of redemptions associated with the decrease in redemption revenue was offset in part by a 3% increase in payroll and benefit costs.
- Within the Epsilon segment, cost of operations increased \$52.2 million due to an increase in direct costs associated with the increase in revenue as well as a 4% increase in payroll and benefit expenses.
- Within the Card Services segment, cost of operations increased \$21.8 million due to a 10% increase in payroll and benefit expenses to support increases in volume associated with growth in credit card and loan receivables.

*Provision for loan loss.* Provision for loan loss increased \$203.5 million, or 51%, to \$603.2 million for the six months ended June 30, 2017 as compared to \$399.7 million for the six months ended June 30, 2016. The increase in the provision for loan loss was driven by higher principal loss rates as well as an increase in credit card and loan receivables.

*General and administrative.* General and administrative expenses increased \$16.5 million, or 23%, to \$87.0 million for the six months ended June 30, 2017, as compared to \$70.5 million for the six months ended June 30, 2016, due to higher payroll and benefit costs of \$8.9 million associated with an increase in stock compensation, medical costs and discretionary benefits, as well as an increase in net foreign currency exchange losses recognized of \$7.8 million.

*Depreciation and other amortization.* Depreciation and other amortization increased \$9.0 million, or 11%, to \$89.9 million for the six months ended June 30, 2017, as compared to \$80.9 million for the six months ended June 30, 2016, due to additional assets placed into service from recent capital expenditures.

*Amortization of purchased intangibles.* Amortization of purchased intangibles decreased \$16.7 million, or 9%, to \$160.4 million for the six months ended June 30, 2017 as compared to \$177.1 million for the six months ended June 30, 2016, as the amortization associated with the intangible assets from recent portfolio acquisitions was more than offset by certain fully amortized intangible assets.

*Interest expense, net.* Total interest expense, net increased \$60.2 million, or 30%, to \$262.7 million for the six months ended June 30, 2017 as compared to \$202.5 million for the six months ended June 30, 2016. The increase was due to the following:

- *Securitization funding costs.* Securitization funding costs increased \$11.4 million due to higher average borrowings and higher average interest rates.
- *Interest expense on deposits.* Interest expense on deposits increased \$17.2 million due to higher average borrowings and higher average interest rates.
- *Interest expense on long-term and other debt, net.* Interest expense on long-term and other debt, net increased \$31.6 million primarily due to the issuance of new senior notes in October 2016 and March 2017, which increased interest expense by \$20.4 million. Additionally, amortization of debt issuance costs increased \$2.5 million, interest expense on term debt increased \$5.8 million and interest expense on the revolving line of credit increased \$1.3 million. The increase in interest expense on the term debt and revolving line of credit was due to

higher average balances and higher average interest rates due to increases in the LIBOR rate.

*Taxes.* Income tax expense decreased \$5.8 million to \$157.0 million for the six months ended June 30, 2017 from \$162.8 million for the six months ended June 30, 2016 due to a decrease in taxable income, offset in part by an increase in the effective tax rate. The effective tax rate for the six months ended June 30, 2017 was 35.6% as compared to 35.2% for the six months ended June 30, 2016.

### 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. Adjusted EBITDA, net is also a non-GAAP financial measure equal to adjusted EBITDA less securitization funding costs, interest expense on deposits and adjusted EBITDA attributable to the non-controlling interest.

We use adjusted EBITDA and adjusted EBITDA, net 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, and we believe it provides useful information to our investors regarding our performance and overall results of operations. Adjusted EBITDA and adjusted EBITDA, net are each 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 intangible assets, including 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, 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.

Adjusted EBITDA and adjusted EBITDA, net are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, either operating income or net income as indicators of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, adjusted EBITDA and adjusted EBITDA, net are 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 and adjusted EBITDA, net measures presented in this Quarterly Report on Form 10-Q may not be comparable to similarly titled measures presented by other companies, and may not be identical to corresponding measures used in our various agreements.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Net income	\$ 137.7	\$ 140.7	\$ 284.1	\$ 299.6
Stock compensation expense	21.7	21.5	45.2	41.4
Provision for income taxes	76.2	76.2	157.0	162.8
Interest expense, net	137.5	103.7	262.7	202.5
Depreciation and other amortization	45.2	41.1	89.9	80.9
Amortization of purchased intangibles	80.3	88.5	160.4	177.1
Adjusted EBITDA	498.6	471.7	999.3	964.3
Less: Securitization funding costs	36.6	30.0	71.8	60.4
Less: Interest expense on deposits	28.6	20.2	54.6	37.4
Less: Adjusted EBITDA attributable to non-controlling interest	—	—	—	5.5
Adjusted EBITDA, net	\$ 433.4	\$ 421.5	\$ 872.9	\$ 861.0

**Segment Revenue and Adjusted EBITDA, net**

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
(in millions, except percentages)						
<b>Revenue:</b>						
LoyaltyOne	\$ 280.0	\$ 352.3	(21)%	\$ 613.0	\$ 706.9	(13)%
Epsilon	543.8	518.8	5	1,073.1	1,012.1	6
Card Services	1,005.0	885.8	13	2,028.2	1,721.3	18
Corporate/Other	—	0.1	nm*	—	0.2	nm*
Eliminations	(7.0)	(8.2)	nm*	(13.5)	(15.5)	nm*
Total	\$ 1,821.8	\$ 1,748.8	4 %	\$ 3,700.8	\$ 3,425.0	8 %
<b>Adjusted EBITDA, net <sup>(1)</sup>:</b>						
LoyaltyOne	\$ 56.7	\$ 79.3	(28)%	\$ 115.4	\$ 153.0	(25)%
Epsilon	106.8	102.6	4	191.8	183.4	5
Card Services	305.5	276.4	11	636.2	583.9	9
Corporate/Other	(35.6)	(36.8)	(3)	(70.5)	(59.3)	19
Total	\$ 433.4	\$ 421.5	3 %	\$ 872.9	\$ 861.0	1 %

(1) For a definition of and reconciliation of adjusted EBITDA, net to net income, the most directly comparable GAAP financial measure, see “Use of Non-GAAP Financial Measures” included in this report.

\* not meaningful

**Three months ended June 30, 2017 compared to the three months ended June 30, 2016**

*Revenue.* Total revenue increased \$73.0 million, or 4%, to \$1,821.8 million for the three months ended June 30, 2017 from \$1,748.8 million for the three months ended June 30, 2016. The net increase was due to the following:

- *LoyaltyOne.* Revenue decreased \$72.3 million, or 21%, to \$280.0 million for the three months ended June 30, 2017 as our coalition program declined \$24.4 million, impacted by a 13% decrease in the number of AIR MILES reward miles redeemed and the change in breakage rate in December 2016, and revenue from our short-term loyalty programs decreased \$47.9 million related to the timing of programs in market.
- *Epsilon.* Revenue increased \$25.0 million, or 5%, to \$543.8 million for the three months ended June 30, 2017 driven by double-digit growth in the automotive, agency and CRM offerings from a combination of new clients and strength in existing client relationships, offset in part by a 3% decline in technology platform revenue as compared to the prior year period.
- *Card Services.* Revenue increased \$119.2 million, or 13%, to \$1,005.0 million for the three months ended June 30, 2017, driven by a \$128.5 million increase in finance charges, net as a result of an increase in average credit card and loan receivables due to recent portfolio acquisitions and strong cardholder spending. Servicing fees decreased \$9.3 million, as merchant fees declined \$4.5 million due to increased royalty payments associated with higher volumes and new clients, and other servicing fees declined \$5.1 million.

*Adjusted EBITDA, net.* Adjusted EBITDA, net increased \$11.9 million, or 3%, to \$433.4 million for the three months ended June 30, 2017 from \$421.5 million for the three months ended June 30, 2016. The net increase was due to the following:

- *LoyaltyOne.* Adjusted EBITDA, net decreased \$22.6 million, or 28%, to \$56.7 million for the three months ended June 30, 2017 primarily due to the decrease in revenue discussed above, offset in part by the associated decrease in cost of redemptions.
- *Epsilon.* Adjusted EBITDA, net increased \$4.2 million, or 4%, to \$106.8 million for the three months ended June 30, 2017 due to the revenue increases discussed above, as adjusted EBITDA margins were 20% for each of the three months ended June 30, 2017 and 2016.
- *Card Services.* Adjusted EBITDA, net increased \$29.1 million, or 11%, to \$305.5 million for the three months ended June 30, 2017. Adjusted EBITDA, net was positively impacted by an increase in finance charges, net,

which was offset primarily by an increase in the provision for loan loss resulting from higher principal loss rates as well as an increase in credit card and loan receivables and an increase in operating expenses due to higher volumes.

- *Corporate/Other.* Adjusted EBITDA, net increased \$1.2 million to a loss of \$35.6 million for the three months ended June 30, 2017, due to lower payroll and benefit costs and general corporate expenses that were offset in part by higher net foreign currency exchange losses recognized as compared to the prior year quarter.

#### **Six months ended June 30, 2017 compared to the six months ended June 30, 2016**

*Revenue.* Total revenue increased \$275.8 million, or 8%, to \$3,700.8 million for the six months ended June 30, 2017 from \$3,425.0 million for the six months ended June 30, 2016. The net increase was due to the following:

- *LoyaltyOne.* Revenue decreased \$93.9 million, or 13%, to \$613.0 million for the six months ended June 30, 2017 as our coalition program declined \$36.0 million due to an 8% decrease in the number of AIR MILES reward miles redeemed and the impact of the change in breakage rate in December 2016, and our short-term loyalty programs decreased \$57.9 million related to the timing of programs in market.
- *Epsilon.* Revenue increased \$61.0 million, or 6%, to \$1,073.1 million for the six months ended June 30, 2017 driven by double-digit growth in the automotive, agency and CRM offerings from a combination of new clients and strength in existing client relationships, offset in part by a 5% decline in technology platform revenue as compared to the prior year period.
- *Card Services.* Revenue increased \$306.9 million, or 18%, to \$2,028.2 million for the six months ended June 30, 2017, driven by a \$337.1 million increase in finance charges, net as a result of an increase in average credit card and loan receivables due to recent portfolio acquisitions and strong cardholder spending. Servicing fees decreased \$30.1 million, as merchant fees declined \$20.9 million due to increased royalty payments associated with higher volumes and new clients, and other servicing fees declined \$10.1 million.

*Adjusted EBITDA, net.* Adjusted EBITDA, net increased \$11.9 million, or 1%, to \$872.9 million for the six months ended June 30, 2017 from \$861.0 million for the six months ended June 30, 2016. The net increase was due to the following:

- *LoyaltyOne.* Adjusted EBITDA, net decreased \$37.6 million, or 25%, to \$115.4 million for the six months ended June 30, 2017 primarily due to the decrease in revenue discussed above, offset in part by the associated decrease in cost of redemptions. In the prior year period, adjusted EBITDA, net was reduced by \$5.5 million of adjusted EBITDA attributable to the non-controlling interest. Effective April 1, 2016, we acquired the remaining 20% interest in BrandLoyalty to bring our ownership percentage to 100%.
- *Epsilon.* Adjusted EBITDA, net increased \$8.4 million, or 5%, to \$191.8 million for the six months ended June 30, 2017 due to the revenue increases discussed above, as adjusted EBITDA margins remained flat.
- *Card Services.* Adjusted EBITDA, net increased \$52.3 million, or 9%, to \$636.2 million for the six months ended June 30, 2017. Adjusted EBITDA, net was positively impacted by an increase in finance charges, net, which was offset primarily by an increase in the provision for loan loss resulting from higher principal loss rates as well as an increase in credit card and loan receivables and an increase in operating expenses due to higher volumes.
- *Corporate/Other.* Adjusted EBITDA, net decreased \$11.2 million to a loss of \$70.5 million for the six months ended June 30, 2017, due to higher payroll and benefit costs, an increase in charitable contributions, and higher net foreign currency exchange losses recognized in the current year period.

#### **Asset Quality**

Our delinquency and net charge-off rates reflect, among other factors, the credit risk of our credit card and loan 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 and loan receivables portfolio:

	June 30, 2017	% of Total	December 31, 2016	% of Total
	(In millions, except percentages)			
Receivables outstanding - principal	\$ 15,497.3	100.0 %	\$ 15,754.0	100.0 %
Principal receivables balances contractually delinquent:				
31 to 60 days	261.4	1.7 %	249.8	1.6 %
61 to 90 days	190.4	1.2	169.3	1.1
91 or more days	331.5	2.2	337.8	2.1
Total	<u>\$ 783.3</u>	<u>5.1 %</u>	<u>\$ 756.9</u>	<u>4.8 %</u>

*Net Charge-Offs.* Our net charge-offs include the principal amount of losses from cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased credit cardholders, less recoveries and exclude charged-off interest, fees and fraud losses. Charged-off interest and fees reduce finance charges, net while fraud losses are recorded as an expense. Credit card and loan receivables, including unpaid interest and fees, are charged-off in the month during which an account becomes 180 days contractually past due, except in the case of customer bankruptcies or death. Credit card and loan receivables, including unpaid interest and fees, associated with customer bankruptcies or death are charged-off in 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 and loan receivables for the period. Average credit card and loan receivables represent the average balance of the cardholder receivables at the beginning of each month in the periods indicated. The following table presents our net charge-offs for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except percentages)			
Average credit card and loan receivables	\$ 15,739.9	\$ 13,505.3	\$ 15,712.7	\$ 13,521.0
Net charge-offs of principal receivables	244.0	172.4	491.9	348.8
Net charge-offs as a percentage of average credit card and loan receivables	6.2 %	5.1 %	6.3 %	5.2 %

See Note 3, "Credit Card and Loan 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

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

Quantitative measures established by regulations to ensure capital adequacy require Comenity Bank and Comenity Capital Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Tier 1 and total capital to risk weighted assets and of Tier 1 capital to average assets. As of June 30, 2017, Comenity Bank's Common Equity Tier 1 capital ratio was 15.3%, Tier 1 capital ratio was 15.3%, total capital ratio was 16.7% and leverage ratio was 14.3%. As of June 30, 2017, Comenity Capital Bank's Common Equity Tier 1 capital ratio was 13.6%, Tier 1 capital ratio was 13.6%, total capital ratio was 14.9% and leverage ratio was 12.9%. Comenity Bank and Comenity Capital Bank are considered well capitalized.

Our primary uses of cash are for ongoing business operations, repayments of our debt, capital expenditures, investments or acquisitions, stock repurchases and dividends.

We may from time to time seek to retire or purchase our outstanding debt through cash purchases or exchanges for other securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

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

### Cash Flow Activity

*Operating Activities.* We generated cash flow from operating activities of \$1,034.4 million and \$754.9 million for the six months ended June 30, 2017 and 2016, respectively. The increase in operating cash flows of \$279.5 million during the six months ended June 30, 2017 as compared to the prior year period was due to an increase in profitability exclusive of non-cash charges to income, including an increase in the provision for loan loss, as well as an increase in cash provided by working capital, due primarily to a decrease in trade receivables during the current year period as compared to the prior year period.

*Investing Activities.* Cash used in investing activities was \$1,021.0 million and \$1,168.8 million for the six months ended June 30, 2017 and 2016, respectively. Significant components of investing activities are as follows:

- *Redemption settlement assets.* During the six months ended June 30, 2017, cash decreased \$207.9 million as we increased funding to the redemption settlement assets as a result of the breakage rate change in December 2016.
- *Restricted cash.* During the six months ended June 30, 2017, we collected principal accumulation of \$433.8 million for the repayment of non-recourse borrowings of consolidated securitized debt that was repaid in July 2017.
- *Credit card and loan receivables, net.* Cash decreased \$286.4 million and \$352.6 million for the six months ended June 30, 2017 and 2016, respectively, due to growth in credit card and loan receivables and strong cardholder spending in both periods.
- *Purchase of credit card portfolios.* During the six months ended June 30, 2016, we paid \$749.1 million to acquire three credit card portfolios.

*Financing Activities.* Cash provided by financing activities was \$73.1 million and \$556.5 million for the six months ended June 30, 2017 and 2016, respectively. Significant components of financing activities are as follows:

- *Debt.* Cash increased \$753.1 million in net borrowings for the six months ended June 30, 2017, primarily due to the issuance of €400.0 million senior notes due 2022 and net borrowings under the revolving line of credit. Cash increased \$683.7 million in net borrowings for the six months ended June 30, 2016, primarily driven by net borrowings under the revolving line of credit.

- *Deposits.* Cash provided by net issuances of deposits increased \$332.1 million for the six months ended June 30, 2017 to support credit card receivables. For the six months ended June 30, 2016, net issuances of deposits increased \$1,263.5 million to support credit card receivables, including portfolio acquisitions.
- *Non-recourse borrowings of consolidated securitization entities.* Cash decreased \$395.0 million and \$485.0 million for the six months ended June 30, 2017 and 2016, respectively, due to net repayments and maturities under the asset-backed term notes and conduit facilities.
- *BrandLoyalty non-controlling interest.* During the six months ended June 30, 2016, we paid \$360.7 million to acquire the remaining ownership interests in BrandLoyalty.
- *Dividends paid.* During the six months ended June 30, 2017, we paid a total of \$58.0 million for two quarterly dividends on our common stock.
- *Treasury shares.* Cash paid for treasury shares was \$499.9 million and \$522.6 million for the six months ended June 30, 2017 and 2016, respectively.

## **Debt**

### *Long-term and Other Debt*

On June 14, 2017, we entered in a credit agreement with various agents and lenders, or the 2017 Credit Agreement. On June 16, 2017, we entered into a first amendment to the 2017 Credit Agreement to increase borrowings. The 2017 Credit Agreement replaced in its entirety our credit agreement dated July 10, 2013, or the 2013 Credit Agreement. The 2017 Credit Agreement includes an uncommitted accordion feature of up to \$750.0 million in the aggregate allowing for future incremental borrowings, subject to certain conditions. These borrowings bear interest at the same rates as, and are generally subject to the same terms, as the 2013 Credit Agreement. The loans under the 2017 Credit Agreement are scheduled to mature on June 14, 2022. At June 30, 2017, the 2017 Credit Agreement, as amended, provided for a \$3,052.6 million term loan, subject to certain repayments, and a \$1,572.4 million revolving line of credit.

As of June 30, 2017, we had \$415.0 million outstanding under our revolving line of credit and total availability of \$1,157.4 million. Our total leverage ratio, as defined in our credit agreement, was 3.0 to 1 at June 30, 2017, as compared to the maximum covenant ratio of 3.5 to 1.

In March 2017, we issued and sold €400.0 million aggregate principal amount of 4.500% senior notes due March 15, 2022. Interest is payable semiannually in arrears, on March 15 and September 15 of each year, beginning on September 15, 2017.

As of June 30, 2017, we were in compliance with our debt covenants.

### *Deposits*

We utilize money market deposits and certificates of deposit to finance the operating activities and fund securitization enhancement requirements of our bank subsidiaries, Comenity Bank and Comenity Capital Bank.

As of June 30, 2017, we had \$2.9 billion in money market deposits outstanding with interest rates ranging from 1.01% to 2.37%. Money market deposits are redeemable on demand by the customer and, as such, have no scheduled maturity date.

As of June 30, 2017, we had \$5.8 billion in certificates of deposit outstanding with interest rates ranging from 0.80% to 2.80% and maturities ranging from July 2017 to June 2022. Certificate of deposit borrowings are subject to regulatory capital requirements.

### 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, or Master Trust I, 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 a principal vehicle through which we finance Comenity Bank's and Comenity Capital Bank's credit card receivables.

As of June 30, 2017, the WFN Trusts and the WFC Trust had approximately \$11.0 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 credit card receivables in these credit card securitization trusts.

At June 30, 2017, we had \$6.6 billion of non-recourse borrowings of consolidated securitization entities, of which \$1.6 billion is due within the next 12 months. As of June 30, 2017, total capacity under the conduit facilities was \$2.9 billion, of which \$1.9 billion had been drawn and was included in non-recourse borrowings of consolidated securitization entities in the unaudited condensed consolidated balance sheets.

In April 2017, Master Trust III renewed its 2009-VFC1 conduit facility, increasing the capacity from \$900.0 million to \$925.0 million and extending the maturity to April 2018.

In May 2017, Master Trust I issued \$450.7 million of Series 2017-A asset-backed term notes, which mature in May 2020. The offering consisted of \$400.0 million of Class A notes with a fixed interest rate of 2.12% per year and \$50.7 million of notes that were retained by us and eliminated from the unaudited condensed consolidated balance sheets.

In May 2017, \$389.6 million of Series 2015-C asset-backed term notes, \$89.6 million of which were retained by us and eliminated from the unaudited condensed consolidated balance sheets, matured and were repaid.

In July 2017, \$433.3 million of Series 2012-B asset-backed term notes, \$108.3 million of which were retained by us and eliminated from the unaudited condensed consolidated balance sheets, matured and were repaid.

The following table shows the maturities of borrowing commitments as of June 30, 2017 for the WFN Trusts and the WFC Trust by year:

	2017	2018	2019	2020	Thereafter	Total
	(In millions)					
Term notes	\$ 650.0	\$ 1,341.0	\$ 1,174.0	\$ 875.0	\$ 682.5	\$ 4,722.5
Conduit facilities <sup>(1)</sup>	—	2,885.0	—	—	—	2,885.0
Total <sup>(2)</sup>	\$ 650.0	\$ 4,226.0	\$ 1,174.0	\$ 875.0	\$ 682.5	\$ 7,607.5

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

(2) Total amounts do not include \$1.9 billion of debt issued by the credit card securitization trusts that was retained by us and eliminated in the unaudited condensed consolidated financial statements.

See Note 8, "Debt," of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding our debt.

### Stock Repurchase Programs

On January 1, 2017, our Board of Directors authorized a stock repurchase program to acquire up to \$500.0 million of our outstanding common stock through December 31, 2017.

On January 30, 2017, under the authorization of the existing 2017 repurchase program, we entered into a \$350.0 million fixed dollar accelerated share repurchase program agreement, or the ASR Agreement, with an investment bank counterparty. Pursuant to the ASR Agreement, we received an initial delivery of 1.4 million shares of our common stock

on February 6, 2017. The final settlement was based upon the volume weighted average price of our common stock, purchased by the counterparty during the period, less a specified discount, subject to a collar with a specified forward cap price and forward cap floor. The final settlement was on April 17, 2017 and resulted in the delivery of an additional 0.1 million shares. As a result of this transaction, we purchased a total of 1.5 million shares of our common stock at a settlement price per share of \$238.34.

For the six months ended June 30, 2017, we acquired a total of 2.1 million shares of our common stock for \$499.9 million, including those amounts under the ASR Agreement. As of June 30, 2017, we had \$0.1 million remaining under the stock repurchase program.

On July 25, 2017, our Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2017 to acquire an additional \$500.0 million of our outstanding common stock through July 31, 2018, for a total authorization of \$1.0 billion.

### **Dividends**

On January 26, 2017, our Board of Directors declared a quarterly cash dividend of \$0.52 per share on our common stock to stockholders of record at the close of business on February 15, 2017, resulting in a dividend payment of \$29.0 million on March 17, 2017.

On April 20, 2017, our Board of Directors declared a quarterly cash dividend of \$0.52 per share on our common stock to stockholders of record at the close of business on May 15, 2017, resulting in a dividend payment of \$29.0 million on June 19, 2017.

On July 20, 2017, our Board of Directors declared a quarterly cash dividend of \$0.52 per share on our common stock, payable on September 19, 2017, to stockholders of record at the close of business on August 14, 2017.

### **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, 2016.

### **Recently Issued 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 recently issued.

### **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, and foreign currency exchange rate risk.

There has been no material change from our Annual Report on Form 10-K for the year ended December 31, 2016 related to our exposure to market risk from interest rate risk, credit risk, and foreign currency exchange rate risk.

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

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

As of June 30, 2017, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2017

(the end of our second fiscal quarter), our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during our second quarter 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **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.**

Other than as set forth below, 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, 2016 or our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.

***Current and proposed regulation and legislation relating to our card services could limit our business activities, product offerings and fees charged and may have a significant impact on our business, results of operations and financial condition.***

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted into law. The Dodd-Frank Act, among other things, includes a sweeping reform of the regulation and supervision of financial institutions, as well as of the regulation of derivatives and capital market activities.

The full impact of the Dodd-Frank Act is difficult to assess because many provisions require federal agencies to adopt implementing regulations, and some of the final implementing regulations have not yet been issued. In addition, the Dodd-Frank Act mandates multiple studies, which could result in future legislative or regulatory action. In particular, the Government Accountability Office issued its study on whether it is necessary, in order to strengthen the safety and soundness of institutions or the stability of the financial system of the United States, to eliminate the exemptions to the definition of "bank" under the Bank Holding Company Act for certain institutions including limited purpose credit card banks and industrial loan companies. The study did not recommend the elimination of these exemptions. However, if legislation were enacted to eliminate these exemptions without any grandfathering of or accommodations for existing institutions, we could be required to become a bank holding company and cease certain of our activities that are not permissible for bank holding companies or divest our credit card bank subsidiary, Comenity Bank, or our industrial bank subsidiary, Comenity Capital Bank.

The Dodd-Frank Act created the CFPB, a federal consumer protection regulator with authority to make further changes to the federal consumer protection laws and regulations. The CFPB assumed rulemaking authority under the existing federal consumer financial protection laws, and enforces those laws against and examines certain non-depository institutions and insured depository institutions with total assets greater than \$10 billion and their affiliates.

As of October 1, 2016, both Comenity Bank and Comenity Capital Bank are under the CFPB's supervision and the CFPB may, from time to time, conduct reviews of their practices. In addition, the CFPB's broad rulemaking authority is expected to impact their operations. For example, the CFPB's rulemaking authority may allow it to change regulations adopted in the past by other regulators including regulations issued under the Truth in Lending Act or the CARD Act by the Board of Governors of the Federal Reserve System. The CFPB's ability to rescind, modify or interpret past regulatory guidance could increase our compliance costs and litigation exposure. Furthermore, the CFPB has broad

authority to prevent "unfair, deceptive or abusive" acts or practices and has taken enforcement action against other credit card issuers and financial services companies. Evolution of these standards could result in changes to pricing, practices, procedures and other activities relating to our credit card accounts in ways that could reduce the associated return. It is unclear what changes would be promulgated by the CFPB and what effect, if any, such changes would have on our credit accounts.

The Dodd-Frank Act authorizes certain state officials to enforce regulations issued by the CFPB and to enforce the Dodd-Frank Act's general prohibition against unfair, deceptive or abusive practices. To the extent that states enact requirements that differ from federal standards or courts adopt interpretations of federal consumer laws that differ from those adopted by the federal banking agencies, we may be required to alter products or services offered in some jurisdictions or cease offering products, which will increase compliance costs and reduce our ability to offer the same products and services to consumers nationwide.

Various federal and state laws and regulations significantly limit the retail credit card services activities in which we are permitted to engage. Such laws and regulations, among other things, limit the fees and other charges that we can impose on consumers, limit or proscribe certain other terms of our products and services, require specified disclosures to consumers, or require that we maintain certain licenses, qualifications and minimum capital levels. In some cases, the precise application of these statutes and regulations is not clear. In addition, numerous legislative and regulatory proposals are advanced each year which, if adopted, could have a material adverse effect on our profitability or further restrict the manner in which we conduct our activities. The CARD Act acts to limit or modify certain credit card practices and requires increased disclosures to consumers. The credit card practices addressed by the rules include, but are not limited to, restrictions on the application of rate increases to existing and new balances, payment allocation, default pricing, imposition of late fees and two-cycle billing. The failure to comply with, or adverse changes in, the laws or regulations to which our business is subject, or adverse changes in their interpretation, could have a material adverse effect on our ability to collect our receivables and generate fees on the receivables, thereby adversely affecting our profitability.

In the normal course of business, from time to time, Comenity Bank and Comenity Capital Bank have been named as defendants in various legal actions, including arbitrations, class actions and other litigation arising in connection with their business activities. While historically the arbitration provision in each bank's customer agreement has generally limited such bank's exposure to consumer class action litigation, there can be no assurance that the banks will be successful in enforcing the arbitration clause in the future. There may also be legislative, administrative or regulatory efforts to directly or indirectly prohibit the use of pre-dispute arbitration clauses.

In July 2017 the CFPB issued a final rule that, among other things, prohibits covered consumer financial companies from using pre-dispute arbitration clauses in contracts for certain consumer financial products and services, including credit cards, to bar the consumer counter-party from participating in class action litigation related to disputes under the contract. The rule also requires covered companies involved in arbitrations under such contracts to submit to the CFPB certain arbitration and court records for the CFPB to make publicly available on its website. It is possible that Congress will nullify the new rule through the Congressional Review Act or that the rule will be challenged through litigation. If not nullified, the rule will become effective on September 18, 2017 and apply to covered agreements entered into on or after March 19, 2018. The new rule could significantly increase the banks' exposure to consumer class action litigation, the associated costs of which could have an adverse effect on us. In addition, failure to comply with this new rule may result in enforcement action by the CFPB, including civil monetary penalties.

Comenity Bank and Comenity Capital Bank are also involved, from time to time, in reviews, investigations, and proceedings (both formal and informal) by governmental agencies regarding the bank's business, which could subject the bank to significant fines, penalties, obligations to change its business practices or other requirements. In September 2015, each bank entered into a consent order with the FDIC agreeing to provide restitution to eligible customers, to pay civil money penalties to the FDIC and to make further enhancements to their compliance and other processes related to the marketing, promotion and sale of add-on products.

The effect of the Dodd-Frank Act on our business and operations could be significant, depending upon final implementing regulations, the actions of our competitors and the behavior of other marketplace participants. In addition, we may be required to invest significant management time and resources to address the various provisions of the Dodd-Frank Act and the numerous regulations that are required to be issued under it. The Dodd-Frank Act and any related legislation or regulations may have a material impact on our business, results of operations and financial condition.

***Legislation relating to consumer privacy and security may affect our ability to collect data that we use in providing our loyalty and marketing services, which, among other things, could negatively affect our ability to satisfy our clients' needs.***

The evolution of legal standards and regulations around data protection and consumer privacy may affect our business. The enactment of new or amended legislation or industry regulations pertaining to consumer, public or private sector privacy issues could have a material adverse impact on our marketing services, including placing restrictions upon the collection, sharing and use of information that is currently legally available. This, in turn, could materially increase our cost of collecting certain data. These types of legislation or industry regulations could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our clients' requirements and our profitability and cash flow targets. In addition to the United States, Canadian and European Union regulations discussed below, we have expanded our marketing services through the acquisition of companies formed and operating in foreign jurisdictions that may be subject to additional or more stringent legislation and regulations regarding consumer or private sector privacy.

There are also a number of specific laws and regulations governing the collection and use of certain types of consumer data that are relevant to our various business and services. In the United States, federal and state laws such as the federal Gramm-Leach-Bliley Act and the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003, make it more difficult to collect, share and use information that has previously been legally available and may increase our costs of collecting some data. Regulations under these acts give cardholders the ability to "opt out" of having information generated by their credit card purchases shared with other affiliated and unaffiliated parties or the public. Our ability to gather, share and utilize this data will be adversely affected if a significant percentage of the consumers whose purchasing behavior we track elect to "opt out," thereby precluding us and our affiliates from using their data.

In the United States, the federal Do-Not-Call Implementation Act makes it more difficult to telephonically communicate with prospective and existing customers. Similar measures were implemented in Canada beginning September 1, 2008. Regulations in both the United States and Canada give consumers the ability to "opt out," through a national do-not-call registry and state do-not-call registries of having telephone solicitations placed to them by companies that do not have an existing business relationship with the consumer. In addition, regulations require companies to maintain an internal do-not-call list for those who do not want the companies to solicit them through telemarketing. These regulations could limit our ability to provide services and information to our clients. Failure to comply with these regulations could have a negative impact on our reputation and subject us to significant penalties. Further, the Federal Communications Commission has approved interpretations of rules related to the Telephone Consumer Protection Act defining robo-calls broadly, which may affect our ability to contact customers and may increase our litigation exposure.

In the United States, the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 restricts our ability to send commercial electronic mail messages, the primary purpose of which is advertising or promoting a commercial product or service, to our customers and prospective customers. The act requires that a commercial electronic mail message provide the customers with an opportunity to opt-out from receiving future commercial electronic mail messages from the sender. Failure to comply with the terms of this act could have a negative impact on our reputation and subject us to significant penalties.

Further, many state governments are reviewing or proposing the need for greater regulation of the collection, processing, sharing, and use of consumer data for various marketing purposes. This may result in new laws or regulations imposing additional compliance requirements.

In Canada, the Personal Information Protection and Electronic Documents Act requires an organization to obtain a consumer's consent to collect, use or disclose personal information. Under this act, consumer personal information may be used only for the purposes for which it was collected. We allow our customers to voluntarily "opt out" from receiving either one or both promotional and marketing mail or promotional and marketing electronic mail. Heightened consumer awareness of, and concern about, privacy may result in customers "opting out" at higher rates than they have historically. This would mean that a reduced number of customers would receive bonus and promotional offers and therefore those customers may collect fewer AIR MILES reward miles.



Canada's Anti-Spam Legislation may restrict our ability to send commercial "electronic messages," defined to include text, sound, voice and image messages to email, or similar accounts, where the primary purpose is advertising or promoting a commercial product or service to our customers and prospective customers. The Act requires, in part, that a sender have consent to send a commercial electronic message, and provide the customers with an opportunity to opt out from receiving future commercial electronic email messages from the sender. Failure to comply with the terms of this Act or any proposed regulations that may be adopted in the future could have a negative impact on our reputation and subject us to significant monetary penalties.

In the European Union, the Directive 95/46/EC of the EU Parliament and of the Council of 24 October 1995 requires member states to implement and enforce a comprehensive data protection law that is based on principles designed to safeguard personal data, defined as any information relating to an identified or identifiable natural person. The Directive frames certain requirements for transfer outside of the European Economic Area and individual rights such as consent requirements. In January 2012, the European Commission proposed the General Data Protection Regulation, or GDPR, a new European Union-wide legal framework to govern data collection, use and sharing and related consumer privacy rights. In December 2015, the EU Parliament and the EU Council reached informal agreement on the text of the GDPR, and in April 2016 both the EU Council and the EU Parliament adopted the GDPR, which will go into effect May 25, 2018. The GDPR will replace the Directive and, because it is a regulation rather than a directive, will directly apply to and bind the 28 EU Member States. Compared to the Directive, GDPR may result in greater compliance obligations, including the implementation of a number of processes and policies around our data collection and use. These and other terms of the GDPR could limit our ability to provide services and information to our customers. In addition, the GDPR includes significant new penalties for non-compliance, with fines up to the higher of €20 million (\$23 million as of June 30, 2017) or 4% of total annual worldwide revenue. Further, the European Union has also released a draft of the proposed reforms to the ePrivacy Directive that governs the use of technologies to collect consumer information. In general, GDPR, and other local privacy laws, could also lead to adaptation of our technologies or practices to satisfy local privacy requirements and standards that may be more stringent than in the U.S.

In addition, in 2016, the EU-US Safe Harbor program ("Safe Harbor") was held to be invalid. Safe Harbor provided a valid legal basis for transfers of personal data from Europe Union to the United States. While we have other legally recognized mechanisms in place that we believe allow for the transfer of customer and employee data from the European Union to the United States, these mechanisms are also being challenged. Further, some of these mechanisms are set to be updated and changed under GDPR. These changes may include new legal requirements that could have an impact on how we move data from the European Union to entities outside the European Union, including to our affiliates or vendors.

There is also rapid development of new privacy laws and regulations in the Asia Pacific region and elsewhere around the globe, including amendments of existing data protection laws to the scope of such laws and penalties for noncompliance. Failure to comply with these international data protection laws and regulations could have a negative impact on our reputation and subject us to significant penalties.

While 48 states and the District of Columbia have enacted data breach notification laws, there is no such federal law generally applicable to our businesses. Data breach notification legislation has been proposed widely and exists in specific countries and jurisdictions in which we conduct business. If enacted, these legislative measures could impose strict requirements on reporting time frames for providing notice, as well as the contents of such notices.



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

The following table presents information with respect to purchases of our common stock made during the three months ended June 30, 2017:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
				(Dollars in millions)
During 2017:				
April 1-30	237,945	\$ 169.19 <sup>(3)</sup>	235,748	\$ 45.3
May 1-31	136,537	241.85	132,300	13.3
June 1-30	57,935	239.54	55,500	0.1
Total	432,417	\$ 201.56 <sup>(3)</sup>	423,548	\$ 0.1

- (1) During the period represented by the table, 8,869 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 1, 2017, our Board of Directors authorized a stock repurchase program to acquire up to \$500.0 million of our outstanding common stock from January 1, 2017 through December 31, 2017. On July 25, 2017, our Board of Directors authorized an increase to the stock repurchase program originally approved on January 1, 2017 to acquire an additional \$500.0 million of our outstanding common stock through July 31, 2018, for a total authorization of \$1.0 billion. Both authorizations are subject to any restrictions pursuant to the terms of our credit agreements, indentures, and applicable securities laws or otherwise.
- (3) Includes the final settlement of 72,648 shares acquired pursuant to the ASR Agreement for which there was no additional consideration paid, which reduced the average price paid per share. See Note 11, "Stockholders' Equity," of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information related to the ASR Agreement.

**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.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
3.1	(a)	Third Amended and Restated Certificate of Incorporation of the Registrant.	8-K	3.2	6/10/16
3.2	(a)	Fifth Amended and Restated Bylaws of the Registrant.	8-K	3.1	2/1/16
4	(a)	Specimen Certificate for shares of Common Stock of the Registrant.	10-Q	4	8/8/03
10.1	(b) (c) (d)	Amendment to Second Amended and Restated Service Agreement, dated April 10, 2017, between Comenity Servicing LLC and Comenity Bank.	8-K	99.1	4/13/17
10.2	(b) (c) (d)	Series 2017-A Indenture Supplement, dated as of May 22, 2017, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	5/24/17
10.3	(a)	Amended and Restated Credit Agreement, dated as of June 14, 2017, by and among Alliance Data Systems Corporation, certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, National Association, as Administrative Agent, and various other agents and lenders.	8-K	10.1	6/19/17
10.4	(a)	First Amendment to Amended and Restated Credit Agreement and Incremental Amendment, dated as of June 16, 2017, by and among Alliance Data Systems Corporation, and certain subsidiaries parties thereto, as guarantors, Wells Fargo Bank, National Association, as Administrative Agent, and various other lenders.	8-K	10.2	6/19/17
10.5	(b) (c) (d)	Omnibus Amendment, dated as of July 10, 2017, among World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A.	8-K	4.1	7/11/17
*+10.6	(a)	Form of Non-employee Director Restricted Stock Unit Award Agreement under the Alliance Data Systems Corporation 2015 Omnibus Incentive Plan.			
*10.7	(a)	Third Amended and Restated Series 2009-VFC1 Supplement, dated as of April 28, 2017, among WFN Credit Company, LLC, Comenity Bank and Deutsche Bank Trust Company Americas.			
*10.8	(a)	First Amendment to Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of July 10, 2017, between World Financial Network Credit Card Master Note Trust and MUFG Union Bank, N.A., formerly known as Union Bank, N.A.			
31.1	(a)	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	(a)	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.			

Exhibit No.	Filer	Description	Incorporated by Reference		
			Form	Exhibit	Filing Date
32.1	(a)	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	(a)	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	(a)	XBRL Instance Document			
*101.SCH	(a)	XBRL Taxonomy Extension Schema Document			
*101.CAL	(a)	XBRL Taxonomy Extension Calculation Linkbase Document			
*101.DEF	(a)	XBRL Taxonomy Extension Definition Linkbase Document			
*101.LAB	(a)	XBRL Taxonomy Extension Label Linkbase Document			
*101.PRE	(a)	XBRL Taxonomy Extension Presentation Linkbase Document			

\* Filed herewith

+ Management contract, compensatory plan or arrangement

(a) Alliance Data Systems Corporation

(b) WFN Credit Company

(c) World Financial Network Credit Card Master Trust

(d) World Financial Network Credit Card Master Note Trust

**SIGNATURES**

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

**ALLIANCE DATA SYSTEMS CORPORATION**

By: /s/ EDWARD J. HEFFERNAN

Edward J. Heffernan

*President and Chief Executive Officer*

Date: August 7, 2017

By: /s/ CHARLES L. HORN

Charles L. Horn

*Executive Vice President and Chief Financial Officer*

Date: August 7, 2017

**NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT AWARD AGREEMENT  
UNDER THE ALLIANCE DATA SYSTEMS CORPORATION  
2015 OMNIBUS INCENTIVE PLAN**

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the “**Agreement**”), made as of June 26, 2017 (the “**Grant Date**”) by and between Alliance Data Systems Corporation (the “**Company**”) and [Name] (the “**Participant**”) who is a non-employee director of the Company.

WHEREAS, pursuant to the Company’s 2015 Omnibus Incentive Plan (the “**Plan**”), the Company desires to afford the Participant the opportunity to acquire, or enlarge his ownership of, the Company’s common stock, \$0.01 par value per share (“**Stock**”), so that the Participant may have a direct proprietary interest in the Company’s success.

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

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

1. **Basis for Award.** The Award is made under the Plan pursuant to Section 6(f) thereof.
2. **Restricted Stock Units Awarded.**

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

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

(c) Except as provided in the Plan or this Agreement, prior to vesting as provided in Section 4 of this Agreement, the Restricted Stock Units will be forfeited by the Participant and all of the Participant’s rights to Stock or cash underlying the Award shall immediately terminate without any payment or consideration by the Company, in the event of a Participant’s early termination of service as provided in Section 5 below.

3. **Dividend Equivalent Rights.** If the Company pays any cash dividend on its outstanding Stock for which the record date occurs after the Grant Date, the Committee will credit the Participant’s account as of the dividend payment date in an amount equal to the cash

dividend paid on one share of Stock multiplied by the number of Restricted Stock Units under this Agreement that are unvested as of that record date (“Dividend Equivalents”). Such Dividend Equivalents will be subject to the vesting requirements of Section **Error! Reference source not found.** below, and no Dividend Equivalent will vest or be paid to the Participant unless and until the corresponding Restricted Stock Unit vests and is settled.

4. **Vesting.** Subject to Sections 2 and 5 of this Agreement, the restrictions thereon will lapse and Award will vest upon the earlier of:

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

(b) June 25, 2027.

Notwithstanding the foregoing, subject to the limitations of the Plan, the Committee may accelerate the vesting of all or part of the Award at any time and for any reason. As soon as practicable after the Award vests and consistent with Section 409A of the Code, payment shall be made in Stock (based upon the Fair Market Value of the Stock on the day all restrictions lapse) and cash in the amount of any Dividend Equivalents credited to the Participant’s account with respect to such shares of Stock. The Committee shall cause the Stock to be electronically delivered to the Participant’s electronic account with respect to such Stock free of all restrictions. Pursuant to Section 12, any cash and/or the number of shares of Stock delivered shall be net of cash and/or the number of shares of Stock withheld for satisfaction of Tax-Related Items (as defined below), if applicable.

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

6. **Participant.**

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

7. **Adjustments; Change in Control.**

(a) In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or exchange of Stock or other securities, liquidation, dissolution, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent

dilution or enlargement of the rights of Participants under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares that may be issued in respect of Restricted Stock Units. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate or in response to changes in applicable laws, regulations, or accounting principles.

(b) In connection with a Change in Control, the Committee may, in its sole discretion, accelerate the vesting and/or the lapse of restrictions with respect to the Award. If the Award is not assumed, substituted for an award of equal value, or otherwise continued after a Change in Control, the Award shall automatically vest prior to the Change in Control at a time designated by the Committee. Timing of any payment or delivery of shares of Stock under this provision shall be subject to Section 409A of the Code.

8. **Clawback.** Notwithstanding anything in the Plan or this Agreement to the contrary, in the event that the Participant breaches any nonsolicitation, noncompetition or confidentiality agreement entered into with, or while acting on behalf of, the Company or any Affiliate, the Committee may (a) cancel the Award, in whole or in part, whether or not vested, and/or (b) require such Participant or former Participant to repay to the Company any gain realized or payment or shares received upon the exercise or payment of, or lapse of restrictions with respect to, such Award (with such gain, payment or shares valued as of the date of exercise, payment or lapse of restrictions). Notwithstanding anything in the Plan or any Agreement to the contrary, if any of the Company's financial statements are required to be restated due to errors, omissions, fraud, or misconduct, the Committee may, in its sole discretion but acting in good faith, direct the Company to recover all or a portion of any Award or any past or future compensation from any Participant or former Participant with respect to any fiscal year of the Company for which the financial results are negatively affected by such restatement. Such cancellation or repayment obligation shall be effective as of the date specified by the Committee. Any repayment obligation may be satisfied in shares of Stock or cash or a combination thereof (based upon the Fair Market Value of the shares of Stock on the date of repayment) and the Committee may provide for an offset to any future payments owed by the Company or any Affiliate to the Participant if necessary to satisfy the repayment obligation; provided, however, that if any such offset is prohibited under applicable law, the Committee shall not permit any offsets and may require immediate repayment by the Participant.

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

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

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

(a) Agrees to Terms of the Plan. The Participant has received a copy of the Plan and has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Agreement, the Plan shall govern and control. **All capitalized terms not defined herein shall have the meaning ascribed to them as set forth in the Plan.**

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

(c) No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying Stock. The Participant should consult with the Participant's own personal tax, legal and financial advisors regarding participation in the Plan before taking any action related to the Plan.



12. **Responsibility for Taxes.** The Participant acknowledges that, regardless of any action taken by the Company, the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("Tax-Related Items") is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company. The Participant further acknowledges that the Company (a) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including, but not limited to, the grant, vesting or settlement of the Award, the subsequent sale of shares of Stock acquired pursuant to the Award and the receipt of any Dividend Equivalents; and (b) does not commit to and is under no obligation to structure the terms of the Award or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Furthermore, if the Participant has become subject to Tax-Related Items in more than one jurisdiction, the Participant acknowledges that the Company may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, the Participant will pay or make adequate arrangements satisfactory to the Company to satisfy all Tax-Related Items. In this regard, the Participant authorizes the Company, or its agents, at their discretion, to satisfy their withholding obligations with regard to all Tax-Related Items by: (i) requiring a cash payment from the Participant; (ii) withholding from the Participant's cash compensation paid to the Participant by the Company, (iii) withholding from the proceeds of the sale of Stock acquired pursuant to the Award, either through a voluntary sale or through a mandatory sale arranged by the Company (on the Participant's behalf pursuant to this authorization without further consent); and/or (iv) withholding from the shares of Stock subject to the Restricted Stock Units, provided, however, that if the Participant is a Section 16 officer of the Company under the Exchange Act, then the Participant may elect the form of withholding from the alternatives above in advance of any tax withholding event, and in the absence of the Participant's timely election, the Company will withhold in shares of Stock, or the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) may determine that a particular method be used to satisfy any withholding obligations for Tax-Related Items.

The Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case the Participant will receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent in Stock. If the obligation for Tax-Related Items is satisfied by withholding in shares of Stock, the Participant is deemed, for tax purposes, to have been issued the full number of shares of Stock subject to the vested Restricted Stock Units, notwithstanding that a number of the shares of Stock are held back solely for the purpose of paying the Tax-Related Items.

The Company may refuse to issue or deliver the Stock, the proceeds of the sale of Stock or cash in the amount of any Dividend Equivalents if the Participant fails to comply with his or her obligations in connection with the Tax-Related Items.

13. **Rights as Stockholder.** The Participant shall have no rights as a stockholder with respect to any Restricted Stock Unit until the Participant shall have become the holder of record

of such Stock, and no adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date upon which Participant shall become the holder of record thereof.

14. **Notice.** Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided, that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to Participant's address as recorded in the records of the Company.

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

For purposes of litigating any dispute that arises under this grant or the Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Texas, agree that such litigation shall be conducted in the courts of Collin County, Texas, or the federal courts for the United States for the Eastern District of Texas, where this grant is made and/or to be performed.

16. **Electronic Transmission and Participation.** The Company reserves the right to deliver any notice or Award by email in accordance with its policy or practice for electronic transmission and any written Award or notice referred to herein or under the Plan may be given in accordance with such electronic transmission policy or practice. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or any third party designated by the Company.

17. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Restricted Stock Units and on any Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

18. **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

19. **Waiver.** The Participant acknowledges that a waiver by the Company of breach of any provision of the Agreement shall not operate or be construed as a waiver of any other provision of the Agreement, or of any subsequent breach by the Participant or any other Participant.

\* \* \* \* \*

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

ALLIANCE DATA SYSTEMS  
CORPORATION

By: \_\_\_\_\_  
**Joseph L. Motes, III**  
**SVP, General Counsel and Secretary**

PARTICIPANT

\_\_\_\_\_  
**[PARTICIPANT NAME]**

WFN CREDIT COMPANY, LLC  
Transferor

COMENITY BANK  
Servicer

and

DEUTSCHE BANK TRUST COMPANY AMERICAS  
Trustee

on behalf of the Series 2009-VFC1 Holders

THIRD AMENDED AND RESTATED SERIES 2009-VFC1 SUPPLEMENT

Dated as of April 28, 2017

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,  
September 30, 2011 and December 1, 2016, 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

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### EXHIBITS

EXHIBIT A-1	Form of Class A Certificate
EXHIBIT A-2	Form of Class M Certificate
EXHIBIT A-3	Form of Class B Certificate
EXHIBIT A-4	Form of Class C Certificate
EXHIBIT B	Form of Monthly Payment Instructions and Notification to Trustee
EXHIBIT C	Form of Monthly Investor Holder's Statement

THIRD AMENDED AND RESTATED SERIES 2009-VFC1 SUPPLEMENT, dated as of April 28, 2017 (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, September 30, 2011 and December 1, 2016, 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 Second Amended and Restated Series 2009-VFC1 Supplement, dated as of September 25, 2013 (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(g)* 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 April 28, 2017.



“*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:
_____	4.99%	0%
4.99%	3.99%	1.00%
3.99%	3.49%	2.00%
3.49%	2.99%	3.00%
2.99%	_____	5.00%

“*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 and (b) 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.

“*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) \$300,000,000, *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 \$925,000,000, 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 72.50%.

“*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) \$26,896,551.72, *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 \$82,931,034.48, 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 6.50%.

“*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) \$41,379,310.34, *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 C 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 \$127,586,206.90, 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 10.00%.

“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) \$45,517,241.38, *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 \$140,344,827.59, 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 11.00%.

“*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).

*"Declined Renewal"* means one or more Ownership Groups decline a request to extend the Purchase Commitment Expiration Date.

*"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 Merchant Bankruptcy Amount"* means, as of any date of determination, if a Merchant Bankruptcy has occurred (and is continuing) with respect to any Merchant, an amount equal to the excess of (a) the aggregate of the Principal Receivables in Accounts relating to all Merchants for which a Merchant Bankruptcy has occurred as of such date of determination over (b) the product of (i) 15.0% and (ii) the aggregate Principal Receivables in all Accounts as of

such date of determination, which for the avoidance of doubt shall be calculated without subtraction of the Excess Merchant Bankruptcy Amount.

“*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 Certificates Outstanding, Investor Holders evidencing more than 50% of the Invested Amount.

“*Mandatory Limited Amortization Amount*” means, (I) for any Transfer Date with respect to a Mandatory Limited Amortization Period resulting from a Declined Renewal (beginning with the Transfer Date in the month following the month in which the Mandatory Limited Amortization Period begins, and with respect to any suspension of the Mandatory Limited Amortization Period, resuming with the Transfer Date in the month following the month in which the Mandatory Limited Amortization Period recommences) 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 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 and (II) for any date of determination with respect to a Mandatory Limited Amortization Period resulting from a Merchant Bankruptcy Event, the lesser of (a) Class A Invested Amount and (b) the greater of (i) the amount by which the Minimum Transferor Amount exceeds the Transferor Amount and (ii) the amount by which the Required Principal Balance exceeds the sum of the aggregate amount of Principal Receivables plus amounts on deposit in the Excess Funding Account, in each case as determined on the second Date of Processing preceding such date of determination (after giving effect to any payments of principal on such date of determination).

“*Mandatory Limited Amortization Date*” means, (A) with respect to any Declined Renewal, 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) and (B) with respect to any Merchant Bankruptcy Event, the date the Transferor becomes obligated to designate Supplemental Accounts in accordance with Section 2.8(b) of the Agreement as a result of a Merchant Bankruptcy.

“*Mandatory Limited Amortization Period*” means the period (I) commencing on, (a) with respect to a Mandatory Limited Amortization Date resulting from a Declined Renewal, the first day of the first month that commences on or after the Mandatory Limited Amortization Date and, (b) with respect to a Mandatory Limited Amortization Date resulting from a Merchant Bankruptcy Event, the date such Mandatory Limited Amortization Date occurs and (II) ending on the earliest to occur of (a) (i) with respect to a Declined Renewal, the payment in full of the Non-Renewing Purchaser Funded Amount and (ii) with respect to a Merchant Bankruptcy Event, the earlier of (x) the date on which the Transferor Amount is equal to or greater than the Minimum Transferor Amount and the aggregate amount of Principal Receivables plus amounts on deposit in the Excess Funding Account will be equal to or greater than the Required Principal Balance and (y) the date on which the Class A Invested Amount has been reduced to zero, (b) the commencement of the Controlled Amortization Period or the Early Amortization Period and (c) Series 2009-VFC1 Termination Date; *provided* that if a Mandatory Limited Amortization Date has occurred as a result of both a Declined Renewal and a Merchant Bankruptcy Event, the Mandatory Limited Amortization Period resulting from the Declined Renewal shall be suspended and shall commence or recommence, as applicable, upon termination of the Mandatory Limited Amortization Period with respect to the Merchant Bankruptcy Event.

“*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 for a Mandatory Limited Amortization Period resulting from a Declined Renewal, (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 such Transfer Date (which, for the avoidance of doubt, shall exclude the month in which such Transfer Date falls and shall exclude any month in which the Mandatory Limited Amortization Period relating to the Declined Renewal is suspended as a result of a Merchant Bankruptcy Event), 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 Transfer 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 Transfer 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.

"*Merchant Bankruptcy Event*" means the occurrence of a Merchant Bankruptcy that requires the Transferor to designate Supplemental Accounts in accordance with Section 2.8(b) of the Agreement.

"*Merchant Bankruptcy Termination Date*" is defined in Section 17(i) of this Series Supplement.

"*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, with respect to any Mandatory Limited Amortization Period relating to a Declined Renewal, the twelfth Distribution Date on which Mandatory Limited Amortization Amounts are payable in connection with the Mandatory Limited Amortization Period relating to such Declined Renewal (which, for the avoidance of doubt, shall not include any Distribution Date on which Mandatory Limited Amortization Amounts relating to a Merchant Bankruptcy Event are payable).

“*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 resulting from a Declined Renewal, 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 25, 2013.

“*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](mailto: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.

“*Regulation RR*” means Regulation RR (Credit Risk Retention) promulgated by the Commission to implement the credit risk retention requirements of Section 15G of the Securities Exchange Act.

“*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 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.

“*Required Seller’s Interest*” means, as of any date of determination, the product of (i) 5% and (ii) the aggregate of the principal balances of all outstanding Investor Certificates other than Risk Retention Retained Certificates as of such date of determination.

“*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.

“*Risk Retention Retained Certificate*” means any Certificate that is retained by Comenity Bank, as sponsor, or a Wholly-owned Affiliate thereof upon initial issuance thereof and at all times thereafter; *provided* that no Certificate shall be a Risk Retention Retained Certificate unless such Certificate has been designated as a Risk Retention Retained Certificate pursuant to the related Supplement; and *provided further* that the Class M Certificates, Class B Certificates and Class C Certificates issued hereunder shall be Risk Retention Retained Certificates.

“*RR Measurement Date*” is defined in *Section 17(k)*.

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

“*Securities Exchange Act*” means the provisions of the Securities Exchange Act of 1934 15 U.S.C. Sections 78a *et seq.*, and any regulations promulgated thereunder.

“*Seller’s Interest*” means, as of any date of determination, the result of (a) the aggregate amount of Principal Receivables as of such date of determination, plus (b) the aggregate amount of Principal Collections on deposit in the Collection Account as of such date of determination, minus (c) the aggregate of the principal balances of all outstanding Certificates as of such date of determination.

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

“*Wholly-owned Affiliate*” has the meaning specified in Rule 2 of Regulation RR.

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 two 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 a Mandatory Limited Amortization Period has commenced and is continuing as a result of a Merchant Bankruptcy Event, Optional Amortization Funds shall first be applied to reduce the Class A Funded Amount on a *pro rata* basis among all Class A Ownership Groups until the termination of such Mandatory Limited Amortization Period prior to application of any other Optional Amortization Funds pursuant to this *Section 4(b)*; *provided further* 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 two 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. *[Reserved]*.

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:

#### ARTICLE IV RIGHTS OF CERTIFICATEHOLDERS; ALLOCATIONS

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 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 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, without duplication, 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 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) and (B) if Comenity is not Servicer, the Investor Servicing Fee due on the related Distribution 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 first, if a Mandatory Limited Amortization Period has commenced, be deposited into the Principal Account until the amount on deposit in the Principal Account equals the sum (without duplication) of the Mandatory Limited Payment Amount and the Unfunded Optional Amortization Amount, and second, 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), (iii) on each Transfer Date, beginning with the Transfer Date in the month following the month in which the Mandatory Limited Amortization Period begins if such Mandatory Limited Amortization Period results from a Declined Renewal 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 and (iv) on each Transfer Date, beginning with the Transfer Date in the month following the month in which the Mandatory Limited Amortization Period begins if such Mandatory Limited Amortization Period results from a Merchant Bankruptcy Event, shall be equal to the lesser of (x) the Available Investor Principal Collections on deposit in the Principal Account with respect to such Transfer Date and (y) the Mandatory Limited Amortization 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*).

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) 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) 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) 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.

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 to the extent not paid by Transferor *plus* any Class A Non-Use Fee due but not paid to the Class A Holders on any prior Distribution Date to the extent not paid by Transferor 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) 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 (x) for a Mandatory Limited Amortization Period caused by a Declined Renewal, 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 (y) for a Mandatory Limited Amortization Period caused by a Merchant Bankruptcy Event, the Class A Holders on a pro rata basis in accordance with Section 5.1; 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 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 *[Reserved]*.

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 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 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 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; and provided further that no Early Amortization Event shall occur pursuant to this clause (d) during a Mandatory Limited Amortization Period caused by the occurrence of a

Merchant Bankruptcy Event unless such failure has not been cured by the related Merchant Bankruptcy Termination Date; it being understood that such failure shall be deemed cured so long as the Transferor Amount is not less than the Minimum Transferor Amount and 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, in each case as of the Merchant Bankruptcy Termination Date;

(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) a Mandatory Limited Amortization Period resulting from a Merchant Bankruptcy Event has occurred and any related Mandatory Limited Amortization Amount shall not have been reduced to zero by the Merchant Bankruptcy Termination Date;

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*.

(i) Notwithstanding anything to the contrary set forth in the Agreement, during a Mandatory Limited Amortization Period caused by a Merchant Bankruptcy Event, the Transferor shall not be in breach of the obligation set forth in *Section 2.8(b)* of the Agreement to convey Receivables arising under Supplemental Accounts until the Distribution Date following the fourth Monthly Period after the Monthly Period in which the most recent Merchant Bankruptcy occurred (the “*Merchant Bankruptcy Termination Date*”).

(j) For all purposes of the Agreement and this Series Supplement, unless otherwise specifically provided in the Agreement or this Series Supplement, the aggregate amount of Principal Receivables held by the Trust as of any date of determination shall be calculated by subtracting the Excess Merchant Bankruptcy Amount from the aggregate amount of such Principal Receivables; provided that (i) for purposes of calculating the Servicing Fee, and (ii) for purposes of clause (f) of the definition of “Eligible Account”, the aggregate amount of Principal Receivables shall be determined without subtraction of the Excess Bankruptcy Amount, and for purposes of calculating the denominator of the monthly payment rates in *Section 10(g)* of this Series Supplement, the Excess Merchant Bankruptcy Amount shall not be subtracted from the total Receivables. For the avoidance of doubt, references to Collections with respect to Principal Receivables in the Agreement and the Series Supplement (including without limitation for purposes of clauses (ii) through (v) of *Sections 4.7(b)* and (c)) shall refer to Collections on all Principal Receivables without adjustment for any Excess Merchant Bankruptcy Amount.

(k) To the extent that the sum of (i) the Seller’s Interest and (ii) amounts on deposit in the Excess Funding Account (excluding any investment earnings on deposit therein) is less than the Required Seller’s Interest as of the last day of any Monthly Period (each, an “*RR Measurement Date*”), the Transferor shall cause the Seller’s Interest to be increased to an amount such that the sum of (i) the Seller’s Interest and (ii) amounts on deposit in the Excess Funding Account (excluding any investment earnings on deposit therein) will be equal to or greater than the Required Seller’s Interest on or before the following RR Measurement Date; *provided*, that this *Section 17(k)* shall not be applicable if Regulation RR shall no longer be in effect; and *provided, further*, that failure to satisfy the foregoing covenant shall not constitute a breach of this Agreement if at the time of such failure, the transaction contemplated by the Transaction Documents shall otherwise be in compliance with the requirements of Regulation RR.

(l) For the avoidance of doubt, in no event shall the Trustee have any responsibility to monitor or enforce compliance with, or be charged with knowledge of Regulation RR or any rules or regulations promulgated in connection therewith, nor shall it be liable to any investor or any other party whatsoever for any violation of Regulation RR or any rules or regulations promulgated in connection therewith or any similar provisions in effect or the breach of any related term of the Agreement, any other Transaction Document, or any other document made or delivered pursuant hereto or thereto.

(m) The Servicer will include the amount of the Seller’s Interest (as of the Amendment Closing Date) in the first statement delivered pursuant to *Section 5.2(a)* following the Amendment Closing Date.

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/ Michael Blackham  
Name: Michael Blackham  
Title: Treasurer

COMENITY BANK, as Servicer

By: /s/ Randy J. Redcay  
Name: Randy J. Redcay  
Title: Chief Financial Officer

Deutsche Bank National Trust Company for  
DEUTSCHE BANK TRUST COMPANY  
AMERICAS, not in its individual capacity, but  
solely as Trustee

By: /s/ Susan Barstock  
Name: Susan Barstock  
Title: Vice President

By: /s/ Michele H.Y. Voon  
Name: Michele H.Y. Voon  
Title: 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/ Michael Blackham  
Name: Michael Blackham  
Title: Treasurer

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

By: /s/ Randy J. Redcay  
Name: Randy J. Redcay  
Title: Chief Financial Officer

**FIRST AMENDMENT TO FOURTH AMENDED AND RESTATED SERIES 2009-VFN  
INDENTURE SUPPLEMENT**

This **FIRST AMENDMENT TO FOURTH AMENDED AND RESTATED SERIES 2009-VFN INDENTURE SUPPLEMENT**, dated as of July 10, 2017 (this “*Amendment*”), is made between World Financial Network Credit Card Master Note Trust, as Issuer (the “*Issuer*”), and MUFG Union Bank, N.A. (“*MUFG*”), formerly known as Union Bank, N.A., as successor in interest to The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as Indenture Trustee (in such capacity, the “*Indenture Trustee*”) under the Master Indenture, dated as of August 1, 2001 (as further amended from time to time prior to the date hereof, the “*Master Indenture*”), between the Issuer and the Indenture Trustee, to the Fourth Amended and Restated Series 2009-VFN Indenture Supplement, dated as of February 28, 2014 (the “*Indenture Supplement*”), between the Issuer and the Indenture Trustee, and acknowledged and accepted by WFN Credit Company, LLC, as Transferor and as sole Class M Noteholder, Class B Noteholder and Class C Noteholder. Capitalized terms used and not otherwise defined in this Amendment are used as defined in the Master Indenture.

*Background*

A. The parties hereto have previously entered into the Indenture Supplement to create and designate a new Series of Notes.

B. The parties hereto wish to amend such Indenture Supplement, all as set out in this Amendment.

*Agreement*

1. *Amendment to the Indenture Supplement.* Section 5.1(b)(ii) of the Indenture Supplement is hereby amended in its entirety to read as follows:

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

(x) Allocations During the Revolving Period.

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

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

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

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

2. *Binding Effect; Ratification.* (a) This Amendment shall become effective, as of the date first set forth above, when (i) counterparts hereof shall have been executed and delivered by the parties hereto and (ii) each of the conditions precedent described in Section 10.2 of the Master Indenture has been satisfied, and thereafter shall be binding on the parties hereto and their respective successors and assigns.

(b) On and after the execution and delivery hereof, this Amendment shall be a part of the Indenture Supplement and each reference in the Indenture Supplement to “this Indenture Supplement” or “hereof”, “hereunder” or words of like import, and each reference in any other

Transaction Document to the Indenture Supplement shall mean and be a reference to the Indenture Supplement as amended hereby.

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

3. *Miscellaneous.* (a) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW), AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS. EACH OF THE PARTIES TO THIS AMENDMENT HEREBY AGREES TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND ANY APPELLATE COURT HAVING JURISDICTION TO REVIEW THE JUDGMENTS THEREOF. EACH OF THE PARTIES HEREBY WAIVES ANY OBJECTION BASED ON *FORUM NON CONVENIENS* AND ANY OBJECTION TO VENUE OF ANY ACTION INSTITUTED HEREUNDER IN ANY OF THE AFOREMENTIONED COURTS AND CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT.

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

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

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

4. *Limitation on Liability.* It is expressly understood and agreed by the parties that (a) this document is executed and delivered by U.S. Bank Trust National Association, not individually or personally, but solely as Owner Trustee, in the exercise of the powers and authority conferred and vested in it, pursuant to the Trust Agreement, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by U.S. Bank Trust National Association but is made and intended for the purpose for binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on U.S. Bank Trust National Association, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any person claiming by, through or under the parties hereto, and (d) under no circumstances shall U.S. Bank Trust National Association be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents.

[Signature Page Follows]

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

WORLD FINANCIAL NETWORK CREDIT  
CARD MASTER NOTE TRUST, as Issuer

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

By: /s/ Charles Gallagher  
Name: Charles Gallagher  
Title: Asst. Vice President

MUFG UNION BANK, N.A., as Indenture Trustee

By: /s/ Marion Zinowski  
Name: Marion Zinowski  
Title: Vice President

Acknowledged and Accepted:

COMENITY BANK,  
as Servicer

By: /s/ Randy J. Redcay  
Name: Randy J. Redcay  
Title: Chief Financial Officer

WFN CREDIT COMPANY, LLC  
as Transferor and as sole Class M Noteholder,  
Class B Noteholder and Class C Noteholder

By: /s/ Michael Blackham  
Name: Michael Blackham  
Title: Treasurer

**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

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Edward J. Heffernan  
Chief Executive Officer

Date: August 7, 2017

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**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

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Charles L. Horn  
Chief Financial Officer

Date: August 7, 2017

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

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2017 (the "Form 10-Q") of Alliance Data Systems Corporation (the "Registrant").

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

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

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

/s/ EDWARD J. HEFFERNAN

Edward J. Heffernan

Chief Executive Officer

Date: August 7, 2017

Subscribed and sworn to before me  
this 7<sup>th</sup> day of August, 2017.

/s/ JANE BAEDKE

Name: Jane Baedke

Title: Notary Public

My commission expires:

October 23, 2020

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.

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

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2017 (the "Form 10-Q") of Alliance Data Systems Corporation (the "Registrant").

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

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

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

/s/ CHARLES L. HORN

Charles L. Horn

Chief Financial Officer

Date: August 7, 2017

Subscribed and sworn to before me  
this 7<sup>th</sup> day of August, 2017.

/s/ JANE BAEDKE

Name: Jane Baedke

Title: Notary Public

My commission expires:

October 23, 2020

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.

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