Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from to

Commission File Number: 001-15749

ALLIANCE DATA SYSTEMS CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	**31-1429215**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

17655 Waterview Parkway
Dallas, Texas 75252
(Address of Principal Executive Office, Including Zip Code)

(972) 348-5100
(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

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

As of August 5, 2008, 67,279,154 shares of common stock were outstanding.

Table of Contents

ALLIANCE DATA SYSTEMS CORPORATION

INDEX

PART I

Item 1. Financial Statements

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008	December 31, 2007
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 208,236	$ 219,210
Due from card associations	12,081	—
Trade receivables, less allowance for doubtful accounts ($6,996 and $6,319 at June 30, 2008 and December 31, 2007, respectively)	214,453	228,582
Seller's interest and credit card receivables, less allowance for doubtful accounts ($29,488 and $38,726 at June 30, 2008 and December 31, 2007, respectively)	454,034	652,434
Deferred tax asset, net	94,314	90,515
Other current assets	98,218	100,834
Assets held for sale	107,673	287,610
Total current assets	1,189,009	1,579,185
Redemption settlement assets, restricted	673,076	317,053
Property and equipment, net	188,194	192,759
Deferred tax asset, net	34,959	38,074
Due from securitizations	478,021	379,268
Intangible assets, net	314,002	343,402
Goodwill	1,176,553	1,185,773
Other non-current assets	75,029	68,080
Total assets	$4,128,843	$4,103,594
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 132,576	$ 133,857
Accrued expenses	133,732	206,219
Merchant settlement obligations	122,953	—
Certificates of deposit	264,800	370,400
Credit facilities and other debt, current	303,855	313,589
Other current liabilities	54,669	52,930
Liabilities held for sale	43,491	254,760
Total current liabilities	1,056,076	1,331,755
Deferred revenue	1,179,274	828,348
Long-term and other debt	900,583	644,061
Other liabilities	113,287	102,464
Total liabilities	3,249,220	2,906,628
Stockholders' equity:		
Common stock, $0.01 par value; authorized 200,000 shares; issued 88,551 shares and 87,786 shares at June 30, 2008 and December 31, 2007, respectively	886	878
Additional paid-in capital	933,465	898,631
Treasury stock, at cost (16,299 and 9,024 shares at June 30, 2008 and December 31, 2007, respectively)	(858,566)	(409,486)
Retained earnings	779,191	682,903
Accumulated other comprehensive income	24,647	24,040
Total stockholders' equity	879,623	1,196,966
Total liabilities and stockholders' equity	$4,128,843	$4,103,594

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)			
Revenues				
Transaction	$ 83,096	$ 95,266	$ 166,692	$180,452
Redemption	131,621	100,857	248,400	191,400
Securitization income and finance charges, net	138,556	164,589	306,547	342,661
Database marketing fees and direct marketing fees	128,614	109,509	246,117	212,072
Other revenue	25,323	11,599	38,704	21,582
Total revenue	507,210	481,820	1,006,460	948,167
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	340,962	319,870	665,773	613,461
General and administrative	14,897	21,216	33,165	44,519
Depreciation and other amortization	17,578	14,919	35,340	28,668
Amortization of purchased intangibles	16,792	17,423	33,979	32,556
Loss on the sale of assets	—	—	1,052	—
Merger costs	2,804	6,171	4,411	6,171
Total operating expenses	393,033	379,599	773,720	725,375
Operating income	114,177	102,221	232,740	222,792
Interest income	(3,258)	(1,997)	(5,763)	(4,772)
Interest expense	17,200	20,931	36,808	39,506
Income from continuing operations before income taxes	100,235	83,287	201,695	188,058
Provision for income taxes	38,289	31,752	77,047	71,808
Income from continuing operations	61,946	51,535	124,648	116,250
Loss from discontinued operations, net of taxes	(14,977)	(7,446)	(28,360)	(15,301)
Net income	$ 46,969	$ 44,089	$ 96,288	$100,949
Basic income (loss) per share:				
Income from continuing operations	$ 0.81	$ 0.66	$ 1.61	$ 1.48
Loss from discontinued operations	$ (0.20)	$ (0.10)	$ (0.37)	$ (0.20)
Net income per share	$ 0.61	$ 0.56	$ 1.24	$ 1.28
Diluted income (loss) per share:				
Income from continuing operations	$ 0.79	$ 0.64	$ 1.57	$ 1.44
Loss from discontinued operations	$ (0.19)	$ (0.09)	$ (0.36)	$ (0.19)
Net income per share	$ 0.60	$ 0.55	$ 1.21	$ 1.25
Weighted average shares — basic	76,619	78,160	77,484	78,591
Weighted average shares — diluted	78,636	80,504	79,496	80,797

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,	
	2008	2007
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 96,288	$ 100,949
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,310	82,563
Deferred income taxes	(7,835)	8,701
Provision for doubtful accounts	20,724	13,922
Non-cash stock compensation	14,725	24,009
Fair value gain on interest-only strip	(16,400)	(22,050)
Impairment on disposal group	45,400	—
Gain on the sale of assets	(41,686)	—
Change in operating assets and liabilities, net of acquisitions:		
Change in trade accounts receivable	7,373	(20,240)
Change in merchant settlement activity	(84,232)	35,400
Change in other assets	(6,155)	(26,102)
Change in accounts payable and accrued expenses	(53,958)	(53,566)
Change in deferred revenue	388,925	19,819
Change in other liabilities	6,076	(13,791)
Excess tax benefits from stock-based compensation	(497)	(6,862)
Proceeds from the sale of credit card receivable portfolios to the securitization trusts	91,910	—
Other	(5,726)	4,883
Net cash provided by operating activities	532,242	147,635
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in redemption settlement assets	(370,873)	(5,856)
Payments for acquired businesses, net of cash acquired	—	(437,963)
Net decrease in seller's interest and credit card receivables	80,527	83,613
Change in due from securitizations	(71,500)	21,715
Capital expenditures	(28,531)	(47,532)
Proceeds from the sale of a business	90,307	—
Proceeds from the sale of assets	14,098	—
Other	(4,006)	(8,866)
Net cash used in investing activities	(289,978)	(394,889)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under debt agreements	1,903,127	1,227,000
Repayment of borrowings	(1,680,701)	(892,000)
Certificate of deposit issuances	322,700	213,600
Repayments of certificates of deposits	(428,300)	(251,600)
Payment of capital lease obligations	(8,289)	(5,225)
Payment of deferred financing costs	(3,634)	(1,373)
Excess tax benefits from stock-based compensation	497	6,862
Proceeds from issuance of common stock	14,942	19,633
Proceeds from sale-leaseback transactions	34,221	—
Purchase of treasury shares	(449,080)	(108,536)
Net cash (used in) provided by financing activities	(294,517)	208,361
Effect of exchange rate changes on cash and cash equivalents	(3,059)	1,951
Change in cash and cash equivalents	(55,312)	(36,942)
Cash and cash equivalents at beginning of period	265,839	180,075
Cash and cash equivalents at end of period	$ 210,527	$ 143,133
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 35,813	$ 38,877
Income taxes paid, net of refunds	$ 89,544	$ 34,907

See accompanying notes to unaudited condensed consolidated financial statements.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements included herein have been prepared by Alliance Data Systems Corporation ("ADSC" or, including its wholly owned subsidiaries, the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 28, 2008 and the Company's Current Report on Form 8-K filed with the SEC on May 30, 2008, which re-issued certain items of the Company's Annual Report on Form 10-K.

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 and liabilities; (2) 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. Such reclassifications have no impact on previously reported net income. The Company's unaudited condensed consolidated financial statements have been presented with our merchant and utility services businesses as discontinued operations. All historical statements have been restated to conform to this presentation.

2. TERMINATION OF MERGER

On May 17, 2007, the Company entered into an Agreement and Plan of Merger by and among the Company, Aladdin Solutions, Inc. (f/k/a Aladdin Holdco, Inc., "Parent") and Aladdin Merger Sub, Inc. ("Merger Sub" and together with Parent, the "Blackstone Entities") (the "Merger Agreement"), pursuant to which the Company was to be acquired by affiliates of The Blackstone Group L.P. (the "Merger").

On January 25, 2008, Parent informed the Company in a written notice that it did not anticipate the condition to closing the Merger relating to obtaining approvals from the Office of the Comptroller of the Currency would be satisfied.

On January 30, 2008, the Company filed a lawsuit against the Blackstone Entities in the Delaware Court of Chancery, seeking specific performance to compel the Blackstone Entities to comply with their obligations under the Merger Agreement, including their covenants to obtain required regulatory approvals and to consummate the Merger. On February 8, 2008, the Company filed a motion to dismiss this lawsuit without prejudice in response to the Blackstone Entities' confirmation of their commitment to work to consummate the Merger.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

On March 17, 2008, the Company notified the Blackstone Entities that they were in breach of the Merger Agreement and demanded that the Blackstone Entities cure the breaches including, among other things, obtaining required regulatory approvals from the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

On April 18, 2008, Parent repudiated the Merger Agreement by sending the Company a notice purporting to terminate the contract. The Company believes that the notice of termination was ineffective because the Merger Agreement cannot be terminated under the relevant termination provision by a party that is in breach. Subsequently, on April 18, 2008, the Company terminated the Merger Agreement because of the Blackstone Entities' repudiation and their refusal to timely cure their breaches and perform their covenants and agreements, thereby causing specified closing conditions not to be satisfied.

Pursuant to the Merger Agreement, if the Company terminates the Merger Agreement as a result of Parent's or Merger Sub's breach or failure to perform that causes specified closing conditions not to be satisfied, Parent is required to pay, or cause to be paid, to the Company a fee of $170.0 million (the "Business Interruption Fee"). Blackstone Capital Partners V L.P. ("BCP V") provided a limited guarantee pursuant to which, among other things, BCP V guarantees payment of the Business Interruption Fee and up to $3.0 million of other amounts for which the Blackstone Entities are liable under the Merger Agreement. The Company has demanded that Parent pay the Business Interruption Fee, and commenced litigation on April 18, 2008 seeking full and timely payment of this fee by BCP V, as guarantor of the fee, in the New York State Supreme Court (the "New York action").

On April 21, 2008, the Blackstone Entities filed an action for declaratory judgment in the Delaware Court of Chancery against Alliance Data seeking an order declaring that, among other things, the Blackstone Entities are not in breach of the Merger Agreement and that they are not obligated to pay the Business Interruption Fee (the "Delaware declaratory judgment action").

On May 30, 2008, the Company filed a breach of contract action in the Delaware Court of Chancery against BCP V, Parent and Merger Sub seeking payment of the Business Interruption Fee (the "Delaware contract action").

Pursuant to the parties' agreement, the New York action was stayed pending completion of the Delaware contract action, and the Blackstone Entities voluntarily dismissed the Delaware declaratory judgment action. The Company filed an amended complaint in the Delaware contract action on June 25, 2008, asserting the same claims seeking payment of the Business Interruption Fee, though Merger Sub was dropped as a defendant. The remaining defendants, BCP V and Parent, filed a motion to dismiss the amended complaint on July 14, 2008. Pursuant to an agreed-to briefing schedule, the Company's opposition brief is due on or before August 13, 2008, and defendants' reply brief is due within 14 days after the opposition brief is filed.

For the six months ended June 30, 2008, the Company recorded merger costs of approximately $4.4 million consisting of legal, accounting and other costs associated with the Merger. In July 2008, the Company received $3.0 million from the Blackstone Entities for reimbursement of certain costs related to the Blackstone Entities' financing of the proposed merger.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

3. SHARES USED IN COMPUTING NET INCOME PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands, except per share amounts)			
Numerator				
Income from continuing operations	$ 61,946	$51,535	$124,648	$116,250
Loss from discontinued operations	(14,977)	(7,446)	(28,360)	(15,301)
Net income	$ 46,969	$44,089	$ 96,288	$100,949
Denominator				
Weighted average shares, basic	76,619	78,160	77,484	78,591
Weighted average effect of dilutive securities:				
Net effect of unvested restricted stock	733	753	691	667
Net effect of dilutive stock options	1,284	1,591	1,321	1,539
Denominator for diluted calculation	78,636	80,504	79,496	80,797
Basic				
Income from continuing operations per share	$ 0.81	$ 0.66	$ 1.61	$ 1.48
Loss from discontinued operations per share	$ (0.20)	$ (0.10)	$ (0.37)	$ (0.20)
Net income per share	$ 0.61	$ 0.56	$ 1.24	$ 1.28
Diluted				
Income from continuing operations per share	$ 0.79	$ 0.64	$ 1.57	$ 1.44
Loss from discontinued operations per share	$ (0.19)	$ (0.09)	$ (0.36)	$ (0.19)
Net income per share	$ 0.60	$ 0.55	$ 1.21	$ 1.25

4. DISPOSITIONS

In March 2008, the Company determined that its merchant and utility services businesses were not aligned with the Company's long-term strategy and committed to a plan of disposition and began exploring the potential sale of these businesses. In accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," these businesses have been reported as discontinued operations in this Quarterly Report on Form 10-Q. The results of operations for all periods presented have been reclassified to reflect these businesses as discontinued operations.

In May 2008, the Company entered into an agreement with Heartland Payment Systems, Inc. ("Heartland") to sell the merchant services business for approximately $77.5 million, of which $1.5 million was held in escrow. The sale was completed on May 30, 2008 and the Company received net proceeds of approximately $90.3 million, which included approximately $14.3 million for the payment of net working capital. In connection with the sale, the Company recognized a pre-tax gain of approximately $29.4 million, which has been included in the loss from discontinued operations. In connection with the sale, the Company's private label credit card banking subsidiary World Financial Network National Bank entered into an interim transition services agreement for a period of nine months to provide card processing and certain other services to Heartland.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

In July 2008, the Company entered into a definitive agreement with VTX Holdings Limited, and its subsidiaries Vertex U.S. Holdings II Inc. and Vertex Canada Holdings II Limited, to sell the majority of the utility services business (excluding certain retained assets and liabilities) for approximately $50.0 million in cash, subject to certain adjustments. The sale was completed on July 25, 2008. The Company still retains one disposal group associated with our utility services business and is currently exploring its potential sale, which is expected to be completed by March 2009.

Based on the estimated enterprise value of these businesses, for the six months ended June 30, 2008, the Company recorded a pre-tax impairment charge of $45.4 million, which has been included in the loss from discontinued operations.

The assets and liabilities of the discontinued operations are presented in the condensed consolidated balance sheets under the captions “Assets held for sale” and “Liabilities held for sale.” The underlying assets and liabilities of the discontinued operations for the periods presented are as follows:

	June 30, 2008	December 31, 2007
	(in thousands)	
Assets:		
Cash and cash equivalents	$ 2,291	$ 46,630
Due from card associations	—	21,456
Trade receivables	55,364	78,410
Other assets	11,120	15,016
Property and equipment, net	31,313	56,030
Intangible assets, net	7,585	20,493
Goodwill	—	49,575
Assets held for sale	$ 107,673	$ 287,610
Liabilities:		
Accounts payables	$ 369	$ 933
Accrued expenses	25,867	21,892
Merchant settlement obligations	—	216,560
Capital lease obligations	4,642	2,455
Other liabilities	12,613	12,920
Liabilities held for sale	$ 43,491	$ 254,760

The following table summarizes the operating results of the discontinued operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(amounts in thousands)			
Revenue	$ 64,510	$ 81,978	$139,996	$164,789
Loss before provision for income taxes	(10,015)	(11,393)	(30,466)	(23,411)
Provision for (benefit) from income taxes	4,962	(3,947)	(2,106)	(8,110)
Loss from discontinued operations	$(14,977)	$ (7,446)	$ (28,360)	$ (15,301)

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

5. SELLER'S INTEREST AND CREDIT CARD RECEIVABLES

In June 2008, the Company sold a portfolio of credit card receivables to our securitization trusts. The Company sold a net principle balance of $100.7 million, for which we received cash of $91.9 million and retained $8.8 million in a spread deposit account that is included in Due from Securitizations in the condensed consolidated balance sheet. The gain on the sale was approximately $5.0 million, of which $2.2 million was included in the gain on the interest-only strip and $2.8 million was associated with the write-off of the allowance and other assets. The total gain is included in Securitization income and finance charges, net in our condensed consolidated statement of income.

6. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets consist of the following:

	June 30, 2008			
	Gross Assets	Accumulated Amortization (in thousands)	Net	Amortization Life and Method
Finite Lived Assets				
Customer contracts and lists	$ 186,428	$ (83,883)	$102,545	5-10 years — straight line
Premium on purchased credit card portfolios	68,432	(31,375)	37,057	5-10 years — straight line, accelerated
Collector database	68,554	(55,080)	13,474	30 years —15% declining balance
Customer databases	161,699	(30,922)	130,777	4 -10 years — straight line
Noncompete agreements	2,160	(1,693)	467	2-5 years — straight line
Favorable lease	1,000	(750)	250	4 years — straight line
Tradenames	11,260	(1,758)	9,502	4 -10 years — straight line
Purchased data lists	11,326	(3,746)	7,580	1 -5 year — accelerated basis, straight line
	$ 510,859	$ (209,207)	$301,652	
Indefinite Lived Assets				
Tradenames	12,350	—	12,350	Indefinite life
Total intangible assets	$ 523,209	$ (209,207)	$314,002	

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

	December 31, 2007			
	Gross Assets	Accumulated Amortization	Net	Amortization Life and Method
		(in thousands)		
Finite Lived Assets				
Customer contracts and lists	$ 186,428	$ (71,330)	$ 115,098	5-10 years — straight line
Premium on purchased credit card portfolios	70,664	(29,203)	41,461	5-10 years — straight line, accelerated
Collector database	71,358	(56,093)	15,265	30 years —15% declining balance
Customer databases	161,713	(20,096)	141,617	4 -10 years — straight line
Noncompete agreements	2,160	(1,308)	852	2-5 years — straight line
Favorable lease	1,000	(614)	386	4 years — straight line
Tradenames	11,262	(1,154)	10,108	4 -10 years — straight line
Purchased data lists	8,656	(2,391)	6,265	1 -5 year — accelerated basis, straight line
	$ 513,241	$ (182,189)	$ 331,052	
Indefinite Lived Assets				
Tradenames	12,350	—	12,350	Indefinite life
Total intangible assets	$ 525,591	$ (182,189)	$ 343,402	

Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2008 are as follows:

	Loyalty Services	Epsilon Marketing Services	Private Label Credit	Private Label Services	Total
			(in thousands)		
Beginning balance	$ 248,996	$ 675,045	$ —	$ 261,732	$ 1,185,773
Effects of foreign currency translation	(9,340)	(143)	—	—	(9,483)
Other, primarily final purchase price adjustments	—	263	—	—	263
Ending balance	$ 239,656	$ 675,165	$ —	$ 261,732	$ 1,176,553

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

7. DEFERRED REVENUE

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

	Deferred Revenue		
	Service	Redemption	Total
		(in thousands)	
December 31, 2007	$272,317	$ 556,031	$ 828,348
Cash proceeds	89,554	164,030	253,584
Cash proceeds from the assumption of the BMO liability	—	369,858	369,858
Revenue recognized	(71,340)	(162,471)	(233,811)
Other	—	(1,208)	(1,208)
Effects of foreign currency translation	(10,958)	(26,539)	(37,497)
June 30, 2008	$279,573	$ 899,701	$1,179,274

In May 2008, our Loyalty Services segment secured a comprehensive long-term renewal and expansion agreement with BMO Bank of Montreal ("BMO"), as a sponsor in its AIR MILES® Reward Program, pursuant to which BMO transferred to the Company the responsibility of reserving for costs associated with the redemption of AIR MILES reward miles issued by BMO as a sponsor. Under the terms of the agreement, BMO paid the Company approximately $369.9 million for the assumption of that liability, all of which was placed in our redemption settlement asset account to be utilized to cover the cost of redemptions of outstanding AIR MILES reward miles issued by BMO under the previous arrangement. Historically, due to the nature of their contractual arrangement, miles issued by BMO have been excluded from the Company's estimate of breakage as BMO had the responsibility of redemption, and therefore no breakage estimate was required. However, changing the nature of the agreement required the Company to include these miles in its analysis, which impacted the redemption rate and the Company's estimate of breakage. After evaluating the impact of this transaction, the Company changed its estimate of breakage from one-third to 28%. The change in estimate had no impact on the total redemption liability, but will reduce the amount of deferred breakage, within the redemption liability, expected to be recognized over the expected life of the mile. The change in estimate did not have a material impact to our financial statements in the current period, nor does the Company expect it to have a material impact on future periods.

8. DEBT

Debt consists of the following:

	June 30, 2008	December 31, 2007
	(in thousands)	
Certificates of deposit	$ 264,800	$ 370,400
Senior notes	500,000	500,000
Revolving credit facility	355,000	121,000
Bridge loan facility	125,000	300,000
Wachovia bank facility	150,000	—
Capital lease obligations and other debt	74,438	36,650
	1,469,238	1,328,050
Less: current portion	(568,655)	(683,989)
Long-term portion	$ 900,583	$ 644,061

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Certificates of Deposit

Terms of the certificates of deposit range from three months to 24 months with annual interest rates ranging from 3.3% to 5.7% and 5.0% to 5.7% at June 30, 2008 and December 31, 2007, respectively. Interest is paid monthly and at maturity.

Senior Notes.

The Company has $250.0 million aggregate principal amount of 6.00% Senior Notes, Series A, due May 16, 2009 (the "Series A Notes") and $250.0 million aggregate principal amount of 6.14% Senior Notes, Series B, due May 16, 2011 (the "Series B Notes" and together with the Series A Notes, the "Senior Notes") outstanding pursuant to that certain Note Purchase Agreement, dated as of May 1, 2006 (the "Note Purchase Agreement"). The payment obligations under the Senior Notes are required to be guaranteed by certain of our subsidiaries. As required under the Note Purchase Agreement, due to its guaranty of each of the revolving credit facility and the bridge loan facility, ADS Foreign Holdings, Inc. also entered into that certain Joinder to Subsidiary Guaranty in favor of the holders from time to time of the Senior Notes in May 2008.

Credit Facilities

Revolving Credit Facility

In May 2008, ADS Foreign Holdings, Inc. became a guarantor of the revolving credit facility pursuant to a Guarantor Supplement in favor of the Bank of Montreal as Administrative Agent.

In June 2008, the Company, as Borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC and Epsilon Data Management, LLC, (as "Guarantors"), entered into a second amendment to the revolving credit facility. The second amendment amended certain defined terms and negative covenants regarding the Company's ability, and in certain instances, its subsidiaries' ability, to create liens, repurchase stock and make investments. The amendment also replaced the financial covenant establishing a maximum ratio of total capitalization with a financial covenant establishing a maximum ratio of total leverage.

In July 2008, we exercised the $210.0 million accordion feature of our revolving credit facility, which allowed the Company to increase its existing $540.0 million unsecured line of credit to a $750.0 million unsecured line of credit.

The weighted average interest rate on our revolving credit facility was 3.0% as of June 30, 2008.

Bridge Loan Facility

In March 2008, the Company entered into a third amendment to the bridge loan facility, which, as amended, provided for loans in a maximum amount of $300.0 million. In the third amendment, the maturity date of our bridge loan facility was extended from March 31, 2008 to December 31, 2008. On March 17, 2008, the Company prepaid $150.0 million of the principal amount of the bridge loan facility together with accrued interest thereon and pursuant to the terms of the bridge loan facility, such amounts were not available to be re-borrowed. Amounts used to make the prepayment were borrowed under the Company's revolving credit facility. In addition, the third amendment provided for a principal payment in the amount of $25.0 million on each of June 30, 2008 and September 30, 2008. Finally, the third amendment adjusted the margin applicable to base rate loans and Eurodollar loans to those set forth below.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The interest rate for base rate loans under the bridge loan facility fluctuates and is equal to the higher of (i) Bank of Montreal's prime rate and (ii) the Federal funds rate plus 0.50%, in each case plus a margin of 0.10% to 0.70% for the period from March 1 to June 30, 2008; and 0.60% to 1.20% for the period on and after July 1, 2008, in each case based upon our senior leverage ratio as defined in our bridge loan facility. The interest rate for Eurodollar loans under the bridge loan facility fluctuates based on the London interbank offered rate plus a margin of 1.60% to 2.20% for the period from March 1, 2008 to June 30, 2008; and 2.10% to 2.70% for the period on and after July 1, 2008, in each case based upon the senior leverage ratio as defined in the bridge loan facility.

In May 2008, ADS Foreign Holdings, Inc. became a guarantor of the bridge loan facility pursuant to a Guarantor Supplement in favor of the Bank of Montreal as Administrative Agent.

In June 2008, the Company entered into a fourth amendment to the bridge loan facility to modify certain defined terms and negative covenants regarding the Company's ability, and in certain instances, its subsidiaries' ability, to create liens, repurchase stock and make investments. The fourth amendment also replaced the financial covenant establishing a maximum ratio of total capitalization with a financial covenant establishing a maximum ratio of total leverage, with each such term defined in the bridge loan facility.

The Company made the required $25.0 million principal payment on June 30, 2008 and the bridge loan facility was repaid in full and terminated according to its terms effective July 29, 2008.

The weighted average interest rate on the bridge loan facility was 4.1% as of June 30, 2008.

Wachovia Bank Facility

In June 2008, the Company, as Borrower, and the Guarantors, entered into a credit agreement with Wachovia Bank, National Association, as Administrative Agent (the "Wachovia Facility"), which provided for loans to the Company in a maximum amount of $150.0 million. At the closing of the Wachovia Facility, the Company borrowed $150.0 million under the Wachovia Facility to fund its obligations with respect to share repurchases under an accelerated stock repurchase agreement. The loans under the Wachovia Facility were scheduled to mature September 18, 2008 and were paid in full and the Wachovia Facility was terminated according to its terms effective July 29, 2008.

Advances under the Wachovia Facility were in the form of either base rate loans or Eurodollar loans. The interest rate for base rate loans fluctuates and was equal to the higher of (i) Wachovia's prime rate and (ii) the Federal funds rate plus 0.5%, in either case plus a margin of 0.25%. The interest rate for Eurodollar loans fluctuated based on the rate at which deposits of U.S. dollars in the London interbank market were quoted plus a margin of 1.75%.

The Wachovia Facility contained 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, transfer or dispose of assets; create or incur indebtedness; create liens; pay dividends; and make investments. The negative covenants were subject to certain exceptions as specified in the Wachovia Facility. The Wachovia Facility also requires the Company to satisfy certain financial covenants, including maximum ratios of total leverage and senior leverage as determined in accordance with the Wachovia Facility and a minimum ratio of consolidated operating EBITDA to consolidated interest expense as determined in accordance with the Wachovia Facility.

The weighted average interest rate on the Wachovia Facility was 4.2% as of June 30, 2008.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Capital Lease Obligations and Other Debt

For the six months ended June 30, 2008, the Company entered into certain sale-lease back transactions which resulted in proceeds of approximately $34.2 million and a deferred gain of $13.1 million. The leases have been reflected as capital lease obligations and the gain amortized over the expected lease term in proportion to the leased assets. In addition, in April 2008, the Company entered into a loan agreement for approximately $14.2 million, which is secured by certain equipment and matures in three years.

Convertible Senior Notes

In July 2008, the Company issued $700.0 million aggregate principal amount of convertible senior notes due 2013 (the "Convertible Notes"). The Company granted to the initial purchasers of the Convertible Notes an option to purchase up to an additional $105.0 million aggregate principal amount of the Convertible Notes solely to cover over-allotments, if any, which was exercised in full on August 4, 2008. Holders of the Convertible Notes have the right to require the Company to repurchase for cash all or some of their Convertible Notes upon the occurrence of certain events.

The Convertible Notes are governed by an indenture dated July 29, 2008 between the Company and the Bank of New York Mellon Trust Company, National Association, as trustee. Pursuant to the indenture, the Convertible Notes are general unsecured senior obligations of the Company, and pay interest semi-annually in arrears at a rate of 1.75% per annum on February 1 and August 1 of each year beginning February 1, 2009, will be convertible during certain periods and under certain circumstances and, subject to earlier repurchase by the Company or conversion, will mature on August 1, 2013. The Company may not redeem the Convertible Notes prior to their maturity date. Upon conversion, holders of the Convertible Notes will receive, at the election of the Company, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, based on the applicable conversion rate at such time. The Convertible Notes have an initial conversion rate of 12.7392 shares of common stock per $1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of $78.50 per share), representing an initial conversion premium of approximately 22.5% above the closing price of $64.08 per share of the Company's common stock on July 23, 2008.

Concurrently with the pricing of the Convertible Notes, on July 23, 2008, the Company entered into convertible note hedge transactions with respect to its common stock (the "Convertible Note Hedges") with J.P. Morgan Securities Inc., as agent to JPMorgan Chase Bank, National Association, London Branch, and Bank of America, N.A., affiliates of two of the initial purchasers (together, the "Hedge Counterparties"). The Convertible Note Hedges cover, subject to customary anti-dilution adjustments, approximately 8.9 million shares of the Company's common stock at an initial strike price equal to the initial conversion price of the Convertible Notes.

Separately but also concurrently with the pricing of the Convertible Notes, on July 23, 2008, the Company entered into warrant transactions (the "Warrants") whereby it sold to the Hedge Counterparties warrants to acquire, subject to customary anti-dilution adjustments, up to approximately 8.9 million shares of its common stock at an initial strike price of $112.14.

The cost of the Convertible Note Hedges, taking into account the proceeds to the Company from the sale of the Warrants, was $93.6 million. The Convertible Note Hedges and Warrants permit the Company to buy the potential for economic dilution from the initial conversion price to $112.14.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

In August 2008, the Company issued an additional $105.0 million aggregate principal amount of its Convertible Notes to cover over-allotments. Following the exercise of the over-allotment in full, the Convertible Note Hedges, which were subject to an automatic pro-rata increase upon exercise of the over-allotment, cover, subject to customary anti-dilution adjustments, approximately 1.3 million additional shares of the Company's common stock. The Warrants were also amended with each of the Hedge Counterparties to permit them to acquire, subject to customary anti-dilution adjustments, up to approximately 1.3 million additional shares of the Company's common stock. The amended Warrants will be exercisable and will expire in 79 equal tranches of 64,094 Warrants and an 80th tranche of 64,102 Warrants with respect to each of the Hedge Counterparties beginning on October 30, 2013 and continuing on each business day through February 25, 2014. The cost of the additional Convertible Note Hedges, taking into account the proceeds to the Company from the sale of the additional Warrants, related to the exercise of the over-allotment was $14.0 million.

9. STOCKHOLDER'S EQUITY

Stock Repurchase Programs

During 2005 and 2006 our Board of Directors authorized three stock repurchase programs to acquire up to an aggregate of $900.0 million of the Company's outstanding common stock through December 2008. From May 17, 2007 through April 18, 2008, the date of termination of the Merger Agreement, the Company did not purchase any additional shares under the third stock repurchase program. On May 6, 2008, the Company's Board of Directors authorized resuming the existing repurchase program.

During the second quarter of 2008, the Company acquired a total of 7,274,903 shares of its common stock for approximately $449.1 million under the existing repurchase program. As part of those repurchases, in June 2008, the Company entered into a $150.0 million accelerated share repurchase agreement (the "ASR Agreement"), with Wachovia Bank, National Association ("Wachovia"). Pursuant to the ASR Agreement, on June 18, 2008, the Company purchased 2,212,716 shares of its common stock at a price per share of $67.79. Under the ASR Agreement, Wachovia would purchase an equivalent number of shares of common stock in the open market from time to time until it has acquired that number of shares. The final settlement was scheduled to end no later than July 18, 2008. In July 2008, the Company received an additional 418,805 shares of common stock based upon the volume weighted average price of its common stock purchased by Wachovia during the period less a specified discount. As a result of this transaction, the Company purchased a total of 2,631,521 shares of its common stock at a settlement price per share of $57.00.

In July 2008, the Company established a new repurchase program, pursuant to which, during the period beginning on July 17, 2008 and ending December 31, 2009, the Company may repurchase shares of its common stock at an aggregate price not to exceed $1.3 billion, or such lesser amount as may be permitted pursuant to the terms of our credit agreements or otherwise. In connection with the offering of the Convertible Notes, in July 2008, the Company utilized a portion of the net proceeds to acquire 4,329,900 shares for approximately $277.5 million.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Stock Compensation Expense

Total stock-based compensation expense recognized in the Company's condensed consolidated statements of income for the three and six months ended June 30, 2008 and 2007, respectively, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)			
Cost of operations	$ 5,283	$ 5,971	$ 8,721	$11,671
General and administrative	2,443	4,214	5,281	8,948
Total	$ 7,726	$ 10,185	$14,002	$20,619

Stock-based compensation expense for our merchant services and utility services businesses was approximately $0.5 million and $1.7 million, and $0.7 million and $3.4 million for the three and six months ended June 30, 2008 and 2007 respectively. These amounts have been included in the loss from discontinued operations.

During 2007, the vesting provisions of certain shares of restricted stock and stock options issued to certain employees were modified. The service conditions of these awards were accelerated in connection with the anticipated termination and the termination of these employees. The terms were modified such that should the Merger, as discussed in Note 2, be completed before the Merger Agreement expired or was otherwise terminated, the employee would then receive the consideration as set forth in the Merger Agreement. With the termination of the Merger Agreement, the employees did not receive the additional consideration and the Company reversed approximately $6.0 million of compensation expense in the second quarter of 2008, of which $1.2 million was included in the loss from discontinued operations.

On April 23, 2008, the Company's Board of Directors approved the cancellation of awards of 67,290 service-based restricted stock units previously granted to certain of our executive management on December 21, 2007. These awards were replaced with an award granted on April 23, 2008. The total compensation cost reflects the portion of the grant-date fair value of the original award for which the requisite service period was rendered at the date of cancellation plus the incremental cost resulting from the cancellation and replacement.

Subsequent to the termination of the Merger Agreement in April 2008, the Company awarded both service-based and performance-based restricted stock units. Fair value of the restricted stock is estimated on the date of grant. In accordance with SFAS No. 123(R), the Company recognizes the estimated stock-based compensation expense, net of estimated forfeitures, over the applicable service period. Service-based restricted stock awards typically vest ratably over a three year period. Performance-based restricted stock awards vest if specified performance measures tied to the Company's financial performance are met. During 2008, the Company issued 1,400,494 service-based restricted stock awards and 1,711,697 performance-based restricted stock awards with a weighted average grant date fair value per share of $56.56.

Additionally, in connection with the sale of our merchant services division, the vesting provisions of the awards for certain employees associated with the division were accelerated on the date of sale, and the Company recorded incremental stock-based compensation expense of approximately $0.7 million, which has been included in the loss from discontinued operations.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Employee Stock Purchase Plan

In June 2008, the Compensation Committee of the Company's Board of Directors authorized re-opening the Company's Amended and Restated Employee Stock Purchase Plan (the "ESPP") to employee contributions commencing in the third quarter of 2008.

10. INCOME TAXES

For the three months ended June 30, 2008 and June 30, 2007, the Company has utilized an effective tax rate of 38.2 % and 38.1% respectively, and 38.2% for each of the six month periods ended June 30, 2008 and 2007, respectively, to calculate its provision for income taxes. In accordance with Accounting Principles Board ("APB") Opinion No. 28, Interim Financial Reporting, this effective tax rate is the Company's expected annual effective tax rate for calendar year 2008 based on all known variables.

11. COMPREHENSIVE INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)			
Net income	$46,969	$44,089	$96,288	$100,949
Unrealized (loss) gain on securities available-for-sale	(2,567)	(612)	1,481	(274)
Foreign currency translation adjustments	3,314	7,622	(874)	7,483
Total comprehensive income	$47,716	$51,099	$96,895	$108,158

12. SEGMENT INFORMATION

Beginning with the first quarter of 2008, the Company reorganized its businesses into four reportable operating segments as follows:

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

In addition, corporate and all other immaterial businesses will be reported collectively as an "all other" category labeled "Corporate/Other." As discussed in Note 4, the Company's merchant services and utility services business units have been classified as discontinued operations.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

	Loyalty Services	Epsilon Marketing Services	Private Label Services	Private Label Credit	Corporate/ Other	Elimination	Total
				(in thousands)			
Three months ended June 30, 2008							
Revenues	$200,027	$ 115,371	$ 95,801	$ 187,570	$ 1,613	$ (93,172)	$ 507,210
Adjusted EBITDA[1]	53,398	26,449	29,979	63,617	(11,478)	—	161,965
Depreciation and amortization	8,099	18,917	2,225	2,841	2,288	—	34,370
Stock compensation expense	2,998	673	1,228	384	2,443	—	7,726
Merger and other costs[2]	—	2,638	640	—	2,414	—	5,692
Operating income	42,301	4,221	25,886	60,392	(18,623)	—	114,177
Interest expense, net	—	—	—	—	13,942	—	13,942
Income from continuing operations before income taxes	42,301	4,221	25,886	60,392	(32,565)	—	100,235
Three months ended June 30, 2007							
Revenues	$153,228	$ 109,369	$ 91,546	$ 206,251	$ 10,183	$ (88,757)	$ 481,820
Adjusted EBITDA[1]	32,295	23,595	24,621	89,360	(18,952)	—	150,919
Depreciation and amortization	6,035	18,425	2,165	2,789	2,928	—	32,342
Stock compensation expense	1,804	2,469	1,314	193	4,405	—	10,185
Merger and other costs[2]	—	—	—	—	6,171	—	6,171
Operating income	24,456	2,701	21,142	86,378	(32,456)	—	102,221
Interest expense, net	—	—	—	—	18,934	—	18,934
Income before income taxes	24,456	2,701	21,142	86,378	(51,390)	—	83,287
Six months ended June 30, 2008							
Revenues	$371,833	$ 230,849	$ 190,350	$ 396,654	$ 2,071	$ (185,297)	$ 1,006,460
Adjusted EBITDA[1]	94,295	50,092	56,813	150,710	(25,434)	—	326,476
Depreciation and amortization	16,665	38,059	4,499	5,632	4,464	—	69,319
Stock compensation expense	4,429	1,546	1,985	761	5,281	—	14,002
Merger and other costs[2]	—	2,638	1,435	—	5,290	—	9,363
Loss on the sale of assets	—	—	—	—	1,052	—	1,052
Operating income	73,201	7,849	48,894	144,317	(41,521)	—	232,740
Interest expense, net	—	—	—	—	31,045	—	31,045
Income from continuing operations before income taxes	73,201	7,849	48,894	144,317	(72,566)	—	201,695
Six months ended June 30, 2007							
Revenues	$285,044	$ 207,951	$ 189,442	$ 426,067	$ 21,369	$ (181,706)	$ 948,167
Adjusted EBITDA[1]	57,790	44,536	57,123	189,335	(37,978)	—	310,806
Depreciation and amortization	11,490	33,828	4,518	5,619	5,769	—	61,224
Stock compensation expense	3,726	4,505	2,658	395	9,335	—	20,619
Merger and other costs[2]	—	—	—	—	6,171	—	6,171
Operating income	42,575	6,202	49,948	183,321	(59,254)	—	222,792
Interest expense, net	—	—	—	—	34,734	—	34,734
Income before income taxes	42,575	6,202	49,948	183,321	(93,988)	—	188,058

(1) Adjusted EBITDA is a non-GAAP financial measure equal to income from continuing operations, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, loss on the sale of assets, merger and other costs, depreciation and other amortization

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

and amortization of purchased intangibles. Adjusted EBITDA is presented in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131") as it is a primary performance metric by which senior management is evaluated.

(2) Merger costs represent advisory, legal, accounting and other costs. Other costs represent compensation charges related to integration and cost savings initiatives and other non-routine costs associated with the disposition of non-core operations.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. 157-2, "Effective Date of FASB Statement No. 157", which provides a one year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. Although the adoption of SFAS No. 157 did not materially impact the Company's financial condition, results of operations, or cash flow, the Company is required to provide additional disclosures as part of its financial statements.

SFAS No. 157 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 in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table provides the assets carried at fair value measured on a recurring basis as of June 30, 2008:

	Carrying Value at June 30, 2008	Fair Value Measurements at June 30, 2008 Using		
		Level 1	Level 2	Level 3
		(in thousands)		
Government bonds[1]	$ 50,742	$ 50,742	$ —	$ —
Corporate bonds[1]	234,165	234,165	—	—
Other available-for-sale securities[2]	1,015	1,015	—	—
Residual interest in securitization trust[3]	127,214	—	127,214	—
Spread deposits[3]	134,081	—	—	134,081
Interest-only strip[3]	172,027	—	—	172,027
Total assets measured at fair value	$ 719,244	$ 285,922	$ 127,214	$ 306,108

(1) Amounts are included in redemption settlement assets in our condensed consolidated balance sheet.
(2) Amounts are included in other current and non-current assets in our condensed consolidated balance sheet.
(3) Amounts are included in due from securitizations in our condensed consolidated balance sheet.

ALLIANCE DATA SYSTEMS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The following table summarizes the changes in fair value of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS No. 157 as of June 30, 2008:

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008	
	Spread Deposits	Interest Only Strip	Spread Deposits	Interest Only Strip
	(in thousands)			
Balance as of the beginning of the period	$ 130,849	$ 167,030	$ 125,624	$ 154,735
Total (losses) gains (realized or unrealized)				
Included in earnings	(1,307)	6,000	401	16,400
Included in other comprehensive income	—	(1,003)	—	892
Transfers in or out of Level 3	4,539	—	8,056	—
Balance as of June 30, 2008	$ 134,081	$ 172,027	$ 134,081	$ 172,027
(Losses) gains for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at June 30, 2008	$ (1,307)	$ 6,000	$ 401	$ 16,400

Losses and gains included in earnings for both the spread deposits and the interest-only strip are included in securitization income and finance charges, net.

The following table provides the assets carried at fair value measured on a nonrecurring basis as of June 30, 2008:

	Carrying Value at June 30, 2008	Fair Value Measurements Using			Total Losses
		Level 1	Level 2	Level 3	
			(in thousands)		
Goodwill[1]	$ —	$ —	$ —	$ —	$26,185
Long-lived assets held for sale[2]	50,000	—	—	50,000	19,215
Total assets measured at fair value	$50,000	$ —	$ —	$50,000	$45,400

(1) In accordance with the provisions of Statement of Financial Accounting Standards No. 142, goodwill associated with our discontinued operations with a carrying amount of $26.2 million was written down to $0, resulting in an impairment charge of $26.2 million. Goodwill was included in our condensed consolidated balance sheets in "Assets held for sale" and the impairment charge was included in our loss from discontinued operations.

(2) In accordance with Statement of Financial Accounting Standards No. 144, long-lived assets with a carrying amount of approximately $69.2 million were written down to reflect a fair value of $50.0 million, less costs to sell of approximately $2.5 million, resulting in a loss of $19.2 million, which was include in our loss from discontinued operations.

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 audited consolidated financial statements and related notes thereto included in our Annual Report filed on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 28, 2008 and the Company's Current Report on Form 8-K filed with the SEC on May 30, 2008, which re-issued certain items of the Company's Annual Report on Form 10-K.

Year in Review Highlights

Our results for the first six months of 2008 included the following new and renewed agreements with significant clients and continued selective execution of our acquisition and disposition strategy:

- In January 2008, we announced the signing of a multi-year agreement with Sharper Image Corporation to provide an integrated private label credit card program and provide permission-based email marketing services for Sharper Image.
- In January 2008, we announced the launch with Dell Computer of Dell Credito Plus, a private label program developed exclusively for Dell's Spanish speaking customers.
- In February 2008, we announced that Century 21 Canada has signed a multi-year renewal agreement as a national sponsor in our AIR MILES Reward Program.
- In February 2008, we announced that InterContinental Hotels Group has signed a multi-year renewal agreement as a sponsor in our AIR MILES Reward Program.
- In March 2008, we announced the signing of a long-term agreement with specialty retailer Hot Topic, Inc. to provide private label credit card services for its Torrid-branded stores.
- In March 2008, we announced the completion of a new financing facility with Barclays Capital by our private label credit card banking subsidiary, World Financial Network National Bank, to accommodate 88 percent of their upcoming maturity of $600.0 million of asset-backed bonds.
- In March 2008, we announced a disposition plan related to the our merchant services and utility services business units based on the conclusion that these business units no longer fit with our business strategy of being a leading provider of data-driven and transaction-based marketing and customer loyalty solutions.
- In April 2008, we announced that our private label credit card banking subsidiary, World Financial Network National Bank, completed the renewal of its $400.0 million conduit facility.
- In April 2008, we announced that Citicorp Credit Services, Inc. has signed a multi-year expansion agreement for Epsilon to design and implement a customized database marketing and analytic platform, including a marketing datamart, campaign management engine, and analysis and reporting tool within Citi's ThankYou® Network.
- In April 2008, we announced the termination of the May 17, 2007, merger agreement providing for the acquisition of Alliance Data by affiliates of the Blackstone Group.
- In April 2008, we announced that RONA Inc., a top-5 AIR MILES' sponsor and Canadian distributor and retailer of hardware, home renovation and gardening products, has signed a multi-year renewal agreement as a national sponsor in our AIR MILES Reward Program.
- In May 2008, we announced the signing of a multi-year contract extension with leading specialty retailer Dress Barn, Inc. to continue providing private label credit card services for their Dress Barn and Maurice's-branded stores.
- In May 2008, we signed a comprehensive long-term renewal and expansion agreement with BMO Bank of Montreal, as a sponsor in our AIR MILES Reward Program, pursuant to which BMO Bank of Montreal transferred to us the responsibility of reserving for costs associated with the redemption of AIR MILES reward miles issued by BMO Bank of Montreal as a sponsor.

- In May 2008, we completed the sale of our merchant services business to Heartland Payments Systems, Inc.
- In June 2008, we announced the signing of a multi-year renewal agreement with leading multi-channel home furnishings retailer Crate and Barrel to continue providing private label credit card services for its in-store, web and catalog sales channels.
- In June 2008, we announced the signing of a multi-year extension agreement with Nestlé Purina PetCare Company for Epsilon to continue to host and manage Nestlé Purina's multi-brand interactive marketing database platform.
- In June 2008, we announced the signing of a long-term agreement with PD Financial Corporation to provide private label credit card services for its catalog and web channels when PD Financial launches its new brand identity, VENUE.

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 10-K for the fiscal year ended December 31, 2007, except as follows:

Revenue Recognition — AIR MILES Reward Program

AIR MILES Reward Program. Because management has determined that the earnings process is not complete at the time an AIR MILES reward mile is issued, the recognition of revenue on all fees received based on issuance is deferred. Management believes that there are a certain number of AIR MILES reward miles issued that will go unredeemed by the collector base, or breakage. Revenue is recognized for breakage over the estimated life of an AIR MILES reward mile. Management has historically estimated this amount as one-third of the miles issued.

Breakage is based on management's estimate after viewing and analyzing various historical trends including vintage analysis, current run rates and other pertinent data. Breakage is actively monitored by management and subject to external influences that may cause actual performance to differ from estimates.

In the second quarter 2008, we expanded and made certain contractual changes to our relationship with BMO Bank of Montreal, under which we assumed the responsibility for reserving the cost associated with the redemption of the AIR MILES reward miles issued by BMO Bank of Montreal. As a result of this transaction, management's estimate of breakage was revised from one-third to 28 percent, as of June 1, 2008. Further information regarding our change in estimate is provided in Note 7 to our condensed consolidated financial statements.

Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure equal to income from continuing operations, the most directly comparable GAAP financial measure, plus stock compensation expense, provision for income taxes, interest expense, net, loss on the sale of assets, merger and other costs, depreciation and other amortization and amortization of purchased intangibles. Operating EBITDA is a non-GAAP financial measure equal to adjusted EBITDA adjusted for the change in deferred revenue plus the change in redemption settlement assets. We have presented operating EBITDA because we use the financial measure to monitor compliance with financial covenants in our credit facilities and our senior note agreements. For the period ended June 30, 2008, senior debt to operating EBITDA was 1.6x compared to a maximum ratio of 2.75x permitted in our credit facilities and in our senior note agreements. Operating EBITDA to interest expense was 9.0x compared to a minimum ratio of 3.5x permitted in our credit facilities and 3.0x permitted in our senior note agreements. Debt to Operating EBITDA was 1.7x compared to a maximum ratio of 3.75x permitted in our credit facilities. As discussed in more detail in the liquidity section of "Management's Discussion and Analysis of Financial Condition and Results of Operations," our credit facilities and cash flows from operations are the two main sources of funding for our

acquisition strategy and for our future capital needs and capital expenditures. As of June 30, 2008, we had borrowings of $630.0 million outstanding under the credit facilities, $500.0 million under our senior notes and had $183.0 million in unused borrowing capacity. We were in compliance with our covenants at June 30, 2008, and we expect to be in compliance with these covenants during the year ended December 31, 2008.

We use adjusted EBITDA as an integral part of our internal reporting to measure the performance of our reportable segments and to evaluate the performance of our senior management. Adjusted EBITDA is considered an important indicator of the operational strength of our businesses. Adjusted EBITDA eliminates the uneven effect across all business segments of considerable amounts of non-cash depreciation of tangible assets and amortization of certain intangible assets that were recognized in business combinations. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Management evaluates the costs of such tangible and intangible assets, the impact of related impairments, as well as asset sales through other financial measures, such as capital expenditures, investment spending and return on capital and therefore the effects are excluded from adjusted EBITDA. Adjusted EBITDA also eliminates the non-cash effect of stock compensation expense. Stock compensation expense is not included in the measurement of segment adjusted EBITDA provided to the chief operating decision maker for purposes of assessing segment performance and decision making with respect to resource allocations. Therefore, we believe that adjusted EBITDA provides useful information to our investors regarding our performance and overall results of operations. Adjusted EBITDA and operating EBITDA 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 an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, adjusted EBITDA and operating EBITDA 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 operating EBITDA 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,	
	2008	2007	2008	2007
	(in thousands)			
Income from continuing operations	$ 61,946	$ 51,535	$ 124,648	$ 116,250
Stock compensation expense	7,726	10,185	14,002	20,619
Provision for income taxes	38,289	31,752	77,047	71,808
Interest expense, net	13,942	18,934	31,045	34,734
Loss on the sale of assets	—	—	1,052	—
Merger and other costs[1]	5,692	6,171	9,363	6,171
Depreciation and other amortization	17,578	14,919	35,340	28,668
Amortization of purchased intangibles	16,792	17,423	33,979	32,556
Adjusted EBITDA	161,965	150,919	326,476	310,806
Change in deferred revenue[2]	373,158	73,612	350,926	86,670
Change in redemption settlement assets[2]	(365,640)	(11,391)	(356,023)	(28,021)
Operating EBITDA	$ 169,483	$ 213,140	$ 321,379	$ 369,455

Note: An increase in deferred revenue has a positive impact to operating EBITDA, while an increase in redemption settlement assets has a negative impact to operating EBITDA. Changes in deferred revenue and redemption settlement assets are affected by fluctuations in foreign exchange rates. Changes in redemption settlement assets is also affected by the timing of receipts and transfers of cash.

(1) Represents expenditures directly associated with the proposed merger of the Company with an affiliate of The Blackstone Group, compensation charges related to the departure of certain employees related to cost saving initiatives and other non-routine costs associated with the disposition of our non-core operations.

(2) Increases to deferred revenue and redemption settlement assets in 2008 were impacted by the transaction completed with the BMO Bank of Montreal in the second quarter of 2008.

Results of Continuing Operations

Three months ended June 30, 2008 compared to the three months ended June 30, 2007

	Three months ended June 30,		Change	
	2008	2007	$	%
	(in thousands, except percentages)			
Revenue:				
Loyalty Services	$ 200,027	$ 153,228	$ 46,799	30.5%
Epsilon Marketing Services	115,371	109,369	6,002	5.5
Private Label Services	95,801	91,546	4,255	4.6
Private Label Credit	187,570	206,251	(18,681)	(9.1)
Corporate/Other	1,613	10,183	(8,570)	(84.2)
Eliminations	(93,172)	(88,757)	(4,415)	5.0
Total	$ 507,210	$ 481,820	$ 25,390	5.3%
Adjusted EBITDA:				
Loyalty Services	$ 53,398	$ 32,295	$ 21,103	65.3%
Epsilon Marketing Services	26,449	23,595	2,854	12.1
Private Label Services	29,979	24,621	5,358	21.8
Private Label Credit	63,617	89,360	(25,743)	(28.8)
Corporate/Other	(11,478)	(18,952)	7,474	(39.4)
Total	$ 161,965	$ 150,919	$ 11,046	7.3%
Stock compensation expense:				
Loyalty Services	$ 2,998	$ 1,804	$ 1,194	66.2%
Epsilon Marketing Services	673	2,469	(1,796)	(72.7)
Private Label Services	1,228	1,314	(86)	(6.5)
Private Label Credit	384	193	191	99.0
Corporate/Other	2,443	4,405	(1,962)	(44.5)
Total	$ 7,726	$ 10,185	$ (2,459)	(24.1)%
Depreciation and amortization:				
Loyalty Services	$ 8,099	$ 6,035	$ 2,064	34.2%
Epsilon Marketing Services	18,917	18,425	492	2.7
Private Label Services	2,225	2,165	60	2.8
Private Label Credit	2,841	2,789	52	1.9
Corporate/Other	2,288	2,928	(640)	(21.9)
Total	$ 34,370	$ 32,342	$ 2,028	6.3%
Operating expenses[(1)]:				
Loyalty Services	$ 146,629	$ 120,933	$ 25,696	21.2%
Epsilon Marketing Services	88,922	85,774	3,148	3.7
Private Label Services	65,822	66,926	(1,104)	(1.6)
Private Label Credit	123,953	116,891	7,062	6.0
Corporate/Other	13,091	29,134	(16,043)	(55.1)
Eliminations	(93,172)	(88,757)	(4,415)	5.0
Total	$ 345,245	$ 330,901	$ 14,344	4.3%
Operating income:				
Loyalty Services	$ 42,301	$ 24,456	$ 17,845	73.0%
Epsilon Marketing Services	4,221	2,701	1,520	56.3
Private Label Services	25,886	21,142	4,744	22.4
Private Label Credit	60,392	86,378	(25,986)	(30.1)
Corporate/Other	(18,623)	(32,456)	13,833	(42.6)
Total	$ 114,177	$ 102,221	$ 11,956	11.7%
Adjusted EBITDA margin[(2)]:				
Loyalty Services	26.7%	21.1%	5.6%	
Epsilon Marketing Services	22.9	21.6	1.3	
Private Label Services	31.3	26.9	4.4	
Private Label Credit	33.9	43.3	(9.4)	
Total	31.9%	31.3%	0.6%	
Segment operating data:				
Private label statements generated	30,845	33,748	(2,903)	(8.6)%
Credit sales	$ 1,863,821	$ 1,917,194	$ (53,373)	(2.8)%
Average managed receivables	$ 3,831,367	$ 3,853,346	$ (21,979)	(0.6)%
AIR MILES reward miles issued	1,139,923	1,036,083	103,840	10.0%
AIR MILES reward miles redeemed	786,259	673,923	112,336	16.7%

(1) Operating expenses excludes stock compensation expense, depreciation, amortization expense, loss on sale of assets, merger and other costs.

(2) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Management uses adjusted EBITDA margin to analyze the operating performance of the segments and the impact revenue growth has on operating expenses. For definition of adjusted EBITDA and reconciliation to net income, the most directly comparable GAAP financial measure, see “Use of Non-GAAP Financial Measures” included in this report.

Revenue. Total revenue increased $25.4 million, or 5.3%, to $507.2 million for the three months ended June 30, 2008 from $481.8 million for the comparable period in 2007. The increase was due to the following:

- *Loyalty Services*. Revenue increased $46.8 million, or 30.5%, to $200.0 million for the three months ended June 30, 2008. The growth in revenue for the period was driven by an increase in redemption revenue of $30.8 million related to a 16.7% increase in the redemption of AIR MILES reward miles. Issuance revenue increased $6.8 million related to growth in issuances of AIR MILES reward miles as the program continues to benefit from the ramp up of new sponsors and the expanded commitment from existing sponsors, as well as a stronger Canadian dollar. Within these revenue increases, changes in the exchange rate of the Canadian dollar also had a $15.1 million positive impact on revenue for the AIR MILES Reward Program.
- *Epsilon Marketing Services*. Revenue increased $6.0 million, or 5.5%, to $115.4 million for the three months ended June 30, 2008. Revenue attributable to our strategic database services increased $6.0 million primarily as a result of additional client signings.
- *Private Label Services.* Revenue increased $4.3 million, or 4.6%, to $95.8 million for the three months ended June 30, 2008. Servicing revenue increased by $4.4 million as a decline in statements, primarily from the loss of the Lane Bryant Portfolio, was offset by higher pricing. In 2008, Private Label Services increased its charges to Private Label Credit due to the increased costs incurred by Private Label Services related to the ramp-up of the Company's collections and client services teams in 2007. Revenue attributable to our marketing programs decreased slightly by $0.1 million.
- *Private Label Credit.* Revenue decreased $18.7 million, or 9.1%, to $187.6 million for the three months ended June 30, 2008. The decline was primarily due to a 15.8% decrease in securitization income and finance charges, net of $26.0 million, caused primarily by the loss of the Lane Bryant portfolio. A decline in the costs of funds was able to offset a portion of the increase in credit losses, and the sale of certain of our restricted shares of MasterCard Incorporated class B stock offset the year over year decline in the gain of the interest-only strip.
- *Corporate/Other.* Revenue decreased $8.6 million, or 84.2%, to $1.6 million, primarily as a result of the sale of our Mail Services division, which generated $9.7 million in revenue for the three months ended June 30, 2007 but was sold in November 2007.

Operating Expenses. Total operating expenses, excluding depreciation, amortization, stock compensation expense, loss on sale of assets, merger and other costs increased $14.3 million, or 4.3%, to $345.2 million during the three months ended June 30, 2008 from $330.9 million during the comparable period in 2007. Total adjusted EBITDA margin increased to 31.9% for the three months ended June 30, 2008 from 31.3% for the comparable period in 2007. The increase in operating expenses and adjusted EBITDA margins is due to the following:

- *Loyalty Services*. Operating expenses, as defined, increased $25.7 million, or 21.2%, to $146.6 million for the three months ended June 30, 2008. The increase in operating expenses was primarily driven by the growth in our AIR MILES reward miles redemptions which resulted in an increase of $22.2 million in cost of sales for the products redeemed. Within these operating expense increases, changes in the exchange rate of the Canadian dollar increased operating expenses by approximately $11.3 million. Adjusted EBITDA margin increased to 26.7% for the three months ended June 30, 2008 as compared to 21.1% in the comparable period. The increase in adjusted EBITDA margin was as a result of strong revenue growth combined with a lower cost structure achieved through increased operating leverage.
- *Epsilon Marketing Services*. Operating expenses, as defined, increased $3.1 million, or 3.7%, to $88.9 million for the three months ended June 30, 2008. The increase in operating expenses was primarily attributable to an increase in salaries and benefits associated with the overall growth of the business. Adjusted EBITDA margin increased to 22.9% for the three months ended June 30, 2008 as compared

to 21.6% in the comparable period. Our adjusted EBITDA margin was positively impacted by the margin in our strategic database services division, where the growth in revenue was greater than the growth in related expenses.

- *Private Label Services.* Operating expenses, as defined, decreased slightly by $1.1 million, or 1.6%, to $65.8 million for the three months ended June 30, 2008. Adjusted EBITDA margin increased to 31.3% for the three months ended June 30, 2008 as compared to 26.9% in the comparable period in 2007. Our adjusted EBITDA margin was positively impacted by the increases in revenue previously described.
- *Private Label Credit.* Operating expenses, as defined, increased $7.1 million, or 6.0%, to $124.0 million for the three months ended June 30, 2008. The increase in operating expenses was primarily due to higher servicing costs charged by our Private Label Service segment as well as higher marketing expenses for our clients. Adjusted EBITDA margin decreased to 33.9% for the three months ended June 30, 2008 as compared to 43.3% in the comparable period. Our adjusted EBITDA margin was negatively impacted by the decline in revenue and increase in operating expenses previously described.
- *Corporate/Other.* Operating expenses, as defined, decreased $16.0 million, or 55.1%, to $13.1 million for the three months ended June 30, 2008. This decline was primarily an impact of the sale of our Mail Services division in November 2007, as this division generated $12.1 million in operating expenses for the three months ended June 30, 2007. Corporate operating expenses were positively impacted by a reduction in benefit costs and payroll expenses resulting from staff reductions made in the third and fourth quarters of 2007.
- *Stock compensation expense.* Stock compensation expense decreased $2.5 million, or 24.1%, to $7.7 million for the three months ended June 30, 2008. The decrease was due to a combination of factors, which included, the impact of certain awards which had fully amortized prior to June 30, 2008 and the reversal of stock compensation for those awards no longer expected to vest. With the termination of the Merger, we issued to our employees equity awards comprised of restricted stock units, which cover a multi-year period and were larger than in prior years. These awards were issued in the second quarter of 2008 and offset in part the decrease in expense.
- *Depreciation and Amortization.* Depreciation and amortization increased $2.0 million, or 6.3%, to $34.4 million for the three months ended June 30, 2008 primarily due to a $0.6 million decrease in the amortization of purchased intangibles, a result of certain fully amortized assets in the period, and an increase of $2.6 million in depreciation and other amortization, due to the higher level of capital expenditures in 2007.
- *Merger and other costs.* Merger and other costs were $5.7 million for the three months ended June 30, 2008. Costs associated with the proposed merger were approximately $2.8 million and included legal, accounting costs and other costs. Although the Merger Agreement was terminated in April 2008, we will expect to incur additional legal costs associated with the termination of the agreement. In addition, we incurred $2.9 million in compensation charges related to the severance of certain employees and other non-routine costs associated with our disposition of businesses.

Operating Income. Operating income increased $12.0 million, or 11.7%, to $114.2 million for the three months ended June 30, 2008 from $102.2 million for the comparable period in 2007. Operating income increased due to the revenue and expense factors discussed above.

Interest Income. Interest income increased $1.3 million, or 63.1%, to $3.3 million for the three months ended June 30, 2008 from $2.0 million for the comparable period in 2007 due to higher average balances of our short-term cash investments, which was offset somewhat by a decrease in the yield earned on those short-term cash investments.

Interest Expense. Interest expense decreased $3.7 million, or 17.8%, to $17.2 million for the three months ended June 30, 2008 from $20.9 million for the comparable period in 2007. Interest expense on core debt, which

includes the credit facilities and senior notes, decreased $4.4 million primarily due to lower interest rates. Interest on certificates of deposit remained relatively flat increasing by $0.1 million as higher average balances as of June 30, 2008 as compared to June 30, 2007 were offset by lower interest rates. Interest on our capital leases and other debt increased approximately $0.6 million as a result of additional capital leases entered into during 2008.

Taxes. Income tax expense increased $6.5 million to $38.3 million for the three months ended June 30, 2008 from $31.8 million for the comparable period in 2007, due to a increase in taxable income. Our effective tax rate remained relatively flat at 38.2% and 38.1% for the three months ended June 30, 2008 and 2007, respectively.

Discontinued Operations

In March 2008, we determined that our merchant services and utility services businesses were not aligned with our long-term strategy and committed to a disposition plan for these businesses. These businesses have been reported as a discontinued operation in our condensed consolidated financial statements.

On an after tax basis, losses from discontinued operations increased $7.5 million to $15.0 million for the three months ended June 30, 2008. The increase in losses was a result of certain customer penalties within our utility services business. In addition, we completed the sale of our merchant services business on May 30, 2008. As a result of the sale, we recorded a pre-tax gain of $29.4 million, which was offset by a $30.4 million pre-tax impairment charge associated with the write-down of long-lived assets associated with the utility services business to estimated fair value less costs to sell.

On July 11, 2008, we entered into a definitive agreement with VTX Holdings Limited, and its subsidiaries, Vertex U.S. Holdings II Inc. and Vertex Canada Holdings II Limited**,** to sell the majority of our utility services business (excluding certain retained assets and liabilities) for approximately $50.0 million in cash, subject to certain adjustments. The sale was completed July 25, 2008. We still retain one disposal group associated with our utility services business and are currently exploring its potential sale, which is expected to be completed by March 2009.

Results of Continuing Operations

Six months ended June 30, 2008 compared to the three months ended June 30, 2007

	Six months ended June 30,		Change	
	2008	2007	$	%
	(in thousands, except percentages)			
Revenue:				
Loyalty Services	$ 371,833	$ 285,044	$ 86,789	30.4%
Epsilon Marketing Services	230,849	207,951	22,898	11.0
Private Label Services	190,350	189,442	908	0.5
Private Label Credit	396,654	426,067	(29,413)	(6.9)
Corporate/Other	2,071	21,369	(19,298)	(90.3)
Eliminations	(185,297)	(181,706)	(3,591)	2.0
Total	$1,006,460	$ 948,167	$ 58,293	6.1%
Adjusted EBITDA:				
Loyalty Services	$ 94,295	$ 57,790	$ 36,505	63.2%
Epsilon Marketing Services	50,092	44,536	5,556	12.5
Private Label Services	56,813	57,123	(310)	(0.5)
Private Label Credit	150,710	189,335	(38,625)	(20.4)
Corporate/Other	(25,434)	(37,978)	12,544	(33.0)
Total	$ 326,476	$ 310,806	$ 15,670	5.0%
Stock compensation expense:				
Loyalty Services	$ 4,429	$ 3,726	$ 703	18.9%
Epsilon Marketing Services	1,546	4,505	(2,959)	(65.7)
Private Label Services	1,985	2,658	(673)	(25.3)
Private Label Credit	761	395	366	92.7
Corporate/Other	5,281	9,335	(4,054)	(43.4)
Total	$ 14,002	$ 20,619	$ (6,617)	(32.1)%
Depreciation and amortization:				
Loyalty Services	$ 16,665	$ 11,490	$ 5,175	45.0%
Epsilon Marketing Services	38,059	33,828	4,231	12.5
Private Label Services	4,499	4,518	(19)	(0.4)
Private Label Credit	5,632	5,619	13	0.2
Corporate/Other	4,464	5,769	(1,305)	(22.6)
Total	$ 69,319	$ 61,224	$ 8,095	13.2%
Operating expenses[(1)]:				
Loyalty Services	$ 277,538	$ 227,254	$ 50,284	22.1%
Epsilon Marketing Services	180,757	163,415	17,342	10.6
Private Label Services	133,537	132,319	1,218	0.9
Private Label Credit	245,944	236,732	9,212	3.9
Corporate/Other	27,505	59,347	(31,842)	(53.7)
Eliminations	(185,297)	(181,706)	(3,591)	2.0
Total	$ 679,984	$ 637,361	$ 42,623	6.7%
Operating income:				
Loyalty Services	$ 73,201	$ 42,575	$ 30,626	71.9%
Epsilon Marketing Services	7,849	6,202	1,647	26.6
Private Label Services	48,894	49,948	(1,054)	(2.1)
Private Label Credit	144,317	183,321	(39,004)	(21.3)
Corporate/Other	(41,521)	(59,254)	17,733	(29.9)
Total	$ 232,740	$ 222,792	$ 9,948	4.5%
Adjusted EBITDA margin[(2)]:				
Loyalty Services	25.4%	20.3%	5.1%	
Epsilon Marketing Services	21.7	21.4	0.3	
Private Label Services	29.8	30.2	(0.4)	
Private Label Credit	38.0	44.4	(6.4)	
Total	32.4%	32.8%	(0.4)%	
Segment operating data:				
Private label statements generated	62,635	68,173	(5,538)	(8.1)%
Credit sales	$3,401,905	$3,503,649	$(101,744)	(2.9)%
Average managed receivables	$3,869,089	$3,884,768	$ (15,679)	(0.4)%
AIR MILES reward miles issued	2,162,886	1,978,189	184,697	9.3%
AIR MILES reward miles redeemed	1,487,924	1,318,252	169,672	12.9%

(1) Operating expenses excludes stock compensation expense, depreciation, amortization expense, loss on sale of assets, merger and other costs.
(2) Adjusted EBITDA margin is adjusted EBITDA divided by revenue. Management uses adjusted EBITDA margin to analyze the operating performance of the segments and the impact revenue growth has on operating expenses. For definition of adjusted EBITDA and reconciliation to net income, the most directly comparable GAAP financial measure, see “Use of Non-GAAP Financial Measures” included in this report.

Revenue. Total revenue increased $58.3 million, or 6.1%, to $1,006.5 million for the six months ended June 30, 2008 from $948.2 million for the comparable period in 2007. The increase was due to the following:

- *Loyalty Services*. Revenue increased $86.8 million, or 30.4%, to $371.8 million for the six months ended June 30, 2008. The growth in revenue for the period was driven by an increase in redemption revenue of $57.0 million related to an 12.9% increase in the redemption of AIR MILES reward miles. Issuance revenue increased $15.3 million related to growth in issuances of AIR MILES reward miles as the program continues to benefit from the ramp up of new sponsors and the expanded commitment from existing sponsors. Within these revenue increases, changes in the exchange rate of the Canadian dollar also had a $39.5 million positive impact on revenue for the AIR MILES Reward Program.
- *Epsilon Marketing Services*. Revenue increased $22.9 million, or 11.0%, to $230.8 million for the six months ended June 30, 2008. Revenue attributable to our strategic database services increased $15.8 million primarily as a result of additional client signings. Growth within Epsilon Interactive and Abacus, of $3.2 million and $7.5 million, respectively, was partially offset by declines in revenue of certain data products, such as our new mover data base and consumer survey products.
- *Private Label Services.* Revenue increased $0.9 million, or 0.5%, to $190.4 million for the six months ended June 30, 2008. Servicing revenue increased $3.6 million, as the volume decline in statements from the loss of the Lane Bryant Portfolio was offset by higher pricing. Additionally, revenue attributable to our marketing programs decreased $2.7 million primarily due to the non-renewal of an expiring contract with an existing client.
- *Private Label Credit.* Revenue decreased $29.4 million, or 6.9%, to $396.7 million for the six months ended June 30, 2008. The decline was primarily due to a 10.5% decrease in securitization income and finance charges, net of $36.1 million, caused primarily by the loss of the Lane Bryant portfolio. A decline in the costs of funds was able to offset a portion of the increase in credit losses, and the sale of certain restricted shares of MasterCard Incorporated class B stock offset the year over year decline in the gain of the interest-only strip.
- *Corporate/Other.* Revenue decreased $19.3 million, or 90.3%, to $2.1 million, primarily as a result of the sale of our Mail Services division, which generated $20.5 million in revenue for the six months ended June 30, 2007 but was sold in November 2007.

Operating Expenses. Total operating expenses, excluding depreciation, amortization, stock compensation expense, loss on sale of assets, merger and other costs increased $42.6 million, or 6.7%, to $680.0 million during the six months ended June 30, 2008 from $637.4 million during the comparable period in 2007. Total adjusted EBITDA margin decreased to 32.4% for the six months ended June 30, 2008 from 32.8% for the comparable period in 2007. The increase in operating expenses and decrease in adjusted EBITDA margins is due to the following:

- *Loyalty Services*. Operating expenses, as defined, increased $50.3 million, or 22.1%, to $277.5 million for the six months ended June 30, 2008. The increase in operating expenses was primarily driven by the growth in our AIR MILES reward miles redemptions which resulted in increased cost of sales for the products redeemed. Within these operating expense increases, changes in the exchange rate of the Canadian dollar increased operating expenses by $29.3 million. Adjusted EBITDA margin increased to 25.4% for the six months ended June 30, 2008 as compared to 20.3% in the comparable period. The increase in adjusted EBITDA margin resulted from strong revenue growth combined with a lower cost structure achieved through increased operating leverage.
- *Epsilon Marketing Services*. Operating expenses, as defined, increased $17.3 million, or 10.6%, to $180.8 million for the six months ended June 30, 2008. The increase in operating expenses was primarily attributable to an increase in salaries and benefits associated with the overall growth of the business as well as the acquisition of Abacus in February 2007. Adjusted EBITDA margin increased to

21.7% for the six months ended June 30, 2008 as compared to 21.4% in the comparable period. Our adjusted EBITDA margin was positively impacted by the margin in our strategic database service division, where the growth in revenue outpaced growth in attributable expenses.

- *Private Label Services.* Operating expenses, as defined, increased $1.2 million, or 0.9%, to $133.5 million for the six months ended June 30, 2008. The increase in operating expenses was primarily due to an increase in salary expense for additional staffing in our call centers and customer relationship areas and higher credit bureau costs. This was partially offset by a decline in certain expenses associated with lower volumes. Adjusted EBITDA margin decreased to 29.8% for the six months ended June 30, 2008 as compared to 30.2% in the comparable period in 2007. Our adjusted EBITDA margin was negatively impacted by the increase in operating expenses as previously described, while revenue remained relatively flat.
- *Private Label Credit.* Operating expenses, as defined, increased $9.2 million, or 3.9%, to $245.9 million for the six months ended June 30, 2008. The increase in operating expenses was primarily driven by higher servicing costs charged by our Private Label Service segment as well as higher marketing expenses for our clients. Adjusted EBITDA margin decreased to 38.0% for the six months ended June 30, 2008 as compared to 44.4% in the comparable period. Our adjusted EBITDA margin was negatively impacted by the decline in revenue and increase in operating expenses as previously described.
- *Corporate/Other.* Operating expenses, as defined, decreased $31.8 million, or 53.7%, to $27.5 million for the six months ended June 30, 2008. This decline was primarily due to the impact of the sale of our Mail Services division in November 2007, as this division generated $23.8 million in operating expenses for the six months ended June 30, 2007. Corporate operating expenses were positively impacted by a reduction in benefit costs and payroll expenses resulting from staff reductions made in the third and fourth quarters of 2007.
- *Stock compensation expense.* Stock compensation expense decreased $6.6 million, or 32.1%, to $14.0 million for the six months ended June 30, 2008. The decrease was due to a combination of factors, which included the impact of certain awards which had fully amortized prior to June 30, 2008 and the true-up of certain estimates for forfeitures which reduced stock compensation and the reversal of stock compensation for those awards no longer expected to vest. With the termination of the Merger, the Company issued to its employees equity awards comprised of restricted stock units which cover a multi-year period, and were larger than in prior years. These awards were issued in the second quarter of 2008, which offset in part the decrease in expense.
- *Depreciation and Amortization.* Depreciation and amortization increased $8.1 million, or 13.2%, to $69.3 million for the six months ended June 30, 2008 primarily due to a $1.4 million increase in the amortization of purchased intangibles related to the acquisition of Abacus, and an increase of $6.7 million in depreciation and other amortization, in part related to our recent acquisitions and capital expenditures.
- *Merger and other costs.* Merger and other costs were $9.4 million for the six months ended June 30, 2008. Costs associated with the proposed merger were approximately $4.4 million and included advisory fees, legal and accounting costs. Although the Merger Agreement was terminated in April 2008, we will expect to incur additional legal costs associated with the termination of the agreement. In addition, we incurred $5.0 million in compensation charges related to the severance of certain employees and other non-routine costs associated with our disposition of businesses.
- *Loss on the sale of assets.* In March 2008, we incurred an additional loss of $1.1 million related to the settlement of certain working capital accounts in connection with the disposition of our mail services business.

Operating Income. Operating income increased $9.9 million, or 4.5%, to $232.7 million for the six months ended June 30, 2008 from $222.8 million for the comparable period in 2007. Operating income increased due to the revenue and expense factors discussed above.

Interest Income. Interest income increased $1.0 million, or 20.8%, to $5.8 million for the six months ended June 30, 2008 from $4.8 million for the comparable period in 2007, due to higher average balances of our short-term cash investments, offset in part due to a decrease in the yield earned on those short-term cash investments.

Interest Expense. Interest expense decreased $2.7 million, or 6.8%, to $36.8 million for the six months ended June 30, 2008 from $39.5 million for the comparable period in 2007. Interest expense on core debt, which includes the credit facilities and senior notes, decreased $5.3 million as a result of lower interest rates. Interest on certificates of deposit increased $0.9 million primarily as a result of higher year to date average balances as of June 30, 2008 as compared to June 30, 2007. Interest on our capital leases and other debt increased approximately $1.7 million as a result of additional capital leases entered into during 2008.

Taxes. Income tax expense increased $5.2 million to $77.0 million for the six months ended June 30, 2008 from $71.8 million for the comparable period in 2007, due to an increase in taxable income. Our effective tax rate remained flat at 38.2% for the six months ended June 30, 2008 and 2007, respectively.

Discontinued Operations.

In March 2008, we determined that our merchant services and utility services businesses were not aligned with our long-term strategy and committed to a disposition plan for these businesses. These businesses have been reported as a discontinued operation in our condensed consolidated financial statements.

On an after tax basis, losses from discontinued operations increased $13.1 million to $28.4 million for the six months ended June 30, 2008. The increase in losses was a result of certain customer penalties within our utility service business. In addition, we completed the sale of our merchant services business on May 30, 2008. As a result of the sale, we recorded a pre-tax gain of $29.4 million, which was offset a $45.4 million pre-tax impairment charge associated with the write-down of long-lived assets associated with the utility services business to estimated fair value less costs to sell.

On July 11, 2008, we entered into a definitive agreement with VTX Holdings Limited, and its subsidiaries, Vertex U.S. Holdings II Inc. and Vertex Canada Holdings II Limited**,** to sell the majority of our utility services business (excluding certain retained assets and liabilities) for approximately $50.0 million in cash, subject to certain adjustments. The sale was completed July 25, 2008. We still retain one disposal group associated with our utility services business and are currently exploring its potential sale, which is expected to be completed by March 2009.

Asset Quality

Our delinquency and net charge-off rates reflect, among other factors, the credit risk of our private label credit card receivables, the average age of our various private label credit card account portfolios, the success of our collection and recovery efforts, and general economic conditions. The average age of our private label credit card portfolio affects the stability of delinquency and loss rates of the portfolio. We continue to focus resources on refining our credit underwriting standards for new accounts and on collections and post charge-off recovery efforts to minimize net losses.

An older private label credit card portfolio generally drives a more stable performance in the portfolio. At June 30, 2008, 60.9% of our managed accounts with balances and 60.5% of managed receivables were for accounts with origination dates greater than 24 months old. At June 30, 2007, 59.9% of managed accounts with balances and 58.5% of receivables were for managed accounts with origination dates greater than 24 months old.

Delinquencies. A credit card account is contractually delinquent if we do not receive the minimum payment by the specified due date on the cardholder's statement. It is our policy to continue to accrue interest and fee income on all credit card accounts beyond 90 days, except in limited circumstances, until the account balance

and all related interest and other fees are paid or charged off, typically at 180 days delinquent. When an account becomes delinquent, we print a message on the 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 rolling to a more delinquent status. 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 efforts, we engage collection agencies and outside attorneys to continue those efforts.

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

	June 30, 2008	% of total	December 31, 2007	% of total
	(dollars in thousands)			
Receivables outstanding	$3,886,889	100%	$4,157,287	100%
Receivables balances contractually delinquent:				
31 to 60 days	65,695	1.7%	70,512	1.7%
61 to 90 days	46,264	1.2	48,755	1.2
91 or more days	93,507	2.4	101,928	2.4
Total	$ 205,466	5.3%	$ 221,195	5.3%

Net Charge-Offs. Net charge-offs comprise the principal amount of losses from cardholders unwilling or unable to pay their account balances, as well as bankrupt and deceased cardholders, less current period recoveries. The following table presents our net charge-offs for the periods indicated on a managed basis. Average managed receivables represents the average balance of the cardholder receivables at the beginning of each month in the year indicated.

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(dollars in thousands)			
Average managed receivables	$3,831,367	$3,853,346	$3,869,089	$3,884,768
Net charge-offs	64,177	51,293	131,858	109,104
Net charge-offs as a percentage of average managed receivables (annualized)	6.7%	5.3%	6.8%	5.6%

Our public securitization master trust is utilized for the majority of our funding and represents the most mature and stable segment of our private label credit card account portfolio. The following table presents our net charge-offs for the periods indicated for the receivables in our public securitization master trust.

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(dollars in thousands)			
Average managed receivables	$3,136,599	$3,231,820	$3,135,565	$3,232,744
Net charge-offs	48,447	39,677	98,831	84,916
Net charge-offs as a percentage of average managed receivables (annualized)	6.2%	4.9%	6.3%	5.3%

Liquidity and Capital Resources

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

	Six months ended June 30,	
	2008	2007
	(in thousands)	
Cash provided by operating activities before change in merchant settlement activity	$ 524,564	$ 112,235
Proceeds from the sale of credit card portfolios to the securitization trusts	91,910	—
Net change in merchant settlement activity	(84,232)	35,400
Cash provided by operating activities	$ 532,242	$ 147,635

We generated cash flow from operating activities before changes in merchant settlement activity of $524.6 million for the six months ended June 30, 2008 as compared to $112.2 million for the comparable period in 2007. The increase in operating cash flows before changes in proceeds from the sale of credit card portfolios and merchant settlement activity was primarily related to an increase in deferred revenue. In May 2008, we changed the contractual terms with BMO Bank of Montreal, such that we would assume their liability for the cost of redemptions for their outstanding AIR MILES reward miles, for which received $369.9 million in cash. These amounts were deferred with the cash placed in our redemption settlement asset account.

In connection with the sale of our merchant services business to Heartland Payment Systems, Inc., our private label credit card banking subsidiary, World Financial Network National Bank entered into an interim transition services agreement, for a period of nine months to provide card processing and certain services to its merchants, including receipt of funds from the card associations and settlement with Heartland. Merchant settlement activity is driven by the number of days of float at the end of the period. For these purposes, “float” means the difference between the number of days we hold cash before remitting the cash to our merchants and the number of days the card associations hold cash before remitting the cash to us. We utilize our cash flow from operations for ongoing business operations, acquisitions and capital expenditures.

Investing Activities. Cash used by investing activities was $290.0 million for the six months ended June 30, 2008 compared to cash used by investing activities of $394.9 million for the comparable period in 2007. Significant components of investing activities are as follows:

- *Acquisitions/Dispositions.* Cash outlays, net of cash received, for acquisitions for the six months ended June 30, 2007 was $438.0 million, relating primarily to the acquisition of Abacus. No acquisitions have been made during 2008. For the six months ended June 30, 2008, we received approximately $90.3 million in proceeds from the sale of our merchant services business.
- *Redemption Settlement Assets.* We invested cash flows for redemption settlement assets of $370.9 million for the six months ended June 30, 2008 as compared to $5.9 million in the comparable period in 2007. In connection with the transaction with BMO Bank of Montreal, we received $369.9 million to assume their liability for the redemption of outstanding AIR MILES reward miles issued by BMO which we placed in our redemption settlement asset account.
- *Securitizations and Receivables Funding.* We generally fund all private label credit card receivables through a securitization program that provides us with both liquidity and lower borrowing costs. As of June 30, 2008, we had over $3.5 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread accounts and additional receivables. The credit enhancement is partially funded through the use of certificates of deposit issued through our subsidiary, World Financial Network National Bank. Net securitization and credit card receivable activity provided

cash flows of $9.0 million for the six months ended June 30, 2008 as compared to cash flow of $105.3 million for the comparable period in 2007. We intend to utilize our securitization program for the foreseeable future.

- *Capital Expenditures.* Our capital expenditures for the six months ended June 30, 2008 were $28.5 million compared to $47.5 million for the comparable period in 2007. In 2007, we completed certain office relocations and system conversions, and as a result, in 2008, we anticipate that capital expenditures will continue to decrease to approximately 3% of annual revenues.

Financing Activities. Cash used by financing activities was $294.5 million for the six months ended June 30, 2008 as compared to cash provided by financing of $208.4 million for the comparable period in 2007. Our financing activities during the six months ended June 30, 2008 relate primarily to borrowings and repayments of debt, proceeds from certain sales-lease back transactions and the repurchases of our common stock.

Liquidity Sources. In addition to cash generated from operating activities, we have four main sources of liquidity: the securitization program, certificates of deposit issued by World Financial Network National Bank and World Financial Capital Bank, our credit facilities and issuances of equity securities. We believe that internally generated funds and existing sources of liquidity are sufficient to meet current and anticipated financing requirements during the next 12 months.

Securitization Program and Off-Balance Sheet Transactions. Since January 1996, we have sold, sometimes through WFN Credit Company, LLC and WFN Funding Company II, LLC, substantially all of the credit card receivables owned by our credit card bank subsidiary, World Financial Network National Bank, to World Financial Network Credit Card Master Trust, World Financial Network Credit Card Master Note Trust, World Financial Network Credit Card Master Trust II and World Financial Network Credit Card Master Trust III, which we refer to as the WFN Trusts, as part of our securitization program. This securitization program is the primary vehicle through which we finance our private label credit card receivables.

As of June 30, 2008, the WFN Trusts had over $3.5 billion of securitized credit card receivables. Securitizations require credit enhancements in the form of cash, spread deposits and additional receivables. The credit enhancement is principally based on the outstanding balances of the series issued by the WFN Trusts and by the performance of the private label credit cards in the securitization trust. During the period from November to January, the WFN Trusts are required to maintain a credit enhancement level of between 6% and 10% of securitized credit card receivables. Certain of the WFN Trusts are required to maintain a level of between 4% and 9% for the remainder of the year.

Certificates of Deposit. We utilize certificates of deposit to finance the operating activities and fund securitization enhancement requirements of our credit card bank subsidiaries, World Financial Network National Bank and World Financial Capital Bank. World Financial Network National Bank and World Financial Capital Bank issue certificates of deposit in denominations of $100,000 in various maturities ranging between three months and two years and with effective annual fixed rates ranging from 3.3% to 5.7%. As of June 30, 2008, we had $264.8 million of certificates of deposit outstanding. Certificate of deposit borrowings are subject to regulatory capital requirements.

Credit Facilities. In June 2008, we, as Borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC and Epsilon Data Management, LLC, as Guarantors, entered into a second amendment to the revolving credit facility and a fourth amendment to the bridge loan facility.

Both the second amendment and the fourth amendment amend certain defined terms and negative covenants regarding our ability, and in certain instances, our subsidiaries' ability, to create liens, repurchase stock and make investments. The amendments also replaced the financial covenant establishing a maximum ratio of Total Capitalization with a financial covenant establishing a maximum ratio of Total Leverage.

In June 2008, we, as Borrower, and ADS Alliance Data Systems, Inc., ADS Foreign Holdings, Inc., Alliance Data Foreign Holdings, Inc., Epsilon Marketing Services, LLC and Epsilon Data Management, LLC, as Guarantors, entered into a Credit Agreement with Wachovia Bank, National Association, as Administrative Agent. The Wachovia facility, which provided for loans to the Company in a maximum amount of $150.0 million. At the closing of the Wachovia facility, we borrowed $150.0 million under the Wachovia facility to fund our obligations with respect to share repurchases under an accelerated stock repurchase agreement. The Wachovia facility is unsecured. The loans under the Wachovia facility were scheduled to mature September 18, 2008 and were paid in full with a portion of the net proceeds from the issuance of our Convertible Notes and the Wachovia facility was terminated effective July 29, 2008.

On June 30, 2008, we made a required $25.0 million principal payment on our bridge loan facility. The bridge loan facility was repaid in full with a portion of the net proceeds from the issuance of our Convertible Notes and terminated according to its terms effective July 29, 2008.

At June 30, 2008, we had borrowings of $630.0 million outstanding under our credit facilities (with a weighted average interest rate of 3.5%), $2.0 million in letters of credit outstanding, and we had available unused borrowing capacity of approximately $183.0 million. These credit facilities limit our aggregate outstanding letters of credit to $50.0 million.

In July 2008, we exercised the $210.0 million accordion feature of our revolving credit facility, which allowed us to increase our existing $540.0 million unsecured line of credit to a $750.0 million unsecured line of credit.

We utilize our credit facilities and excess cash flows from operations to support our acquisition strategy and to fund working capital, capital expenditures and share repurchases. We were in compliance with the covenants under our credit facilities at June 30, 2008.

Convertible Senior Notes. We issued $700.0 million aggregate principal amount of convertible senior notes due 2013 (the “Convertible Notes”). We have also granted to the initial purchasers of the Convertible Notes an option to purchase up to an additional $105.0 million aggregate principal amount of the Convertible Notes solely to cover over-allotments, if any, which was exercised in full on August 4, 2008. Holders of the Convertible Notes will have the right to require us to repurchase for cash all or some of their Convertible Notes upon the occurrence of certain events.

The Convertible Notes are governed by an indenture dated July 29, 2008 between us and the Bank of New York Mellon Trust Company, National Association, trustee. Pursuant to the indenture, the Convertible Notes are general unsecured senior obligations, and pay interest semi-annually in arrears at a rate of 1.75% per annum on February 1 and August 1 of each year beginning February 1, 2009, are convertible during certain periods and under certain circumstances and, subject to earlier repurchase by us or conversion, will mature on August 1, 2013. We may not redeem the Convertible Notes, prior to their maturity date. Upon conversion, holders of the Convertible Notes will receive, at the election of the Company, cash, shares of our common stock or a combination of cash and shares of our common stock, based on the applicable conversion rate at such time. The Convertible Notes have an initial conversion rate of 12.7392 shares of common stock per $1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of $78.50 per share), representing an initial conversion premium of approximately 22.5% above the closing price of $64.08 per share of our common stock on July 23, 2008.

Concurrently with the pricing of the Convertible Notes, on July 23, 2008, we entered into convertible note hedge transactions with respect to our common stock (the “Convertible Note Hedges”) with J.P. Morgan Securities Inc., as agent to JPMorgan Chase Bank, National Association, London Branch and Bank of America, N.A., affiliates of two of the initial purchasers (collectively, the “Hedge Counterparties”). The Convertible Note Hedges cover, subject to customary anti-dilution adjustments, approximately 8.9 million shares of our common stock at an initial strike price equal to the initial conversion price of the Convertible Notes.

Separately but also concurrently with the pricing of the Convertible Notes, on July 23, 2008, we entered into warrant transactions (the "Warrants") whereby we sold to the Hedge Counterparties warrants to acquire, subject to customary anti-dilution adjustments, up to approximately 8.9 million shares of our common stock at an initial strike price of $112.14. The cost of the Convertible Note Hedges, taking into account the proceeds from the sale of the Warrants, was $93.6 million.

In August 2008, we issued an additional $105.0 million aggregate principal amount of our Convertible Notes to cover over-allotments. Following the exercise of the over-allotment in full, the Convertible Note Hedges, which were subject to an automatic pro-rata increase upon exercise of the over-allotment, cover, subject to customary anti-dilution adjustments, approximately 1.3 million additional shares of our common stock. The Warrants were also amended with each of the Hedge Counterparties to permit them to acquire, subject to customary anti-dilution adjustments, up to approximately 1.3 million additional shares of our common stock. The amended Warrants will be exercisable and will expire in 79 equal tranches of 64,094 Warrants and an 80th tranche of 64,102 Warrants with respect to each of the Hedge Counterparties beginning on October 30, 2013 and continuing on each business day through February 25, 2014. The cost of the additional Convertible Note Hedges, taking into account the proceeds from the sale of the additional Warrants, related to the exercise of the over-allotment was $14.0 million.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) ("SFAS No. 141R"), Business Combinations" and Statement of Financial Accounting Standards No. 160 "Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. Both statements are required to be adopted for the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating the impact that SFAS No. 141R and SFAS No. 160 will have on our consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161,"Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The provisions of SFAS No. 161 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We do not expect the provisions of SFAS No. 161 to have a material impact on our consolidated financial statements.

In April 2008, the FASB issued Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets, ("FSP No. 142-3"). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP No. 142-3 is effective for financial statements beginning after December 15, 2008, and interim periods within those fiscal years; however, early adoption is not permitted. We are currently assessing the impact of adopting FSP No. 142-3 on our consolidated financial statements.

In May 2008, the FASB issued Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion ("FSP APB No. 14-1"). FSP APB No. 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion

(including partial cash settlement) be separately accounted for in a manner that reflects an issuer's nonconvertible debt borrowing rate. FSP APB No. 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years; however, early adoption is not permitted. Retrospective application to all periods presented is required except for instruments that were not outstanding during any of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. With the issuance of the Convertible Notes, FSP APB No. 14-1 will have an impact to our financial statements beginning January 1, 2009. We are currently assessing the impact that adopting FSP APB 14-1 will have on our consolidated financial statements.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) is indexed to an Entity's own stock, ("EITF No. 07-05"). EITF No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years; however, early adoption is not permitted. We are currently assessing the impact that adopting EITF No. 07-05 will have on our consolidated financial statements.

Recently, the FASB has been considering substantial revisions to Statement of Financial Accounting Standards No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" (SFAS No. 140) and Financial Accounting Standards Board Interpretation No. 46(R) ("FIN No. 46(R)"). The proposed amendments would eliminate Qualifying Special Purpose Entities (QSPEs) from the guidance in SFAS No. 140. Currently, a portion of the credit card receivables originated by World Financial Network National Bank and ultimately sold to the WFN Trusts, which are QSPEs, as part of our securitization program is not consolidated on the balance sheet of World Financial Network National Bank or any of its affiliates, including the Company. While the proposed amendments to SFAS No. 140 and FIN No. 46(R) have not yet been released in Exposure Drafts and subject to an expected 60- day public comment period, the amendments if adopted as proposed may have a significant impact on our consolidated financial statements as we may lose sales treatment for assets previously sold to the WFN Trusts as well as for future securitizations, which could result in all or some portion of the receivables being consolidated on the balance sheet of World Financial Network National Bank or its affiliates, including the Company.

It is not clear whether the proposed amendments to SFAS No. 140 and FIN No. 46(R) ultimately will be adopted by the FASB and if adopted what form they will take, how they will be implemented, how regulatory authorities will respond or how our bank subsidiaries or we may be affected. It is possible that these revisions will have an adverse impact on us and our bank subsidiaries.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

There has been no material change from our Annual Report on Form 10-K for the year ended December 31, 2007 related to our exposure to market risk from off-balance sheet risk, interest rate risk, credit risk, foreign currency exchange risk and redemption reward risk.

Item 4. Controls and Procedures

Evaluation

As of June 30, 2008, 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, 2008, 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.

Our evaluation of and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2007 did not include the internal controls of Abacus, because of the timing of the acquisition, which was completed in February 2007. As of December 31, 2007, this entity represented approximately $404.7 million of total assets, $112.2 million of revenues and $9.7 million of net income for the year then ended. During the second quarter of 2008, we completed the process of implementing an automated billing system for our Abacus division.

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

FORWARD-LOOKING STATEMENTS

This Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended December 31, 2007 and Item 1A of each Quarterly Report on Form 10-Q subsequent to our most recent Annual Report on Form 10-K.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements contained in this quarterly report reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. These risks, uncertainties and assumptions include those made with respect to and any developments related to the termination of the proposed merger with an affiliate of The Blackstone Group, including risks and uncertainties arising from actions that the respective parties to the merger agreement may take in connection therewith. We have no intention, and disclaim any obligation, to update or revise any forward-looking statements, whether as a result of new information, future results or otherwise.

PART II

Item 1. Legal Proceedings.

On May 17, 2007, we entered into an Agreement and Plan of Merger by and among the Company, Aladdin Solutions, Inc. (f/k/a Aladdin Holdco, Inc., "Parent") and Aladdin Merger Sub, Inc. ("Merger Sub" and together with Parent, the "Blackstone Entities") (the "Merger Agreement"), pursuant to which the Company was to be acquired by affiliates of The Blackstone Group L.P. (the "Merger").

We are aware of litigation arising from what were originally four lawsuits filed against the Company and its directors in connection with the Merger. On May 18, 2007, Sherryl Halpern filed a putative class action (cause no. 07-04689) on behalf of Company stockholders in the 68th Judicial District of Dallas County, Texas against the Company, all of its directors and The Blackstone Group (the "Halpern Petition"). On May 21, 2007, Levy Investments, Ltd. ("Levy") filed a purported derivative lawsuit (cause no. 219-01742-07) on behalf of the

Company in the 219th Judicial District of Collin County, Texas against all of the Company's directors and The Blackstone Group (the "Levy Petition") (this suit was subsequently transferred to the 296th Judicial District of Collin County, Texas and assumed the cause no. 296-01742-07). On May 29, 2007, Linda Levine filed a putative class action (cause no. 07-05009) on behalf of Company stockholders in the 192nd Judicial District of Dallas County, Texas against the Company and all of its directors (the "Levine Petition"). On May 31, 2007, the J&V Charitable Remainder Trust filed a putative class action (cause no. 07-05127-F) on behalf of Company stockholders in the 116th Judicial District of Dallas County, Texas against the Company, all of its directors and The Blackstone Group (the "J&V Petition").

The three putative class actions were consolidated in the 68th Judicial District Court of Dallas County, Texas (the "Court") under the caption In re Alliance Data Corp. Class Action Litigation, No. 07-04689. On July 16, 2007, a consolidated class action petition was filed seeking a declaration that the action was a proper class action, an order preliminarily and permanently enjoining the Merger, a declaration that the director defendants breached their fiduciary duties and an award of fees, expenses and costs. The Company and its directors filed general denials in response to the putative class actions.

The derivative action filed by Levy was voluntarily dismissed and refiled in Dallas County (cause no. 07-06794), and was subsequently transferred to the Court. On July 18, 2007, Levy filed an amended derivative petition seeking an injunction preventing consummation of the Merger, an order directing the director defendants to exercise their fiduciary duties to obtain a transaction beneficial to the Company and its stockholders, a declaration that the Merger Agreement was entered into in breach of the director defendants' fiduciary duties and is unlawful and unenforceable, an order rescinding the Merger Agreement, the imposition of a constructive trust upon any benefits improperly received by the director defendants and an award of costs and disbursements, including reasonable attorneys' and experts' fees. On July 24, 2007, the Company and its directors filed their Motion to Abate, Plea to the Jurisdiction and Special Exceptions to the derivative action.

On July 12, 2007, class plaintiffs filed a motion to enjoin the scheduled August 8, 2007 special meeting of stockholders at which stockholders would be asked to vote to adopt the Merger Agreement. On July 20, 2007, Levy filed a motion reflecting its similar demand. On July 27, 2007, the Company and its directors filed an opposition brief to both motions. The Company continued to deny all of the allegations in the consolidated class action petition and the amended derivative petition, contended that the asserted claims were baseless and strongly believed that its disclosures in the Company's definitive proxy statement filed with the SEC on July 5, 2007 (the "Definitive Proxy") were appropriate and adequate under applicable law. Nevertheless, in order to lessen the risk of any delay of the closing of the Merger as a result of the litigation, the Company made available to its stockholders certain additional information in connection with the Merger, which was filed with the SEC on July 27, 2007 and subsequently mailed to stockholders on or about July 28, 2007 (the "Proxy Supplement"). Class action and derivative plaintiffs subsequently withdrew their motions to enjoin the August 8, 2007 special meeting of stockholders.

Subsequently, on August 7, 2007, Levy filed an Application for Attorneys' Fees, stating that the substantive issues in the case had been resolved and seeking $750,000 in attorney's fees. Levy alleged that its lawsuit caused the Company to issue the Proxy Supplement, which, Levy contended, contained material disclosures critical to the stockholders' assessment of the fairness of the Merger. Levy filed a Second Amended Petition and Amended Application for Attorney's Fees on October 25, 2007, replacing Levy Investments with Yona Levy as plaintiff. In late December 2007, the parties reached a tentative settlement wherein the Company agreed to pay derivative plaintiffs' counsel $290,000 as consideration for their contribution to the issuance of the Proxy Supplement. The settlement includes a mutual release between the Company and Yona Levy, in his individual capacity and in his derivative capacity as a stockholder of the Company. An order approving the settlement and a judgment dismissing the derivative claims were entered on January 31, 2008.

On August 14, 2007, class plaintiffs filed a Second Amended Petition, in which they withdrew all prior claims but added a claim for an equitable award of attorney's fees. Similar to Levy, class plaintiffs allege that their lawsuits caused the Company to issue the Proxy Supplement, and that the supplement constituted a benefit

to the Company, its directors and stockholders for which class plaintiffs' attorneys should be compensated. In mid-December 2007, the parties reached a tentative settlement wherein the Company agreed to pay class plaintiffs' counsel $380,000 as consideration for their contribution to the issuance of the Proxy Supplement. The parties entered into a Stipulation of Settlement on May 21, 2008, which the Court overseeing those claims preliminarily approved on May 22, 2008. Pursuant to the Stipulation of Settlement, we mailed a Notice of Proposed Settlement of Class Action to all persons or entities who could be identified through reasonable efforts who were record or beneficial holders of our common stock at any time during the period from, and including, May 17, 2007 through August 14, 2007. Also pursuant to the Stipulation of Settlement, we issued a press release announcing the proposed class action settlement on June 13, 2008. No stockholders filed an objection to the proposed settlement. The Court entered a Final Order and Judgment approving the class action settlement at a fairness hearing held July 28, 2008.

We continue to contend that the disclosures in the Definitive Proxy were appropriate and adequate, and that we made the Proxy Supplement available to stockholders solely to lessen the risk of any delay of the closing of the Merger as a result of the litigation. We deny that the Proxy Supplement contained any material disclosures or constituted any benefit to the Company, its directors or its stockholders.

On January 30, 2008, we filed a lawsuit against the Blackstone Entities in the Delaware Court of Chancery, seeking specific performance to compel the Blackstone Entities to comply with their obligations under the Merger Agreement, including their covenants to obtain required regulatory approvals and to consummate the Merger. On February 8, 2008, we filed a motion to dismiss this lawsuit without prejudice in response to the Blackstone Entities' confirmation of their commitment to work to consummate the Merger.

On March 17, 2008, we notified the Blackstone Entities that they were in breach of the Merger Agreement and demanded that the Blackstone Entities cure the breaches including, among other things, obtaining required regulatory approvals from the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

On April 18, 2008, Parent repudiated the Merger Agreement by sending us a notice purporting to terminate the contract. The notice of termination was ineffective because the Merger Agreement cannot be terminated under the relevant termination provision by a party that is in breach. Subsequently, on April 18, 2008, we terminated the Merger Agreement because of the Blackstone Entities' repudiation and their refusal to timely cure their breaches and perform their covenants and agreements, thereby causing specified closing conditions not to be satisfied.

Pursuant to the Merger Agreement, if we terminate the Merger Agreement as a result of Parent's or Merger Sub's breach or failure to perform that causes specified closing conditions not to be satisfied, Parent is required to pay, or cause to be paid, to us a fee of $170.0 million (the "Business Interruption Fee"). Blackstone Capital Partners V L.P. ("BCP V") provided a limited guarantee pursuant to which, among other things, BCP V guarantees payment of the Business Interruption Fee and up to $3.0 million of other amounts for which the Blackstone Entities are liable under the Merger Agreement. We have demanded that Parent pay the Business Interruption Fee, and commenced litigation on April 18, 2008 seeking full and timely payment of this fee by BCP V, as guarantor of the fee, in the New York State Supreme Court (the "New York action").

On April 21, 2008, the Blackstone Entities filed an action for declaratory judgment in the Delaware Court of Chancery against us seeking an order declaring that, among other things, the Blackstone Entities are not in breach of the Merger Agreement and that they are not obligated to pay the Business Interruption Fee (the "Delaware declaratory judgment action").

On May 30, 2008, we filed a breach of contract in the Delaware Court of Chancery against BCP V, Parent and Merger Sub seeking payment of the Business Interruption Fee (the "Delaware contract action").

Pursuant to the parties' agreement, the New York action was stayed pending completion of the Delaware contract action, and the Blackstone Entities voluntarily dismissed the Delaware declaratory judgment action. We filed an amended complaint in the Delaware contract action on June 25, 2008, asserting the same claims seeking payment of the Business Interruption Fee, though Merger Sub was dropped as a defendant. The remaining defendants, BCP V and Parent, filed a motion to dismiss the amended complaint on July 14, 2008. Pursuant to an agreed-to briefing schedule, our opposition brief is due on or before August 13, 2008, and defendants' reply brief is due within 14 days after the opposition brief is filed.

In addition, 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 affect 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, 2007 and our Quarterly Report on Form 10-Q for the period ended March 31, 2008.

Proposed changes to accounting standards could have a significant impact on the Company, the WFN Trusts or our bank subsidiaries.

Recently, the Financial Accounting Standards Board (FASB) has been considering substantial revisions to Statement of Financial Accounting Standards No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" (SFAS No. 140) and Financial Accounting Standards Board Interpretation No. 46(R) (FIN No. 46(R)). The proposed amendments would eliminate Qualifying Special Purpose Entities (QSPEs) from the guidance in SFAS No. 140. Currently, a portion of the credit card receivables originated by World Financial Network National Bank and ultimately sold to the WFN Trusts, which are QSPEs, as part of our securitization program is not consolidated on the balance sheet of World Financial Network National Bank or any of its affiliates, including the Company. One current consequence of this accounting treatment is that neither World Financial Network National Bank nor any of its affiliates, including the Company, are required to include this portion of the receivables as an asset when calculating the bank's minimum regulatory capital ratios or allowances for loan losses. While the proposed amendments to SFAS No. 140 and FIN No. 46(R) have not yet been released in Exposure Drafts and subject to a 60 day public comment period, the amendments if adopted as proposed may have a significant impact on the Company's consolidated financial statements as the Company may lose sales treatment for assets previously sold to the WFN Trusts as well as for future securitizations, which could result in all or some portion of the receivables being consolidated on the balance sheet of World Financial Network National Bank or its affiliates, including the Company.

It is not clear whether the proposed amendments to SFAS No. 140 and FIN No. 46(R) ultimately will be adopted by the FASB and if adopted what form they will take, how they will be implemented, how regulatory authorities will respond or how our bank subsidiaries or the Company may be affected. It is possible that these revisions will have an adverse impact on our bank subsidiaries or the Company.

Our level of indebtedness could materially adversely affect our ability to generate sufficient cash to repay our outstanding debt, our ability to react to changes in our business and our ability to incur additional indebtedness to fund future needs.

We have a high level of indebtedness, which requires a high level of interest and principal payments. Subject to the limits contained in our senior credit facilities, the notes purchase agreement and the indenture governing the convertible notes and our other debt instruments, we may be able to incur substantial additional indebtedness from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our level of indebtedness could intensify.

Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our higher level of indebtedness, combined with our other financial obligations and contractual commitments, could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations under any of our debt instruments, including restrictive covenants, could result in an event of default under the indenture governing the convertible notes and the agreements governing our other indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, acquisitions and other purposes;
- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions and other corporate purposes;
- reduce or delay investments and capital expenditures;
- cause any refinancing of our indebtedness to be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations; and
- prevent us from raising the funds necessary to repurchase all notes tendered to us upon the occurrence of certain changes of control, which would constitute a default under the indenture governing the notes.

Our bank subsidiaries are subject to extensive federal regulation that may require us to make capital contributions to them, and that may restrict the ability of these subsidiaries to make cash available to us.

Federal and state laws and regulations extensively regulate the operations of our credit card services bank subsidiary, World Financial Network National Bank, as well as our industrial bank, World Financial Capital Bank. Many of these laws and regulations are intended to maintain the safety and soundness of World Financial Network National Bank and World Financial Capital Bank, and they impose significant restraints on them to which other non-regulated entities are not subject. As a national bank, World Financial Network National Bank is subject to overlapping supervision by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, or the OCC, and the Federal Deposit Insurance Corporation, or the FDIC. As an industrial bank, World Financial Capital Bank is subject to overlapping supervision by the FDIC and the State of Utah.

World Financial Network National Bank and World Financial Capital Bank must maintain minimum amounts of regulatory capital. If World Financial Network National Bank and World Financial Capital Bank do not meet these capital requirements, their respective regulators have broad discretion to institute a number of corrective actions that could have a direct material effect on our financial statements. World Financial Capital Bank, as an institution insured by the FDIC, must maintain certain capital ratios, paid-in capital minimums and adequate allowances for loan losses. World Financial Network National Bank must meet specific guidelines that involve measures and ratios of its assets, liabilities, regulatory capital, interest rate exposure and certain off-balance sheet items under regulatory accounting standards, among other factors. In addition, as part of an acquisition in 2003 by World Financial Network National Bank, which required approval by the OCC, the OCC required World Financial Network National Bank to enter into an operating agreement with it and a capital adequacy and liquidity maintenance agreement with us. The operating agreement requires World Financial Network National Bank to continue to operate in a manner consistent with its current practices, regulatory guidelines, and applicable law, including those related to affiliate transactions, maintenance of capital and

corporate governance. If either World Financial Network National Bank or World Financial Capital Bank were to fail to meet any of the capital requirements to which it is subject, we may be required to provide them with additional capital, which could impair our ability to service our indebtedness.

Before World Financial Network National Bank can pay dividends to us, it must obtain prior regulatory approval if all dividends declared in any calendar year would exceed its net profits for that year plus its retained net profits for the preceding two calendar years, less any transfers to surplus. In addition, World Financial Network National Bank may pay dividends only to the extent that retained net profits, including the portion transferred to surplus, exceed bad debts. Moreover, to pay any dividend, World Financial Network National Bank must maintain adequate capital above regulatory guidelines. Further, if a regulatory authority believes that World Financial Network National Bank is engaged in or is about to engage in an unsafe or unsound banking practice, which, depending on its financial condition, could include the payment of dividends, that regulatory authority may require, after notice and hearing, that World Financial Network National Bank cease and desist from the unsafe practice. Before World Financial Capital Bank can pay dividends to us, it must obtain prior written regulatory approval. Accordingly, neither World Financial Network National Bank nor World Financial Capital Bank may be able to make any of its cash or other assets available to us, including to service our indebtedness.

New accounting pronouncements and varying interpretations of existing accounting pronouncements have occurred and may occur in the future.

Effective for fiscal years beginning after December 15, 2008, Financial Accounting Standards Board Staff Position ("FSP") No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)" could have a material impact on how we account for the convertible notes in our consolidated financial statements. This FSP could require us to separately account for the liability and equity components of the convertible notes. Additionally, this FSP could cause us to recognize interest expense relating to the Convertible Notes in a manner consistent with our nonconvertible debt borrowing rate. Future interpretations of existing accounting standards or the adoption of new accounting principles could also result in future changes to our accounting for the convertible notes.

We do not intend to pay cash dividends.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay cash dividends will be made at the discretion of our board of directors and will be dependent upon our financial condition, operating results, capital requirements and other factors that our board deems relevant.

Anti-takeover provisions in our organizational documents, Delaware law and the fundamental change purchase rights of our convertible notes may discourage or prevent a change of control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent or delay change of control transactions or attempts by our stockholders to replace or remove our current management.

Delaware law, as well as provisions of our certificate of incorporation, bylaws and debt instruments, could discourage unsolicited proposals to acquire us, even though such proposals may be beneficial to our stockholders. These include:

- a board of directors classified into three classes of directors with the directors of each class having staggered, three-year terms;
- our board's authority to issue shares of preferred stock without further stockholder approval;
- provisions of Delaware law providing that directors serving on staggered boards of directors, such as ours, may be removed only for cause; and

- fundamental change purchase rights of our Convertible Notes, which allow such noteholders to require us to purchase all or a portion of their Convertible Notes upon the occurrence of a fundamental change, as well as provisions requiring an increase to the conversion rate for conversions in connection with make-whole fundamental changes.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our certificate of incorporation, bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by our then-current board of directors, including a merger, tender offer or proxy contest involving our company. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline or delay or prevent our stockholders from receiving premium over the market price of our common stock that they might otherwise receive.

Conversion of the Convertible Notes may dilute the ownership interest of existing stockholders.

The conversion of some or all of the Convertible Notes may dilute the ownership interests of existing stockholders. Any sales in the public market of any of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the anticipated conversion of the Convertible Notes into shares of our common stock or a combination of cash and shares of our common stock could depress the price of our common stock.

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

During 2005 and 2006 our Board of Directors authorized three stock repurchase programs to acquire up to an aggregate of $900.0 million of our outstanding common stock through December 2008, as more fully described in the footnote to the table below. In July, 2008, we established a new repurchase program, pursuant to which, during the period beginning on July 17, 2008 and ending December 31, 2009, we may repurchase shares of our common stock at an aggregate price not to exceed $1.3 billion.

As of June 30, 2008, we had repurchased 15,880,455 shares of our common stock for approximately $852.4 million under these programs. The following table presents information with respect to those purchases of our common stock made during the three months ended June 30, 2008.

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[2][3] (Dollars in millions)
During 2008:				
April	3,650	$ 52.12	—	$ 1,796.7
May	3,264,448	58.83	3,257,287	1,605.0
June	4,020,263	64.06	4,017,616	1,347.6
Total	7,288,361	$ 61.71	7,274,903	$ 1,347.6

(1) During the period represented by the table, 13,458 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Saving Plan for the benefit of the employees who participated in that portion of the plan. This table excludes 418,805 shares received in July 2008, as a result of the final settlement associated with our accelerated stock repurchase program. As a result of the accelerated stock repurchase program, we purchased a total of 2,631,521 shares of our common stock at a settlement price per share of $57.00.

(2) On June 9, 2005, we announced that our Board of Directors authorized a stock repurchase program to acquire up to $80.0 million of our outstanding common stock through June 2006. As of the expiration of the program, we acquired the full amount available under this program. On October 27, 2005, we announced that our Board of Directors authorized a second stock repurchase program to acquire up to an additional $220.0 million of our outstanding common stock through October 2006. On October 3, 2006, we announced that our Board of Directors authorized a third stock repurchase program to acquire up to an additional $600.0 million of our outstanding common stock through December 2008, in addition to any amount remaining available at the expiration of the second stock repurchase program. On July 30, 2008, we announced that our Board of Directors authorized a new repurchase program to acquire up to an additional $1.3 billion of our outstanding common stock through December 2009.

(3) Per the terms of the Merger Agreement, we agreed that from May 17, 2007 until the effective time of the Merger or the expiration or termination of the Merger Agreement, which occurred on April 18, 2008, with certain exceptions, that we would not purchase any of our capital stock, which included suspension of any repurchases under the third stock repurchase program or otherwise. On May 6, 2008, the Board of Directors authorized reinstituting the third stock repurchase program.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

On June 16, 2008, the Annual Meeting of Stockholders was held at our corporate headquarters at 17655 Waterview Parkway, Dallas, Texas 75252. A total of 64,464,982 shares of our common stock were present or represented by proxy at the Annual Meeting, representing more than 81% of our shares outstanding as of April 17, 2008, the record date set for the Annual Meeting. The matters voted on and the results of the vote at the Annual Meeting were as follows:

Proposal One — Each of Bruce K. Anderson, Roger H. Ballou and E. Linn Draper, Jr. was re-elected as our Class II director to serve until the 2011 annual meeting of stockholders and until his successor is duly elected and qualified. The results of the vote were as follows:

Nominee	For (#)	Withheld (#)
Bruce K. Anderson	63,880,970	584,012
Roger H. Ballou	63,571,183	893,799
E. Linn Draper, Jr.	64,284,715	180,267

Proposal Two — The selection of Deloitte & Touche LLP as our independent registered public accounting firm for 2008 was ratified by our stockholders. The results of the vote were as follows:

For (#)	Against (#)	Abstain (#)
63,036,845	1,422,310	5,827

Item 5. Other Information.

(a) None

(b) None

Item 6. Exhibits.

(a) *Exhibits:*

EXHIBIT INDEX

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit No. 3.1 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.2	Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.2 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.3	First Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.3 to our Registration Statement on Form S-1 filed with the SEC on May 4, 2001, File No. 333-94623).
3.4	Second Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.4 to our Annual Report on Form 10-K, filed with the SEC on April 1, 2002, File No. 001-15749).
4	Specimen Certificate for shares of Common Stock of the Registrant (incorporated by reference to Exhibit No. 4 to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2003, File No. 001-15749).
10.1	Second Amendment to Credit Agreement, dated as of June 16, 2008, by and among Alliance Data Systems Corporation and certain subsidiaries parties thereto as Guarantors, Bank of Montreal, as Administrative Agent and various other agents and banks (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on June 16, 2008, File No. 001-15749).
10.2	Fourth Amendment to Credit Agreement, dated as of June 16, 2008, by and among Alliance Data Systems Corporation and certain subsidiaries parties thereto as Guarantors, and Bank of Montreal, as Administrative Agent (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on June 16, 2008, File No. 001-15749).
*10.3	Joinder to Subsidiary Guaranty, dated as of May 30, 2008, by ADS Foreign Holdings, Inc. in favor of the holders from time to time of the Senior Notes issued under the Note Purchase Agreement.
*10.4	Guarantor Supplement, dated as of May 15, 2008, by ADS Foreign Holdings, Inc. in favor of Bank of Montreal, as Administrative Agent for the Banks party to the Credit Agreement dated as of September 29, 2006 among Alliance Data Systems Corporation, the Guarantors from time to time party thereto, the Banks from time to time party thereto, Bank of Montreal, as Letter of Credit Issuer, and Bank of Montreal, as Administrative Agent.
*10.5	Guarantor Supplement, dated as of May 15, 2008, by ADS Foreign Holdings, Inc. in favor of Bank of Montreal, as Administrative Agent for the Banks party to the Credit Agreement dated as of January 24, 2007 among Alliance Data Systems Corporation, the Guarantors from time to time party thereto, the Banks from time to time party thereto, and Bank of Montreal, as Administrative Agent.
+10.6	Form of Time-Based Restricted Stock Unit Award Agreement under the 2005 Long Term Incentive Plan (2008 grant) (incorporated by reference to Exhibit No. 99.1 to our Current Report on Form 8-K filed with the SEC on April 29, 2008, File No. 001-15749).

Exhibit No.	Description
+10.7	Form of Performance-Based Restricted Stock Unit Award Agreement under the 2005 Long Term Incentive Plan (2008 grant) (incorporated by reference to Exhibit No. 99.2 to our Current Report on Form 8-K filed with the SEC on April 29, 2008, File No. 001-15749).
+10.8	Form of Canadian Time-Based Restricted Stock Unit Award Agreement under the 2005 Long Term Incentive Plan (2008 grant) (incorporated by reference to Exhibit No. 99.3 to our Current Report on Form 8-K filed with the SEC on April 29, 2008, File No. 001-15749).
+10.9	Form of Canadian Performance-Based Restricted Stock Unit Award Agreement under the 2005 Long Term Incentive Plan (2008 grant) (incorporated by reference to Exhibit No. 99.4 to our Current Report on Form 8-K filed with the SEC on April 29, 2008, File No. 001-15749).
*+10.10	Form of Non-Employee Director Restricted Stock Unit Award Agreement under the 2005 Long Term Incentive Plan (2008 grant).
10.11	Fourth Amendment to Amended and Restated Program Participation Agreement, dated as of May 23, 2008, between Loyalty Management Group Canada Inc. and Bank of Montreal (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on May 28, 2008, File No. 001-15749).
10.12	Purchase Agreement, dated as of July 23, 2008, by and among Alliance Data Systems Corporation and the Initial Purchasers party thereto (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on July 29, 2008, File No. 001-15749).
10.13	Indenture, dated as of July 29, 2008, by and among Alliance Data Systems Corporation and The Bank of New York Mellon Trust Company, National Association (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K filed with the SEC on July 29, 2008, File No. 001-15749).
10.14	Form of 1.75% Convertible Senior Note due August 1, 2013 (included in Exhibit 10.13) (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K filed with the SEC on July 29, 2008, File No. 001-15749).
10.15	Form of Hedge Confirmation dated July 23, 2008 between Alliance Data Systems Corporation and each of JPMorgan Chase Bank, National Association, London Branch (represented by J.P. Morgan Securities Inc., as its agent) and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on July 29, 2008, File No. 001-15749).
10.16	Form of Warrant Confirmation dated July 23, 2008 between Alliance Data Systems Corporation and each of JPMorgan Chase Bank, National Association, London Branch (represented by J.P. Morgan Securities Inc., as its agent) and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on July 29, 2008, File No. 001-15749).
*10.17	Credit Agreement, dated as of June 18, 2008, by and among Alliance Data Systems Corporation, certain subsidiaries parties thereto as Guarantors, the Banks from time to time parties thereto and Wachovia Bank, National Association, as Administrative Agent.
*+10.18	Amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan, effective January 1, 1004.
*+10.19	First Amendment, dated June 2, 2005, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.
*+10.20	Second Amendment, dated December 20, 2005, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.
*+10.21	Third Amendment, dated April 20, 2006, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.

Exhibit No.	Description
*+10.22	Fourth Amendment, dated October 31, 2006, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.
*+10.23	Fifth Amendment, dated October 31, 2006, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.
*+10.24	Sixth Amendment, dated March 20, 2007, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.
10.25	Sixth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of May 27, 2008, among World Financial Network National Bank, WFN Credit Company, LLC, and The Bank of New York Trust Company, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on May 29, 2008, File Nos. 333-60418 and 333-113669).
10.26	Supplemental Indenture No. 3, dated as of May 27, 2008, between World Financial Network Credit Card Master Note Trust and The Bank of New York Trust Company, N.A. (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on May 29, 2008, File Nos. 333-60418 and 333-113669).
*10.27	Form of Warrant Confirmation Amendment dated August 4, 2008 between Alliance Data Systems Corporation and each of JPMorgan Chase Bank, National Association, London Branch (represented by J.P. Morgan Securities Inc., as its agent) and Bank of America, N.A.
*31.1	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14 (a) promulgated under the Securities Exchange Act of 1934, as amended.
*31.2	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
*32.1	Certification of Chief Executive Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
*32.2	Certification of Chief Financial Officer of Alliance Data Systems Corporation pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.

* Filed herewith

\+ Management contract, compensatory plan or arrangement

SIGNATURES

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

ALLIANCE DATA SYSTEMS CORPORATION

By: /S/ EDWARD J. HEFFERNAN

Edward J. Heffernan
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: August 8, 2008

By: /S/ MICHAEL D. KUBIC

Michael D. Kubic
Senior Vice President and Corporate Controller (Principal Accounting Officer)

Date: August 8, 2008

EXHIBIT INDEX

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit No. 3.1 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.2	Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.2 to our Registration Statement on Form S-1 filed with the SEC on March 3, 2000, File No. 333-94623).
3.3	First Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.3 to our Registration Statement on Form S-1 filed with the SEC on May 4, 2001, File No. 333-94623).
3.4	Second Amendment to the Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit No. 3.4 to our Annual Report on Form 10-K, filed with the SEC on April 1, 2002, File No. 001-15749).
4	Specimen Certificate for shares of Common Stock of the Registrant (incorporated by reference to Exhibit No. 4 to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2003, File No. 001-15749).
10.1	Second Amendment to Credit Agreement, dated as of June 16, 2008, by and among Alliance Data Systems Corporation and certain subsidiaries parties thereto as Guarantors, Bank of Montreal, as Administrative Agent and various other agents and banks (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on June 16, 2008, File No. 001-15749).
10.2	Fourth Amendment to Credit Agreement, dated as of June 16, 2008, by and among Alliance Data Systems Corporation and certain subsidiaries parties thereto as Guarantors, and Bank of Montreal, as Administrative Agent (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on June 16, 2008, File No. 001-15749).
*10.3	Joinder to Subsidiary Guaranty, dated as of May 30, 2008, by ADS Foreign Holdings, Inc. in favor of the holders from time to time of the Senior Notes issued under the Note Purchase Agreement.
*10.4	Guarantor Supplement, dated as of May 15, 2008, by ADS Foreign Holdings, Inc. in favor of Bank of Montreal, as Administrative Agent for the Banks party to the Credit Agreement dated as of September 29, 2006 among Alliance Data Systems Corporation, the Guarantors from time to time party thereto, the Banks from time to time party thereto, Bank of Montreal, as Letter of Credit Issuer, and Bank of Montreal, as Administrative Agent.
*10.5	Guarantor Supplement, dated as of May 15, 2008, by ADS Foreign Holdings, Inc. in favor of Bank of Montreal, as Administrative Agent for the Banks party to the Credit Agreement dated as of January 24, 2007 among Alliance Data Systems Corporation, the Guarantors from time to time party thereto, the Banks from time to time party thereto, and Bank of Montreal, as Administrative Agent.
+10.6	Form of Time-Based Restricted Stock Unit Award Agreement under the 2005 Long Term Incentive Plan (2008 grant) (incorporated by reference to Exhibit No. 99.1 to our Current Report on Form 8-K filed with the SEC on April 29, 2008, File No. 001-15749).
+10.7	Form of Performance-Based Restricted Stock Unit Award Agreement under the 2005 Long Term Incentive Plan (2008 grant) (incorporated by reference to Exhibit No. 99.2 to our Current Report on Form 8-K filed with the SEC on April 29, 2008, File No. 001-15749).

Exhibit No.	Description
+10.8	Form of Canadian Time-Based Restricted Stock Unit Award Agreement under the 2005 Long Term Incentive Plan (2008 grant) (incorporated by reference to Exhibit No. 99.3 to our Current Report on Form 8-K filed with the SEC on April 29, 2008, File No. 001-15749).
+10.9	Form of Canadian Performance-Based Restricted Stock Unit Award Agreement under the 2005 Long Term Incentive Plan (2008 grant) (incorporated by reference to Exhibit No. 99.4 to our Current Report on Form 8-K filed with the SEC on April 29, 2008, File No. 001-15749).
*+10.10	Form of Non-Employee Director Restricted Stock Unit Award Agreement under the 2005 Long Term Incentive Plan (2008 grant).
10.11	Fourth Amendment to Amended and Restated Program Participation Agreement, dated as of May 23, 2008, between Loyalty Management Group Canada Inc. and Bank of Montreal (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on May 28, 2008, File No. 001-15749).
10.12	Purchase Agreement, dated as of July 23, 2008, by and among Alliance Data Systems Corporation and the Initial Purchasers party thereto (incorporated by reference to Exhibit No. 10.1 to our Current Report on Form 8-K filed with the SEC on July 29, 2008, File No. 001-15749).
10.13	Indenture, dated as of July 29, 2008, by and among Alliance Data Systems Corporation and The Bank of New York Mellon Trust Company, National Association (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K filed with the SEC on July 29, 2008, File No. 001-15749).
10.14	Form of 1.75% Convertible Senior Note due August 1, 2013 (included in Exhibit 10.13) (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K filed with the SEC on July 29, 2008, File No. 001-15749).
10.15	Form of Hedge Confirmation dated July 23, 2008 between Alliance Data Systems Corporation and each of JPMorgan Chase Bank, National Association, London Branch (represented by J.P. Morgan Securities Inc., as its agent) and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on July 29, 2008, File No. 001-15749).
10.16	Form of Warrant Confirmation dated July 23, 2008 between Alliance Data Systems Corporation and each of JPMorgan Chase Bank, National Association, London Branch (represented by J.P. Morgan Securities Inc., as its agent) and Bank of America, N.A. (incorporated by reference to Exhibit No. 10.2 to our Current Report on Form 8-K filed with the SEC on July 29, 2008, File No. 001-15749).
*10.17	Credit Agreement, dated as of June 18, 2008, by and among Alliance Data Systems Corporation, certain subsidiaries parties thereto as Guarantors, the Banks from time to time parties thereto and Wachovia Bank, National Association, as Administrative Agent.
*+10.18	Amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan, effective January 1, 1004.
*+10.19	First Amendment, dated June 2, 2005, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.
*+10.20	Second Amendment, dated December 20, 2005, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.
*+10.21	Third Amendment, dated April 20, 2006, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.
*+10.22	Fourth Amendment, dated October 31, 2006, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.

Exhibit No.	Description
*+10.23	Fifth Amendment, dated October 31, 2006, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.
*+10.24	Sixth Amendment, dated March 20, 2007, to amended and restated Alliance Data Systems 401(k) and Retirement Savings Plan.
10.25	Sixth Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated as of May 27, 2008, among World Financial Network National Bank, WFN Credit Company, LLC, and The Bank of New York Trust Company, N.A. (incorporated by reference to Exhibit No. 4.1 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on May 29, 2008, File Nos. 333-60418 and 333-113669).
10.26	Supplemental Indenture No. 3, dated as of May 27, 2008, between World Financial Network Credit Card Master Note Trust and The Bank of New York Trust Company, N.A. (incorporated by reference to Exhibit No. 4.2 to the Current Report on Form 8-K filed with the SEC by WFN Credit Company, LLC and World Financial Network Credit Card Master Note Trust on May 29, 2008, File Nos. 333-60418 and 333-113669).
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* Filed herewith

\+ Management contract, compensatory plan or arrangement

JOINDER TO SUBSIDIARY GUARANTY

The undersigned (the "***Guarantor***") joins in the Subsidiary Guaranty dated as of May 1, 2006 from the Guarantors named therein in favor of the Holders, as defined therein, and (i) jointly and severally with the other Guarantors under the Subsidiary Guaranty, guarantees to the Holders from time to time of the Notes the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) and the full and prompt performance and observance of all Obligations (as defined in Section 2 of the Subsidiary Guaranty), (ii) accepts and agrees to perform and observe all of the covenants set forth therein, (iii) waives the rights set forth in Section 5 of the Subsidiary Guaranty, (iv) waives the rights, submits to jurisdiction, and waives service of process as described in Section 11 of the Subsidiary Guaranty and (v) agrees to be bound by all of the terms thereof, and the Guarantor represents and warrants to the Holders that:

(a) the Guarantor is validly existing and in good standing or equivalent status under the laws of its jurisdiction of organization and has the requisite power and authority to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged;

(b) the Guarantor has the requisite power and authority and the legal right to execute and deliver this Joinder to Subsidiary Guaranty ("***Joinder***") and to perform its obligations hereunder and under the Subsidiary Guaranty and has taken all necessary action to authorize its execution and delivery of this Joinder and its performance of the Subsidiary Guaranty;

(c) the Subsidiary Guaranty constitutes a legal, valid and binding obligation of the Guarantor enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law);

(d) the execution, delivery and performance of this Joinder will not violate any provision of any requirement of law or material contractual obligation of the Guarantor and, except as provided in the Note Purchase Agreement, will not result in or require the creation or imposition of any Lien on any of the properties, revenues or assets of the Guarantor pursuant to the provisions of any material contractual obligation of the Guarantor or any requirement of law;

(e) except as provided in the Note Purchase Agreement, no consent or authorization of, filing with, or other act by or in respect of, any arbitrator or Governmental Authority is required in connection with the execution, delivery, performance, validity or enforceability of this Joinder;

(f) no litigation, investigation or proceeding of or before any arbitrator or governmental authority is pending or, to the knowledge of the Guarantor, threatened by or against the Guarantor or any of its properties or revenues with respect to this Joinder, the Subsidiary Guaranty or any of the transactions contemplated hereby or thereby;

(g) the execution, delivery and performance of this Joinder will not violate any provision of any order, judgment, writ, award or decree of any court, arbitrator or Governmental Authority, domestic or foreign, or of the charter or bylaws of the Guarantor or of any securities issued by the Guarantor; and

(h) after giving effect to the transactions contemplated herein, (i) the present fair salable value of the assets of the Guarantor is in excess of the amount that will be required to pay its probable liability on its existing debts as said debts become absolute and matured, (ii) the Guarantor has received reasonably equivalent value for executing and delivering this Joinder, (iii) the property remaining in the hands of the Guarantor is not an unreasonably small capital, and (iv) the Guarantor is able to pay its debts as they mature.

Capitalized Terms used but not defined herein have the meanings ascribed in the Subsidiary Guaranty. This Joinder shall in all respects be governed by, and construed in accordance with, the laws of the State of New York, including all matters of construction, validity and performance.

IN WITNESS WHEREOF, the undersigned has caused this Joinder to Subsidiary Guaranty to be duly executed as of May 30, 2008.

ADS FOREIGN HOLDINGS, INC.,
a Delaware corporation

By: /s/ Alan M. Utay
Name: Alan M. Utay
Title: Vice President

Exhibit 10.4

GUARANTOR SUPPLEMENT

May 15, 2008

Bank of Montreal, as Administrative Agent for the Banks party to the Credit Agreement dated as of September 29, 2006 among Alliance Data Systems Corporation, the Guarantors from time to time party thereto, the Banks from time to time party thereto, Bank of Montreal, as Letter of Credit Issuer, and Bank of Montreal, as Administrative Agent (as the same may be amended, restated or supplemented from time to time, the *"Credit Agreement"*)

Ladies and Gentlemen:

Reference is made to the Credit Agreement described above. Terms not defined herein which are defined in the Credit Agreement shall have for the purposes hereof the meaning provided therein.

The undersigned, ADS Foreign Holdings, Inc., a Delaware corporation, hereby acknowledges that it is a *"Guarantor"* for all purposes of the Credit Agreement, effective from the date hereof. The undersigned confirms that the representations and warranties set forth in Article 4 of the Credit Agreement are true and correct in all material respects as to the undersigned as of the date hereof (other than any representation or warranty that relates to a specified date, which shall be true and correct in all material respects as of such date).

Without limiting the generality of the foregoing, the undersigned hereby agrees to perform all the obligations of a Guarantor under, and to be bound in all respects by the terms of, the Credit Agreement, including without limitation Article 9 thereof, to the same extent and with the same force and effect as if the undersigned were a direct signatory thereto.

This Agreement shall be construed in accordance with and governed by the internal laws of the State of New York.

Very truly yours,

ADS FOREIGN HOLDINGS, INC.

By /s/ Alan M. Utay
Name Alan M. Utay
Title Vice President

Exhibit 10.5

GUARANTOR SUPPLEMENT

May 15, 2008

Bank of Montreal, as Administrative Agent for the Banks party to the Credit Agreement dated as of January 24, 2007 among Alliance Data Systems Corporation, the Guarantors from time to time party thereto, the Banks from time to time party thereto, and Bank of Montreal, as Administrative Agent (as the same may be amended, restated or supplemented from time to time, the *"Credit Agreement"*)

Ladies and Gentlemen:

Reference is made to the Credit Agreement described above. Terms not defined herein which are defined in the Credit Agreement shall have for the purposes hereof the meaning provided therein.

The undersigned, ADS Foreign Holdings, Inc., a Delaware corporation, hereby acknowledges that it is a *"Guarantor"* for all purposes of the Credit Agreement, effective from the date hereof. The undersigned confirms that the representations and warranties set forth in Article 4 of the Credit Agreement are true and correct in all material respects as to the undersigned as of the date hereof (other than any representation or warranty that relates to a specified date, which shall be true and correct in all material respects as of such date).

Without limiting the generality of the foregoing, the undersigned hereby agrees to perform all the obligations of a Guarantor under, and to be bound in all respects by the terms of, the Credit Agreement, including without limitation Article 9 thereof, to the same extent and with the same force and effect as if the undersigned were a direct signatory thereto.

This Agreement shall be construed in accordance with and governed by the internal laws of the State of New York.

Very truly yours,

ADS FOREIGN HOLDINGS, INC.

By /s/ Alan M. Utay
Name Alan M. Utay
Title Vice President

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT AWARD AGREEMENT
UNDER THE ALLIANCE DATA SYSTEMS CORPORATION
2005 LONG-TERM INCENTIVE PLAN

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the **"Agreement"**), made as of DATE (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 2005 Long-Term 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 he may have a direct proprietary interest in the Company's success.

WHEREAS, the Company desires to have the Participant continue to serve on the Company's Board of Directors ("Board") and to provide the Participant with an incentive.

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

1. **Restricted Stock Units Awarded**.

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

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

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

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

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

(b) Ten (10) years from the Grant Date.

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

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

4. **Company; Participant**.

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

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

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

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

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

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

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

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

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

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

9. **Taxes and Share Withholding**. At such time as the Participant has taxable income in connection with an Award (a “Taxable Event”), the Participant may be required to pay to the Company, prior to the issuance of shares of Stock, an amount in cash equal to the federal, state and local income taxes and other amounts as may be required by law to be withheld (the “Withholding Taxes”) with respect to the Restricted Stock Units. The Participant may be given

the opportunity to make a written election (the "Tax Election") to have withheld a portion of shares of Stock issuable to him upon vesting of the Restricted Stock Units, having an aggregate Fair Market Value equal to the Withholding Taxes in connection with the Taxable Event.

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

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

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

13. **Plan**. The terms and provisions of the Plan are incorporated herein by reference, and the Participant hereby acknowledges receiving a copy of the Plan. 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.

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

*** * * * * ***

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

ALLIANCE DATA SYSTEMS CORPORATION

By: /s/ Dwayne H. Tucker

Dwayne H. Tucker
EVP, Human Resources

PARTICIPANT

NAME

CREDIT AGREEMENT

dated as of June 18, 2008

among

ALLIANCE DATA SYSTEMS CORPORATION,
as Borrower,

THE GUARANTORS PARTY HERETO,

THE BANKS PARTY HERETO,

and

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Administrative Agent

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Lead Arranger

TABLE OF CONTENTS

This CREDIT AGREEMENT, dated as of June 18, 2008, is entered into by and among ALLIANCE DATA SYSTEMS CORPORATION, a Delaware corporation (the "*Borrower*"), the GUARANTORS from time to time party hereto, the BANKS from time to time party hereto, and WACHOVIA BANK, NATIONAL ASSOCIATION, as Administrative Agent.

WHEREAS, the Borrower has requested that the Banks provide a credit facility to the Borrower on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.1 Definitions. The following terms, as used herein, have the following meanings:

"*Act*" has the meaning set forth in Section 10.13.

"*Administrative Agent*" means Wachovia Bank, National Association in its capacity as agent for the Banks hereunder, and its successors in such capacity.

"*Administrative Questionnaire*" means an administrative questionnaire in a form supplied by the Administrative Agent.

"*ADSI*" means ADS Alliance Data Systems, Inc., a Delaware corporation.

"*Affected Loans*" has the meaning set forth in Section 2.11(c).

"*Affiliate*" means (i) any Person that directly, or indirectly through one or more intermediaries, controls the Borrower (a "*Controlling Person*") or (ii) any Person (other than the Borrower or a Subsidiary thereof) which is controlled by or is under common control with a Controlling Person. As used herein, the term "control" means possession, directly or indirectly, of the power to vote 10% or more of any class of voting securities of a Person or to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise. The Affiliates of a Person shall include any officer or director of such Person.

"*Agreement*" means this Credit Agreement, as modified, supplemented, amended, restated (including any amendment and restatement hereof), extended, renewed or refinanced from time to time.

"*Applicable Lending Office*" means, with respect to any Bank, (i) in the case of its Base Rate Loans, its Domestic Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

"*Assignment and Assumption Agreement*" means an appropriately completed Assignment and Assumption Agreement in the form of Exhibit A hereto.

"*Bank*" means each bank listed on the signature pages hereof, each Assignee which becomes a Bank pursuant to Section 10.6(c), and their respective successors.

"*Bankruptcy Code*" has the meaning set forth in Section 9.3.

"*Base Rate*" means, for any day, a rate per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of 1/2 of 1% *plus* the Federal Funds Rate for such day.

"*Base Rate Loan*" means a Loan which bears interest at the Base Rate pursuant to the provisions of Articles 2 or 8 hereof.

"*Base Rate Margin*" means 0.25% per annum.

"*Beneficiaries*" has the meaning set forth in Section 9.1.

"*Benefit Arrangement*" means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group.

"*Borrower*" has the meaning provided in the first paragraph of this Agreement.

"*Borrowing*" has the meaning set forth in Section 1.3.

"*Business Day*" means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina are authorized by law to close and, if the applicable Business Day relates to an advance or continuation of, or conversion into, or payment of, a Euro-Dollar Loan, on which commercial banks are open for international business (including dealing in U.S. Dollar deposits) in London, England.

"*Canadian Dollars*" and "*Cdn$*" each mean the lawful currency of Canada.

"*Canadian Scheme License*" means the Amended and Restated License to Use and Exploit the Air Miles Scheme in Canada, made as of July 24, 1998, between Air Miles International Trading B.V. and Loyalty Management, as such may be amended from time to time.

"*Canadian Trademark License*" means the Amended and Restated License to Use the Air Miles Trade Marks in Canada, dated July 24, 1998, between Air Miles International Holdings N.V. and Loyalty Management, as such may be amended from time to time.

"*Capital Lease*" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"*Capital Stock*" means (a) in the case of a corporation, capital stock, (b) in the case of a partnership, partnership interests (whether general or limited), (c) in the case of a limited liability company, membership interests and (d) any other interest or participation in a Person that confers on the holder the right to receive a share of the profits and losses of, or distributions of assets of, such Person.

"*Change of Control*" means the acquisition by any "*person*" or "*group*" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) at any time of beneficial ownership of 30% or more of the outstanding Voting Stock of the Borrower on a fully-diluted basis, other than acquisitions of such interests by the Welsh, Carson, Anderson & Stowe Partnerships or The Limited; *provided*, that common stock owned by employees (either individually or through employee stock ownership or other stock based benefit plans) of the Borrower and its Subsidiaries shall not be included in the calculation of ownership interests for purposes of this definition or any "change of control."

"*Code*" means the U.S. Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder. Section references to the Code are to the Code, as in effect on the Effective Date and any subsequent provisions of the Code, amendatory thereof, supplemental thereto or substituted therefor.

"*Commitment*" means with respect to each Bank listed on the signature pages hereof, the amount set forth opposite its name on Schedule I hereto under the heading "*Commitment*".

"*Consolidated Capital Expenditures*" of any Person means, for any period, the additions to property, plant and equipment and other capital expenditures of such Person and its Consolidated Subsidiaries for such period, as the same are or would be set forth in a consolidated statement of cash flows of such Person and its Consolidated Subsidiaries for such period.

"*Consolidated Debt*" of any Person means, at any date, the Debt of such Person and its Consolidated Subsidiaries, determined on a consolidated basis as of such date.

"*Consolidated EBIT*" means, for any period, the sum of Consolidated Net Income for such period, *plus*, to the extent deducted in determining such Consolidated Net Income, (i) Consolidated Interest Expense and (ii) federal, state, local and foreign income, value added and similar taxes. If, during the period for which Consolidated EBIT is being calculated, the Borrower or any Subsidiary has (i) acquired sufficient Capital Stock of a Person to cause such Person to become a Subsidiary; (ii) acquired all or substantially all of the assets or operations, division or line of business of a Person; (iii) disposed of sufficient Capital Stock of a Subsidiary to cause such Subsidiary to cease to be a Subsidiary; or (iv) disposed of all or substantially all of the assets or operations of a Subsidiary, Consolidated EBIT shall be calculated after giving *pro forma* effect thereto as if such acquisition or disposition had occurred on the first day of such period.

"*Consolidated Interest Expense*" means, for any period, the total interest expense paid on Debt of the Borrower and its Subsidiaries (including the interest component of Capital Leases) for such period, determined on a consolidated basis in accordance with GAAP.

"*Consolidated Net Income*" of any Person means, for any fiscal period, the net income of such Person and its Consolidated Subsidiaries, determined on a consolidated basis for such period, exclusive of the effect of any extraordinary or other nonrecurring gain and loss and excluding all non-cash adjustments; *provided that* any cash payment made (or received) with respect to any such non-cash charge, expense or loss shall be subtracted (added) in computing Consolidated Net Income during the period in which such cash payment is made (or received).

"*Consolidated Operating EBITDA*" means, for any period, the sum of Consolidated EBIT for such period, *plus*, to the extent deducted in determining Consolidated Net Income, (i) depreciation and amortization expense, including amortization of goodwill and other intangible assets and (ii) the amount of any change in the Deferred Revenue Account from the beginning of such period to the last day of such period, *less* (iii) the amount of any change in the Restricted Cash Account from the beginning of such period to the last day of such period. If, during the period for which Consolidated Operating EBITDA is being calculated, the Borrower or any Subsidiary has (i) acquired sufficient Capital Stock of a Person to cause such Person to become a Subsidiary; (ii) acquired all or substantially all of the assets or operations, division or line of business of a Person; (iii) disposed of sufficient Capital Stock of a Subsidiary to cause such Subsidiary to cease to be a Subsidiary; or (iv) disposed or all or substantially all of the assets or operations of a Subsidiary, Consolidated Operation EBITDA shall be calculated after giving *pro forma* effect thereto as if such acquisition or disposition had occurred on the first day of such period.

"*Consolidated Subsidiary*" of any Person means, at any date, any Subsidiary or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date.

"*Consolidated Total Assets*" of any Person means total assets of such Person and its Subsidiaries, determined on a consolidated basis in accordance with generally accepted accounting principles less any amount of assets reflected therein to the extent that they have been sold or pledged pursuant to a Qualified Securitization Transaction that are or may be reflected as Debt on a balance sheet of such Person.

"*Convertible Debt*" means Debt issued by the Borrower which by its terms may be converted into or exchanged for equity securities of the Borrower at the option of the Borrower or the holder of such Debt.

"*Credit Document*" means this Agreement, the Notes and each other document (including any additional guarantees) executed or delivered in connection herewith or therewith.

"*Credit Party*" shall mean the Borrower and each Guarantor.

"*Debt*" of any Person means at any date, without duplication (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee which are capitalized in

accordance with generally accepted accounting principles, (v) all non-contingent obligations (and, for purposes of Section 5.9, Section 5.15 and the definitions of *"Material Debt"* and *"Material Financial Obligations,"* all contingent obligations) of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, (vi) all Debt secured by a Lien on any asset of such Person, whether or not such Debt is otherwise an obligation of such Person, (vii) all Debt of others Guaranteed by such Person and (viii) Redeemable Stock of the Borrower or any of its Subsidiaries, valued at the amount of all obligations with respect to the redemption or repurchase thereof or the applicable liquidation preference. Notwithstanding the foregoing, there shall be excluded from Debt of any Person any obligations of such Person under a Qualified Securitization Transaction that are or may be reflected as Debt on a balance sheet of such Person and any obligations of such Person in respect of Qualifying Deposits.

"*Default*" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"*Deferred Revenue Account*" means the account on the consolidating balance sheet of the Borrower associated solely with the change in revenue recognition by Loyalty Management as required by the Securities and Exchange Commission of the United States of America.

"*Delinquency Ratio*" means, for any calendar month, the percentage equivalent of a fraction (a) the numerator of which is the aggregate amount of all Managed Receivables the minimum payments on which are more than 90 days contractually overdue and (b) the denominator of which is all Managed Receivables, in each case determined as of the last day of such calendar month.

"*Derivatives Obligations*" of any Person means all obligations of such Person in respect of any rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of the foregoing transactions), any transaction whose value is derived from another asset or security, or any combination of the foregoing transactions.

"*Dollars*" and *"$"* means freely transferable lawful money of the United States of America.

"*Domestic Lending Office*" means, as to each Bank, its office identified as such on its Administrative Questionnaire or such other office as such Bank may hereafter designate as its Domestic Lending Office by notice to the Borrower and the Administrative Agent, which office shall be located in the United States.

"*Domestic Subsidiary*" means any Subsidiary of the Borrower incorporated or organized in the United States or any state or territory thereof.

"*Effective Date*" means June 18, 2008.

"*Eligible Transferee*" means and includes a commercial bank, insurance company, financial institution, fund or other Person (other than a natural person) which regularly purchases interests in loans or extensions of credit of the types made pursuant to this Agreement, any other Person (other than a natural person) which would constitute a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act as in effect on the Effective Date or other "accredited investor" (other than a natural person) (as defined in Regulation D of the Securities Act).

"*Environmental Laws*" means any and all federal, state, provincial, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to the environment, the effect of the environment on human health or to emissions, discharges or releases of pollutants, contaminants, Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, Hazardous Substances or wastes or the cleanup or other remediation thereof.

"*ERISA*" means the U.S. Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

"*ERISA Group*" of any Person means such Person, any Subsidiary and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any Subsidiary, are treated as a single employer under Section 414 of the Code.

"*Euro-Dollar Lending Office*" means, as to each Bank, its office, branch or affiliate identified as such on the signature pages hereto or such other office, branch or affiliate of such Bank as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

"*Euro-Dollar Loan*" means (i) a Loan which bears interest at a Euro-Dollar Rate or (ii) an overdue amount which was a Euro-Dollar Loan immediately before it became overdue.

"*Euro-Dollar Margin*" means 1.75% per annum.

"*Euro-Dollar Rate*" means a rate of interest determined pursuant to Section 2.6(b) on the basis of the London Interbank Offered Rate.

"*Event of Default*" has the meaning set forth in Section 6.1.

"*Federal Funds Rate*" means, for any day, the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal

funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; *provided*, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate quoted to the Administrative Agent on such day on such transactions as determined by the Administrative Agent.

"*Foreign Pension Plan*" means any plan, fund (including, without limitation, any superannuation fund) or other similar program established or maintained outside the United States of America by the Borrower or any one or more of its Subsidiaries primarily for the benefit of employees of the Borrower or such Subsidiaries residing outside the United States of America, which plan, fund or other similar program provides, or results in, retirement income, a deferral of income in contemplation of retirement or payments to be made upon termination of employment, and which plan is not subject to ERISA or the Code.

"*Foreign Subsidiary*" means each Subsidiary of the Borrower other than a Domestic Subsidiary.

"*GAAP*" has the meaning set forth in Section 1.2.

"*Granting Bank*" has the meaning set forth in Section 10.6(e).

"*Guaranteed Obligations*" has the meaning set forth in Section 9.1.

"*Guarantor*" means each direct and indirect Material Domestic Subsidiary of the Borrower that becomes a Guarantor from time to time after the Effective Date pursuant to Section 5.23.

"*Guarantor Supplement*" means an appropriately completed Guarantor Supplement substantially in the form of Exhibit C hereto.

"*Guaranty*" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the holder of such Debt of the payment thereof to protect such holder against loss in respect thereof (in whole or in part), *provided*, that the term Guaranty shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guaranty" used as a verb has a corresponding meaning.

"*Hazardous Substances*" means any toxic, radioactive, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

"*Hostile Acquisition*" means the acquisition of the capital stock or other equity interests of a Person through a tender offer or similar solicitation of the owners of such capital stock or other equity interests which has not been approved (prior to such acquisition) by resolutions of the board of directors of such Person or by similar action if such Person is not a corporation, and as to which such approval has not been withdrawn.

"*Indemnitee*" has the meaning set forth in Section 10.3(b).

"*Insured Subsidiary*" means a Subsidiary of the Borrower which is an "insured depository institution" under and as defined in the U.S. Federal Deposit Insurance Act (12 U.S.C. 1813(c)(2)) or any successor statute.

"*Intercompany Note*" means a promissory note made by the Borrower or any Subsidiary payable to the order of the Borrower or any of its Subsidiaries.

"*Interest Coverage Ratio*" of any Person means, for any period, the ratio of Consolidated Operating EBITDA of such Person for such period to Consolidated Interest Expense of such Person for such period.

"*Interest Period*" means with respect to each Euro-Dollar Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Interest Period Election and ending one, two or three months thereafter, as the Borrower may elect in the applicable notice; *provided* that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) any Interest Period which would otherwise end after the Maturity Date shall end on the Maturity Date (unless such date is not a Business Day, in which case such Interest Period shall end on the latest Business Day to occur prior to the Maturity Date).

"*Investment*" means any investment in any Person, whether by means of share purchase, capital contribution, loan, Guaranty, time deposit or otherwise (but not including any demand deposit).

"*License Agreements*" means the Canadian Trademark License, the US Trademark License, the Canadian Scheme License, and the US Scheme License.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, hypothec, security interest or encumbrance of any kind, or any other type of preferential arrangement that has the practical effect of creating a security interest, in respect of such asset. For the purposes of this Agreement, the Borrower or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"*Loan*" has the meaning set forth in Section 2.1; *provided*, that if any such Loan or Loans (or portions thereof) are combined or subdivided pursuant to a Notice of Interest Period Election, the term *"Loan"* shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

"*London Interbank Offered Rate*" means, for any Interest Period, with respect to any Euro-Dollar Loan, either (i) the rate per annum (rounded upward, if necessary, to the next higher 1/100th of 1%) for deposits in Dollars for a period equal to such Interest Period, which appears on Reuters LIBO Page (or any successor page) as of 11:00 a.m. (London, England time) on the day two Business Days before the commencement of such Interest Period or (ii) if the rate in clause (i) of this definition is not shown for any particular day, the rate per annum (rounded upward, if necessary, to the next higher 1/100th of 1%) at which deposits in U.S. Dollars are offered to the Administrative Agent in the London interbank market at approximately 11:00 a.m. (London, England time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loans of the Administrative Agent to which such Interest Period is to apply and for a period of time comparable to such Interest Period for which such rate will apply as of approximately 11:00 a.m. (London, England time) two Business Days prior to the first day of such Interest Period.

"*Loyalty Management*" means Loyalty Management Group Canada Inc., an Ontario corporation.

"*Managed Receivables*" of any Person means for any date all credit card receivables originated by such Person as of such date regardless of whether such credit card receivables are determined, with respect to such Person's financial statements, to be "on-balance sheet" or "off-balance sheet."

"*Material Adverse Effect*" means (a) a material adverse change in, or material adverse effect upon, the business, financial condition or operations of the Borrower and its Consolidated Subsidiaries taken as a whole, (b) a material impairment of the ability of the Borrower and the Guarantors to perform their material obligations under the Credit Documents or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Credit Parties of the Credit Documents or the material rights and remedies of the Administrative Agent and the Banks thereunder.

"*Material Asset*" means an asset or assets having a fair market value in excess of $25,000,000.

"*Material Debt*" means Debt (other than the Loans hereunder) (i) of a Person and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, in an aggregate principal or face amount exceeding U.S. $25,000,000, (ii) under the Revolving Credit Agreement and (iii) under the Note Purchase Agreement.

"*Material Domestic Subsidiary*" means each Domestic Subsidiary that is a Material Subsidiary.

"*Material Financial Obligations*" of any Person means a principal or face amount of Debt and/or payment or collateralization obligations in respect of Derivatives Obligations of such Person and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, exceeding in the aggregate U.S. $25,000,000.

"*Material Plan*" means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of U.S. $25,000,000.

"*Material Subsidiary*" means each direct or indirect Subsidiary which (i) owned as of the end of the most recently completed fiscal quarter (or, in the case of an acquired Subsidiary, on a *pro forma* basis would have owned) assets that represent in excess of 10% of the Consolidated Total Assets of the Borrower as of the end of such fiscal quarter or (ii) generated (or, in the case of an acquired Subsidiary, on a *pro forma* basis would have generated) annual revenues in excess of 10% of the consolidated total revenues for the Borrower and its Consolidated Subsidiaries for the most recently completed fiscal year.

"*Maturity Date*" means September 18, 2008.

"*Multiemployer Plan*" means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period.

"*Net Cash Proceeds*" means with respect to any offering of equity securities of a Person or the issuance of any Debt by a Person, as applicable, cash and cash equivalent proceeds received by or for such Person's account, net of legal, underwriting, and other fees and expenses incurred as a direct result thereof.

"*Note*" has the meaning set forth in Section 2.4(d).

"*Note Purchase Agreement*" means the Note Purchase Agreement dated as of May 1, 2006 among the Borrower and the Purchasers from time to time party thereto relating to the sale by the Borrower of its $250,000,000 6.00% Senior Notes, Series A, due May 16, 2009 and its $250,000,000 6.14% Senior Notes, Series B, due May 16, 2011, as the same may be amended, modified, supplemented, replaced or refinanced from time to time.

"*Notice of Borrowing*" has the meaning set forth in Section 2.2.

"*Notice of Interest Period Election*" has the meaning set forth in Section 2.9.

"*Obligations*" means (i) all amounts owing to the Administrative Agent or any Bank pursuant to the terms of this Agreement or any other Credit Document and (ii) so long as there are amounts owing under clause (i), Derivatives Obligations from time to time owed to a Person that, at the time of incurrence thereof, was a Bank or an Affiliate of a Bank.

"*Other Taxes*" has the meaning set forth in Section 8.4(a).

"*Parent*" means, with respect to any Bank, any Person controlling such Bank.

"*Participant*" has the meaning set forth in Section 10.6(b).

"*Payment Office*" means the office of the Administrative Agent located at 201 South College Street, Charlotte, North Carolina 28288, or such other office as the Administrative Agent may hereafter designate in writing as such to the other parties hereto.

"*PBGC*" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"*Percentage*" means at any time for each Bank with a Commitment, the percentage obtained by dividing such Bank's Commitment by the Total Commitment, *provided* that if the Total Commitment has been terminated, the Percentage of each Bank shall equal the percentage held by such Bank of the aggregate principal amount of all Loans.

"*Person*" means an individual, a corporation, a limited liability company, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"*Plan*" means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

"*Prime Rate*" means the rate of interest announced or otherwise established by the Administrative Agent from time to time as its Prime Rate.

"*Qualified Securitization Subsidiary*" means a Subsidiary that is a special purpose entity used in connection with a Qualified Securitization Transaction.

"*Qualified Securitization Transaction*" means a securitization or other sale or financing of credit card receivables.

"*Qualifying Deposits*" means deposits that are (i) insured by the U.S. Federal Deposit Insurance Corporation and (ii) do not exceed the difference between (A) the amount of seller's interest and credit card receivables *minus* (B) the allowance for doubtful accounts related to seller's interest and credit card receivables, in each case as shown on the consolidated balance sheet of the Borrower and its Subsidiaries.

"*Quarterly Dates*" has the meaning set forth in Section 2.6(a).

"*Redeemable Stock*" means Capital Stock of the Borrower or any of its Subsidiaries that is redeemable at the option of the holder thereof or that constitutes preferred stock.

"*Regulation U*" means Regulation U of the Board of Governors of the U.S. Federal Reserve System, as in effect from time to time.

"*Required Banks*" means Banks the sum of whose outstanding Commitments (or after the termination thereof, outstanding Loans) represent an amount greater than 50% of the sum of the Total Commitment (or after the termination thereof, the sum of the total outstanding Loans at such time).

"*Reserve Percentage*" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of "Eurocurrency Liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on Euro-Dollar Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of any Bank to United States residents).

"*Restricted Acquisition*" means any acquisition, whether in a single transaction or series of related transactions, by the Borrower or any one or more of its Subsidiaries, or any combination thereof, of (i) all or a substantial part of the assets, or all or any substantial part of a going business or division, of any Person, whether through purchase of assets or securities, by merger or otherwise, (ii) control of securities of an existing corporation or other Person having ordinary voting power (apart from rights accruing under special circumstances) to elect a majority of the board of directors of such corporation or other Person or (iii) control of a greater than 50% ownership interest in any existing partnership, joint venture or other Person).

"*Restricted Cash*" means cash required by the Borrower and its Subsidiaries to fund securitization spread accounts, cash collateral accounts relating to securitization of credit card receivables, excess funding accounts relating to securitization of credit card receivables and cash restricted to fund future Air Miles redemptions.

"*Restricted Cash Account*" means the account on the consolidating balance sheet of the Borrower related solely to redemption settlement assets of Loyalty Management's "Air Miles Program."

"*Restricted Payment*" means (i) any dividend or other distribution on any shares of a Person's (including any Credit Party's) capital stock (except dividends or distributions payable solely in shares of its capital stock and except dividends and distributions payable to the Borrower or any of its Subsidiaries) or (ii) any payment on account of the purchase, redemption, retirement or acquisition of (a) any shares of a Person's (including any Credit Party's) capital stock or (b) any option, warrant or other right to acquire shares of a Person's capital stock (but not including (1) payments of principal, premium (if any) or interest made pursuant to the terms of convertible debt securities prior to conversion, (2) payments made to the Borrower or any of its Subsidiaries, and (3) payments made solely in shares of (or solely out of the net proceeds of a substantially concurrent issuance of) such Person's (including any Credit Party's) capital stock or options, warrants or other rights to acquire shares of such Person's (including any Credit Party's) capital stock).

"*Revolving Credit Agreement*" means that certain Credit Agreement dated as of September 29, 2006, by and among the Borrower, the guarantors from time to time party thereto, the financial institutions from time to time party thereto, Bank of Montreal as Letter of Credit Issuer, and Bank of Montreal as Administrative Agent, as amended, supplemented, increased or otherwise modified from time to time.

"*Senior Leverage Ratio*" means, at any time, the ratio of (x) all principal amounts owing by the Borrower and its Subsidiaries pursuant to the terms of (i) this Agreement, any other Credit Document, the Revolving Credit Agreement, the Credit Agreement dated as of January 24, 2007 among the Borrower, the guarantors from time to time party thereto, the financial institutions from time to time party thereto and Bank of Montreal, as Administrative Agent, and the Note Purchase Agreement and all extensions, renewals, refinancings, refundings and replacements of any of the foregoing, in whole or in part (in each case other than Subordinated Debt and Convertible Debt), and (ii) any credit agreement, note purchase agreement, indenture or other credit facility relating to Debt (in each case other than Subordinated Debt and Convertible Debt) permitted by Section 5.15(viii) to (y) Consolidated Operating EBITDA of the Borrower and its Subsidiaries for the twelve months then most recently ended.

"*SPC*" has the meaning set forth in Section 10.6(e).

"*Subordinated Debt*" means subordinated Debt of the Borrower or any Guarantor, *provided* that (i) such Debt shall be expressly subordinated in right of payment to the Obligations in a manner reasonably acceptable to the Administrative Agent and (ii) such Debt shall be unsecured and unguaranteed other than guarantees issued by Guarantors which are subordinated in right of payment to the obligations of such Guarantors hereunder pursuant to subordination terms reasonably acceptable to the Administrative Agent.

"*Subsidiary*" means, as to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person; unless otherwise specified, "Subsidiary" means a Subsidiary of the Borrower.

"*Taxes*" is defined in Section 8.4(a).

"*The Community Reinvestment Act*" means The Community Reinvestment Act of 1977 (12 U.S.C. 2901 *et seq.*) as amended.

"*The Limited*" means Limited Commerce Corp., a Delaware corporation and its successors and assigns.

"*Total Commitment*" means the aggregate amount of the Commitments of each of the Banks.

"*Total Leverage Ratio*" means, at any time, the ratio of (x) Consolidated Debt of the Borrower and its Subsidiaries to (y) Consolidated Operating EBITDA of the Borrower and its Subsidiaries for the twelve months then most recently ended.

"*Type*" means the type of Loan determined according to the interest option applicable thereto; *i.e.*, whether a Base Rate Loan or a Euro-Dollar Loan.

"*Unfunded Liabilities*" means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

"*United States*" means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

"*U.S. Dollars*" and "*U.S. $*" shall mean freely transferable lawful money of the United States of America.

"*US Scheme License*" means the Amended and Restated License to Use and Exploit the Air Miles Scheme in the United States, dated July 24, 1998, between Air Miles International Trading B.V. and the Borrower, as such agreement may be amended from time to time.

"*US Trademark License*" means the Amended and Restated License to Use the Air Miles Trade Marks in the United States, dated July 24, 1998, between Air Miles International Holdings B.V. and the Borrower, as such agreement may be amended from time to time.

"*Voting Stock*" of any Person means the equity interests of such Person that are, under ordinary circumstances, entitled to vote in the election of the board of directors or other persons performing similar functions of such Person.

"*Welsh, Carson, Anderson & Stowe Partnerships*" means each Welsh, Carson, Anderson & Stowe limited partnership, as constituted on the Effective Date, as may be constituted in the future and any partner, partnership or Affiliate of any of them and their respective successors and assigns.

"*WFNNB*" means World Financial Network National Bank, a limited purpose national banking association wholly owned by the Borrower.

"*Wholly-Owned Subsidiary*" means, as to any Person, any corporation or other entity 100% of whose Voting Stock (other than director's qualifying shares) is at the time owned by such Person and/or one or more Wholly-Owned Subsidiaries of such Person.

Section 1.2. Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the most recent audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries delivered to the Banks ("*GAAP*"); *provided* that, (i) all calculations of financial covenants and corresponding accounting terms shall include for all periods covered thereby *pro forma* adjustments for the (x) actual historical financial performance of and (y) identifiable cost savings associated with providing data processing services to any entities acquired as permitted under Section 5.21(b) and (ii) if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article 5 to eliminate the effect of any change in generally accepted accounting principles on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Banks wish to amend Article 5 for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of generally accepted accounting principles in effect immediately before the relevant change in generally accepted accounting principles became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Banks.

Section 1.3. Types of Borrowings. The term "*Borrowing*" denotes the aggregation of Loans of one or more Banks to be made to the Borrower pursuant to Article 2 on the same date, all of which Loans are of the same Type (subject to Article 8) and, except in the case of Base Rate Loans, have the same initial Interest Period.

ARTICLE 2

THE CREDITS

Section 2.1. Commitments to Lend. Each Bank with a Commitment severally agrees, on the terms and conditions set forth in this Agreement, to make loans (each a *"Loan"* and, collectively, the *"Loans"*) to the Borrower pursuant to this Section in U.S. Dollars in an amount equal to its Commitment. The Borrowing under this Section shall be made in a single Borrowing on the Effective Date from the several Banks ratably in proportion to their respective Commitments, at which time the Commitments shall expire. Loans shall either be Base Rate Loans or Euro-Dollar Loans. No amount repaid or prepaid on any Loan may be borrowed again.

Section 2.2. Notice of Borrowing. The Borrower shall give the Administrative Agent notice (a *"Notice of Borrowing"*) in respect of the Borrowing of Loans not later than 12:00 Noon (Charlotte, North Carolina, time) on (x) the Business Day of the Borrowing if such Borrowing is to be a Base Rate Borrowing and (y) the third Business Day immediately preceding the date of the Borrowing if such Borrowing is to be a Euro-Dollar Borrowing, specifying:

(i) the date of such Borrowing, which shall be a Business Day;

(ii) what Type of Loans are to be borrowed;

(iii) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period and in the case of a Base Rate Borrowing, the date, if any, on which such Loan will be converted to a Euro-Dollar Loan; and

(iv) the aggregate amount of such Borrowing.

The Borrower hereby irrevocably directs the Administrative Agent to disburse the proceeds of the Loans on behalf of the Borrower to: Wachovia Bank N.A., Charlotte, NC, ABA No. 053-000-219 for credit to Account No. 04659360009768, Attention: Equity Derivatives.

Section 2.3. Notice to Banks Funding of Loans. (a) Upon receipt of a Notice of Borrowing, the Administrative Agent shall promptly notify each Bank of the contents thereof and of such Bank's share of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Not later than 2:30 p.m. (Charlotte, North Carolina time) on the date of each Borrowing, each Bank shall make available its share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 10.1. Unless the Administrative Agent determines that any applicable condition specified in Article 3 has not been satisfied, the Administrative Agent will make the funds so received from the Banks available to the Borrower at the Administrative Agent's aforesaid address.

(c) Unless the Administrative Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Administrative Agent such Bank's share of such Borrowing, the Administrative Agent may assume that such Bank has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such share available to the Administrative Agent, such Bank and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of the Borrower, a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.6 and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan included in such Borrowing for purposes of this Agreement.

Section 2.4. Evidence of Indebtedness. (a) Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Bank resulting from each Loan made by such Bank from time to time, including the amounts of principal and interest payable and paid to such Bank from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Bank hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Bank's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be *prima facie* evidence of the existence and amounts of the Obligations therein recorded; *provided, however,* that the failure of the Administrative Agent or any Bank to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Bank may request that its Loans be evidenced by a promissory note or notes in the forms of Exhibit B (collectively, the "*Notes*" and individually, as a "*Note*"). In such event, the Borrower shall prepare, execute and deliver to such Bank a Note payable to the order of such Bank. Thereafter, the Loans evidenced by such Note or Notes and interest thereon shall at all times (including after any assignment pursuant to Section 10.6) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 10.6, except to the extent that any such Bank or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in subsections (a) and (b) above.

Section 2.5. Maturity of Loans. The principal amount of all then outstanding Loans, together with accrued interest thereon, shall be due and payable in full on the Maturity Date.

Section 2.6. Interest Rates. (a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made (or converted pursuant to Article 8) until it becomes due, at a rate per annum equal to the Base Rate *plus* the Base Rate Margin for such day. Such interest shall be payable quarterly in arrears on the last day of each March, June, September, and December in each year (each, a *"Quarterly Date"*) and, with respect to the principal amount of any Base Rate Loan converted to a Euro-Dollar Loan, on each date a Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% *plus* the rate otherwise applicable to Base Rate Loans for such day.

(b) Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during each Interest Period applicable thereto, at a rate per annum equal to the sum of the Euro-Dollar Margin for such day *plus* the London Interbank Offered Rate applicable to such Interest Period. Such interest shall be payable for each Interest Period on the last day thereof.

(c) Any overdue principal of, or interest on, any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the higher of (i) the sum of 2% *plus* the Euro-Dollar Margin for such day *plus* the quotient obtained (rounded upward, if necessary, to the next higher 1/100 of it) by dividing (x) the average rate per annum (rounded upward, if necessary, to the next higher 1/100 of 1%) of the respective rates per annum at which one day (or, if such amount due remains unpaid more than three Business Days, then for such other period of time not longer than three months as the Administrative Agent may select) deposits in Dollars in an amount approximately equal to such overdue payment due to the Administrative Agent is offered to the Administrative Agent in the London interbank market for the applicable period determined as provided above by (y) one *minus* the Reserve Percentage (or, if the circumstances described in clause (a) or (b) of Section 8.1 shall exist, at a rate per annum equal to the sum of 2% *plus* the rate applicable to Base Rate Loans for such day) and (ii) the sum of 2% *plus* the Euro-Dollar Margin for such day *plus* the London Interbank Offered Rate applicable to such Loan at the date such payment was due.

(d) The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Banks of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

(e) The Administrative Agent agrees to use its best efforts to furnish quotations as contemplated by this Section. If the Administrative Agent is unable to provide a quotation, the provisions of Section 8.1 shall apply.

Section 2.7. [Intentionally Omitted.]

Section 2.8. [Intentionally Omitted.]

Section 2.9. Method of Electing Interest Rates for Loans. (a) The Loans initially shall be the Type of Loan specified by the Borrower in the Notice of Borrowing given pursuant to Section 2.2. Thereafter, the Borrower shall deliver a notice (a "*Notice of Interest Period Election*") to the Administrative Agent not later than 12:00 Noon (Charlotte, North Carolina, time) on the third Business Day prior to (i) if such Borrowing was initially a Base Rate Borrowing, the commencement of the first Interest Period with respect to the conversion of such Base Rate Loan into a Euro-Dollar Loan specifying the duration of such Interest Period, or (ii) at any other time, the last day of the current Interest Period specifying the duration of the additional Interest Period which is to commence. Each Interest Period specified in a Notice of Interest Period Election shall comply with the provisions of the definition of "Interest Period." Notwithstanding the foregoing, the Borrower may not elect to convert any Loan into, or continue any Loan as, a Euro-Dollar Loan pursuant to any Notice of Interest Period Election if at the time such notice is delivered an Event of Default shall have occurred and be continuing.

(b) Each Notice of Interest Period Election shall specify:

(i) the Borrowing of Loans (or portion thereof) to which such notice applies;

(ii) the date on which the conversion or continuation selected in such notice is to be effective, which shall comply with the applicable clause of subsection (a) above;

(iii) if the Loans comprising such Borrowing are to be converted, the new Type of Loans and, if the Loans being converted are to be Euro-Dollar Loans, the duration of the next succeeding Interest Period applicable thereto; and

(iv) if such Loans are to be continued as Euro-Dollar Loans for an additional Interest Period, the duration of such additional Interest Period.

(c) Upon receipt of a Notice of Interest Period Election from the Borrower pursuant to subsection (a) above, the Administrative Agent shall promptly notify each Bank of the contents thereof and such notice shall not thereafter be revocable by the Borrower. If no Notice of Interest Period Election is timely received prior to the end of an Interest Period, the Borrower shall be deemed to have elected that such Loan be continued as a Base Rate Loan.

(d) An election by the Borrower to change or continue the rate of interest applicable to any Borrowing of Loans pursuant to this Section shall not constitute a "Borrowing" subject to the provisions of Section 3.2.

Section 2.10. Optional Prepayments. (a) Subject, in the case of Euro-Dollar Loans, to Section 2.13, the Borrower may, upon at least one Business Day's notice to the Administrative Agent, prepay any Base Rate Loans or, upon at least three Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Loans, in each case in whole at any time, or from time to time in part, without premium or penalty, in amounts aggregating $5,000,000 or any larger multiple of $1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Banks.

(b) Upon receipt of a notice of prepayment pursuant to this Section, the Administrative Agent shall promptly notify each Bank with Loans outstanding of the contents thereof and of such Bank's ratable share (if any) of such prepayment and such notice shall not thereafter be revocable by the Borrower.

(c) The Borrower may elect to utilize the option set forth in Section 2.11(c) in connection with any optional prepayment.

Section 2.11. Mandatory Prepayments. (a) *Requirements*. If after the Effective Date the Borrower or any Subsidiary shall issue any (i) Debt (other than Debt permitted under clauses (i)-(vii) of Section 5.15 and Debt incurred under the Revolving Credit Agreement) or (ii) new equity securities (whether common or preferred stock or otherwise), other than (A) equity securities issued pursuant to or in connection with an employee stock or stock option plan, (B) capital stock issued to the seller of an acquired business in connection with an acquisition permitted hereby, or (C) equity securities issued to the Borrower or any Subsidiary, the Borrower shall promptly notify the Administrative Agent of the estimated Net Cash Proceeds of such issuance to be received by or for the account of the Borrower or such Subsidiary in respect thereof. Promptly upon receipt by the Borrower or such Subsidiary of Net Cash Proceeds of such issuance, the Borrower shall prepay the Loans in an aggregate amount equal to 100% of the amount of such Net Cash Proceeds.

(b) *Application*. With respect to each prepayment of Loans required by Section 2.11(a), the Borrower may designate the Types of Loans which are to be prepaid and the specific Borrowing or Borrowings pursuant to which made, *provided* that (i) Euro-Dollar Loans may be so designated for prepayment pursuant to this Section 2.11 only on the last day of an Interest Period applicable thereto unless all Euro-Dollar Loans with Interest Periods ending on such date of required prepayment and all Base Rate Loans have been paid in full; (ii) if any prepayment of Euro-Dollar Loans made pursuant to a single Borrowing shall reduce the outstanding Loans made pursuant to such Borrowing to an amount less than $5,000,000, such Borrowing shall be immediately converted into Base Rate Loans; and (iii) each prepayment of Loans pursuant to a Borrowing shall be applied *pro rata* among such Loans. In the absence of a designation by the Borrower as described in the preceding sentence, the Administrative Agent shall, subject to the above, make such designation in its sole discretion with a view, but no obligation, to minimize breakage costs.

(c) *Cash Collateral to Avoid Breakage*. Notwithstanding the provisions of Section 2.11(b), if at any time a mandatory or voluntary prepayment of Loans pursuant to Sections 2.10 or 2.11(a) above would result, after giving effect to the procedures set forth above, in the Borrower incurring breakage costs as a result of Euro-Dollar Loans being prepaid other than on the last day of an Interest Period applicable thereto (the *"Affected Loans"*), then the Borrower may in its sole discretion initially deposit a portion (up to 100%) of the amounts that otherwise would have been paid in respect of the Affected Loans with the Administrative Agent (which deposit must be equal in amount to the amount of the Affected Loans not immediately prepaid) to be held as security for the obligations of the Borrower hereunder pursuant to a cash collateral arrangement reasonably satisfactory to the Administrative Agent and shall provide for investments reasonably satisfactory to the Administrative Agent, with such cash collateral to be

directly applied upon the first occurrence (or occurrences) thereafter of the last day of an Interest Period applicable to the relevant Loans (or such earlier date or dates as shall be requested by the Borrower), to repay an aggregate principal amount of such Loans equal to the Affected Loans not initially prepaid pursuant to this sentence. Notwithstanding anything to the contrary contained in the immediately preceding sentence, all amounts deposited as cash collateral pursuant to the immediately preceding sentence shall be held for the sole benefit of the Banks whose Loans would otherwise have been immediately prepaid with the amounts deposited and upon the taking of any action by the Administrative Agent or the Banks pursuant to the remedial provisions of Article 6, any amounts held as cash collateral pursuant to this Section 2.11(c) shall, subject to the requirements of applicable law, be immediately applied to repay such Loans.

Section 2.12. General Provisions as to Payments. (a) The Borrower shall make each payment of principal of, and interest on, the Loans (i) not later than 1:00 p.m. (Charlotte, North Carolina time) on the date when due, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 10.1, and (ii) without any right to set-off, deduction or counterclaim by the Borrower. All payments made hereunder shall be made in U.S. Dollars in immediately available funds at the place of payment. The Administrative Agent will promptly distribute to each Bank its ratable share of each such payment received by the Administrative Agent for the account of the Banks. Whenever any payment of principal of, or interest on, the Base Rate Loans or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of, or interest on, the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent that the Borrower shall not have so made such payment, each Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.13. Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan or any Euro-Dollar Loan is prepaid, converted or becomes due (pursuant to Article 2, 6, or 8 or otherwise) on any day other than the last day of an Interest Period applicable thereto, or if the Borrower fails to borrow, prepay or continue any Euro-Dollar Loans after notice has been given to any Bank in accordance with Section 2.2, 2.9, or 2.10, the Borrower shall reimburse each Bank within 15 days after demand for any resulting loss or expense incurred by it (or by an existing or prospective Participant in the related Loan),

including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or conversion or failure to borrow, prepay, convert or continue, *provided* that such Bank shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.14. Computation of Interest. Interest based on the Prime Rate hereunder shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed (including the first day but excluding the last day). All other interest shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day if and only if such payment is made in accordance with the provisions of the first sentence of Section 2.12(a)).

Section 2.15. Regulation D Compensation. Without duplication of amounts payable under Section 2.6(c)(i), each Bank may require the Borrower to pay, contemporaneously with each payment of interest on the Euro-Dollar Loans, additional interest on the related Euro-Dollar Loan of such Bank at a rate per annum determined by such Bank up to but not exceeding the excess of (i) (A) the London Interbank Offered Rate then in effect for such Loan divided by (B) one minus the Reserve Percentage over (ii) such London Interbank Offered Rate. Any Bank wishing to require payment of such additional interest (x) shall so notify the Borrower and the Administrative Agent, in which case such additional interest on the Euro-Dollar Loan of such Bank shall be payable to such Bank at the place indicated in such notice with respect to each Interest Period commencing at least three Business Days after the giving of such notice and (y) shall notify the Borrower at least five Business Days prior to each date on which interest is payable on the Euro-Dollar Loans of the amount then due it under this Section. The Borrower's obligations under this Section 2.15 are limited as set forth in Section 8.6.

ARTICLE 3

CONDITIONS

Section 3.1. Initial Borrowing. The obligations of the Banks to make the Loans hereunder are subject to receipt by the Administrative Agent of the following documents and satisfaction of the following conditions:

(a) an opinion of counsel for the Credit Parties in a form reasonably acceptable to the Administrative Agent and covering such matters relating to the transactions contemplated hereby as the Administrative Agent or the Required Banks may reasonably request;

(b) all documents the Administrative Agent may reasonably request relating to the corporate authority of each Credit Party which is a party hereto or any other Credit Document and the validity of this Agreement and each other Credit Document, all in form and substance reasonably satisfactory to the Administrative Agent;

(c) copies of this Agreement executed by the Borrower, each Guarantor and each of the Banks; and

(d) the Administrative Agent shall have received fully executed copies of the License Agreements.

The Administrative Agent shall promptly notify the Borrower and the Banks of the satisfaction of the conditions set forth in this Section 3.1, and such notice shall be conclusive and binding on all parties hereto.

Section 3.2. Each Borrowing. The obligation of the Banks to make each Loan hereunder is subject at the time of such Loan to the satisfaction of the following additional conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.2;

(b) the fact that, immediately before and after such Borrowing, no Default shall have occurred and be continuing;

(c) the fact that the representations and warranties of the Credit Parties contained in this Agreement shall be true and correct in all material respects on and as of the date of such Borrowing (other than representations and warranties that relate to a specific date, which shall be true and correct in all material respects as of such date); and

(d) with respect to the transactions contemplated by this Agreement, each Credit Party shall have obtained any necessary consents, waivers, approvals, authorizations, registrations, filings, licenses and notifications (including, if necessary, qualifying to do business in, and qualifying under the applicable consumer laws of, each jurisdiction where the applicable party is then doing business, or is in the process of obtaining such qualification in each jurisdiction where the applicable party is expected to be doing business utilizing the proceeds of such Loan) and the same shall be in full force and effect, except where the failure to obtain such consent, qualification or other item could not reasonably be expected to have a material adverse effect on the Borrower and its Subsidiaries, taken as a whole.

Each Borrowing hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Borrowing as to the facts specified in clauses (b), (c), and (d) of this Section.

No Bank shall have any obligation to make a Loan hereunder at any time unless all conditions precedent have been satisfied before or at such time. The conditions precedent are included for the exclusive benefit of the Administrative Agent and the Banks. In the event that any one more Banks makes available its Loan at the request of the Borrower notwithstanding that any one or more of the conditions precedent thereto have not been satisfied in whole or in part, such waiver shall not operate as to waive the right of the Administrative Agent and the Banks to require strict compliance thereafter.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 4.1. Existence and Power. Each Credit Party is a corporation, limited liability company, partnership or other organization, duly organized and validly existing and, where applicable, in good standing under the laws of the jurisdiction of its organization, and has all corporate or other powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted except where the failure to do so would not reasonably be expected to have a Material Adverse Effect.

Section 4.2. Corporate and Governmental Authorization; No Contravention. The execution, delivery and performance by each Credit Party of the Credit Documents to which it is a party (i) are within the corporate or other powers of such Credit Party, (ii) have been duly authorized by all necessary corporate or other action, (iii) require no action by or in respect of, or filing with, any governmental body, agency or officials except where the failure to do so could not reasonably be expected to have a Material Adverse Effect, (iv) do not contravene, or constitute a default under, (a) any provision of applicable law or regulation or of the articles of association, the organizational certificate, bylaws or other constitutional documents, as applicable, of such Credit Party or (b) any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect and (v) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries. Neither the Borrower (or any of its directors or officers) nor any Insured Subsidiary (or any of its directors or officers) is a party to, or subject to, any agreement with, or specific directive or order issued by, any federal or state bank or thrift regulatory authority which restricts the payment of dividends by any Insured Subsidiary to the Borrower; and no action or administrative proceeding is pending or, to the Borrower's knowledge, threatened against the Borrower or any Insured Subsidiary or any of their directors or officers which seeks to impose any such restriction, in each case that could reasonably be expected to have a Material Adverse Effect.

Section 4.3. Binding Effect. This Agreement and the other Credit Documents constitute valid and binding agreements of the Borrower and each other Credit Party which is a party thereto, and each Note, when executed and delivered in accordance with this Agreement, will constitute a valid and binding obligation of the Borrower, in each case enforceable in accordance with its terms.

Section 4.4. Financial Information. (a) The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2007, and the related consolidated statements of income, retained earnings and cash flows for the fiscal year then ended, reported on by Deloitte & Touche LLP, and the unaudited interim consolidated balance sheet of the

Borrower and its Consolidated Subsidiaries as of March 31, 2008 and the related consolidated statements of income, retained earnings and cash flows for the three months then ended, copies of which have been delivered to each of the Banks, fairly present in all material respects the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such dates and their consolidated results of operations and cash flows for the periods then ended, subject, in the case of unaudited financial statements, to the absence of footnotes and to year end adjustments.

(b) Since December 31, 2007 there has been no material adverse change in the business, financial position or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole.

(c) Except as disclosed in the financial statements delivered pursuant to Section 4.4(a) there were as of the Effective Date no liabilities or obligations with respect to the Borrower or any of its Subsidiaries of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether or not due) which, either individually or in aggregate, could reasonably be expected to have a material and adverse effect on the Borrower or the Borrower and its Subsidiaries taken as a whole. As of the Effective Date, the Borrower knows of no basis for the assertion against it or any of its Subsidiaries of any liability or obligation of any nature whatsoever that is not disclosed in the financial statements delivered pursuant to Section 4.4(a) which, either individually or in the aggregate, could reasonably be expected to be material to the Borrower or the Borrower and its Subsidiaries taken as a whole.

Section 4.5. Litigation. There is no action, suit or proceeding pending against, or to the knowledge of the Borrower threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could materially adversely affect the business, consolidated financial position or consolidated results of operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, or which in any manner draws into question the validity or enforceability of any Credit Document.

Section 4.6. Compliance with ERISA. To the best of the Borrower's knowledge after reasonable investigation: (a) Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Code with respect to each Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Code in respect of any Plan, (ii) failed to make any contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement, or made any amendment to any Plan or Benefit Arrangement, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Code or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

(b) Each Foreign Pension Plan has been maintained in substantial compliance with its terms and with the requirements of any and all applicable laws, statutes, rules, regulations and orders and has been maintained, where required, in good standing with applicable regulatory

authorities. All material contributions required to be made with respect to a Foreign Pension Plan have been timely made. Neither the Borrower nor any of its Subsidiaries has incurred any material obligation in connection with the termination of or withdrawal from any Foreign Pension Plan. The Borrower and its Subsidiaries do not maintain or contribute to any Foreign Pension Plan the obligations with respect to which could reasonably be expected to have a material adverse effect on the ability of the Borrower or the Borrower and its Subsidiaries taken as a whole to perform their obligations under the Credit Documents.

Section 4.7. Environmental Matters. To the best of the Borrower's knowledge after reasonable investigation: Each of the Borrower and its Subsidiaries has obtained all material environmental, health and safety permits, licenses and other authorizations required under all Environmental Laws to carry on its business as now being or as proposed to be conducted except for such permits, licenses and other authorizations the failure to obtain, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. Each of such permits, licenses and authorizations is in full force and effect and the Borrower and its Subsidiaries is in material compliance with the terms and conditions thereof, and is also in material compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any applicable Environmental Law or in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder except for such failure to comply, individually or in the aggregate, as could not reasonably be expected to result in a Material Adverse Effect. In addition, no notice, notification, demand, request for information, citations, summons or order has been issued, no complaint has been filed, no penalty has been assessed and no investigation or review is pending or threatened by any governmental or other entity with respect to any alleged failure by the Borrower or any of its Subsidiaries to have any environmental, health or safety permit, license or other authorization required under any Environmental Law in connection with the conduct of the business of the Borrower or any of its Subsidiaries or with respect to any generation, treatment, storage, recycling, transportation, discharge or disposal, or any release of any Hazardous Substance generated or handled by the Borrower or any of its Subsidiaries except for such matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. There have been no environmental investigations, studies, audits, tests, reviews or other analyses conducted by or that are in the possession of the Borrower or any of its Subsidiaries in relation to any site or facility now or previously owned, operated or leased by the Borrower or any of its Subsidiaries which have not been made available to the Administrative Agent and the Banks except for such matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 4.8. Taxes. The Borrower and its Subsidiaries have filed all United States Federal and Canadian income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any Subsidiary, except such taxes, if any, as are being contested in good faith and by appropriate proceedings. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Borrower, adequate.

Section 4.9. Subsidiaries. Each of the Borrower's corporate Subsidiaries, if any, is a corporation duly incorporated, validly existing and, where applicable, in good standing under the laws of its jurisdiction of incorporation, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted except where the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

Section 4.10. Investment Company. The Borrower is not an "investment company" within the meaning of the U.S. Investment Company Act of 1940, as amended.

Section 4.11. Full Disclosure. All information heretofore furnished by the Borrower to the Administrative Agent or any Bank for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such information hereafter furnished by the Borrower to the Administrative Agent or any Bank will be, true and accurate in all material respects on the date as of which such information is stated or certified. The Borrower has disclosed to the Banks in writing any and all facts which materially and adversely affect or may affect (to the extent the Borrower can now reasonably foresee), the business, operations or financial condition of the Borrower and its Consolidated Subsidiaries, taken as a whole, or the ability of the Borrower to perform its obligations under this Agreement or the other Credit Documents.

ARTICLE 5

COVENANTS

The Borrower and each Guarantor, as the case may be, agree that, so long as any Bank has any Commitment hereunder or any amount payable hereunder or under any Note remains unpaid:

Section 5.1. Information. The Borrower will deliver to each of the Banks:

(a) as soon as available and in any event within 90 days after the end of each fiscal year of the Borrower, the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income, cash flows, and changes in common stockholders' equity, each for such fiscal year, setting forth in comparative form the figures for the previous fiscal year and certified by Deloitte & Touche LLP or another independent public accounting firm of nationally recognized standing;

(b) as soon as available and in any event within 45 days after the end of each of the first three fiscal quarters of the Borrower, the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such quarter and for the portion of the Borrower's fiscal year ended at the end of such quarter, setting forth in comparative form the figures for the corresponding quarter and the corresponding portion of the Borrower's previous fiscal year, all certified (subject to normal year-end adjustments and

the absence of footnotes) to fairly present in all material respects, such financial condition, and as to generally accepted accounting principles and consistency by the treasurer or chief financial officer of the Borrower;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate of the treasurer or chief financial officer of the Borrower, (i) setting forth in reasonable detail the calculations required to establish whether the Borrower was in compliance with the requirements of Sections 5.11, 5.12, 5.13 and 5.14 and the current outstanding balances of all Intercompany Notes as of the date of such financial statements, and (ii) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(d) so long as not contrary to the then recommendations of the Financial Accounting Standards Board, simultaneously with the delivery of each set of financial statements referred to in clause (a) above, a statement of the accounting firm which reported on such statements as to whether anything has come to their attention to cause them to believe that any Default existed on the date of such statements;

(e) within 45 days after the beginning of each fiscal year of the Borrower, a budget in form reasonably satisfactory to the Administrative Agent (including budgeted statements of consolidated income, consolidated cash flows, and consolidated balance sheets) prepared by the Borrower for each of the four quarters of such fiscal year, accompanied by a statement of the treasurer or chief financial officer of the Borrower to the effect that, to the best of such officer's knowledge, the budget is a reasonable estimate for the period covered thereby;

(f) within five days after any officer of any Credit Party obtains knowledge of any Default, if such Default is then continuing, a certificate of the treasurer or chief financial officer of the Borrower setting forth the details thereof and the action which the Borrower or such Credit Party is taking or proposes to take with respect thereto;

(g) promptly after the mailing thereof to the public shareholders of the Borrower, copies of all financial statements, reports and proxy statements so mailed;

(h) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Borrower or any other Credit Party shall have filed with the Securities and Exchange Commission;

(i) promptly upon discovery of the fact that any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator

of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan, Foreign Pension Plan or Multiemployer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan, Foreign Pension Plan or Benefit Arrangement which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a certificate of the treasurer of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower, the applicable Credit Party or the applicable member of the ERISA Group is required or proposes to take;

(j) to the extent permitted by applicable law, promptly upon the receipt or execution thereof, (i) notice by the Borrower or any Insured Subsidiary that (1) it has received a request or directive from any federal or state regulatory agency which requires it to submit a capital maintenance or restoration plan that restricts the payment of dividends by any Insured Subsidiary to the Borrower or (2) it has submitted a capital maintenance or restoration plan to any federal or state regulatory agency or has entered into a memorandum or agreement with any such agency, in each case which plan, memorandum or agreement restricts the payment of dividends by any Insured Subsidiary to the Borrower, and (ii) copies of any such plan, memorandum, or agreement, unless disclosure is prohibited by the terms thereof and, after the Borrower or such Insured Subsidiary has in good faith attempted to obtain the consent of such regulatory agency, such agency will not consent to the disclosure of such plan, memorandum, or agreement to the Bank;

(k) prompt notice if the Borrower, any Subsidiary or any other Credit Party shall receive any notification from any governmental authority alleging a violation of any applicable law or any inquiry which could reasonably be expected to have a material adverse effect on the Borrower and the other Credit Parties, taken as a whole;

(l) prompt notice of any Person becoming a Material Subsidiary;

(m) prompt notice of the sale, transfer or other disposition of any Material Asset of the Borrower, any Subsidiary or any other Credit Party to any Person other than the Borrower, any Subsidiary or any other Credit Party other than a sale, transfer or other disposition made in the ordinary course of business;

(n) prompt notice of any change in the senior management of the Borrower and any change in the business assets, liabilities, financial condition or operations of the Borrower, any Subsidiary or any other Credit Party which has had or could reasonably be expected to have a material adverse effect on the Borrower and the other Credit Parties, taken as a whole; and

(o) from time to time such additional information regarding the financial position or business of the Credit Parties and their Subsidiaries (including non-financial information and examination reports and supervisory letters to the extent permitted by applicable regulatory authorities) as the Administrative Agent, at the request of any Bank, may reasonably request.

Section 5.2. Payment of Obligations. Each Credit Party will pay and discharge, and will cause each Subsidiary to pay and discharge, at or before maturity, all their respective material obligations and liabilities (including, without limitation, tax liabilities and claims of materialmen, warehousemen and the like which if unpaid might by law give rise to a Lien), except where the same (i) may be contested in good faith by appropriate proceedings, and will maintain, and will cause each Subsidiary to maintain, in accordance with generally accepted accounting principles, appropriate reserves for the accrual of any of the same or (ii) could not reasonably be expected to result in a Material Adverse Effect.

Section 5.3. Maintenance of Property; Insurance. (a) Each Credit Party will keep, and will cause each Subsidiary to keep, all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted.

(b) Each Credit Party will, and will cause each Subsidiary to, maintain (either in the name of the Borrower or in its own name) with financially sound and responsible insurance companies, insurance on all their respective properties in at least such amounts, against at least such risks and with such risk retention as are usually maintained, insured against or retained, as the case may be, in the same general area by companies of established repute engaged in the same or a similar business and will furnish to the Banks, upon request from the Administrative Agent, information presented in reasonable detail as to the insurance so carried.

Section 5.4. Conduct of Business and Maintenance of Existence. Each Credit Party will continue, and will cause each Subsidiary to continue, to engage in business of the same general type as now conducted by such Credit Party, and will preserve, renew and keep in full force and effect, and will cause each Subsidiary to preserve, renew and keep in full force and effect their respective existence and their respective rights, privileges and franchises necessary or desirable in the normal conduct of business; *provided*, that nothing in this Section 5.4 shall prohibit (i) a merger or consolidation which is otherwise permitted by Section 5.7 or (ii) the termination of the corporate existence of any Subsidiary if the Borrower in good faith determines that such termination is in the best interest of the Borrower and is not materially disadvantageous to the Banks.

Section 5.5. Compliance with Laws. Each Credit Party will comply, and cause each Subsidiary to comply, in all respects with all applicable laws, ordinances, rules, regulations, and

requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder) except (i) where the necessity of compliance therewith is contested in good faith by appropriate proceedings or (ii) to the extent that failure to comply therewith could not reasonably be expected to result in a Material Adverse Effect.

Section 5.6. Inspection of Property, Books and Records. The Credit Parties will keep, and will cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each Subsidiary to permit, representatives of any Bank, at such Bank's expense, to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

Section 5.7. Mergers and Sales of Assets. The Credit Parties will not (x) consolidate or merge with or into any other Person or (y) sell, lease or otherwise transfer, directly or indirectly, any substantial part of the assets of any Credit Party and its Subsidiaries, taken as a whole, to any other Person; except that the following shall be permitted, but in the case of clauses (a), (c) and (d) below, only so long as no Default shall have occurred and be continuing both before and after giving effect thereto: (a) (i) any Credit Party may merge with or sell or otherwise transfer assets to the Borrower or any Guarantor, (ii) any Person may be merged with or into any Credit Party pursuant to an acquisition permitted by Section 5.21(b), *provided* that such Credit Party is the surviving corporation of such merger and (iii) any Credit Party (other than the Borrower) may be merged with or into any Person pursuant to an acquisition permitted by Section 5.21(b), *provided* that if required by Section 5.23 the surviving entity becomes a Guarantor at the time of such merger pursuant to documentation reasonably acceptable to the Administrative Agent, (b) the sale or other transfer of credit card receivables and related assets pursuant to Qualified Securitization Transactions, (c) assets sold and leased back in the normal course of the Borrower's business and (d) sales, leases and other transfers of assets in an aggregate amount which when combined with all such other transactions under this clause (d) during the then current fiscal year, represents the disposition of assets with an aggregate book value not greater than 15% of Consolidated Total Assets of the Borrower calculated as of the end of the immediately preceding fiscal year.

Section 5.8. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower solely to finance the Borrower's accelerated share repurchase program.

Section 5.9. Negative Pledge. Neither a Credit Party nor any Subsidiary will create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except:

(a) Liens existing on the Effective Date and listed on Schedule 5.9 hereto;

(b) any Lien existing on any asset of any Person at the time such Person merges with or becomes a Subsidiary and not created in contemplation of such event;

(c) any Lien on any asset securing Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring such asset, *provided* that such Lien attaches only to such asset acquired and attaches concurrently with or within 90 days after the acquisition thereof;

(d) any Lien on any asset of any Person existing at the time such Person is merged or consolidated with or into a Credit Party or its Subsidiary and not created in contemplation of such event, so long as such Lien does not attach to any other asset of such Credit Party or its Subsidiaries;

(e) any Lien existing on any asset prior to the acquisition thereof by a Credit Party or a Subsidiary and not created in contemplation of such acquisition;

(f) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by any Lien permitted by any of the foregoing clauses of this Section, *provided* that the amount of such Debt is not increased and is not secured by any additional assets;

(g) Liens arising in the ordinary course of its business which (i) do not secure Debt or Derivatives Obligations, (ii) do not secure any obligation in an amount exceeding U.S. $5,000,000 and (iii) do not in the aggregate materially detract from the value of the assets secured or materially impair the use thereof in the operation of such Credit Party or Subsidiary's business;

(h) Liens arising in connection with Qualified Securitization Transactions;

(i) Liens securing Debt permitted under Section 5.15(iv) hereof;

(j) Liens incurred or deposits or pledges made in the ordinary course of business (i) in connection with workers' compensation, unemployment insurance and other types of social security, (ii) to secure the payment or performance of tenders, statutory or regulatory obligations, bids, leases, contracts (including contracts to provide customer care services, billing services, transaction processing services and other services), performance and return of money bonds and other similar obligations, including letters of credit and bank guarantees required or requested by the United States, any State thereof or any foreign government or any subdivision, department, agency, organization or instrumentality of any of the foregoing in connection with any contract or statute (exclusive of obligations for the payment of borrowed money), or (iii) to cover anticipated costs of future redemptions of awards under loyalty marketing programs; and

(k) Liens not otherwise permitted by the foregoing clauses of this Section 5.9 securing Debt in an aggregate principal or face amount at any date not to exceed $250,000,000.

In each case set forth above, notwithstanding any stated limitation on the assets that may be subject to such Lien, a Lien on a specified asset or group or type of assets may include Liens on all improvements, additions and accessions thereto and all products and proceeds thereof.

Section 5.10. End of Fiscal Years and Fiscal Quarters. The Borrower shall cause its fiscal year, and shall cause each of its Subsidiaries' fiscal years, to end on December 31 and shall cause its and each of its Subsidiaries' fiscal quarters to coincide with calendar quarters.

Section 5.11. Total Leverage Ratio. The Borrower shall not permit its Total Leverage Ratio at any time to exceed 3.75 to 1:00.

Section 5.12. Senior Leverage Ratio. The Borrower shall not permit its Senior Leverage Ratio at any time to exceed 2.75 to 1.00.

Section 5.13. Interest Coverage Ratio. The Borrower will not permit its Interest Coverage Ratio for any period of four consecutive fiscal quarters, as determined for such four quarter period ending on the last day of any fiscal quarter, to be less than 3.50 to 1.00.

Section 5.14. Delinquency Ratio. The Borrower shall not permit the average of the Delinquency Ratios for WFNNB for the most recently ended three consecutive calendar months to exceed 4.5%.

Section 5.15. Debt Limitation. The Borrower shall not, and shall not permit any of its Subsidiaries, whether now existing or created in the future, to create or retain any Debt other than (i) any Debt created or retained by the Borrower or such Subsidiary on or before the Effective Date and extensions, renewals, refinancings, refundings and replacements thereof, (ii) any Debt owed to the Borrower or a Subsidiary by the Borrower or a Subsidiary, *provided* that (A) all such loans shall be made in compliance with Section 5.21(a), and (B) all such loans from the Borrower to a Subsidiary shall be made pursuant to and evidenced by an Intercompany Note, (iii) issuances by Insured Subsidiaries of certificates of deposit and other items to the extent no Default results therefrom pursuant to the other covenants contained in this Article 5, (iv) obligations of the Borrower or its Subsidiaries as lessee in respect of leases of property which are capitalized in accordance with generally accepted accounting principles and shown on the balance sheet of the Borrower and its Subsidiaries, (v) loans from time to time under this Agreement, (vi) Debt incurred by the Borrower and its Subsidiaries in the nature of a purchase price adjustment in connection with a permitted Restricted Acquisition, (vii) Debt (other than Debt of the types described in clauses (iii) or (iv) of this Section 5.15) of any Person that is acquired by the Borrower or any Subsidiary and becomes a Subsidiary or is merged with or into the Borrower or any Subsidiary after the Effective Date and Debt secured by an asset acquired by the Borrower or any Subsidiary after the Effective Date, and, in each case, refinancings, renewals, extensions, refundings and replacements thereof, if (A) such original Debt was in existence on the date such Person became a Subsidiary or merged with or into the Borrower or any Subsidiary or on the date that such asset was acquired, as the case may be, (B) such original Debt was not created in contemplation of such Person becoming a Subsidiary or merging with or into the Borrower or any Subsidiary or such asset being acquired, as the case may be, and (C) immediately after giving effect to the acquisition of such Person or asset by the Borrower or any

Subsidiary, as the case may be, no Default or Event of Default shall have occurred and be continuing, including, without limitation, under Section 5.21(b) of this Agreement, and (viii) Debt of the Borrower and its Subsidiaries in an amount such that, after giving *pro forma* effect thereto and to the use of proceeds thereof as contemplated by Section 5.21(b)(i), Borrower shall be in compliance with the covenants set forth in Sections 5.11, 5.12 and 5.13 of this Agreement.

Section 5.16. Capitalization of Insured Subsidiaries. The Borrower shall, at all times, cause all Insured Subsidiaries to be "well capitalized" within the meaning of U.S. 12 C.F.R. 208.43(b)(1) or any successor regulation and such Insured Subsidiaries at no time be reclassified by any relevant agency as anything other than "well capitalized."

Section 5.17. Restricted Payments; Required Dividends. (a) Other than payments made in accordance with the terms of subsection (b) below, neither the Borrower nor any of its Subsidiaries will declare or make any Restricted Payment unless, immediately prior to and after giving effect thereto, no Default or Event of Default exists.

(b) The Borrower shall cause each Domestic Subsidiary (to the extent permitted under any applicable law, rule or regulation, judgment, injunction, order or decree of any governmental authority) to take all such necessary corporate actions to declare cash dividends, payable to the shareholder of such Subsidiary, in an aggregate amount, if any, equal to all amounts that are then due and owing and remain outstanding after the date of payment therefor pursuant to the terms of this Agreement.

Notwithstanding the foregoing, if a Default or Event of Default exists, neither the Borrower nor any of its Subsidiaries shall make any Restricted Payments to any Person other than to the Borrower or any other Credit Party.

Section 5.18. Equity Ownership, Limitation on Creation of Subsidiaries. Notwithstanding anything to the contrary contained in this Agreement, the Borrower will not, and will not permit any of its Subsidiaries to, establish, create or acquire after the Effective Date any Subsidiary; *provided* that (A) the Borrower and its Wholly-Owned Subsidiaries shall be permitted to establish or create Wholly-Owned Subsidiaries so long as, in each case, (i) if such new Subsidiary is a Material Subsidiary, written notice of the establishment or creation thereof is given to the Administrative Agent promptly after such establishment or creation as required pursuant to Section 5.1(l), and (ii) if required by Section 5.23, such new Subsidiary promptly executes a Guarantor Supplement to become a Guarantor pursuant to Article 9 (or similar document satisfactory to the Administrative Agent) and (B) Subsidiaries may be acquired to the extent such acquisition does not give rise to a Default hereunder so long as the actions specified in preceding clause (A) shall be taken, and, to the extent applicable, the Borrower complies with Section 5.21(b). In addition, each new Subsidiary that is required to execute any Credit Document shall execute and deliver, or cause to be executed and delivered, all other relevant documentation of the type described in Section 3.1 as such new Subsidiary would have had to deliver if such new Subsidiary were a Credit Party on the Effective Date.

Section 5.19. Change of Business. The Borrower will not, and will not permit any of its Subsidiaries to, materially alter the character of the business of the Borrower and its Subsidiaries from that conducted on the Effective Date.

Section 5.20. Limitation on Issuance of Capital Stock. The Borrower will not permit any of its Subsidiaries to issue any capital stock (including by way of sales of treasury stock) or any options or warrants to purchase, or securities convertible into, capital stock, except (i) for transfers and replacements of then outstanding shares of capital stock, (ii) for stock splits, stock dividends and issuances which do not decrease the percentage ownership of the Borrower or any of its Subsidiaries in any class of the capital stock of such Subsidiary, (iii) to qualify directors to the extent required by applicable law, (iv) for issuances by newly created or acquired Subsidiaries in accordance with the terms of this Agreement, and (v) to the Borrower or a Subsidiary of the Borrower.

Section 5.21. Investments; Restricted Acquisition. (a) The Borrower shall not, and shall not permit any Subsidiary to hold, make or acquire any Investment in any Person other than:

(i) Investments by the Borrower or its Subsidiaries in Persons which are Guarantors;

(ii) Investments by the Borrower or its Subsidiaries in Persons which are Domestic Subsidiaries but not Guarantors; *provided that*, immediately after each such Investment is made, the aggregate amount of such Investments then outstanding (the amount of each such Investment being measured at the time such Investment was made) (and without duplication of amounts subsequently invested by the recipient thereof in another Domestic Subsidiary that is not a Guarantor) shall not exceed $75,000,000 *plus* the amount invested or committed to be invested on the Effective Date as shown on Schedule 5.21, and in each case all amendments, restatements, modifications, extensions, renewals, refinancings, refundings and replacements of such Investments;

(iii) Investments by the Borrower or its Subsidiaries in Foreign Subsidiaries *provided that*, immediately after each such Investment is made, the aggregate amount of such Investments then outstanding (the amount of each such Investment being measured at the time such Investment was made) (and without duplication of amounts subsequently invested by the recipient thereof in another Foreign Subsidiary) shall not exceed $75,000,000 *plus* the amount invested or committed to be invested on the Effective Date as shown on Schedule 5.21, and in each case all amendments, restatements, modifications, extensions, renewals, refinancings, refundings and replacements of such Investments;

(iv) Investments consistent with the investment policy attached hereto as Schedule II, which Schedule II may be revised by the Borrower from time to time with the consent of the Administrative Agent, such consent not to be unreasonably withheld;

(v) Investments by Insured Subsidiaries as are necessary to comply with the provisions of The Community Reinvestment Act;

(vi) Investments consisting of credit card loans made by Insured Subsidiaries pursuant to the terms of any applicable credit card accounts owned by Insured Subsidiaries;

(vii) Restricted Acquisitions permitted under Section 5.21(b);

(viii) Investments in Insured Subsidiaries to the extent necessary in order to maintain compliance with Section 5.16;

(ix) Investments made in connection with Qualified Securitization Transactions; and

(x) any Investment not otherwise permitted by the foregoing clauses of this Section if, immediately after such Investment is made or acquired, the aggregate net book value of all Investments permitted by this clause (x) (measured at the time each such Investment is made) does not exceed $75,000,000.

(b) The Borrower and its Subsidiaries may make Restricted Acquisitions so long as:

(i) the Borrower and its Subsidiaries shall be in compliance with all provisions of this Agreement, including all financial covenants, both before and after giving effect thereto, with such financial covenants to be calculated on a *pro forma* basis as if such Restricted Acquisition had been consummated on the first day of the then most recently ended period of twelve consecutive fiscal months and giving effect to (x) the actual historical financial performance (including Consolidated Operating EBITDA) of such acquired entity and (y) identifiable cost savings associated with providing data processing services to such acquired entities as reasonably approved by the Administrative Agent;

(ii) the total consideration paid (including equity issued and Debt assumed) in connection with any Restricted Acquisition of a Person which as a result thereof does not become a Wholly-Owned Subsidiary of the Borrower shall not exceed $125,000,000 in the aggregate for all such Restricted Acquisitions in any fiscal year of the Borrower;

(iii) such Restricted Acquisition is not a Hostile Acquisition; and

(iv) the Borrower complies with Section 5.18.

Section 5.22. No Restrictions. Except as provided herein, the Borrower will not, and will not permit any Subsidiary to, directly or indirectly create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Insured Subsidiary to: (a) pay dividends or make any other distribution on any Subsidiary's capital stock or other equity interests owned by the Borrower or any other Subsidiary, (b) pay any indebtedness owed to the Borrower or any other Subsidiary, (c) make loans or advances to the Borrower or any other Subsidiary or (d) transfer any of its property to the Borrower or any other Subsidiary, except encumbrances and restrictions of the types described below:

(1) encumbrances and restrictions contained in this Agreement and the other Credit Documents;

(2) customary supermajority voting provisions and other customary provisions with respect to the disposition or distribution of assets, each contained in corporate charters, bylaws, stockholders' agreements, limited liability company agreements, partnership agreements, joint venture agreements and other similar agreements;

(3) encumbrances and restrictions required by law or by any regulatory authority having jurisdiction over such Insured Subsidiary or any of their businesses;

(4) customary restrictions in agreements governing Liens permitted under Section 5.9 provided that such restrictions relate solely to the property subject to such Lien;

(5) encumbrances and restrictions contained in any merger agreement or any agreement for the sale or other disposition of an asset, including, without limitation, the capital stock or other equity interest of a Subsidiary, *provided, that* such restriction is limited to the asset that is the subject of such agreement for sale or disposition and such disposition is made in compliance with Section 5.7;

(6) encumbrances and restrictions contained in contracts (other than relating to Debt) entered into in the ordinary course of business that do not, in the aggregate, detract from the value of the property or assets of the Borrower or any Subsidiary in any material manner (including, without limitation, non-assignment provisions in leases and licenses);

(7) encumbrances and restrictions contained in agreements governing Debt permitted under Section 5.15; and

(8) encumbrances and restrictions contained in any agreement or instrument, capital stock or other equity interest that amends, modifies, restates, renews, increases, supplements, refunds, replaces, extends or refinances any agreement, instrument or capital stock or equity interest described in clauses (1)-(8) of this Section, from time to time, in whole or in part, *provided that* the encumbrances or restrictions set forth therein are not more restrictive than those contained in the predecessor agreement, instrument or capital stock or other equity interest.

Section 5.23. Guarantors. The Borrower will (a) cause each Material Domestic Subsidiary to execute this Agreement as a Guarantor (and from and after the Effective Date cause each Material Domestic Subsidiary to execute and deliver to the Administrative Agent, as promptly as possible, but in any event within thirty (30) days after becoming a Material Domestic Subsidiary of the Borrower, an executed Guarantor Supplement to become a Guarantor hereunder (whereupon such Subsidiary shall become a *"Guarantor"* under this Agreement)), and (b) deliver and cause each such Subsidiary to deliver corporate resolutions, opinions of counsel,

and such other corporate documentation as the Administrative Agent may reasonably request, all in form and substance reasonably satisfactory to the Administrative Agent; *provided, however,* that upon the Borrower's written request of and certification to the Administrative Agent that a Subsidiary is no longer a Material Domestic Subsidiary, the Administrative Agent shall release such Subsidiary from its duties and obligations hereunder and under its Guarantor Supplement; *provided, further,* that if such Subsidiary subsequently qualifies as a Material Domestic Subsidiary, it shall be required to re-execute the Guarantor Supplement. Notwithstanding the foregoing, the provisions of this Section 5.23 shall not be applicable with respect to Insured Subsidiaries, Qualified Securitization Subsidiaries and Subsidiaries of Foreign Subsidiaries, Insured Subsidiaries and Qualified Securitization Subsidiaries.

ARTICLE 6

DEFAULTS

Section 6.1. Events of Default. If one or more of the following events ("*Events of Default*") shall have occurred and be continuing:

(a) the Borrower shall fail to pay when due any principal of any Loan or shall fail to pay within 5 Business Days from the date due any interest, any fees or any other amount payable hereunder;

(b) any Credit Party shall fail to observe or perform any covenant contained in Article 5 (other than those contained in Sections 5.1 through 5.3 inclusive, Section 5.5, Section 5.6, Section 5.17(b) and Section 5.18);

(c) any Credit Party shall fail to observe or perform any covenant or agreement contained in this Agreement (other than those covered by clause (a) or (b) above) for 30 days after notice thereof has been given to the applicable Credit Party by the Administrative Agent at the request of the Required Banks;

(d) any representation, warranty, certification or statement made by any Credit Party in any Credit Document or in any certificate, financial statement or other document delivered pursuant to this Agreement shall prove to have been incorrect in any material respect when made (or deemed made);

(e) any Credit Party or any Subsidiary of any of them shall fail to make any payment in respect of any Material Financial Obligations when due or within any applicable grace period;

(f) any event or condition shall occur which results in the acceleration of the maturity of any Material Debt of any Credit Party or any Subsidiary of a Credit Party or enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Debt or any Person acting on such holder's behalf to accelerate the maturity thereof;

(g) any Credit Party, any Domestic Subsidiary or any Material Subsidiary of any of them shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver (which for the purposes hereof include a receiver and manager or an interim receiver), liquidator, custodian, examiner or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of, or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing or any Insured Subsidiary that is a Material Subsidiary shall cease to be a federally insured depositary institution, or a cease and desist order which is material and adverse to the conduct of such Insured Subsidiary's business or assets shall be issued against the Borrower or any such Insured Subsidiary pursuant to applicable federal or state law applicable to banks or thrifts;

(h) an involuntary case or other proceeding shall be commenced against any Credit Party, any Domestic Subsidiary or any Material Subsidiary of any of them seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, examiner or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against any Credit Party, any Domestic Subsidiary or any Material Subsidiary of any of them under the federal bankruptcy laws as now or hereafter in effect;

(i) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of U.S. $25,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could cause one or more members of the ERISA Group to incur a current payment obligation in excess of U.S. $25,000,000;

(j) judgments or orders for the payment of money aggregating in excess of U.S. $25,000,000 shall be rendered against the Borrower or any of its Subsidiaries and such judgments or orders shall continue unsatisfied and unstayed for a period of 30 days;

(k) a Change of Control shall occur;

(l) any Guarantor shall revoke its guaranty provided for in Article 9 of this Agreement or assert that its guaranty provided for in Article 9 of this Agreement is unenforceable or otherwise invalid except as permitted hereunder; or

(m) any License Agreement shall terminate or any arbitration or litigation shall be commenced seeking termination thereof (except that any litigation or arbitration commenced by a Person who is not a party to such License Agreement shall not result in an Event of Default hereunder unless such action is not stayed or dismissed within 60 days of the commencement thereof), or any party shall assert any termination thereof, or any party to any License Agreement shall default in any of its material obligations thereunder beyond the period of grace (if any) therein provided, except for such terminations, arbitrations, litigations, assertions or defaults which, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect;

then, and in every such event, the Administrative Agent shall (i) if requested by Banks having more than 50% in aggregate amount of the Commitments, by notice to the Borrower terminate the Commitments and they shall thereupon terminate and (ii) if requested by Banks holding more than 50% of the aggregate principal amount of the Loans, by notice to the Borrower declare the Loans (together with accrued interest thereon) to be, and the Loans shall thereupon become, immediately due and payable without presentment, demand, notice of acceleration, notice of intent to accelerate, protest or other notice of any kind, all of which are hereby waived by the Borrower; *provided*, that in the case of any of the Events of Default specified in clause 6.1(g) or 6.1(h) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or the Banks, the Commitments shall thereupon terminate and the Loans (together with accrued interest thereon) shall become immediately due and payable without presentment, demand, notice of acceleration, notice of intent to accelerate, protest or other notice of any kind, all of which are hereby waived by the Borrower.

Section 6.2. Notice of Default. (a) The Borrower shall comply with Section 5.1(f).

(b) The Administrative Agent shall give notice to the Borrower as provided in Section 6.1(c) promptly upon being requested to do so by the Required Banks and shall thereupon notify all the Banks thereof.

ARTICLE 7

THE AGENT

Section 7.1. Appointment and Authorization. (a) Each Bank irrevocably appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement and the Notes as are delegated to the Administrative Agent by the terms hereof or thereof, together with all such powers as are reasonably incidental thereto.

Section 7.2. Administrative Agent and Affiliates. The Administrative Agent shall have the same rights and powers under this Agreement as any other Bank and may exercise or refrain from exercising the same as though it were not the Administrative Agent, and the Administrative

Agent and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Borrower or any Subsidiary or affiliate of the Borrower as if it were not the Administrative Agent.

Section 7.3. Action by Administrative Agent. The obligations of the Administrative Agent hereunder are only those expressly set forth herein. Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action with respect to any Default, except as expressly provided in Article 6.

Section 7.4. Consultation with Experts. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower and/or any Guarantor), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 7.5. Liability of Administrative Agent. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be liable for any action taken or not taken by it in connection herewith (i) with the consent or at the request of the Required Banks (or, when expressly required hereby, such different number of Banks required to consent to or request such action or inaction) or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement or any Borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements of the Borrower or any Guarantor; (iii) the satisfaction of any condition specified in Article 3, except receipt of items required to be delivered to the Administrative Agent; or (iv) the validity, effectiveness or genuineness of this Agreement, the Notes or any other instrument or writing furnished in connection herewith. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire, facsimile transmission or similar writing) believed by it to be genuine or to be signed by the proper party or parties. Without limiting the generality of the foregoing, the use of the term “agent” in this Agreement with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom and is intended to create or reflect only an administrative relationship between independent contracting parties.

Section 7.6. Indemnification. Each Bank shall, ratably in accordance with its Percentage, indemnify the Administrative Agent, its affiliates and their respective directors, officers, agents and employees (to the extent not reimbursed by the Borrower) against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from such indemnities, gross negligence or willful misconduct) that such indemnities may suffer or incur in connection with this Agreement or any action taken or omitted by such indemnities hereunder.

Section 7.7. Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action under this Agreement.

Section 7.8. Successor Administrative Agent. The Administrative Agent may resign at any time by giving notice thereof to the Banks and the Borrower. Upon any such resignation, the Required Banks shall have the right to appoint a successor Administrative Agent, subject to the consent of the Borrower if no Event of Default exists (such consent not to be unreasonably withheld). If no successor Administrative Agent shall have been so appointed by the Required Banks, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent gives notice of resignation, then the retiring Administrative Agent may, on behalf of the Banks, appoint a successor Administrative Agent, subject to the consent of the Borrower if no Event of Default exists (such consent not to be unreasonably withheld), which shall be a commercial bank organized under the laws of Canada or the United States of America or of any State thereof and having a combined capital and surplus of at least the U.S. Dollar Equivalent of U.S. $100,000,000. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

ARTICLE 8

CHANGE IN CIRCUMSTANCES

Section 8.1. Basis for Determining Interest Rate Inaccurate or Unfair. If on, or prior to, the first day of any Interest Period for a Euro-Dollar Loan:

(a) the Administrative Agent determines that deposits in U.S. Dollars (in the applicable amounts) are not being offered to the Administrative Agent in the Euro-Dollar market for such Interest Period, or

(b) Banks having 50% or more of the aggregate principal amount of the affected Loans advise the Administrative Agent that the London Interbank Offered Rate, as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Banks of funding their Euro-Dollar Loans for such Interest Period,

the Administrative Agent shall forthwith give notice thereof to the Borrower and the Banks, whereupon until the Administrative Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Banks to make Euro-Dollar

Loans or to continue or convert outstanding Loans as or into Euro-Dollar Loans shall be suspended and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the then current Interest Period applicable thereto. Should either of the events set forth in subclause (a) or (b) above occur, unless the Borrower notifies the Administrative Agent at least two Business Days before the date of any Borrowing of Euro-Dollar Loans for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 8.2. Illegality. If, on or after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central Bank or comparable agency shall make it unlawful or impossible for any Bank (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Bank shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Banks and the Borrower whereupon until such Bank notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Bank to make Euro-Dollar Loans or to convert outstanding Loans into Euro-Dollar Loans shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Bank shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. If such notice is given, each Euro-Dollar Loan of such Bank then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such Loan if such Bank may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Bank shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 8.3. Increased Cost and Reduced Return. (a) If on or after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding with respect to any Euro-Dollar Loan any such requirement with respect to which such Bank is entitled to compensation during the relevant Interest Period under Section 2.15), special deposit, insurance assessment or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Bank (or its Applicable Lending Office) or shall impose on any Bank (or its Applicable Lending Office) or the London interbank market any other condition affecting its Loans, its Note or its obligation to make Loans and the result of any of the foregoing is to increase the cost to such Bank (or its Applicable Lending Office) of making or maintaining any Loan, or to reduce the amount of any sum received or receivable by such Bank (or its Applicable Lending Office) under this Agreement or under its Note with

respect thereto, by an amount deemed by such Bank to be material, then, within 15 days after demand by such Bank (with a copy to the Administrative Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction.

(b) If any Bank shall have determined that after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Bank (or its Parent) as a consequence of such Bank's obligations hereunder to a level below that which such Bank (or its Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within 15 days after demand by such Bank (with a copy to the Administrative Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank (or its Parent) for such reduction.

(c) Each Bank will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, which will entitle such Bank to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

Section 8.4. Taxes. (a) For the purposes of this Section 8.4, the following terms have the following meanings:

"*Taxes*" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by the Borrower or the applicable Guarantor, as the case may be, pursuant to this Agreement or under any Note, and all liabilities with respect thereto, *excluding* (i) in the case of each Bank and the Administrative Agent, taxes imposed on its income, receipts, capital and franchise or similar taxes imposed on it, by a jurisdiction under the laws of which such Bank or the Administrative Agent (as the case may be) is organized or in which its principal executive office is located or, in the case of each Bank, in which its Applicable Lending Office is located and (ii) in the case of each Bank, any United States withholding tax imposed on such payments but only to the extent that such Bank is subject to United States withholding tax at the time such Bank first becomes a party to this Agreement.

"*Other Taxes*" means any present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or under any Note or from the execution or delivery of, or otherwise with respect to, this Agreement or any Note.

(b) Any and all payments by the Borrower or the applicable Guarantor, as the case may be, to or for the account of any Bank or the Administrative Agent hereunder or under any Note shall be made without deduction for any Taxes or Other Taxes; *provided*, that, if the Borrower or the applicable Guarantor, as the case may be, shall be required by law to deduct any Taxes or Other Taxes from any such payments (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) such Bank or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower or the applicable Guarantor, as the case may be, shall make such deductions, (iii) the Borrower or the applicable Guarantor, as the case may be, shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower or the applicable Guarantor, as the case may be, shall furnish to the Administrative Agent, at its address referred to in Section 10.1, the original or a certified copy of a receipt evidencing payment thereof.

(c) The Borrower agrees to indemnify each Bank and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section) paid by such Bank or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be paid within 15 days after such Bank or the Administrative Agent (as the case may be) makes demand therefor.

(d) Each Bank organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Bank listed on the signature pages hereof and on or prior to the date on which it becomes a Bank in the case of each other Bank, and from time to time thereafter if requested in writing by the Borrower (but only so long as such Bank remains lawfully able to do so), shall provide the Borrower and the Administrative Agent with Internal Revenue Service form W-8 BEN or W-8ECI, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Bank is entitled to benefits under an income tax treaty to which the United States is a party which exempts the Bank from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Bank or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States.

(e) For any period with respect to which a Bank has failed to provide the Borrower or the Administrative Agent with the appropriate form pursuant to Section 8.4(d) (unless such failure is due to a change in treaty, law or regulation occurring subsequent to the date on which such form originally was required to be provided), such Bank shall not be entitled to indemnification under Section 8.4(b) or (c) with respect to Taxes imposed by the United States; *provided* that if a Bank, which is otherwise exempt from or subject to a reduced rate of withholding tax, becomes subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as such Bank shall reasonably request to assist such Bank to recover such Taxes.

(f) If the Borrower is required to pay additional amounts to or for the account of any Bank pursuant to this Section, then such Bank will change the jurisdiction of its Applicable Lending office if, in the judgment of such Bank, such change (i) will eliminate or reduce any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous to such Bank.

Section 8.5. Base Rate Loans Substituted for Affected Fixed Rate Loans. If (i) the obligation of any Bank to make, or convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 8.2 or (ii) any Bank has demanded compensation under Section 8.3 or 8.4 with respect to its Euro-Dollar Loans and the Borrower shall, by at least five Business Days' prior notice to such Bank through the Administrative Agent, have elected that the provisions of this Section shall apply to such Bank, then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer exist:

(a) all Loans which would otherwise be made by such Bank as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Banks); and

(b) after each of its Euro-Dollar Loans has been repaid (or converted to a Base Rate Loan), all payments of principal which would otherwise be applied to repay such Euro-Dollar Loans shall be applied to repay its Base Rate Loans instead.

If such Bank notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into Euro-Dollar Loans on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Banks.

Section 8.6. Limitations on Reimbursement. (a) The Borrower shall not be required to pay to any Bank reimbursement with regard to any costs or expenses under Section 2.15 or Article 8 incurred more than 90 days prior to the date of the relevant Bank's demand therefor.

(b) None of the Banks shall be permitted to pass through to the Borrower charges and costs under Section 2.15 or Article 8 on a discriminatory basis (*i.e.*, which are not also passed through by such Bank to other customers of such Bank similarly situated where such customer is subject to documents providing for such pass through).

(c) If the obligation of any Bank to make a Euro-Dollar Loan has been suspended under Section 8.2 or 8.5 for more than three consecutive months, or any Bank has requested compensation under Section 2.15 or 8.3, then the Borrower, provided no Default exists, shall have the right, subject to the Administrative Agent's prior written consent (such consent not to be unreasonably withheld) and in accordance with Section 10.6(c), to substitute a financial

institution for such Bank. Such substitution shall result in such financial institution acquiring such Bank's rights, duties and obligations hereunder and assuming such Bank's Commitment hereunder. Upon such acquisition and assumption, the obligations of the Bank subject thereto shall be discharged, such Bank's Commitment shall be reduced to zero, and such Bank shall cease to be obligated to make further Loans.

ARTICLE 9

PERFORMANCE AND PAYMENT GUARANTY

Section 9.1. Unconditional and Irrevocable Guaranty. (a) The Guarantors hereby jointly and severally, unconditionally and irrevocably undertake and agree with and for the benefit of the Administrative Agent and the Banks and each of their respective permitted assignees (collectively, the *"Beneficiaries"*) to cause the due payment, performance and observance by the Borrower and its assigns of all of the Obligations, terms, covenants, conditions, agreements and undertakings on the part of the Borrower, to be paid, performed or observed under any Credit Document in accordance with the terms thereof including, without limitation, any agreement of the Borrower to pay any amounts due with respect to the Loans, under this Agreement or any other amounts due and owing under any Credit Document together with all costs and expenses (including without limitation reasonable legal fees and disbursements) incurred by the Administrative Agent or any Bank in enforcing its or their rights under this Article 9 (all such Obligations, terms, covenants, conditions, agreements and undertakings on the part of the Borrower to be paid, performed or observed by the Borrower being collectively called the *"Guaranteed Obligations"*). In the event that the Borrower shall fail in any manner whatsoever to pay, perform or observe any of the Guaranteed Obligations when the same shall be required to be paid, performed or observed under such Credit Document (after giving effect to any cure period), then each of the Guarantors will itself jointly and severally duly pay, perform or observe, or cause to be duly paid, performed or observed, such Guaranteed Obligation, and it shall not be a condition to the accrual of the obligation of any Guarantor hereunder to pay, perform or observe any Guaranteed Obligation (or to cause the same to be paid, performed or observed) that the Administrative Agent, the Banks or any of their permitted assignees shall have first made any request of or demand upon or given any notice to any Guarantor or to the Borrower or its successors or assigns, or have instituted any action or proceeding against any Guarantor or the Borrower or its successors or assigns in respect thereof. Notwithstanding anything to the contrary contained in this Section 9.1 the obligations of the respective Guarantors hereunder in respect of the Borrower are expressly limited to the Guaranteed Obligations.

(b) *Irrevocability*. The Guarantors each agree that its obligations under this Agreement shall be joint and several and irrevocable. In the event that under applicable law (notwithstanding the Guarantors' agreement regarding the joint and several and irrevocable nature of its obligations hereunder) any Guarantor shall have the right to revoke its guaranty under this Agreement, this Agreement shall continue in full force and effect as to such Guarantor until a written revocation hereof specifically referring hereto, signed by such Guarantor, is actually received by the Administrative Agent, delivered as provided in Section 10.1 hereof. Any such revocation shall not affect the right of the Administrative Agent or any other

Beneficiary to enforce their respective rights under this Agreement with respect to (i) any Guaranteed Obligation (including any Guaranteed Obligation that is contingent or unmatured) which arose on or prior to the date the aforementioned revocation was received by the Administrative Agent or (ii) any other Guarantor. If the Administrative Agent, or its permitted assignees takes any action in reliance on this Agreement after any such revocation by a Guarantor but prior to the receipt by the Administrative Agent of said written notice, the rights of the Administrative Agent, any other Beneficiary or such permitted assignee with respect thereto shall be the same as if such revocation had not occurred.

Section 9.2. Enforcement. The Administrative Agent and its permitted assignees may proceed to enforce the obligations of the Guarantors under this Agreement without first pursuing or exhausting any right or remedy which the Administrative Agent or its permitted assignees may have against the Borrower, any other Person or any collateral under the Credit Documents.

Section 9.3. Obligations Absolute. To the extent permitted by law, the applicable Guarantor will perform its obligations under this Agreement regardless of any law now or hereafter in effect in any jurisdiction affecting any of the terms of this Agreement or any document delivered in connection with this Agreement or the rights of the Administrative Agent or its permitted assignees with respect thereto. The obligations of each Guarantor under this Agreement shall be absolute and unconditional irrespective of:

(a) any lack of validity or enforceability or the discharge or disaffirmance (by any Person, including a trustee in bankruptcy) of the Guaranteed Obligations, the Loans, any Credit Document or any collateral or any document, or any other agreement or instrument relating thereto;

(b) any exchange, release, discharge or non-perfection of any collateral or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Guaranteed Obligations;

(c) any failure to obtain any authorization or approval from or other action by, or to notify or file with, any governmental authority or regulatory body required in connection with the performance of such obligations by the Borrower or any Guarantor; or

(d) any impossibility or impracticality of performance, illegality, *force majeure*, any act of any government or any other circumstance which might constitute a legal or equitable defense available to, or a discharge of, the Borrower or any Guarantor, or any other circumstance, event or happening whatsoever, whether foreseen or unforeseen and whether similar or dissimilar to anything referred to above in this Section 9.3.

Each Guarantor further agrees that its obligations under this Agreement shall not be limited by any valuation or estimation made in connection with any proceedings involving the Borrower or any Guarantor filed under the U.S. Bankruptcy Code of 1978, as amended (the *"Bankruptcy Code"*), whether pursuant to Section 502 of the Bankruptcy Code or any other Section thereof.

Each Guarantor further agrees that the Administrative Agent shall be under no obligation to marshal any assets in favor of or against or in payment of any or all of the Guaranteed Obligations. Each Guarantor further agrees that, to the extent that a payment or payments are made by or on behalf of the Borrower to the Administrative Agent, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to the Borrower, the estate, trustee, receiver or any other party relating to the Borrower, including, without limitation, any Guarantor, under any bankruptcy law, state, or federal law, common law or equitable cause then, to the extent of such payment or repayment, the Guaranteed Obligations or part thereof which had been paid, reduced or satisfied by such amount shall be reinstated and continued in full force and effect as of the date such initial payment, reduction or satisfaction occurred. The obligations of any Guarantor under this Agreement shall not be discharged except by performance as provided herein.

Section 9.4. Waiver. Each Guarantor hereby waives promptness, diligence, notice of acceleration, notice of intent to accelerate, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and any Credit Document and any requirement that the Administrative Agent or its permitted assignees exhaust any right or take any action against the Borrower, any other Person or any collateral under the Credit Documents.

Section 9.5. Subrogation. No Guarantor will exercise or assert any rights which it may acquire by way of subrogation under this Agreement unless and until all of the Guaranteed Obligations shall have been paid and performed in full. If any payment shall be made to any Guarantor on account of any subrogation rights at any time when all of the Guaranteed Obligations shall not have been paid and performed in full each and every amount so paid will be held in trust for the benefit of the Beneficiaries and forthwith be paid to the appropriate Beneficiary in accordance with this Agreement and the appropriate Credit Document, to be credited and applied to the Guaranteed Obligations to the extent then unsatisfied, in accordance with the terms of this Agreement or any document delivered in connection with this Agreement, as the case may be. In the event (i) the Guarantors shall have satisfied any of the Guaranteed Obligations and (ii) all of the Guaranteed Obligations shall have been paid and performed in full, the Administrative Agent will, at the Guarantors' request and expense, execute and deliver to the Guarantors appropriate documents, without recourse and without representation or warranty of any kind, necessary to evidence or confirm the transfer by way of subrogation to the Guarantors of the rights of the Beneficiaries or any permitted assignee, as the case may be, with respect to the Guaranteed Obligations to which the Guarantors shall have become entitled by way of subrogation, and thereafter the Beneficiaries and their respective permitted assignees shall have no responsibility to the Guarantors or any other person with respect thereof.

Section 9.6. Survival. All covenants made by the Guarantors herein shall be considered to have been relied upon by the Administrative Agent and the Banks and shall survive regardless of any investigation made by the Administrative Agent or any Bank or on the Administrative Agent's behalf.

Section 9.7. Guarantors' Consent to Assigns. Each Bank may assign or participate out all or any portion of its Commitment or the Loans in accordance with Section 10.6 of this Agreement, and each Guarantor agrees to recognize any such Assignee or participant as a successor and assignee of such Bank hereunder, with all rights of such Bank hereunder.

Section 9.8. Continuing Agreement. Article 9 under this Agreement is a continuing agreement and shall remain in full force and effect until all of the Borrower's Obligations have been satisfied in full.

Section 9.9. Entire Agreement. Each Guarantor acknowledges and agrees that the guarantee delivered by it hereunder is delivered free of any conditions and no representations have been made to any Guarantor affecting the liability of such Guarantor under its guarantee hereunder. Each Guarantor confirms and agrees that the guarantee contained herein is in addition to and not in substitution for any other guarantee held or which may hereafter be held by the Administrative Agent or any Bank. The rights, remedies and benefits in this Article 9 are cumulative and not in substitution for or exclusive of any other rights or remedies or benefits which the Administrative Agent or the Banks may otherwise have.

Section 9.10. Application. All monies received by the Administrative Agent or the Banks under the guarantee contained in this Article 9 may be applied against such part or parts of the Guaranteed Obligations as the Administrative Agent and the Banks may see fit and they shall at all times and from time to time have the right to change any appropriation of monies received by it or them and to reapply the same against any other part or parts of the Guaranteed Obligations as it or they may see fit, notwithstanding any previous application howsoever made.

ARTICLE 10

MISCELLANEOUS

Section 10.1. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, facsimile transmission or similar writing) and shall be given to such party: (a) in the case of a Credit Party, at its address or facsimile number set forth on the signature pages hereof, (b) in the case of any Bank or the Administrative Agent, at its address or facsimile number set forth on the applicable Administrative Questionnaire or (c) in the case of any party, such other address or facsimile number as such party may hereafter specify for the purpose by notice to the Administrative Agent and the Borrower. Each such notice, request or other communication shall be effective (i) if given by facsimile transmission, when transmitted to the facsimile number specified in this Section and confirmation of receipt is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means, when delivered at the address specified in this Section; *provided* that notices to the Administrative Agent under Article 2 or Article 8 shall not be effective until received.

Section 10.2. No Waivers. No failure or delay by the Administrative Agent or any Bank in exercising any right, power or privilege hereunder or under any Note shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 10.3. Expenses; Indemnification. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses of the Administrative Agent, including fees and disbursements of counsel for the Administrative Agent, in connection with the preparation and administration of this Agreement and the other Credit Documents, any waiver or consent hereunder or any amendment hereof or any Default or alleged Default hereunder and (ii) if an Event of Default occurs, all out-of-pocket expenses incurred by the Administrative Agent and each Bank, including (without duplication) the fees and disbursements of outside counsel and the allocated cost of inside counsel, in connection with such Event of Default and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(b) The Borrower agrees to indemnify the Administrative Agent and each Bank, their respective affiliates and the respective directors, officers, agents and employees of the foregoing (each an "*Indemnitee*") and hold each Indemnitee harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened relating to or arising out of this Agreement or any actual or proposed use of proceeds of Loans hereunder; *provided*, that no Indemnitee shall have the right to be indemnified hereunder for (i) such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction or (ii) for any loss asserted by another Indemnitee.

Section 10.4. Sharing of Set-Offs. Each Bank agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Note held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of principal and interest due with respect to any Note held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Notes held by the other Banks, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Notes held by the Banks shall be shared by the Banks in accordance with their Percentages; *provided*, that nothing in this Section shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Borrower other than its indebtedness hereunder. Each Borrower agrees, to the fullest extent it may effectively do so under applicable law, that any holder of a participation in a Note, whether or not acquired pursuant to the foregoing arrangements, may exercise rights of set-off or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of the Borrower in the amount of such participation.

Section 10.5. Amendment or Waiver, etc. Neither this Agreement nor any other Credit Document nor any terms hereof or thereof may be changed, waived, discharged or terminated unless such change, waiver, discharge or termination is in writing signed by the respective Credit Parties party thereto and the Required Banks, *provided* that no such change, waiver, discharge or termination shall, without the consent of each Bank, (i) extend the final scheduled maturity of any Loan or Note, or reduce the rate of interest or fees or extend the time of payment of interest or fees, or reduce the principal amount thereof (except to the extent repaid in cash) (*provided* that

any amendment or modification to the financial definitions in this Agreement or to Section 2.14 shall not constitute a reduction in the rate of interest or any fees for purposes of this clause (i)), (ii) release a Guarantor from its Guaranty of the Obligations of the Borrower (except in connection with the sale of a Subsidiary which is a Guarantor in accordance with the terms of this Agreement or as otherwise provided in Section 5.23), (iii) amend, modify or waive any provision of this Section 10.5, (iv) reduce the percentage specified in the definition of Required Banks, (v) amend or modify any provision of Section 10.6 to add any additional consent requirements necessary to effect any assignment or participation thereunder or (vi) consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement; *provided*, *further*, that no such change, waiver, discharge or termination shall (y) increase the Commitments of any Bank over the amount thereof then in effect without the consent of such Bank (it being understood that waivers or modifications of conditions precedent, covenants, Defaults shall not constitute an increase of the Commitment of any Bank), or (z) without the consent of the Administrative Agent, amend, modify or waive any provision of Article 7 or any other provision as the same relates to the rights or obligations of the Administrative Agent.

Section 10.6. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that neither the Borrower nor any Guarantor may assign or otherwise transfer any of their respective rights under this Agreement without the prior written consent of all Banks.

(b) Any Bank may at any time grant to one or more banks or other institutions (each a *"Participant"*) participating interests in its Commitment or any or all of its Loans. In the event of any such grant by a Bank of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Bank shall remain responsible for the performance of its obligations hereunder, and the Borrower and the Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder, including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement except to the extent such amendment or waiver would (i) extend the final scheduled maturity of any Loan or Note in which such participant is participating, or reduce the rate or extend the time of payment of interest or fees thereon (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan shall be permitted without the consent of any participant if the participant's participation is not increased as a result thereof) or (ii) consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement. In the case of any such participation, the participant shall not have any rights under this Agreement or any of the other Credit Documents (the participant's rights against such Bank in respect of such participation to be those set forth in the agreement executed by such Bank in favor of the participant relating thereto) and all amounts payable by the Borrower hereunder shall be determined as if such Bank had not sold such participation. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement,

be entitled to the benefits of Article 8 with respect to its participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b).

(c) Any Bank (or any Bank together with one or more other Banks) may (A) assign all or a portion of its outstanding Obligations hereunder to (i) its parent company and/or any affiliate of such Bank which is at least 50% owned by such Bank or its parent company, (ii) to one or more Banks or (iii) in the case of a Bank that is a fund that invests in bank loans, any other fund that invests in bank loans and is managed or advised by the same investment advisor of such Bank or by an Affiliate of such investment advisor or (B) assign all, or, if less than all, a portion equal to at least U.S. $5,000,000 in the aggregate for the assigning Bank or assigning Banks, of such outstanding Obligations hereunder to one or more Eligible Transferees, each of which assignees shall become a party to this Agreement as a Bank by execution of an Assignment and Assumption Agreement, *provided* that, (i) upon the surrender of the relevant Notes by the assigning Bank (or, upon such assigning Bank's indemnifying the Borrower for any lost Note pursuant to a customary indemnification agreement) new Notes will be issued, at the Borrower's expense, to such new Bank and to the assigning Bank upon the request of such new Bank or assigning Bank, such new Notes to be in conformity with the requirements of Section 2.4 (with appropriate modifications), (ii) the consent of the Administrative Agent shall be required in connection with any assignment to an Eligible Transferee pursuant to clause (B) above (which consent shall not be unreasonably withheld or delayed), (iii) so long as no Default or Event of Default exists, the consent of the Borrower shall be required in connection with any assignment to an Eligible Transferee pursuant to clause (B) above (which consent shall not be unreasonably withheld or delayed), (iv) the Administrative Agent shall receive at the time of each such assignment, from the assigning or assignee Bank, the payment of a non-refundable assignment fee of U.S. $3,500, which fee shall not be subject to reimbursement from the Borrower, and (v) no such transfer or assignment will be effective until recorded by the Administrative Agent. To the extent of any assignment pursuant to this Section 10.6(c), the assigning Bank shall be relieved of its obligations hereunder with respect to its assigned Commitments. At the time of each assignment pursuant to this Section 10.6(c) to a Person which is not already a Bank hereunder and which is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) for Federal income tax purposes, the respective assignee Bank shall, to the extent legally entitled to do so, provide to the Borrower the appropriate Internal Revenue Service forms described in Section 8.4(d).

(d) Any Bank may at any time assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank. No such assignment shall release the transferor Bank from its obligations hereunder.

(e) Notwithstanding anything to the contrary contained herein, any Bank (a "*Granting Bank*") may grant to a special purpose funding vehicle (a "*SPC*"), identified as such in writing from time to time by the Granting Bank to the Administrative Agent and the Borrower, the option to provide to the Borrower all or any part of any Loan that such Granting Bank would otherwise be obligated to make to the Borrower pursuant to this Agreement; *provided that* (i) nothing herein shall constitute a commitment by any SPC to make any Loan and (ii) if an SPC

elects not to exercise such option or otherwise fails to provide all or any part of such Loan, the Granting Bank shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Bank to the same extent, and as if, such Loan were made by such Granting Bank. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Bank). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPC, it will not institute against, or join any other Person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof relating to claims, if any, under this Agreement. In addition, notwithstanding anything to the contrary contained in this subsection (e), any SPC may (i) with notice to, but without the prior written consent of, the Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Loans to the Granting Bank or to any financial institutions (consented to by the Borrower and Administrative Agent) providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Loans and (ii) disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC. This section may not be amended without the written consent of the SPC.

(f) No assignee, Participant or other transferee of any Bank's rights shall be entitled to receive any greater payment under Section 8.3 or 8.4 than such Bank would have been entitled to receive with respect to the rights transferred, unless such transfer is made (i) with the Borrower's prior written consent or (ii) by reason of the provisions of Section 8.2, 8.3 or 8.4 requiring such Bank to designate a different Applicable Lending Office under certain circumstances or (iii) at a time when the circumstances giving rise to such greater payment did not exist.

Section 10.7. [Intentionally Omitted.]

Section 10.8. Governing Law; Submission to Jurisdiction. THIS AGREEMENT AND EACH NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. The Borrower and Guarantors hereby submit to the nonexclusive jurisdiction of the United States District Court for the Western District of North Carolina and of any North Carolina State court sitting in the City of Charlotte for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower and Guarantors irrevocably waive, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

Section 10.9. Counterparts; Integration; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the parties hereto and supersedes any and all prior

agreements and understandings, oral or written, relating to the subject matter hereof. This Agreement shall become effective upon receipt by the Administrative Agent of counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) and each of the other conditions specified in Section 3.1 have been satisfied.

Section 10.10. Waiver of Jury Trial. EACH OF THE BORROWER, THE AGENT AND THE BANKS HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 10.11. *Limitation on Interest*. It is the intention of the parties hereto to comply with all applicable usury laws, whether now existing or hereafter enacted. Accordingly, notwithstanding any provision to the contrary in this Agreement, the other Credit Documents or any other document evidencing, securing, guaranteeing or otherwise pertaining to indebtedness of the Borrower to the Banks, in no contingency or event whatsoever, whether by acceleration of the maturity of indebtedness of the Borrower to the Banks or otherwise, shall the interest contracted for, charged or received by any Bank exceed the maximum amount permissible under applicable law. If from any circumstances whatsoever fulfillment of any provisions of this Agreement, the other Credit Documents or any other document evidencing, securing, guaranteeing or otherwise pertaining to indebtedness of the Borrower to the Banks, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then, *ipso facto*, the obligation to be fulfilled shall be reduced to the limit of such validity, and if from any such circumstances any Bank shall ever receive anything of value as interest or deemed interest by applicable law under this Agreement, the other Credit Documents or any other document evidencing, securing, guaranteeing or otherwise pertaining to indebtedness of the Borrower to the Banks or otherwise an amount that would exceed the highest lawful amount, such amount that would be excessive interest shall be applied to the reduction of the principal amount owing in connection with this Agreement or on account of any other indebtedness of the Borrower to the Banks, and not to the payment of interest, or if such excessive interest exceeds the unpaid balance of principal owing in connection with this Agreement and such other indebtedness, such excess shall be refunded to the Borrower. In determining whether or not the interest paid or payable with respect to indebtedness of the Borrower to the Banks, under any specific contingency, exceeds the maximum nonusurious rate permitted under applicable law, the Borrower and the Banks shall, to the maximum extent permitted by applicable law, (a) characterize any non-principal payment as an expense, fee or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof, (c) amortize, prorate, allocate and spread the total amount of interest throughout the full term of such indebtedness so that the actual rate of interest on account of such indebtedness does not exceed the maximum amount permitted by applicable law, and/or (d) allocate interest between portions of such indebtedness, to the end that no such portion shall bear interest at a rate greater than that permitted by law. Notwithstanding the foregoing, if for any period of time interest on any of the Borrower's Obligations is calculated at the maximum rate permissible under applicable law rather than the applicable rate under this Agreement, and thereafter such

applicable rate becomes less than the maximum rate permissible under applicable law, the rate of interest payable on the Borrower's Obligations shall remain at the maximum rate permissible under applicable law until the Banks have received the amount of interest which such Banks would have received during such period on the Borrower's Obligations had the rate of interest not been limited to the maximum rate permissible under applicable law during such period. The terms and provisions of this paragraph shall control and supersede every other conflicting provision of this Agreement and the other Credit Documents.

Section 10.12. Currency Equivalent Generally. For the purposes of making valuations or computations under this Agreement (but not for the purposes of the preparation of any financial statements delivered pursuant hereto), and in particular, without limitation, for purposes of valuations or computations under Sections 5.9(g), 5.15, 5.17 and 6.1(j), unless expressly provided otherwise, where a reference is made to a U.S. Dollar amount, in order to determine the amount of Canadian Dollars to be considered as the amount in U.S. Dollars, such amount of Canadian Dollars shall be the U.S. Dollar Equivalent of such amount.

Section 10.13. USA Patriot Act. Each Bank that is subject to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the *"Act"*) hereby notifies the Borrower that pursuant to the requirements of the Act, it is required to obtain, verify, and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Bank to identify the Borrower in accordance with the Act.

Section 10.14. Confidentiality. Each of the Administrative Agent and the Banks agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors to the extent any such Person has a need to know such Information (it being understood that the Persons to whom such disclosure is made will first be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Credit Document or any suit, action or proceeding relating to this Agreement or any other Credit Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section 10.14, to (A) any assignee of or participant in, or any prospective assignee of or participant in, any of its rights or obligations under this Agreement or (B) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower or any Subsidiary and its obligations, (g) with the prior written consent of the Borrower, (h) to the extent such Information (A) becomes publicly available other than as a result of a breach of this Section 10.14 or (B) becomes available to the Administrative Agent or any Bank on a non-confidential basis from a source other than the Borrower or any Subsidiary or any of their directors, officers, employees or agents, including accountants, legal counsel and other advisors, (i) to rating agencies if requested or required by such agencies in connection with a rating relating to the Loans or Commitments hereunder, or (j) to entities which compile and publish information about the

syndicated loan market, *provided* that only basic information about the pricing and structure of the transaction evidenced hereby may be disclosed pursuant to this subsection (j). For purposes of this Section, *"Information"* means all information received from the Borrower or any of the Subsidiaries or from any other Person on behalf of the Borrower or any Subsidiary relating to the Borrower or any Subsidiary or any of their respective businesses including any information obtained pursuant to the inspection rights contained in Section 5.6, other than any such information that is available to the Administrative Agent or any Bank on a non-confidential basis prior to disclosure by the Borrower or any of its Subsidiaries or from any other Person on behalf of the Borrower or any of the Subsidiaries.

[SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ALLIANCE DATA SYSTEMS CORPORATION, as Borrower

By	/s/ Robert P. Armiak
Name	Robert P. Armiak
Title	Senior Vice President and Treasurer
Address:	3100 Easton Square Place
	Columbus, OH 43219
Attention:	Treasurer
Telephone:	(614) 729-4701
Facsimile:	(614) 729-4899

With a copy to:

Address:	17655 Waterview Parkway
	Dallas, TX 75252
Attention:	General Counsel
Telephone:	(972) 348-5677
Facsimile:	(972) 348-5150

ADS ALLIANCE DATA SYSTEMS, INC., as a Guarantor

By	/s/ Robert P. Armiak
Name	Robert P. Armiak
Title	Senior Vice President and Treasurer
Address:	3100 Easton Square Place
	Columbus, OH 43219
Attention:	Treasurer
Telephone:	(614) 729-4701
Facsimile:	(614) 729-4899

With a copy to:

Address:	17655 Waterview Parkway
	Dallas, TX 75252
Attention:	General Counsel
Telephone:	(972) 348-5677
Facsimile:	(972) 348-5150

EPSILON MARKETING SERVICES, LLC, as a Guarantor

By /s/ Alan M. Utay
Name Alan M. Utay
Title Vice President
Address: 3100 Easton Square Place
Columbus, OH 43219
Attention: Treasurer
Telephone: (614) 729-4701
Facsimile: (614) 729-4899

With a copy to:

Address: 17655 Waterview Parkway
Dallas, TX 75252
Attention: General Counsel
Telephone: (972) 348-5677
Facsimile: (972) 348-5150

EPSILON DATA MANAGEMENT, LLC, as a Guarantor

By /s/ Alan M. Utay
Name Alan M. Utay
Title Vice President
Address: 3100 Easton Square Place
Columbus, OH 43219
Attention: Treasurer
Telephone: (614) 729-4701
Facsimile: (614) 729-4899

With a copy to:

Address: 17655 Waterview Parkway
Dallas, TX 75252
Attention: General Counsel
Telephone: (972) 348-5677
Facsimile: (972) 348-5150

ALLIANCE DATA FOREIGN HOLDINGS, INC., as a Guarantor

By	/s/ Alan M. Utay
Name	Alan M. Utay
Title	Vice President
Address:	3100 Easton Square Place Columbus, OH 43219
Attention:	Treasurer
Telephone:	(614) 729-4701
Facsimile:	(614) 729-4899

With a copy to:

Address:	17655 Waterview Parkway Dallas, TX 75252
Attention:	General Counsel
Telephone:	(972) 348-5677
Facsimile:	(972) 348-5150

ADS FOREIGN HOLDINGS, INC.

By	/s/ Alan M. Utay
Name	Alan M. Utay
Title	Vice President
Address:	3100 Easton Square Place Columbus, OH 43219
Attention:	Treasurer
Telephone:	(614) 729-4701
Facsimile:	(614) 729-4899

With a copy to:

Address:	17655 Waterview Parkway Dallas, TX 75252
Attention:	General Counsel
Telephone:	(972) 348-5677
Facsimile:	(972) 348-5150

WACHOVIA BANK, NATIONAL ASSOCIATION, individually and as Administrative Agent

By /s/ Karin E. Samuel
Name Karin E. Samuel
Title Director

NOTE

_____, 2008

For value received, Alliance Data Systems Corporation, a Delaware corporation (the *"Borrower"*), promises to pay to the order of [Name of Bank] (the *"Bank"*), the unpaid principal amount of each Loan made by the Bank to the Borrower pursuant to the Credit Agreement referred to below on the maturity date provided for in the Credit Agreement, subject to rights of acceleration of the maturity hereof. The Borrower promises to pay interest on the unpaid principal amount of each such Loan on the dates and at the rate or rates provided for in the Credit Agreement. All such payments of principal and interest shall be made in the applicable currency in immediately available funds at the office of Wachovia Bank, National Association (the *"Administrative Agent"*) at such office as the Administrative Agent has previously notified the Borrower in accordance with Article 2 of the Credit Agreement.

All Loans made by the Bank, the respective types thereof and all repayments of the principal thereof shall be recorded by the Bank and, if the Bank so elects in connection with any transfer or enforcement hereof, appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding may be endorsed by the Bank on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof; provided, that the failure of the Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This note is one of the Notes referred to in the Credit Agreement dated as of June 18, 2008, among Alliance Data Systems Corporation, the Guarantors from time to time party thereto, the Banks from time to time party thereto, and Wachovia Bank, National Association, as Administrative Agent (as the same may be amended, restated or supplemented from time to time, the *"Credit Agreement"*). Terms defined in the Credit Agreement are used herein with the same meanings. Reference is made to the Credit Agreement for provisions for the prepayment hereof and the acceleration of the maturity hereof.

ALLIANCE DATA SYSTEMS CORPORATION

By _____
Name _____
Title _____

EXHIBIT B

EXHIBIT 10.18

ALLIANCE DATA SYSTEMS

401(k) AND RETIREMENT SAVINGS PLAN

TABLE OF CONTENTS

PREAMBLE

BSI Business Services, Inc. adopted the BSI Business Services, Inc. 401(k) and Retirement Savings Plan (the "Plan") effective as of January 24, 1996. The purpose of the Plan is to provide eligible employees with retirement benefits. The Plan is intended to be a profit sharing plan qualifying under Section 401 (a) of the Code with a cash or deferred arrangement qualifying under Section 401(k) of the Code.

BSI Business Services, Inc. was renamed ADS Alliance Data Systems, Inc. Accordingly, the Plan was amended, restated, and renamed the Alliance Data Systems 401(k) and Retirement Savings Plan, effective as of January 1, 1997. The Plan was subsequently amended and restated and is now being completely amended and restated effective January 1, 2004, to include various changes, including retroactive changes required by applicable federal law for the Plan to remain tax-qualified under the Code.

ARTICLE 1 -

DEFINITIONS

The following words and phrases as used herein shall have the following meanings, and the masculine, feminine and neuter gender shall be deemed to include the others, unless a different meaning is plainly required by the context:

1.1 Account

The total of the separate accounts that are maintained for a Participant under the Plan.

1.2 Accrued Benefit

The sum of the amounts credited to the Participant's Account as of any date.

1.3 Actual Deferral Percentage

The ratio (expressed as a percentage) of the Tax Deferred Deposits made on behalf of the Participant for the Plan Year to the Participant's Compensation for the Plan Year while the Participant is eligible to make Tax Deferred Deposits.

1.4 Adjustment Factor

The cost of living adjustment factor prescribed by the Secretary of the Treasury under Section 415(d) of the Code, applied as the Secretary shall provide.

1.5 Annuity Commencement Date

The first day of the first period for which an amount is payable as an annuity or any other form.

1.6 Average Actual Deferral Percentage

The average (expressed as a percentage) of the Actual Deferral Percentages of the Participants in a group.

1.7 Average Contribution Percentage

The average (expressed as a percentage) of the Contribution Percentages of the Participants in a group.

1.8 Benefits Administration Committee

The committee described in Section 12.5.

1.9 Beneficiary

The person, persons or entity designated in writing by a Participant, or otherwise determined in accordance with the Plan, entitled to receive any death benefit which may be, or may become, payable under the Plan.

1.10 Board of Directors

The Board of Directors of the Company, as constituted from time to time. The Board of Directors shall have the right and the power to delegate any duty or power under the Plan to one or more persons, and any reference in the Plan to the Board of Directors shall include a reference to such delegatee(s).

1.11 Catch-Up Contributions

The supplemental amounts a Participant elects to defer pursuant to Section 3.10.

1.12 Code

The Internal Revenue Code of 1986, as amended from time to time.

1.13 Company

ADS Alliance Data Systems, Inc. and any successor thereto.

1.14 Company Account

The account into which Employer Matching Contributions, Discretionary Profit Sharing Contributions, and Retirement Contributions shall be credited, which may include subaccounts to account for contributions made under plans merged into the Plan.

1.15 Compensation

Shall have the following meanings for specific purposes under the Plan:

(A) For purposes of determining the amount of any (i) Deposits; (ii) Employer Matching Contributions; (iii) Retirement Contributions; and (iv) Discretionary Profit Sharing Contributions, “Compensation” shall mean the regular wages (i.e., base pay), overtime, commissions, and cash incentives paid to an Employee by an Employer for the applicable Plan Year while a Participant in the Plan, but excluding sign-on bonuses, disability pay, workers compensation, severance pay, service related cash awards, any amounts which constitute tax gross ups of taxable amounts, any amounts deferred under, or contributed to, a non-qualified deferred compensation plan, and referral awards.

In addition, Compensation for this purpose includes any contributions made by the Employer on behalf of an Employee pursuant to a deferral election under any employee benefit plan containing a cash or deferred arrangement under Code Section 401(k), any amounts that would have been received as cash but for an election to receive benefits under a cafeteria plan meeting the requirements of Code Section 125, and any election of transportation benefits under a program established pursuant to Code Section 132(f).

With respect to a Period of Military Service, an Employee will be considered to have received the same rate or level of Compensation during his absence that he was receiving immediately prior to his absence, or if the rate of Compensation is not reasonably certain, on the basis of the Employee's average rate of Compensation during the twelve (12) month period immediately preceding such period (or if shorter, the period of employment immediately preceding such period).

(B) For purposes of the limitations imposed by Section 415 of the Code, the Top-Heavy plan minimum contribution requirements of Section 416 of the Code, and the determination of Highly Compensated Employees pursuant to Section 414(q) of the Code, "Compensation" means wages within the meaning of Section 3401(a) and all other payments of compensation to an Employee by the Employer (in the course of the Employer's trade or business) for which the Employer is required to furnish the Employee a written statement under Code Sections 6041(d), 6051(a)(3) and 6052, but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code Section 3401(a)(21).

Notwithstanding the foregoing, Compensation for this purpose includes an Employee's elective deferrals under Code Section 402(g)(3)) and amounts contributed or deferred under Code Section 125, or Code Section 457 at the Employee's election for purposes of determining who is a Highly Compensated Employee and for purposes of Code Section 415 limits on benefits, and an Employee's elective deferrals under Code Section 132(f).

(C) For purposes of determining a Participant's Actual Deferral Percentage used in performing the average deferral percentage nondiscrimination test described in

Section 401(k)(3) of the Code and the Contribution Percentage used in performing the average contribution percentage nondiscrimination test described in Section 401(m)(2) of the Code, "Compensation" shall mean compensation as defined in Section 414(s) of the Code and the regulations thereunder.

(D) For purposes of defining "Key Employee" under Section 416 of the Code, "Compensation" shall mean Compensation as defined in Paragraph (B) paid to the eligible Employee other than compensation in the form of qualified or previously qualified deferred compensation that is currently includible in the gross income of the eligible Employee for Federal income tax purposes. In addition, for purposes of this Paragraph (D), Compensation shall include amounts withheld from a Participant's earnings pursuant to a salary reduction agreement entered into by the Participant in accordance with Sections 401(k) or 125 of the Code. Compensation shall also include amounts withheld from a Participant's earnings pursuant to a salary reduction agreement entered into by the Participant in accordance with Code Section 132(f).

(E) Notwithstanding anything herein to the contrary, Compensation shall be limited annually to $205,000 (adjusted in future years as provided under Code section 401(a)(17)).

1.16 Contribution Percentage

The ratio (expressed as a percentage) of the Taxed Deposits and, in the case of a Participant who has not completed a Year of Eligibility Service, the Employer Matching Contributions made under the Plan on behalf of the Participant for the Plan Year to the Participant's Compensation for the Plan Year while the Participant is eligible to have Taxed Deposits and, in the case of a Participant who has not completed a Year of Eligibility Service, the Employer Matching Contributions made on his behalf.

1.17 Deposit Election

The election made by a Participant authorizing and electing a percentage of his Compensation to be withheld by the Employer and contributed on behalf of the Participant as Tax Deferred Deposits or deducted by the Employer and contributed on behalf of the Participant as Taxed Deposits.

1.18 Deposits

The amounts that a Participant elects to contribute or have contributed on his behalf to the Trust pursuant to Article 3, including Tax Deferred Deposits, Taxed Deposits, and Catch-Up Contributions.

1.19 Effective Date

This amended and restated Plan is generally effective January 1, 2004. The Plan was originally effective January 24, 1996.

1.20 Eligibility Computation Period

The twelve consecutive month period beginning on the date the Employee is first credited with an Hour of Service and each anniversary thereof, provided, however, that if the Employee is not credited with 1,000 or more Hours of Service in the first such period, the Eligibility Computation Period shall be the Plan Year beginning with the Plan Year beginning in the first Eligibility Computation Period.

1.21 Employee

Any person who is receiving compensation for personal services rendered in the employment of the Employer including Leased Employees. Notwithstanding the foregoing, if such Leased Employees constitute less than twenty percent of the Employer's Nonhighly compensated work force within the meaning of Section 414(n)(5)(C)(ii) of the Code, the term Employee shall not include those Leased Employees covered by a plan described in Section 414(n)(5) of the Code.

1.22 Employer

The Company and any subsidiary or affiliated organization which, with the approval of the Board of Directors and subject to such considerations as the Board of Directors may impose, adopts this Plan. Each adopting Employer authorizes the Company and/or the Company's Board of Directors, as applicable, to act on its behalf with respect to the Plan in all respects, provided, however, that each adopting Employer may reserve the authority to withdraw from the Plan.

In determining Hours of Service for the purposes of determining an Employee's eligibility to participate in the Plan and the vesting of benefits, in determining whether an Employee is a Highly Compensated Employee, in determining the special rules on deferral percentage limitations and the special rules for contribution percentage limit-testing, in determining whether the Plan is Top-Heavy under Section 416 of Code, in determining whether an Employee has terminated employment with each Employer, and in determining the limitations on Annual Additions under Section 415 of the Code, the term "Employer" shall include any other corporation or other business entity which must be aggregated with the Employer under Section 414(b), (c), (m) or (o) of the Code, but only for such periods of time when the Employer and such other corporation or other business entity must be aggregated as aforesaid. For purposes of the determination of the limitations on Annual Additions, such definition of "Employer" shall be modified by Section 415(h) of the Code.

1.23 Employer Matching Contributions

The amounts contributed on behalf of a Participant pursuant to Section 4.1.

1.24 Employment Commencement Date

The date on which an Employee is first credited with an Hour of Service for the performance of duties for an Employer.

1.25 Entry Date

The first day on which it is administratively practicable to enroll in the Plan an Employee who is eligible under Article 2.

1.26 ERISA

The Employee Retirement Income Security Act of 1974, as amended from time to time.

1.27 Excess Aggregate Contributions

Taxed Deposits and, in the case of a Participant who has not completed a Year of Eligibility Service, Employer Matching Contributions in excess of the Contribution Percentage limit, as described in Section 401(m)(6)(B) of the Code.

1.28 Excess Contributions

Tax Deferred Deposits in excess of the Actual Deferral Percentage limit, as described in Section 401(k)(8)(B) of the Code.

1.29 Excess Deferrals

Tax Deferred Deposits in excess of the limits imposed by Section 402(g) of the Code.

1.30 Forfeiture Account

The account holding unallocated assets representing forfeitures of previously allocated amounts.

1.31 Highly Compensated Employee

Any Employee who performs service for an Employer during the determination year and who, during the look-back year received Compensation (as defined in Section 1.15(B)) from an Employer in excess of $90,000, multiplied by the Adjustment Factor. The term Highly Compensated Employee also includes Employees who are 5 percent owners at any time during the look-back year or determination year. For this purpose, the determination year shall be the Plan Year. The look-back year shall be the twelve-month period immediately preceding the determination year.

1.32 Hour of Service

(A) Each hour for which an Employee is directly or indirectly paid or entitled to payment for the performance of duties for an Employer; these hours shall be credited to the computation period in which the duties are performed, and

(B) Each hour for which an Employee is directly or indirectly entitled to payment on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity, disability, pregnancy, or in connection with adoption of a child, layoff, jury duty, Period of Military Service or leave of absence; except that

(1) not more than five hundred and one (501) Hours of Service shall be credited in each single computation period during which the Employee performs no duties, and

(2) Hours of Service shall not be counted where such payment is made or is due:

(a) under a plan maintained solely for the purpose of complying with applicable workmen's compensation, unemployment or disability insurance laws, or

(b) solely to reimburse an Employee for medical or medically-related expenses; (hours credited under this Paragraph (B) shall be credited to the computation period(s) in which the period during which no duties were performed occurred), and

(C) Each hour for which back pay, irrespective of payment due to mitigation of damages, is either awarded or agreed to by the Employer; these hours shall be credited to the computation period(s) to which the award or agreement for back pay pertains rather than to the computation period in which the award, agreement or payment is made; provided, however, that the limits under Paragraph (B) above are applicable and that an Employee shall not be entitled to additional Hours of Service under this Paragraph (C) for the same Hours of Service credited under Paragraphs (A) or (B) above.

Hours of Service hereunder shall be calculated and credited by any method permitted under Department of Labor Regulation Sections 2530.200b-2(b) and (c), which are incorporated by reference hereunder.

In the case of Hours of Service to be credited to an Employee in connection with a period of no more than thirty-one (31) days which extends beyond one computation period, all such Hours of Service may be credited to the first computation period or the second computation period in a manner applied consistently with respect to all Employees within reasonably defined job classifications.

If Hours of Service are not maintained for an Employee, Hours of Service shall be determined on the assumption that such Employee has completed forty-five (45) Hours of' Service during each week he is required to be credited with at least one (1) Hour of Service by an Employer.

In the case of a Period of Military Service, an Employee shall be deemed to be employed for the average number of Hours of Service per week for the three month period immediately prior to the Period of Military Service, or if the Employee has worked less than three months, the average number of Hours of Service worked per week for the time employed.

Hours of Service shall be credited for a leave of absence that qualifies as FMLA leave under the Family and Medical Leave Act to the extent required under such Act.

For purposes of determining an Employee's eligibility to participate in the Plan and vesting of benefits, an Hour of Service shall also include an Hour of Service with a company heretofore or hereafter merged or consolidated or otherwise absorbed by an Employer or all or a substantial part of the assets or business of which have been or shall be acquired by an Employer, ("Predecessor Company"):

(1) if the Employer continues to maintain an employee benefit plan of such Predecessor Company ("Predecessor Plan");

(2) if, and to the extent, such employment with the Predecessor Company is required to be treated as employment with the Employer under regulations prescribed by the Secretary of the Treasury; or

(3) if, and to the extent, provided in Appendix A

1.33 Investment Fund(s)

The investment fund(s), if any, established pursuant to Section 6.2.

1.34 Leased Employee

Any person who provides services to the Employer if: (A) such services are provided pursuant to an agreement between the Employer and any other person; (B) such person has performed such services for the Employer (or the Employer and related persons) on a substantially full-time basis for a period of at least one (1) year; and (C) such services are performed under the primary direction and control of the recipient Employer.

1.35 Leave of Absence

An absence authorized by the Employer under its standard personnel practices as applied in a uniform and non-discriminatory manner to all persons similarly situated, provided the Employee resumes service with the Employer within the period specified in the authorization for the Leave of Absence.

Except for a Period of Military Service, for purposes of determining an Employee's date of Separation from Service and an Employee's Hours of Service, a Leave of Absence shall not exceed a period of twelve (12) consecutive months.

1.36 Nonhighly Compensated Employee

An Employee who is not a Highly Compensated Employee.

1.37 Normal Retirement Age

An Employee's 65th anniversary of birth.

1.38 One-Year Break in Service

An Eligibility Computation Period or Vesting Computation Period in which the Employee is credited with less than five hundred (500) Hours of Service.

1.39 Participant

An Employee who becomes eligible to participate in the Plan pursuant to Article 2 and who continues to be eligible to participate under the Plan, whether or not he elects to make Deposits.

1.40 Period of Military Service

For an Employee who is either (A) inducted into the Armed Forces of the United States pursuant to 38 U.S.C. §2021, as amended from time to time, or (B) enlists in the Armed Forces of the United States, or enters upon active duty in the Armed Forces of the United States in response to an order or call to active duty pursuant to 38 U.S.C. §2024, as amended from time to time, the time period spanning induction, training, and service in the Armed Forces and up to his reemployment date as described in such statute; provided that such Employee (1) leaves the Armed Forces under the conditions or circumstances described in the applicable statute and (2) makes application for reemployment as an Employee within the time limit prescribed in the applicable statute and is reemployed as an Employee as a result thereof.

1.41 Personal Accounts

The accounts established and maintained pursuant to Article 5 in which are reflected all Deposits made by or on behalf of a Participant, together with all assets attributable thereto. If the Participant participated in the World Financial Network Plan, his or her Personal Account shall include a subaccount for Pre-Tax Contributions made under such plan and referred to as the World Financial Network Plan Pre-Tax Savings Account and subaccounts to reflect Tax Deferred Deposits and Taxed Deposits, if any, made under the Plan on and after January 1, 1998.

1.42 Plan

The Alliance Data Systems 401(k) and Retirement Savings Plan, as herein set forth, and as it may hereafter be amended from time to time.

1.43 Plan Year

The calendar year.

1.44 Reemployment Commencement Date

The first day following a One-Year Break in Service on which an Employee is credited with an Hour of Service for the performance of duties for an Employer.

1.45 Retirement Contributions

The amounts contributed on behalf of a Participant pursuant to Section 4.5.

1.46 Rollover Account

The account maintained for a Participant who has made a rollover contribution pursuant to Article 15.

1.47 Rollover Contribution

The contributions received by the Plan from a Participant and maintained in the Rollover Account.

1.48 Senior Associate

A Participant who has completed either 180 days of uninterrupted service with an Employer or a Year of Eligibility Service, whichever first occurs, as of an Entry Date.

1.49 Separation from Service

The termination by discharge, resignation, death, retirement on or after Normal Retirement Age or Total and Permanent Disability from the service of the Employer, and also a severance from employment with the Employer or an employer in accordance with Code Section 401(k)(2)(B)(i)(I) and regulations thereunder.

1.50 Spouse

The person to whom a Participant or a former Participant is legally married, under the laws of the state in which he is domiciled, or if he is domiciled outside the United States, to the extent recognized under the laws of the State of Texas.

1.51 Tax Deferred Deposits

Deposits made under the Plan which were subject to a cash or deferred election under Section 401(k) of the Code and designated as Tax Deferred Deposits pursuant to Section 3.2.

1.52 Taxed Deposits

A Participant’s after-tax Deposits made under the Plan and designated as Taxed Deposits pursuant to Section 3.2.

1.53 Total and Permanent Disability

Any Disability for which a Participant qualifies and receives disability insurance benefits under United States Social Security laws.

1.54 Trust Agreement

The trust agreement between the Company and the Trustee established for the purpose of funding benefits under the Plan.

1.55 Trust Fund

All such money or other property which is held by the Trustee or custodian pursuant to the terms of the Trust Agreement.

1.56 Trustee

The trustee or custodian, if any, acting as such pursuant to the Trust Agreement, or any successor or successors to said trustee or custodian, as the case may be.

1.57 Valuation Date

Each business day in the Plan Year.

1.58 Vesting Computation Period

A Plan Year commencing on and after January 1, 1998.

1.59 World Financial Network Plan

The World Financial Network National Bank Savings and Retirement Plan as in effect on December 31, 1997.

1.60 Year of Eligibility Service

An Eligibility Computation Period in which an Employee is credited with at least one thousand (1,000) Hours of Service. An Employee's Year(s) of Eligibility Service shall include service credited pursuant to Appendix A.

1.61 Year of Vesting Service

A Vesting Computation Period in which the Employee is credited with five hundred (500) or more Hours of Service. In addition, Year(s) of Vesting Service shall include the following:

(A) A Participant's Years of Vesting Service shall include his Years of Vesting Service standing to his credit under the World Financial Network Plan as of December 31, 1997, if any, the J.C. Penney Stock Ownership Plan as of January 23, 1996, or The Limited Retirement Plan, but only if:

(1) The Employee participated in the J.C. Penney Stock Ownership Plan as of January 23, 1996, and became an Employee of BSI Business Services, Inc. on January 24, 1996; or

(2) Prior to January 1, 1998, the Employer was a participant in The Limited Plan or the World Financial Network Plan and as of December 31, 1999 was an employee of WIN National Bank.

(B) Years of Vested Service shall include service credited pursuant to Appendix A.

ARTICLE 2 -

PARTICIPATION

2.1 Plan Entry Date

Each Employee who was a Participant immediately prior to the Effective Date shall continue as a Participant in this Plan as of the Effective Date, provided such Employee is not ineligible to participate in accordance with Section 2.3. Each other Employee who satisfies the requirements specified in Section 2.2 shall become a Participant on the Entry Date coincident with or next following the date on which he satisfies such requirements.

2.2 Participation Requirement(s)

Subject to Section 2.3, an Employee who has attained age 21 may become a Participant on any Entry Date that coincides with or follows his or her Employment Commencement Date, provided, however, that any Employee who is classified as a "seasonal" or "on-call" Employee on the Employer's payroll system must complete a Year of Eligibility Service and attain age 21 to become a Participant.

2.3 Ineligible Employee

An Employee who is otherwise eligible to participate in the Plan will not become or continue as an active Participant if:

(A) He performs services for an Employer solely as a "Leased Employee," is employed on a temporary basis, or is classified by an Employer as an independent contractor, regardless of whether any such person is subsequently reclassified as having been a common law employee of an Employer while performing such services;

(B) He is covered by a collective bargaining agreement that does not expressly provide for participation in the Plan;

(C) He is a nonresident alien who receives no earned income (within the meaning of Code Section 911 (d)(2) from an Employer which constitutes income from sources within the United States (within the meaning of Code Section 861 (a)(3));

(D) He is employed by a subsidiary or affiliated company that has not adopted the Plan; or

(E) He is a United States citizen whose compensation for services is paid by a foreign affiliate of an Employer (within the meaning of Code Section 406), unless the Employer has entered into an agreement described in Code Section 3121(l) with respect to the payment of Social Security taxes on behalf of the Employee that applies to any other funded plan of deferred compensation (other than a qualified plan sponsored by the Employer) with respect to the compensation paid by the foreign affiliate.

2.4 Enrollment

To make Deposits, an eligible Employee must enroll in accordance with procedures established by the Benefits Administration Committee.

2.5 Reemployed Participants

If a former Participant resumes employment with the Company or any Employer following a Separation from Service, he may rejoin the Plan on the day he resumes employment and shall participate on such date by enrolling in accordance with procedures established by the Benefits Administration Committee.

2.6 Reemployed Non-Participants

Except as provided in Section 2.8 below, the following provisions will apply to an Employee who terminates employment before becoming a Participant:

(A) An Employee who terminates employment after meeting the requirements of Section 2.2 and again becomes an Employee will become a Participant on the first Entry Date following the date of such reemployment, if he is not otherwise excluded from active participation in the Plan.

(B) An Employee who terminates employment before meeting the requirements of Section 2.2 and who again becomes an Employee will become a Participant on the first Entry Date following the date in which he meets the requirements of Section 2.2, if he is not otherwise excluded from active participation in the Plan.

2.7 Change of Status of Participants

(A) If a Participant secures an approved leave of absence or is temporarily laid off, he shall continue to be a Participant in the Plan, but he shall not be permitted to make any Deposits under the Plan during such absence or layoff, except as to Compensation previously earned. Such a Participant shall share in any Employer Matching Contribution on the basis of his Tax Deferred Deposits or Taxed Deposits for that part of any Plan Year during which he was not on an approved leave of absence. On the basis of his Compensation for that part of the Plan Year during which he was not on an approved leave of absence or laid off, he shall

share in Retirement Contributions made as of the last day of such Plan Year provided that on this date he is still on an approved leave of absence or lay-off status. If any Participant on such an approved leave of absence or on temporary layoff does not return to employment at the end of such absence, or layoff, such Participant shall for the purpose of the Plan be deemed to have Separated from Service at the scheduled end of such absence or at the scheduled end of such layoff, as the case may be, and shall be governed by all provisions of the Plan that would have been applicable to him if he had then Separated from Service. Approved leaves of absence and temporary layoffs shall be governed by personnel procedures as in effect from time to time for the Company or other Employer, as the case may be, as applied by the Benefits Administration Committee.

(B) Any Participant in the Plan who becomes a participant in any other qualified retirement plan to which the Company or any Employer makes contributions shall be precluded from making any Deposits or receiving Employer Matching Contributions, Discretionary Profit Sharing Contributions, or Retirement Contributions under the Plan for as long as he is a participant in such other plan. If he ceases to be a participant in such other plan and is otherwise eligible to participate in the Plan, he may resume making Deposits under the Plan on any subsequent Entry Date by making an election to that effect and shall be eligible to receive Employer Matching Contributions and Retirement Contributions (based on the Compensation earned while not participating in the other plan) as otherwise provided herein.

(C) If a Participant shall commence employment with an employer designated by the Benefits Administration Committee for this purpose, assets representing such Participant's Account balances in this Plan shall be transferred to the trust forming part of such employer's qualified defined contribution plan provided that the trust to which such asset transfer is to be made permits such transfer. All such asset transfers with respect to a Plan Year shall be made as of December 31st of such year and shall be valued as of such date. All such asset transfers shall be subject to Section 13.3 and shall comply with Section 414(l) of the Code and the regulations thereunder.

2.8 Breaks in Service

If an Employee who has no nonforfeitable interest in an Accrued Benefit incurs five (5) consecutive One-Year Breaks in Service, his prior Years of Eligibility Service and/or Years of Vesting Service, as applicable, shall be forfeited.

ARTICLE 3 -

DEPOSITS

3.1 Rate of Deposits

Subject to limits imposed by the Code or in the Plan, a Participant shall elect to make Deposits under the Plan by designating the percentage of Compensation (in increments of 1%) he wishes to have contributed to the Trust on his behalf. The minimum percentage shall be 1% and the maximum percentage shall be set from time to time by the Benefits Administration Committee.

3.2 Type of Deposits

A Participant may elect that the Deposits made under the Plan on his behalf be Tax Deferred Deposits or Taxed Deposits. The Benefits Administration Committee may impose from time to time separate maximum deposit limits on Tax Deferred Deposits and Taxed Deposits and may apply different maximum deposit limits to different groups of Participants on the basis of their Compensation received in the immediately preceding and/or current Plan Year. The Benefits Administration Committee may, in its discretion, suspend or limit the percentage of Tax Deferred Deposits or Taxed Deposits elected by any or all Participants who are Highly Compensated Employees to the extent the Committee deems necessary. Any such suspension or limitation may be imposed at any time during the Plan Year effective on the first day of the month following such imposition and shall continue in effect for as long as the Benefits Administration Committee shall determine. Whenever the limit imposed on either Tax Deferred Deposits or Taxed Deposits is later increased, the rate(s) of Deposits in effect during the limitation period will remain effective until changed by the Participant. At any time prior to the end of a Plan Year as to Deposits for such Year, the Benefits Administration Committee may, in its discretion, retroactively change, in whole or in part, the elections made by any or all Participants who are Highly Compensated Employees from Tax Deferred Deposits to Taxed Deposits to the extent then permitted under the Plan. Such change may be made without prior notice to affected Participants, but only if, and to the extent, the Benefits Administration Committee deems it necessary to comply with requirements of the Code. Recharacterized Excess Contributions shall be subject to the nonforfeitability requirements and distribution limitations applicable to Tax Deferred Deposits. The Benefits Administration Committee shall be permitted to take any and all actions permitted by Section 401(k)(8) and 401(m)(6) of the Code and the regulations thereunder in order to have the Plan comply with the actual deferral percentage and contribution percentage requirements of Section 401(k)(3)) and 401(m)(2) of the Code, respectively, for such Plan Year, to the extent such requirements apply.

3.3 Change in Deposit Rates

At any time after enrollment, a Participant may elect (i) to discontinue Deposits under the Plan, (ii) to increase or decrease his future Deposits to any other percentage then permitted under the Plan or (iii) to change the percentage of either or both of his Tax Deferred Deposits or Taxed Deposits to any other percentage then permitted under the Plan. Any such election shall be made in accordance with procedures approved by the Benefits Administration Committee and shall be effective as soon as practicable.

3.4 Payments to Trust

The Company and each adopting Employer shall forward Deposits to the Trustee as soon as practicable.

3.5 Annual Limit on Tax Deferred Deposits

No Participant shall be permitted to have Tax Deferred Deposits made under this Plan in excess of the dollar limitation contained in Section 402(g) of the Code in effect for such taxable year, except to the extent permitted under Section 414(v) of the Code, if applicable. The limitation set by this Section applies on an individual basis to all elective deferrals (within the meaning of Section 401(k) of the Code) made by each Participant during a year under this or any other qualified plan of the Employer.

It shall be the responsibility of each Participant to coordinate his or her salary deferrals as needed to meet this limit in connection with any other plan or plans not sponsored by the Employer. The Benefits Administration Committee will not take account of deferrals made to any other plan not sponsored by an Employer.

Notwithstanding any other provision of the Plan, the Participant may state a claim for the return of Excess Deferrals and such Excess Deferrals and the gain or loss allocable thereto shall be distributed if administratively practicable during the calendar year in which such Excess Deferrals are made or the calendar year following the calendar year in which such Excess Deferrals are made, but no later than the April 15 following the calendar year for which such allocable Excess Deferrals are made. The Participant's claim shall be in writing; shall be submitted to the Benefit Administration Committee no later than March 1; shall specify the Participant's Excess Deferrals for the preceding calendar year; and shall be accompanied by the Participant's written statement that if such amounts are not distributed, such Excess Deferrals, when added to amounts deferred under other plans or arrangements described in Sections 401(k), 408(k) or 403(b) of the Code, exceed the limit imposed on the Participant by Section 402(g) of the Code for the year in which the deferral occurred. If a Participant has Excess Deferrals, taking into account only elective deferrals under the Plan and other plans of the Employer, the Participant is deemed to have notified the Plan of such Excess Deferrals in accordance with the terms of this paragraph, and such Excess Deferrals shall be distributed, in accordance with the terms of this paragraph.

The Excess Deferrals shall be adjusted for gain or loss. The gain or loss allocable to Excess Deferrals for the Participant's taxable year shall be determined by multiplying the gain or loss allocable to the Participant's Tax Deferred Deposits for the taxable year by a fraction, the numerator of which is the Excess Deferrals on behalf of the Participant for the taxable year, and the denominator of which is the sum of (1) the Participant's Account attributable to Tax Deferred Deposits as of the beginning of the taxable year, plus (2) the Participant's Tax Deferred Deposits for the taxable year.

Notwithstanding the foregoing, no gain or loss shall be allocated to Excess Deferrals for the period between the end of the taxable year and the date of the corrective distribution.

If Excess Deferrals have previously been distributed within the Plan Year, then the Plan shall offset such distribution from the amount of the Participant's Excess Contributions to be distributed for such Plan Year. In addition, the amount of Excess Deferrals that may be distributed for a Participant by the Plan for a Plan Year shall be reduced by the amount of Excess Contributions previously distributed for such Plan Year.

3.6 Deferral Percentage Limitation

Subject to the special rules of Section 3.7, and at such intervals as it shall deem proper, the Benefits Administration Committee shall review the Deposit election of each Participant who has not completed a Year of Eligibility Service in order to ensure that the Tax Deferred Deposits with respect to such Participants satisfy one of the following tests:

(A) The Average Actual Deferral Percentage for such Participants who are Highly Compensated Employees for the Plan Year shall not exceed the Average Actual Deferral Percentage for such Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 1.25; or

(B) The Average Actual Deferral Percentage for such Participants who are Highly Compensated Employees for the Plan Year shall not exceed the Average Actual Deferral Percentage for such Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 2, provided that the Average Actual Deferral Percentage for such Participants who are Highly Compensated Employees does not exceed the Average Actual Deferral Percentage for such Participants who are Nonhighly Compensated Employees for the Plan Year by more than two (2) percentage points.

To the extent required by regulations or other Internal Revenue Service rulings of general applicability, the Average Actual Deferral Percentage for Participants who are Nonhighly Compensated Employees for the Plan Year shall be adjusted, as required by such regulations or other rulings of general applicability, to reflect a change in the group of eligible Employees under the Plan on account of (i) establishment or amendment of a plan, (ii) plan merger, consolidation or spin-off, (iii) a change in the way plans are aggregated or separated for purposes of performing the tests described in (A) and (B) above or (iv) any combination of the above.

3.7 Special Rules on Deferral Percentage Limitations

(A) For purposes of this Article, the Actual Deferral Percentage for any Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Tax Deferred Deposits allocated to his account under two or more plans or arrangements described in Section 401(k) of the Code that are maintained by an Employer shall be determined as if all such Tax Deferred Deposits were made under a single arrangement. If a Highly Compensated Employee participates in two or more plans or arrangements described in Section 401(k) of the Code that have different plan years, all such arrangements ending with or within the same calendar year shall be treated as a single arrangement.

(B) In the event that this Plan satisfies the requirements of Sections 401(k), 401(a)(4) or 410(b) of the Code only if aggregated with one or more other plans, or if one or more plans satisfy the requirements of such sections of the Code only if aggregated with this Plan, then this section shall be applied by determining the Actual Deferral Percentage of Employees as if all such plans were a single plan. Plans may be aggregated in order to satisfy Section 401(k) of the Code only if they have the same plan year, but the Plan may only be aggregated with a plan that uses the "current year" testing method.

(C) The Plan may be disaggregated into two or more plans or the Plan may be aggregated with one or more other plans, to the extent permitted by Sections 401(k), 401(a)(4) and 410(b) of the Code and the regulations thereunder.

(D) For purposes of determining a Participant's Actual Deferral Percentage, Tax Deferred Deposits must be made before the last day of the twelve month period immediately following the Plan Year to which those contributions relate.

(E) Excess Annual Additions distributed to Participants in accordance with Section 4.6 shall be disregarded for purposes of applying the tests of Section 3.6.

(F) Excess Deferrals of Nonhighly Compensated Employees shall be disregarded to the extent such Excess Deferrals are prohibited under Code Section 401(a)(30).

(G) The determination and treatment of the Actual Deferral Percentage of any Participant shall satisfy such other requirements as may be prescribed by the Secretary of the Treasury.

3.8 Adjustment of Deferrals

(A) In the event the Benefits Administration Committee determines that one of the tests set forth in Section 3.6 is not satisfied at the time of its review hereunder, or is likely not to be satisfied by the end of the Plan Year, it may require, in accordance with Section 3.2, that one or more Participants adjust their Deposit Election as of the first pay period in the month next following receipt of the test results, in order that one of the tests set forth in Section 3.6 is thereafter satisfied, or, to the extent permitted by law, the Benefits Administration Committee shall have the power and authority to return all or any part of the Tax Deferred Deposits of one or more Participants in cash within two and one-half months after the end of the Plan Year but in no instance later than the last day of the Plan Year following the Plan Year for which the Excess Contributions were made, solely to the extent necessary to satisfy one of the tests set forth in Section 3.6.

(B) The Excess Contributions shall be adjusted for gain or loss. The gain or loss allocable to Excess Contributions for the Plan Year shall be determined by multiplying the gain or loss allocable to the Participant's Tax Deferred Deposits

and amounts treated as Tax Deferred Deposits for the Plan Year by a fraction, the numerator of which is the Excess Contributions on behalf of the Participant for the Plan Year and the denominator of which is the sum of (1) the Participant's Account attributable to Tax Deferred Deposits and amounts treated as Tax Deferred Deposits as of the beginning of the Plan Year plus (2) the Participant's Tax Deferred Deposits and amounts treated as Tax Deferred Deposits for the Plan Year.

Notwithstanding the foregoing, no gain or loss shall be allocated to Excess Contributions for the period between the end of the taxable year and the date of the corrective distribution.

(C) Any distribution of Excess Contributions for any Plan Year shall be made to Highly Compensated Employees in accordance with Code Section 401(k)(8)(C) and the rulings and regulations thereunder. If, after performance of the two tests in Section 3.6, the deferral percentage test would still be violated as of the end of the Plan Year, then notwithstanding any other provision hereof, every Tax Deferred Deposit included in the Actual Deferral Percentage for a Participant who is a Highly Compensated Employee and whose Actual Deferral Percentage is greater than the permitted maximum shall be revoked to the extent necessary to comply with such deferral percentage limitation of Section 3.6 and the amount of such Tax Deferred Deposits, to the extent revoked, shall constitute an Excess Contribution to be distributed to such Participant (with earnings thereon as calculated in Section 3.8(B)) no later than the last day of the Plan Year following the Plan Year for which such contribution was made. Excess Contributions are allocated to the Highly Compensated Employees with the largest amounts of Tax Deferred Deposits (and Employer contributions, as applicable), which are taken into account in calculating the deferral percentage limitation for the Plan Year in which the excess arose, beginning with the Highly Compensated Employee with the largest amount of such Tax Deferred Deposits (and Employer contributions, as applicable), and continuing in descending order until all Excess Contributions have been allocated. For purposes of the preceding sentence, the "largest" amount is determined after distribution of any amounts distributed hereunder pursuant to Section 3.5 hereof.

3.9 Contributions For Periods of Qualified Military Service

Notwithstanding any provision of this Plan to the contrary, contributions, benefits, and service credit with respect to "qualified military service," which shall mean any services in the uniformed services (as defined in chapter 43 of title 38 of the United States Code) by any individual if such individual is entitled to reemployment rights under such chapter with respect to such service, will be provided in accordance with Section 414(u) of the Code.

3.10 Catch-Up Contributions

All Participants who are eligible to make elective deferrals under the Plan and who have attained age 50 before the close of the Plan Year shall be eligible to make Catch-Up

Contributions in accordance with, and subject to the limitations of, section 414(v) of the Code. Catch-Up Contributions shall not be taken into account for purposes of the provisions of the Plan implementing the required limitations of sections 402(g) and 415 of the Code. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of section 401(k)(3), 401(k)(11), 401(k)(12), 410(b), or 416 of the Code, as applicable, by reason of the making of such Catch-Up Contributions.

ARTICLE 4 -

EMPLOYER CONTRIBUTIONS

4.1 Employer Matching Contributions

(A) Each Employer shall contribute an Employer Matching Contribution for its Senior Associates who have elected to make Deposits. The amount of the Employer Matching Contribution made pursuant to this Section shall be equal to the sum of (i) one hundred percent (100%) of the Deposits made by the Senior Associate up to three percent (3%) of Compensation, and (ii) fifty percent (50%) of the Deposits made by the Senior Associate that exceed three percent (3%), up to a maximum of five percent (5%) of Compensation. For this purpose, Compensation shall mean the Compensation used to determine the contributions made by, or on behalf of, the Senior Associate for the same period. If a Senior Associate makes Tax Deferred Deposits, Catch-Up Contributions, and/or Taxed Deposits in a pay period, Tax Deferred Deposits shall be matched first, Catch-Up Contributions next, and Taxed Deposits last.

(B) All Employer Matching Contributions shall be made in cash and invested in accordance with the provisions of Article 6 and shall be made in cash.

(C) Employer Matching Contributions shall be nonforfeitable when made and shall be subject to the same distribution requirements as Tax Deferred Deposits, except that such contributions may not be distributed as a hardship withdrawal.

(D) For purposes of this Section, the amount of the Employer Matching Contribution to be allocated to a Participant initially shall be determined for each separate pay period, based solely on the Compensation, Tax Deferred Deposits, Catch-up Contributions, and Taxed Deposits of the Participant in that pay period. Then, as of the end of the Plan Year, the Participant may become eligible for an additional allocation of Employer Matching Contributions, based on the Participant's Compensation, Tax Deferred Deposits, Catch-up Contributions, and Taxed Deposits in that Plan Year.

4.2 Percentage Limitation on Taxed Deposits

At such intervals as it shall deem proper, the Benefits Administration Committee shall review the Taxed Deposits and, in the case of a Participant who has not completed a Year of Eligibility Service, the Employer Matching Contributions made for Participants in order to ensure that such contributions satisfy one of the following tests:

(A) The Average Contribution Percentage for Participants who are Highly Compensated Employees for the Plan Year shall not exceed the Average Contribution Percentage for Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 1.25; or

(B) The Average Contribution Percentage for Participants who are Highly Compensated Employees for the Plan Year shall not exceed the Average Contribution Percentage for Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 2, provided that the Average Contribution Percentage for Participants who are Highly Compensated Employees does not exceed the Average Contribution Percentage for Participants who are Nonhighly Compensated Employees for the Plan Year by more than two (2) percentage points.

To the extent required by regulations or other Internal Revenue Service rulings of general applicability, the Average Contribution Percentage for Participants who are Nonhighly Compensated Employees for the Plan Year shall be adjusted, as required by such regulations or other rulings of general applicability, to reflect a change in the group of eligible Employees under the Plan on account of (i) establishment or amendment of a plan, (ii) plan merger, consolidation or spin-off, (iii) a change in the way plans are aggregated or separated for purposes of performing the tests described in (A) and (B) above or (iv) any combination of the above.

4.3 Special Rules for Contribution Percentage Limit Testing

(A) The Plan may be disaggregated into two or more plans or the Plan may be aggregated with one or more other plans, to the extent permitted by Sections 401(m), 401(a)(4) and 410(b) of the Code and the regulations thereunder.

(B) Excess Annual Additions distributed to Participants in accordance with Section 4.6 shall be disregarded in applying the tests of Section 4.2.

(C) The determination and treatment of the Contribution Percentage of any Participant shall satisfy such other requirements as may be prescribed by the Secretary of the Treasury.

4.4 Adjustments To Excess Aggregate Contributions

(A) Excess Aggregate Contributions, plus any gain and minus any loss allocable thereto, shall be forfeited, if forfeitable, or if not forfeitable, shall be distributed in cash to Highly Compensated Employees within two and one-half months after the end of the Plan Year but in no instance later than the last day of the Plan Year following the Plan Year for which the Excess Aggregate Contributions were made.

(B) The Excess Aggregate Contributions shall be adjusted for gain or loss. The gain or loss allocable to Excess Aggregate Contributions for the Plan Year shall be determined by multiplying the gain or loss allocable to the Participant's Taxed Deposits for the Plan Year by a fraction, the numerator of which is the Excess Aggregate Contributions on behalf of the Participant for the Plan Year and the denominator of which is the sum of (1) the Participant's Account attributable to Taxed Deposits as of the beginning of the Plan Year plus (2) the Participant's Taxed Deposits for the Plan Year.

Notwithstanding the foregoing, no gain or loss shall be allocated to Excess Aggregate Contributions for the period between the end of the taxable year and the date of the corrective distribution.

(C) Any distribution of Excess Aggregate Contributions for any Plan Year shall be made to Highly Compensated Employees in accordance with Code Section 401(m)(6)(C) and the rulings and regulations thereunder. If, after performance of the percentage limitation in Section 4.2, the contribution percentage test would still be violated as of the end of the Plan Year, then notwithstanding any other provision hereof, every Employer Matching Contribution and Taxed Deposit included in the Average Contribution Percentage for a Highly Compensated Participant whose Average Contribution Percentage is greater than the permitted maximum shall automatically be revoked to the extent necessary to comply with such contribution percentage test of Section 4.2 and the amount of such contribution, to the extent revoked, shall constitute an Excess Aggregate Contribution to be distributed to such Participant (with earnings thereon as calculated in Section 4.4(B)) or forfeited, if applicable, no later than the last day of the Plan Year following the Plan Year for which such contribution was made. Excess Aggregate Contributions are allocated to the Highly Compensated Employees with the largest amounts of Employer Matching Contributions and Taxed Deposits (and Employer contributions, as applicable), taken into account in calculating the contribution percentage test for the Plan Year in which the excess arose, beginning with the Highly Compensated Employee with the largest amount of such Employer Matching Contributions and Taxed Deposits (and Employer contributions, as applicable), and continuing in descending order until all excess Aggregate Contributions have been allocated. For purposes of the preceding sentence, the "largest amount" is determined after first determining required distributions under Section 3.5 hereof, and then determining Excess Contributions under Section 3.8(C).

4.5 Retirement Contributions

(A) For the Plan Year beginning on January 1, 2003, each Employer shall make, on behalf of its Employees who are Participants eligible to share hereunder and subject to the otherwise applicable limitations of the Plan, a nondiscretionary Retirement Contribution. The Retirement Contribution made on behalf of a Participant who is eligible to share in the Retirement Contribution hereunder shall be equal to the sum of such Participant's Allocable Points as of the last day of the

Plan Year multiplied by such Participant's Compensation for the Plan Year and divided by one hundred. Allocable Points shall be determined in accordance with Tab A set forth below. To be eligible to share in the Retirement Contribution provided by this Section, the Participant either must not have Separated from Service during the Plan Year or must have Separated from Service in such Plan Year by reason of death, Total and Permanent Disability or retirement on or after Normal Retirement Age.

TABLE A

ALLOCABLE POINTS

Participant's Age	Allocable Points	Participant's Years of Vesting Service	Allocable Points
40-44	1	0-9	1
45-49	2	10-14	2
50-54	3	15-19	3
55-59	4	20-24	4
60 and up	5	25-29	5
		30 - 34	6
		35 and up	7

For purposes of Table A, "Age" is the Participant's age at last birthday on the applicable Allocation Date. Further, for purposes of Table A, a Participant's Years of Vesting Service will be equal to his full Years of Vesting Service completed as of the applicable Allocation Date.

"Allocation Date" means December 31, 2003 or, for the allocation provided under Subsection (E), December 31, 2004.

(B) In the event the allocation of Retirement Contributions would result in a discriminatory allocation in violation of Treasury Regulation 1.401(a)(4)-1(b), or any other applicable tax qualification requirement, the Benefits Administration Committee shall reduce, in any manner it determines in its discretion to be equitable, the amount of Retirement Contributions which would otherwise be allocated to Participants who are Highly Compensated Employees for such Plan Year, in order to satisfy such requirements.

(C) All Retirement Contributions shall be made in cash and invested in accordance with the provisions of Article 6.

(D) All Retirement Contributions shall be conditioned on their deductibility under Section 404 of the Code. Retirement Contributions shall be made when directed by the Board of Directors, but not later than the time prescribed by law, including extensions, for filing the income tax return of the Employer for the Employer's taxable year for which such contributions are deductible.

(E) For the Plan Year beginning January 1, 2004, a Retirement Contribution determined as provided above, reduced, but not below zero, by the amount, if any of the Discretionary Profit Sharing Contribution allocated to a Participant, shall be made to each Participant who satisfies each of the following conditions: (i) the Participant was a Participant on December 31, 2003, (ii) the Participant remained an Employee continuously from that date through and including December 31, 2004, and (iii) the Participant was never a Highly Compensated Employee during that Plan Year.

(F) No Retirement Contribution shall be made for any Plan Year beginning on or after January 1, 2005.

4.6 Overall Limitation on Annual Additions

Any other provision of this Plan notwithstanding, in no event shall the total amount allocated to a Participant's Account under the Plan for any Limitation Year, exceed the limitations imposed under Code Section 415, the provisions of which are incorporated into the Plan by reference. For this purpose, the Limitation Year shall be the Plan Year.

If, as a result of the allocation of forfeitures, a reasonable error in estimating a Participant's annual Compensation, a reasonable error in determining the amount of Tax Deferred Deposits that may be made with respect to any individual under the limits of Code Section 415, or under other limited facts and circumstances that the Commissioner finds justifies this method of allocation, the Annual Addition for a particular Participant would cause the limitations of Code Section 415 applicable to that Participant for the Limitation Year to be exceeded, the excess amounts shall not be deemed an Annual Addition in that Limitation Year and for contributions other than Tax Deferred Deposits and/or Taxed Deposits, such contributions shall be withheld or taken from a Participant's Account and held in a suspense account to be used to reduce future contributions for the Participant (or, if the Participant ceases to be an Employee, for remaining active Participants) in succeeding Limitation Years, as necessary, and, for Tax Deferred Deposits and/or Taxed Deposits, such Deposits (together with allocable income) shall be distributed to the Participant.

4.7 Timing of Employer Contributions

The Employer shall forward Employer Matching Contributions, Retirement Contributions, and Discretionary Profit Sharing Contributions to the Trustee for investment in the Trust Fund at such times as the Employer shall determine, but not later than the time prescribed by law, including extensions, for filing the income tax return of the Employer for the Employer's taxable year for which such contributions are deductible.

4.8 Discretionary Profit Sharing Contributions

The Board of Directors may, in its sole discretion, authorize a supplemental contribution to be made by each Employer on behalf of its Employees who are eligible to share in such contribution, as hereinafter provided. The Contribution shall be referred to as a Discretionary Profit Sharing Contribution and shall be allocated to each Participant who has not Separated from Service on or before the last day of the Plan Year with respect to which the Discretionary

Profit Sharing Contribution is declared or who had Separated from Service in such Plan Year by reason of death, Total and Permanent Disability or retirement on or after Normal Retirement Age. The Board of Directors shall normally determine the amount of the Discretionary Profit Sharing Contribution, if any, after it has reviewed the Company's financial performance for the Plan Year; and Participants shall be informed of the amount of the contribution prior to the date of allocation. The Discretionary Profit Sharing Contribution shall be a specified percentage of Participant's Compensation, may be integrated with Social Security to the extent permitted under 401(l), shall satisfy all applicable requirements of the Code, and shall be conditioned on its deductibility under Code Section 404.

4.9 Qualified Non-Elective Contributions

The Company and each Employer may make additional discretionary contributions (hereinafter "Qualified Non-Elective Contributions") allocable to Nonhighly Compensated Employees for purposes of ensuring that the Plan satisfies the applicable requirements of Code sections 401(k)(3) and 401(m)(3). Any such contributions shall satisfy the applicable requirements of Treas. Reg. Section 1.401(k)-1 and Treas. Reg. Section 1.401(m)-1, the provisions of which are incorporated by reference for this purpose.

ARTICLE 5 -

PARTICIPANTS' ACCOUNTS AND INVESTMENT ELECTIONS

5.1 Separate Accounts

The Benefits Administration Committee shall maintain, or cause to be maintained, a separate account for each Participant which shall consist of his Personal Account, Company Account and Rollover Account, if any. A Participant's Personal Account shall have separate subaccounts for amounts attributable to Tax Deferred Deposits, Taxed Deposits, and Catch-Up Contributions. A Participant's Company Account shall have separate subaccounts for amounts attributable to Employer Matching Contributions, Retirement Contributions, and Discretionary Profit Sharing Contributions. A Participant's Company and Personal Accounts shall have, if applicable, separate subaccounts for amounts accumulated under plans merged into the Plan. Each such account and subaccount will be considered a subaccount of the Participant's Account.

5.2 Valuation of Funds

There shall be determined as of each Valuation Date the fair market value of all assets held in the Trust Fund. Such valuation shall be determined in accordance with the principles of Section 3(26) of ERISA and the regulations thereunder and shall give effect to brokerage fees, transfer taxes, contributions, earnings, gains and losses, forfeitures, expenses, disbursements, and all other transactions during the valuation period since the preceding Valuation Date.

In making such determinations and in crediting net appreciation or depreciation and all other applicable adjustments to a Participant's Account, the Benefits Administration Committee may employ such accounting methods as the Benefits Administration Committee may deem appropriate in order to fairly reflect the fair market value of the Plan assets and each Participants'

Account. If Investment Funds are established, the valuation of a Participant's individual Account shall reflect such Participant's investment elections. For this purpose, the Benefits Administration Committee may rely upon information provided by the Trustee, the investment manager, or other persons believed by the Benefits Administration Committee to be competent.

5.3 Investment Election

If Investment Funds are established, a Participant shall make an investment election which shall cover his Deposits, Rollover Contributions, and Company Contributions. The investment election shall be for a percentage amount, in one percent (1%) increments, to be invested in one or more of the Investment Funds.

Each Participant is solely responsible for the selection of his investment options. The Trustee, the Investment Committee, the Benefits Administration Committee, the Employer and the officers, supervisors and other employees of the Employer are not empowered to advise a Participant as to the manner in which his Account shall be invested. The fact that an Investment Fund is available to a Participant for investment under the Plan shall not be construed as a recommendation for investment in that Investment Fund. In the event no election is made by a Participant, amounts available for election will be invested in the Investment Fund selected by the Investment Committee for this purpose.

5.4 Timing of Investment Election

The investment election must be made prior to the commencement of an Employee's participation in the Plan or at such other time as the Benefits Administration Committee shall establish and apply on a uniform basis. Any such election may be changed at such time and as frequently as shall be permitted by procedures established and applied by the Benefits Administration Committee on a uniform basis. Each such election or change in election shall be effective with respect to Deposits and Employer Matching Contributions made from or with respect to Compensation payable on the next payroll processing date after election by the Employee in accordance with procedures established by the Benefit Administration Committee and with respect to future Retirement Contributions and Discretionary Profit Sharing Contributions.

5.5 Transfer Between Investment Funds

A Participant may elect to transfer an amount equal to the value of all or part of his Account invested in any one or more of the Investment Funds to another one or more of such Investment Funds. Any such election shall be made in accordance with procedures established and applied by the Benefits Administration Committee on a uniform basis. Except as otherwise established pursuant to Section 5.6 below, the value of amounts transferred shall be determined as of the Valuation Date which is coincident with or next following the date of receipt of the Participant's election to transfer made in accordance with procedures established by the Benefits Administration Committee.

5.6 Special Valuation Date

If as a result of a transfer notice the Trustee executes investment elections on a date later than the otherwise applicable Valuation Date, the Benefits Administration Committee may establish an appropriate Valuation Date or Dates uniformly for similarly situated Participants in a manner which it deems appropriate to assure the equitable treatment of all Participants, those electing transfers as well as those having amounts in the Investment Funds from or to which the transfers are made.

ARTICLE 6 -

TRUST AGREEMENT

6.1 Trust Agreement

(A) The Company has entered or will enter into a Trust Agreement which shall be a part of the Plan. All contributions made pursuant to the provisions of the Plan shall be paid into the Trust Fund. All such payments and increments thereon shall be held and disbursed in accordance with the provisions of the Plan and Trust Agreement, as each shall be applicable under the circumstances. No person shall have any interest in, or right to, any part of the funds so held, except as expressly provided in the Plan or Trust Agreement.

(B) The Trustee shall have the exclusive authority and discretion to invest, manage and control the assets of the Plan, except to the extent that Participants have been given authority to direct their Accounts, to the extent the Investment Committee has allocated the authority to manage Plan assets to one or more investment managers (within the meaning of Section 3(38) of ERISA), or to the extent that the Investment Committee has given the Trustee direction with regard to the investment of Plan assets. Any investment manager appointed by the Investment Committee shall have the exclusive authority to manage, including the power to direct the acquisition and disposition of, the Plan assets assigned to it by the Investment Committee.

6.2 Establishment of Investment Fund(s)

The Trustee, at the direction of the Investment Committee, shall establish one or more Investment Funds having such investment objectives as may be ascribed to each such fund by the Investment Committee. The Trustee shall establish and maintain an Investment Fund for the purpose of allowing investment in common stock of the Company (herein referred to as the “ADS Stock Fund”).

6.3 Voting and Tender of Shares

Consistent with ERISA Section 404(c), the following shall apply with respect to the investment by Participants and Beneficiaries in Company securities:

(1) Information provided to shareholders of such Company securities shall be provided to Participants and Beneficiaries with accounts holding such securities.

(2) Voting, tender and similar rights with respect to Company securities shall be passed through to Participants and Beneficiaries with accounts holding such securities. The Trustee shall vote or tender or take other similar action with respect to such shares solely in accordance with instructions furnished to it by each Participant or Beneficiary, in accordance with such procedures as are generally made available to shareholders. Shares, including fractional shares, for which instructions are not received by the Trustee shall not be voted or tendered.

(3) Information relating to the purchase, holding, and sale of Company securities, and the exercise of voting, tender and similar rights with respect to such securities, by Participants and Beneficiaries, shall be maintained in accordance with procedures which are designed to safeguard the confidentiality of such information, except to the extent necessary to comply with Federal laws or state laws not preempted by ERISA.

(4) The General Counsel of the Company shall be the fiduciary who is responsible for (i) ensuring that any procedures used are sufficient to safeguard the confidentiality of the information described in paragraph 3, (ii) such procedures are being followed, and (iii) the independent fiduciary required by paragraph (5), below, is appointed when necessary.

(5) An independent fiduciary shall be appointed to carry out activities relating to any situations which the fiduciary designated in accordance with paragraph (4), above, determines involve a potential for undue Employer influence upon Participants and Beneficiaries with regard to the direct or indirect exercise of shareholder rights.

6.4 Assumption of Risk by Participant

Each Participant (or Beneficiary) assumes the risk in connection with any decrease in value of his separate Account, and there shall be no liability under the Plan to a Participant in excess of the value of the assets in his Account.

ARTICLE 7 -

DEATH BENEFITS AND BENEFICIARY DESIGNATIONS

7.1 Death Benefits

(A) When a Participant has a Separation from Service by reason of death or dies after Separation from Service but before receiving benefits, the benefits shall be payable to the Beneficiary determined pursuant to Section 7.2.

(B) The payment of benefits shall be in lump sum payment and shall be made as soon as practicable after the Benefits Administration Committee receives a completed application that includes proof of the Participant's death.

(C) In no event, however, shall the payment of such benefits to a Beneficiary be made later than the date permitted under Section 401(a)(9) of the Code.

7.2 Designation of Beneficiary

A Participant, including one who has Separated from Service but has not received a distribution of his Plan benefits, may designate one or more Beneficiaries and one or more contingent Beneficiaries to receive upon his death a distribution of his Plan benefits in such proportion as such Participant designates. If, however, such a Participant is married on the date of his death, his Beneficiary shall be his Spouse unless a different Beneficiary designation was consented to by his Spouse. Such consent by the Participant's Spouse must be in writing, be irrevocable, and given prior to the Participant's death. Such consent must acknowledge the effect of the Participant's Beneficiary designation, specify the identity of the non-Spouse Beneficiary, including contingent Beneficiaries, if any, and the consent must be witnessed by a Plan representative or notary public. A Participant's Spouse must again consent, in accordance with the requirements applicable to the original consent, to any change in Beneficiary designation unless the original consent acknowledged that the Participant had the ongoing consent of his Spouse to make any such change. Upon a legal separation or dissolution of the marriage of a Participant, any designation of the Participant's former spouse as a Beneficiary, except as explicitly provided in a Qualified Domestic Relations Order, shall be treated as though the Participant's former spouse had predeceased the Participant unless, subsequent to the divorce or legal separation, the Participant executes another Beneficiary designation that complies with the Plan and that clearly names such former spouse as a Beneficiary.

Any consent by his Spouse shall be valid and effective only with respect to that Spouse. The consent of a Participant's Spouse shall not be required if (A) the Participant establishes to the satisfaction of the Benefits Administration Committee that consent cannot be obtained because the Spouse cannot be located or that there is no Spouse, or (B) the Participant and Spouse are legally separated or the Participant has been abandoned (within the meaning of local law) and the Participant has a court order to that effect; provided, however, that spousal consent in (B) above is required if required by a Qualified Domestic Relations Order. If the Spouse is legally incompetent to give consent, the Spouse's legal guardian (even if the guardian is the Participant) may give consent. If (1) all Beneficiaries predecease a Participant or die within 30 days after the Participant's death, or (2) an unmarried Participant fails to make a Beneficiary designation, or (3) there is some doubt or ambiguity as to the right to payment of any Beneficiary designated by the Participant, the Benefits Administration Committee shall direct the Trustee to pay the benefits otherwise distributable to the Participant's estate.

ARTICLE 8 -

VESTING AND TERMINATION OF EMPLOYMENT

8.1 Vesting in Personal Account and Rollover Account

A Participant shall at all times have a one hundred percent (100%) vested and nonforfeitable interest in his Personal Account and Rollover Account, if any.

8.2 Vesting in Company Account

Employer Matching Contributions made with respect to periods after January 1, 2004, shall be nonforfeitable. Subject to Section 8.3, a Participant shall have a vested and nonforfeitable right in his Company Account attributable to Employer Matching Contributions made with respect to periods prior to January 1, 2004, and any earnings or losses attributable thereto, in accordance with the following schedule:

Years of Vesting Service	Percentage Vested
Less than 1	0%
1 but less than 2	20%
2 but less than 3	40%
3 but less than 4	60%
4 but less than 5	80%
5 or more	100%

A Participant whose employment is terminated prior to attainment of his Normal Retirement Age (and for any reason other than death or Total and Permanent Disability), shall have a vested and nonforfeitable right in his Company Account attributable to Retirement Contributions and Discretionary Profit Sharing Contributions, and any earnings or losses attributable thereto, in accordance with the following schedule:

Years of Vesting Service	Percentage Vested
Less than 5	0%
5 or more	100%

Any amount remaining in a Participant's Company Account after his nonforfeitable percentage is determined upon his Separation from Service shall be forfeited by him as provided in Section 8.5. The forfeited amounts shall be held in the Forfeiture Account.

8.3 Vesting After Specified Events

Notwithstanding his Years of Vesting Service, a Participant who attains his Normal Retirement Age while in the service of an Employer shall be 100% vested in the balance in his Company Account. Moreover, if a Participant shall Separate from Service (1) because of Total and Permanent Disability, (2) because of death, or (3) because of the discontinuance (through no fault of his own) of the operation of a unit of an Employer in which he was employed or of the particular work in which he was engaged, as determined in its discretion by the Benefits Administration Committee, such Participant shall be 100% vested in the balance in his Company Account.

8.4 Distributions With Less Than 100% Vesting

If a Participant who is less than one hundred percent (100%) vested in his Company Account receives a distribution from such Company Account following termination of employment, then his vested interest in such Account upon reemployment prior to incurring five (5) consecutive One-Year Breaks in Service shall be equal to P(AB + R x D)) - R x D) where:

P is the vested percentage at the time at which the Participant's vested interest cannot increase;

AB is the account balance of the Company Account determined at the time at which the Participant's vested interest cannot increase;

D is the amount of the distribution; and

R is the ratio of the account balance of the Company Account determined at the time at which the Participant's vested interest cannot increase to such account balance determined after the distribution.

8.5 Forfeitures

If a Participant's employment is terminated, any portion of his Company Account in which the Participant does not have a nonforfeitable interest shall be provisionally forfeited as of his date of termination of employment. If the Participant is not rehired before incurring five (5) consecutive One-Year Breaks in Service, the amount of the forfeiture shall be forfeited permanently.

If a Participant who has had a provisional forfeiture shall again become an Employee prior to incurring five (5) consecutive One-Year Breaks in Service, the Employer shall reinstate (as of the Participant's Reemployment Commencement Date), the dollar amount of his Company Account forfeited, unadjusted for any gains or losses which occurred during said One-Year Breaks in Service. If such Participant received a distribution upon termination, the amounts provisionally forfeited will be reinstated only upon satisfaction of the following conditions:

(1) the Participant resumes employment with the Employer before incurring five (5) consecutive One-Year Breaks in Service,

(2) the Participant repays to the Plan the full amount of the distribution previously made to him, and

(3) the repayment is effected within five (5) years of the date on which he is credited with an Hour of Service for the performance of duties for an Employer.

The amount required to reinstate a forfeited Company Account shall be paid from the Forfeiture Account to the extent such Account is sufficient. To the extent the available forfeitures are insufficient to fully reinstate Participants' previously nonvested amounts, the Employer will make an additional contribution to the Plan sufficient to fully reinstate such amounts.

If a Participant's employment terminates at a time when he has no vested interest in his Company Account, the Participant shall be deemed to have been distributed his entire Company Account balance on termination of his employment.

8.6 Distribution of Vested Benefits

Benefits payable in the case of a Participant whose employment is terminated shall be paid in accordance with Article 7 in the case of death, or Article 9 in the case of a Participant who retires or otherwise terminates employment with a vested benefit.

8.7 Forfeiture Account

The Trustee or its delegate shall establish and maintain in the Trust a Forfeiture Account for purposes of holding and investing amounts formerly allocated to individual Accounts of Participants but forfeited pursuant to this Article. All amounts credited to the Forfeiture Account shall be invested in an Investment Fund that emphasizes preservation of principal.

The Benefits Administration Committee may, in its discretion, apply amounts held in the Forfeiture Account (A) to restore amounts previously forfeited by Participants but required to be reinstated upon resumption of employment, (B) to pay Plan expenses, to the extent not paid by an Employer, (C) to correct an error made or resolve a claim filed under the Plan, or (D) to reduce any Employer contribution for the current or next succeeding Plan Year.

8.8 Service Upon Reemployment

Except as provided in Section 2.8, if a Participant has a Separation from Service and again becomes an Employee, his Years of Vesting Service completed before his reemployment will be included in determining his vested and nonforfeitable interest in his pre-break and post-break balances in his Company Accounts after he again becomes an Employee.

Except as provided in Section 2.8, if an Employee terminates employment before becoming a Participant and again becomes an Employee, he will receive credit for his prior Years of Vesting Service and Years of Eligibility Service.

ARTICLE 9 -

DISTRIBUTION OF BENEFITS

9.1 Vested Benefits

(A) A Participant who has a Separation from Service shall be entitled to a benefit equal to the vested interest in the balance in his Personal and Company Accounts determined pursuant to Article 8.

(B) Pursuant to the operation of Section 4.1, Section 4.5 and/or Section 4.8, a Participant may be entitled to receive an additional allocation after Separation from Service. The Participant's vested interest in such amount shall be subject to distribution pursuant to this Article 9 as of the Valuation Date coincident with or next following the Allocation Date as of which such amount is allocated to the Participant's Account.

(C) A Participant who is 100% vested in his Company Account pursuant to Article 8 on his Separation from Service (or the surviving Spouse of such Participant) and who has not given written consent to a distribution of benefits may elect a distribution from the Plan of all or any portion of his Account at any time. A Participant who is less than 100% vested in his Company Account pursuant to Article 8 on his Separation from Service (or the surviving Spouse of such Participant) may elect to receive a complete distribution of his Vested Account at any time or may receive a partial distribution of his vested Account to the extent provided in Section 10.3 and Section 10.4. Each distribution request is to be made in accordance with procedures and rules promulgated by the Benefits Administration Committee. All such withdrawal requests are subject to the approval of the Benefits Administration Committee.

A withdrawal hereunder shall be made from the sources in the Account in the order determined by the Benefits Administration Committee.

9.2 Valuation Date

(A) For purposes of distributions, the value of a Participant's Account shall be determined on the Valuation Date following authorization of the distribution of such Account or a portion thereof by the Benefits Administration Committee.

The payment of a Participant's distribution shall be made as soon as practicable after such Valuation Date in the form of a lump-sum payment in cash. Notwithstanding the foregoing, a Participant who elects to invest a portion of his account in the ADS Stock Fund, may elect that all or a portion of his Account be distributed in shares of common stock of the Company; provided, however, that the value of any fractional shares shall be distributed in cash.

(B) Except as otherwise provided in Section 9.3 hereof, or unless a Participant otherwise elects, in no event shall the payment of benefits to a Participant who

has a Separation from Service begin later than the 60th day after the latest of the close of the Plan Year in which (1) the Participant attains Normal Retirement Age, (2) occurs the 10th anniversary of the year in which the Participant commenced participation in the Plan or (3) occurs the Participant's Separation from Service.

9.3 Consent to Distribution of Benefits

The benefits payable to a Participant who has a Separation from Service other than because of death shall not be distributed unless the Participant first gives written consent to such distribution. Such written consent shall be provided by the Participant on a form required by the plan administrator. However, such consent shall not be necessary if the value of the Participant's vested benefits is $5,000 (effective October 1, 2004, $1,000, determined without taking into account the value of the Participant's Rollover Account) or less. In that case, the Benefits Administration Committee shall direct the Trustee to cause the entire vested benefit to be paid to such Participant (or the Participant's Beneficiary in the case of a deceased Participant) without regard to the Participant's election or the consent of said Participant's Spouse. In the event a Participant is to receive a distribution and subsequently is reemployed by the Company or other Employer before the distribution is made, such distribution shall not be made.

9.4 Deferral of Benefits

(A) The benefits of a Participant who has a Separation from Service other than because of death may be deferred to a date not later than that permitted under Section 401(a)(9) of the Code ("Deferred Distribution Date"). During such deferral period, the Participant shall not make any Deposits or, except as otherwise provided under the Loan Program, apply for a loan after his Separation from Service.

(B) In the event of the death of a Participant during the deferral period prior to distribution of all Plan benefits, the surviving Spouse shall have the right to defer all or any portion of the benefits payable to the surviving Spouse and shall be permitted to designate a Beneficiary to receive benefits in the event of such Spouse's death. If the Spouse fails to designate a Beneficiary or if the Beneficiary designated by the Spouse fails to survive the Spouse, any benefits payable because of the Spouse's death shall be paid to the Spouse's estate.

The Plan shall charge and collect a reasonable administrative maintenance fee, which may be adjusted from time to time, to be deducted from the Accounts of persons whose benefits are deferred.

9.5 Required Minimum Distributions

Any benefit provided under the Plan shall be subject to the requirements of Code Section 401(a)(9), the provisions of which are incorporated by reference, including, without limitation, Treas. Reg. Section 1.401(a)(9)-2.

9.6 Notices to Participants; Distributions Within 30 Days

The Benefit Administration Committee shall provide to the Participant notices of the following: (1) deferral rights and information on optional benefits required by Section 1.411(a)-11(c) of Income Tax Regulations, and (2) a written explanation of the direct rollover and tax withholding information required by Section 402(f) of the Code. Such notices shall be provided to the Participant no earlier than 90 days and no less than 30 days before the Annuity Commencement Date.

If a distribution is one to which Sections 401(a)(11) and 417 of the Code do not apply, such distribution may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given, provided that: (1) the plan administrator clearly informs the Participant that the Participant has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and (2) the Participant, after receiving the notice, affirmatively elects a distribution.

9.7 Harmonic Systems Qualified Joint and Survivor Provisions

This section 9.7 shall apply only to Participants who were employed by Harmonic Systems on August 11, 1998, and became Employees on or about that date and only for periods prior to the later of January 1, 2005, or ninety (90) days following the date on which the Benefits Administration Committee furnishes such Participants with a summary reflecting the Plan's complete conversion to the lump sum option.

(A) **Joint and Survivor Annuity**. The Benefits Administration Committee must direct the Trustee to distribute a married or unmarried Participant's nonforfeitable Accrued Benefit in the form of a qualified joint and survivor annuity, unless the Participant makes a valid waiver election (described in paragraph (b) below) within the 90 day period ending on the annuity starting date. If, as of the annuity starting date, the Participant is married, a qualified joint and survivor annuity is an immediate annuity which is purchasable with the Participant's nonforfeitable Accrued Benefit and which provides a life annuity for the Participant and a survivor annuity payable for the remaining life of the Participant's surviving Spouse equal to 50% of the amount of the annuity payable during the life of the Participant. If, as of the annuity starting date, the Participant is not married, a qualified joint and survivor annuity is immediate life annuity for the Participant which is purchasable with the Participant's nonforfeitable Accrued Benefit. On or before the annuity starting date, the Benefits Administration Committee, without Participant or spousal consent, must direct the Trustee to pay the Participant's nonforfeitable Accrued Benefit in a lump sum, in lieu of a qualified joint and survivor annuity, in accordance with Section 9.3, if the Participant's nonforfeitable Accrued Benefit is not greater than $5,000.

(1) Preretirement Survivor Annuity. If a married Participant dies prior to his annuity starting date, the Benefits Administration Committee will direct the Trustee to distribute a portion of the Participant's nonforfeitable

Accrued Benefit to the Participant's surviving Spouse in the form of a preretirement survivor annuity, unless the Participant has a valid waiver election (as described in paragraph (c) below) in effect, or unless the Participant and his Spouse were not married throughout the one year period ending on the date of his death. A preretirement survivor annuity is an annuity which is purchasable with 50% of the Participant's nonforfeitable Accrued Benefit (determined as of the date of the Participant's death) and which is payable for the life of the Participant's surviving Spouse. The value of the preretirement survivor annuity is attributable to Employer contributions and to Employee contributions in the same proportion as the Participant's nonforfeitable Accrued Benefit is attributable to those contributions. The portion of the Participant's nonforfeitable Accrued Benefit is payable to the Participant's Beneficiary, in accordance with the other provisions of this Plan. If the present value of the preretirement survivor annuity does not exceed $5,000, the Benefits Administration Committee, on or before the annuity starting date, must direct the Trustee to make a lump sum distribution to the Participant's surviving Spouse, in lieu of a preretirement survivor annuity.

(2) Surviving Spouse Elections. If the present value of the preretirement survivor annuity exceeds $5,000, the Participant's surviving Spouse may elect to have the Trustee commence payment of the preretirement survivor annuity at any time following the date of the Participant's death, but not later than the mandatory distribution periods described in Section 401(a)(9) of the Code, and may elect any of the forms of payment described in Section 9.2, in lieu of the preretirement survivor annuity. In the absence of an election by the surviving Spouse, the Benefits Administration Committee must direct the Trustee to distribute the preretirement survivor annuity on the first distribution date following the close of the Plan Year in which the latest of the following events occurs: (i) the Participant's death; (ii) the date the Benefits Administration Committee receives notification of or otherwise confirms the Participant's death; (iii) the date the Participant would have attained Normal Retirement Age; or (iv) the date the Participant would have attained age 62.

(3) Special Rules. If the Participant has in effect a valid waiver election regarding the qualified joint and survivor annuity or the preretirement survivor annuity, the Benefits Administration Committee must direct the Trustee to distribute the Participant's nonforfeitable Accrued Benefit in accordance with the terms of the Plan. The Benefits Administration Committee will reduce the Participant's nonforfeitable Accrued Benefit by any security interest (pursuant to any offset rights authorized by Article 11) held by he Plan by reason of a Participant loan to determine the value of the Participant's nonforfeitable Accrued Benefit distributable in the form of a qualified joint and survivor annuity or preretirement survivor annuity, provided any loan satisfied the spousal consent requirement described in Article 11 of the Plan. For purposes of applying this

paragraph (3), the Benefits Administration Committee treats a former Spouse as the Participant's Spouse or surviving Spouse to the extent provided under a qualified domestic relations order described in Article 7. The provisions of this Section 9.7(A) and of Section 9.7(B) and Section 9.7(C) apply separately to the portion of the Participant's nonforfeitable Accrued Benefit subject to the qualified domestic relations order and to the portion of the Participant's nonforfeitable Accrued Benefit no subject to that order.

(B) **Waiver Election – Qualified Joint and Survivor Annuity**. Not earlier than 90 days, but not later than 30 days, before the Participant's annuity starting date, the Benefits Administration Committee must provide the Participant a written explanation of the terms and conditions of the qualified joint and survivor annuity, the Participant's right to make, and the effect of, an election to waive the joint and survivor form of benefit, the rights of the Participant's Spouse regarding the waiver election and the Participant's right to make, and the effect of, a revocation of a waiver election. The Plan does not limit the number of times the Participant may revoke a waiver of the qualified joint and survivor annuity or make a new waiver during the election period.

A married Participant's waiver election is not valid unless (1) the Participant's Spouse (to whom the survivor annuity is payable under the qualified joint and survivor annuity), after the Participant has received the written explanation described in this Section 9.7(B), has consented in writing to the waiver election, the Spouse's consent acknowledges the effect of the election, and a notary public or the Benefits Administration Committee (or its representative) witnesses the Spouse's consent, (2) the Spouse consents to the alternate form of payment designated by the Participant or to any change in that designated form of payment, and (3) unless the Spouse is the Participant's sole primary Beneficiary, the Spouse consents to the Participant's Beneficiary designation or to any change in the Participant's Beneficiary designation. The Spouse's consent to a waiver of the qualified joint and survivor annuity is irrevocable, unless the Participant revokes the waiver election. The Spouse may execute a blanket consent to any form of payment designation or to any Beneficiary designation made by the Participant, if the Spouse acknowledges the right to limit that consent to a specific designation but, in writing, waives that right. The consent requirements of this Section 9.7(B) apply to a former Spouse of the Participant, to the extent required under a qualified domestic relations order described in Article 7.

The Benefits Administration Committee will accept a valid waiver election which does not satisfy the spousal consent requirements if the Benefits Administration Committee establishes the Participant does not have a Spouse, the Benefits Administration Committee is not able to locate the Participant's Spouse, the Participant is legally separated or has been abandoned (within the meaning of state law) and the Participant has a court order to that effect, or other circumstances exist under which the Secretary of the Treasury will excuse the consent requirement. If the Participant's Spouse is legally incompetent to give consent, the Spouse's legal guardian (even if the guardian is the Participant) may give consent.

(C) **Waiver Election – Preretirement Survivor Annuity**. The Benefits Administration Committee must provide a written explanation of the preretirement survivor annuity to each married Participant, within the following period which ends last: (1) the period beginning on the first day of the Plan Year in which the Participant attains age 32 and ending on the last day of the Plan Year in which the Participant attains age 34; (2) a reasonable period after an Employee becomes a Participant; (3) a reasonable period after the joint and survivor rules become applicable to the Participant; or (4) a reasonable period after a fully subsidized preretirement survivor annuity no longer satisfies the requirements for a fully subsidized benefit. A reasonable period described in paragraphs (2), (3) and (4) is the period beginning one year before and ending one year after the applicable event. If the Participant separates from Service before attaining age 35, paragraphs (1), (2), (3) and (4) do not apply and the Benefits Administration Committee must provide the written explanation within the period beginning one year before and ending one year after the Separation from Service. The written explanation must describe, in a manner consistent with Treasury regulations, the terms and conditions of the preretirement survivor annuity comparable to the explanation of the qualified joint and survivor annuity required under Section 9.7(B). The Plan does not limit the number of times the Participant may revoke a waiver of the preretirement survivor annuity or make a new waiver during the election period.

A Participant's waiver election of the preretirement survivor annuity is not valid unless (i) the Participant makes the waiver lection no earlier than the first day of the Plan Year in which he attains age 35 and (ii) the Participant's Spouse (to whom the preretirement survivor annuity is payable) satisfies the consent requirements described in Section 9.7(B), except the Spouse need not consent to the form of benefit payable to the designated Beneficiary. The Spouse's consent to the waiver of the preretirement survivor annuity is irrevocable, unless the Participant revokes the waiver election. Irrespective of the time of election requirement described in clause (i), if the Participant separates from Service prior to the first day of the Plan Year in which he attains age 35, the Benefits Administration Committee will accept a waiver election as respects the Participant's Accrued Benefit attributable to his Service prior to his Separation from Service. Furthermore, if a Participant who has not separated from Service makes a valid waiver election, except for the timing requirement of clause (a), the Benefits Administration Committee will accept that election as valid, but only until the first day of the Plan Year in which the Participant attains age 35. A waiver election described in this paragraph is not valid unless made after the Participant has received the written explanation described in this Section 9.7(C).

ARTICLE 10 -

WITHDRAWALS WHILE EMPLOYED

10.1 Limits on Withdrawals

No withdrawals, other than withdrawals provided by this Article 10, shall be permitted prior to the Participant's Separation from Service.

10.2 Withdrawal of Taxed Deposits and Rollover Accounts

A Participant may elect, in accordance with procedures established by the Benefits Administration Committee, to withdraw from his Personal Account an amount in cash not exceeding the value of amounts attributable to his Taxed Deposits and amounts in his Rollover Account as of the date the withdrawal is requested in accordance with procedures established by the Benefits Administration Committee.

10.3 Withdrawal After Attainment of Age 59 1/2

A Participant may elect at any time after the attainment of age 59 1/2 to withdraw from his (i) Personal Account and (ii) Company Account an amount in cash not in excess of the vested value thereof determined as of the Valuation Date coincident with or next following the date on which the Participant requests a withdrawal in accordance with procedures established by the Benefits Administration Committee. A withdrawal hereunder shall be made from sources in the Account in the order determined by the Benefits Administration Committee.

10.4 Withdrawal to Alleviate Financial Hardship

A Participant, who does not have any amounts credited in his Account which are subject to withdrawal under Sections 10.2 or 10.3, may apply to the Benefits Administration Committee for approval to withdraw, as of the Valuation Date which is coincident with or next following the date of approval of such application by the Benefits Administration Committee, an amount in cash necessary to satisfy and alleviate a financial hardship. Such withdrawal may be made from the following sources in the Participant's Account, and in the order determined by the Benefits Administration Committee: World Financial Network Plan Matching Account; HIS Prior Plan Match; World Financial Network Plan Retirement Account; Tax Deferred Deposits (but no earnings thereon); and HIS Prior Plan Pre-Tax Deferred Deposits.

The Benefits Administration Committee shall approve any such application only to relieve an immediate and heavy financial need of the Participant (including his Spouse or any dependent), but only in an amount not in excess of the amount required to relieve such financial need, and only if, and to the extent, such need cannot be satisfied from other resources reasonably available to him (including assets of his Spouse and minor children reasonably available to him). For purposes of this paragraph, an immediate and heavy financial need shall be limited to any one of the following circumstances: (a) medical expenses (within the meaning of Section 213(d) of the Code) incurred by the Participant, his Spouse, or any dependent (within the meaning of Section 152 of the Code) or amounts necessary for these persons to obtain medical care described in Code Section 213(d); (b) purchase (excluding mortgage payments) of

the Participant's principal residence; (c) payment of tuition and related educational fees for the next 12 months of post-secondary education for the Participant, his Spouse, or any dependent of the Participant (d) the need to prevent (i) the eviction of the Participant from his principal residence or (ii) the foreclosure on the mortgage of his principal residence; and (e) such other immediate and heavy financial needs as determined by the Commissioner of the Internal Revenue Service and announced by publication of revenue rulings, notices, and other documents of general applicability.

A distribution will be deemed necessary to satisfy the immediate and heavy financial need of the Participant only if:

(A) the distribution is not in excess of the amount of the immediate and heavy financial need;

(B) the Participant has obtained all distributions, other than hardship distributions, and all nontaxable loans currently available under all plans maintained by the Employer;

(C) the Plan, and all other plans maintained by the Employer, provide that the Participant's Tax Deferred Deposits and Taxed Deposits, if any, (except for mandatory after-tax employee contributions to a defined benefit plan) will be suspended for a six-month period after receipt of the hardship distribution; and

(D) the Plan, and all other plans maintained by the Employer, provide that the Participant may not make Tax Deferred Deposits for the Participant's taxable year immediately following the taxable year of the hardship distribution in excess of the applicable limit under Section 402(g) of the Code for such next taxable year less the amount of such Participant's Tax Deferred Deposits for the taxable year of the hardship distribution.

10.5 Loans Prior to Hardship Withdrawals

For purposes of Section 10.4 above, the Benefits Administration Committee shall grant a Participant's request for a hardship withdrawal only if the Participant borrows the maximum permissible amounts under the Employer's retirement plans to the extent such borrowings would not increase the Participant's financial need. The amount of the loan shall be the lesser of (i) the said maximum amount or (ii) the amount necessary to alleviate the hardship.

10.6 In-Service Withdrawals

This Section shall apply only to Participants who had an Account transferred from the World Financial Network Plan and, further, shall only apply to such Participant's Account balance (exclusive of amounts attributable to Tax Deferred Deposits) as of December 31, 1997, adjusted for subsequent income, expenses, gains and losses or any other applicable charge or credit. Such Participant who is fully vested in his or her Account and who has participated in the Plan for at least five years may obtain an in-service withdrawal from his or her Account (other than his or her Account attributable to Tax Deferred Deposits). Thirty percent (30%) of a Participant's Account (other than his or her Account attributable to Tax Deferred Deposits) is

available for in-service withdrawal pursuant to this Section, less the percentage of the Participant's Account previously withdrawn. A Participant may request no more than one in-service withdrawal, in multiples of five percentage points, in any calendar quarter, beginning with the calendar quarter next following the date of which the Participant becomes fully vested. A request for an in-service withdrawal shall be made in accordance with such procedures as the Benefits Administration Committee shall prescribe. An in-service withdrawal shall be charged against a Participant's Account (other than his or her Account attributable to Tax Deferred Deposits) from the following sources in the order set forth (the vested value in each category shall be exhausted before funds are taken from the next category) with Investment Funds within each category being liquidated on a pro-rata basis:

(A) Rollovers

(B) Employer Matching Contributions

(C) Retirement Contributions.

10.7 Withdrawal on Account of Disability

A Participant who has become disabled may apply for a distribution of his Account on the same basis as if he had a Separation from Service under Section 9.1. For this purpose, a Participant will be deemed to be disabled only if the Participant has qualified for disability benefits under the Company's Long Term Disability Plan or, in the case of a Participant who is not eligible to participate in such plan, would so qualify, as determined by the Benefits Administration Committee in its sole discretion.

ARTICLE 11 -

LOANS

The Benefits Administration Committee may, in its discretion, establish a program under the Plan to provide loans to Participants (the "Loan Program"). If so established, the Loan Program shall be embodied in a separate written document that is incorporated by reference into the Plan.

ARTICLE 12 -

ADMINISTRATION OF THE PLAN

12.1 Investment Committee

The Investment Committee shall have the responsibility for control and management of the assets of the Plan, and, subject to Section 6.1(B), shall also be the named fiduciary of the Plan, as provided for in ERISA, for control and management of the assets of the Plan. The Investment Committee shall consist of not less than three members who shall be appointed from time to time by the Board of Directors, which shall also determine which member shall serve as

Chair, and shall serve at its pleasure, without compensation, unless otherwise determined by the Board of Directors. If otherwise eligible, the fact that an Employee is a member of the Investment Committee shall not preclude his participation in the Plan or acting as trustee of any of the funds under the Plan.

12.2 Operation of Investment Committee

The Investment Committee shall elect a Secretary, who may or may not be a member of the Investment Committee. The Investment Committee shall conduct its business and hold meetings as determined by it from time to time. As to all matters requiring the exercise of discretion, action shall be taken upon the agreement or direction of at least a majority of the Investment Committee. In lieu of a meeting, the Investment Committee may act by unanimous written consent. In the control and management of the assets of the Plan, the Investment Committee may:

(A) allocate among its members, and designate other persons to carry out, fiduciary and nonfiduciary responsibilities with respect to the control and management of Plan assets (other than trustee responsibilities as defined in Section 405(c)(3) of ERISA); and

(B) consult with legal counsel, who may be counsel to the Company.

12.3 Records of Investment Committee

The Investment Committee shall keep a record of all its proceedings.

12.4 Rights and Powers of Investment Committee

In carrying out its functions under the Plan, the Investment Committee shall have the right and power:

(A) to establish and implement overall investment objectives, philosophy, and policy relating to asset investment mix or to new investments for the Plan;

(B) to recommend to the Board of Directors adoption of significant investment-related amendments to the Plan;

(C) to appoint or remove the Trustees;

(D) to appoint, review the actions of, and remove the custodians and investment management consultants for the Plan;

(E) to appoint, review the actions of, and remove investment managers for the Plan, approve related fee arrangements (including estimated annual budget and controls relating to such expenses and fees), investment guidelines, and restrictions applicable to such managers;

(F) to approve, ratify, or oversee all investments made by investment managers who may be Employees or which may be subsidiaries or affiliates;

(G) to approve investment arrangements with insurance carriers, banks or financial institutions under the Plan;

(H) to approve all matters related to investment related transactions between the Plan and a party in interest (as defined in ERISA), where such approval is required by ERISA;

(I) to exercise such additional powers as are necessary in the judgment of the Investment Committee to carry out the above-mentioned responsibilities or as may from time to time be delegated to the Investment Committee by the Board of Directors.

12.5 Benefits Administration Committee

Administration of the payment of all benefits to Participants or their Beneficiaries and of the other functions vested by the Plan in the Benefits Administration Committee shall be the responsibility of the Benefits Administration Committee, which shall also be both the administrator and the named fiduciary of the Plan for the review of denied benefit claims, as those terms are defined in ERISA. As administrator of the Plan, the Benefits Administration Committee shall be responsible for compliance with the reporting and disclosure requirements of ERISA, and as named fiduciary for review of denied benefit claims, it shall have the power and duty to make the final determination under the Plan with respect to review of denied claims for Plan benefits. The Benefits Administration Committee shall consist of not less than three members who shall be appointed from time to time by the Board of Directors and shall serve at its pleasure. If otherwise eligible, the fact that an Employee is a member of the Benefits Administration Committee shall not preclude his participating in the Plan or acting as trustee of any funds under the Plan.

12.6 Operation of Benefits Administration Committee

The Benefits Administration Committee shall elect a Chairman from among its members and a Secretary, who may or may not be a member of the Benefits Administration Committee. The Benefits Administration Committee shall conduct its business and hold meetings as determined by it from time to time. As to all matters requiring the exercise of discretion, action shall be taken upon the agreement or direction of at least a majority of the Benefits Administration Committee. In lieu of a meeting, the Benefits Administration Committee may act by unanimous written consent. In the administration of the Plan, the Benefits Administration Committee may: (A) allocate among its members, and designate other persons to carry out, fiduciary and nonfiduciary responsibilities with respect to administration and review of denied benefit claims; and (B) consult with legal counsel, who may be counsel to the Company.

12.7 Records of Benefits Administration Committee

The Benefits Administration Committee shall keep a record of all its proceedings.

12.8 Rights and Powers of Benefits Administration Committee

The Benefits Administration Committee shall have full discretionary authority with respect to the exercise of the following rights and powers and the determination of any question related thereto, including a question of fact:

(A) to interpret the provisions of the Plan;

(B) to adopt such rules and regulations with regard to the administration of the Plan as are consistent with the terms of the Plan and of the trust agreement or agreements establishing the Trust and to determine the terms and provisions of the forms of statements, acceptances, consents, authorizations, elections, designations, and any other instruments to be executed and delivered by Participants as a condition of, or in order -to exercise, any rights under the Plan, and generally, to take all action which it is herein contemplated shall be taken by the Benefits Administration Committee;

(C) to determine the eligibility of Employees (including, whether an Employee is active, and the dates by which an eligible Employee shall be required to consent to the making of payroll deductions or reductions as a condition to commencing his or her participation in the Plan as of any specified date) and their Periods of Service, including, but without limitation, Hours of Service, One-Year Periods of Severance, Periods of Military Service, Years of Eligibility Service and Years of Vesting Service, and to require such proof from any Participant as it considers necessary to determine that such Participant has a condition of Total and Permanent Disability;

(D) to determine what constitutes Compensation;

(E) subject to the specific provisions of the Plan, to determine the times at which amounts shall be credited to the Company Accounts and Personal Accounts of Participants;

(F) to administer the Loan Program and to determine whether or not a withdrawal request of a Participant on the basis of financial hardship should be approved, and to require such proof from a Participant as it considers necessary to make any such determination;

(G) to determine the percentage of Compensation which a Participant may deposit under the Plan in respect of a Plan Year as provided in Section 3.2 of Article 3;

(H) to determine whether or not to suspend, limit or retroactively reduce the percentage of Tax Deferred or Taxed Deposits elected by any or all Participants who are “highly compensated employees” within the meaning of Section 414(q) of the Code and the duration of any such limitation imposed;

(I) to determine the disposition (including, in its discretion, whether to charge the amount against the amount of shares and cash in the Forfeiture Account) of clerical, arithmetical, and other errors made under the Plan or to resolve any claim filed under the Plan;

(J) to determine how the Plan should be administered to conform with law or to meet special circumstances not anticipated or not covered in the Plan; and

(K) to establish and administer procedures to determine whether domestic relations orders are qualified under Section 414(p) of the Code;

(L) to designate an Employer for purposes of Section 2.7(C) and arrange for a transfer of assets as provided therein;

(M) to direct the Trustee to return contributions as provided in Section 14.9; and

(N) to delegate to one or more persons other than members of the Benefits Administration Committee, or to authorize one or more members of the Benefits Administration Committee to act on its behalf to carry out, any duty or power which would otherwise be a responsibility, including a fiduciary responsibility, of the Benefits Administration Committee under the Plan and any reference in the Plan to tile Benefits Administration Committee shall include a reference to such delegatee(a) as is appropriate to the context.

12.9 Claims Procedures

Pursuant to procedures established by the Benefits Administration Committee, adequate notice in writing shall be provided to any Participant (including any retired or former Participant) or Beneficiary whose claim for benefits under the Plan has been denied. Such notice shall set forth the specific reason for such denial, shall be written in a manner calculated to be understood by the claimant, and, provided review is requested with 60 days (180 days in the case of a disability claim) after receipt by the claimant of written notification of denial of his claim shall afford a reasonable opportunity to any claimant whose claim for benefits has been denied for a full and fair review by the Benefits Administration Committee of the decision denying the Claim. All determinations of the Benefits Administration Committee shall be final, conclusive, and binding on all interested parties. No Benefits Administration Committee member shall be entitled to act on or decide any matter relating solely to himself or any of his rights under the Plan.

12.10 Indemnification

The Company shall indemnify and reimburse the members of the Board of Directors of the Company, the Investment Committee, and the Benefits Administration Committee and any other employee of an Employer who has been delegated any fiduciary responsibility in connection with the Plan, with respect to any action, inaction, or matter undertaken by such persons in good faith for or on behalf of the Plan or its participants which is consistent with the purposes of the Plan.

ARTICLE 13 -

AMENDMENT OR TERMINATION

13.1 Right to Amend

(A) The Board of Directors reserves the right, by duly authorized resolution, at any time and from time to time (and retroactively if deemed necessary or appropriate to meet the requirements of the Code, ERISA, or any similar laws, or the rules and regulations from time to time in effect under any of such laws or to conform with governmental regulations or other policies), to modify or amend, in whole or in part, any or all of the provisions of the Plan.

(B) No such modification or amendment, however, shall make it possible for any part of the corpus or income of the fund to be used for, or diverted to, purposes other than for the exclusive benefit of Participants and their beneficiaries under the Plan prior to the satisfaction of all liabilities with respect thereto. Moreover, no amendment or modification shall make it possible to deprive any Participant of a previously accrued benefit, except to the extent permitted by Section 412(c)(8) of the Code.

(C) Notwithstanding anything herein to the contrary, a representative of the Benefits Administration Committee may, at its direction, execute any amendment to the Plan that (1) reflects the terms of any agreements entered into by the Company relating to prior employee service required to be taken into account under the Plan pursuant to such agreements, or (2) which does not add materially to the cost of maintaining the Plan or affect Participants' rights under the Plan in a material way.

13.2 Right of Adoption and Termination

Any entity affiliated with the Company may adopt the Plan for the benefit of its employees. However, any such adoption must be approved by the Board of Directors. Furthermore, the Board of Directors retains the exclusive right and the power to terminate the Plan at any time with respect to any or all Employers.

13.3 Obligations Upon Merger, Consolidation or Transfer

In the event of any merger or consolidation with, or transfer of assets or liabilities to, any other plan, each Participant shall be entitled to receive a benefit if the Plan were to terminate immediately after the merger, consolidation, or transfer, which is not less than the benefit he would have been entitled to receive if the Plan had terminated immediately before the merger, consolidation, or transfer.

In the event of the merger of any other qualified plan into the Plan, to the extent required by law, a Participant's Years of Vesting Service and Years of Eligibility Service under the Plan shall include the years of vesting service and the years of eligibility service standing to his credit under such merged plan on the day immediately preceding the day of such plan merger. Years of

Vesting Service credited under this Section shall be credited only for purposes of determining a Participant's nonforfeitable percentage in his Accounts under Article 8 and shall not be credited for purposes of determining a Participant's Retirement Contribution under Article 4.

The merger of the Plan with any other plan shall not reduce or eliminate any benefit protected under Code Section 411(d)(6), except to the extent permitted by law.

13.4 Obligations Upon Termination, Partial Termination or Discontinuance

(A) While each Employer intends to continue the Plan indefinitely, nevertheless it assumes no contractual obligation as to the Plan's continuance. In the case of any termination, partial termination or complete discontinuance of contributions, each Participant who is then an Employee and who is affected by the termination, partial termination or complete discontinuance of contributions shall have a one hundred percent (100%) nonforfeitable interest in the value of all amounts credited to his Participant's Account.

(B) Upon a complete or partial termination of the Plan, whether in writing or in operation, subject to the right of the Board of Directors to amend the Plan to provide for a liquidation and distribution of the assets of the Plan (i) the Benefits Administration Committee and the Investment Committee shall remain in existence, (ii) no further deposits or Company contributions shall be made under the Plan for affected Participants, (iii) all of the provisions of the Plan shall remain in full force and effect (other than the provisions for Deposits and Employer Contributions) and (iv) the amount in each affected Participant's Account shall continue to be held under the Plan, and shall be nonforfeitable.

13.5 Continued Funding After Plan Termination

Anything in the Plan to the contrary notwithstanding, no Employer, upon any termination or partial termination of the Plan, shall have any obligation or liability whatsoever to make any further payments to the Trustee for the benefit of Participants under the Plan, except for any contributions payable prior to any termination of the Plan. Except as provided in the foregoing, neither the Trustee, the Board of Directors, the Benefits Administration Committee, the Investment Committee, nor any Participant, Employee, nor beneficiary, shall have any right to compel an Employer to make any payment after the termination or partial termination of the Plan.

13.6 Distribution Upon Disposition of Assets

A Participant's Account may be distributed to the Participant as soon as administratively feasible after the sale or other disposition of at least 85 percent of the assets used by the Employer in the trade or business in which the Participant is employed if the purchaser does not maintain the Plan and if the Participant continues employment with the purchaser.

The Account of a Participant employed by a subsidiary of an Employer may be distributed to the Participant as soon as administratively feasible after the sale or other disposition of the Employer's interest in the subsidiary to an entity that is not a related Employer as long as the purchaser does not maintain the Plan and the Participant continues employment with such subsidiary.

13.7 Conversion Period

However, notwithstanding any provision of the Plan to the contrary, during any conversion period, in accordance with procedures established by the Employer, the Employer may temporarily suspend, in whole or in part, certain provisions of the Plan, which may include, but are not limited, a Participant's right to change his Deposit Election, to change his investment election, to borrow or withdraw from his Account, or to obtain a distribution from his Account.

ARTICLE 14 -

GENERAL PROVISIONS

14.1 No Contract of Employment

Neither the establishment of the Plan nor any action hereafter taken by the Trustee, the Company, any other Employer, the Investment Committee or the Benefits Administration Committee shall. be construed as giving to any Employee the right to be retained in employment or, except as otherwise provided herein, any right or claim to any benefits under the Plan if discharged, unless the right to such benefits would have accrued if the Employee had at the time of such discharge voluntarily Separated from Service.

14.2 Incapacity

If the Benefits Administration Committee determines that any person entitled to any distribution under the Plan is a minor, or incompetent, or unable to care for his affairs by reason of a physical or mental disability, the Committee may direct the Trustee to pay such distribution in whole or in part, to any person who, in the Committee's opinion, is caring for or supporting the minor, incompetent or disabled person, unless a claim is made for such distribution by a duly appointed guardian or committee of such individual. The Benefits Administration Committee shall not have any responsibility to follow or oversee the applications of amounts so paid and such distribution shall be a complete discharge of any obligation to the extent of the amount distributed.

14.3 Payment Satisfies Claims

Any payment of a distribution under the Plan to any Participant, Beneficiary, legal representative or any guardian or committee appointed for such Participant or Beneficiary shall, to the extent of such payment, be in fall satisfaction of all claims against the Plan, Trustee, Company, an Employer, or Benefits Administration Committee. The Plan may require any recipient of a distribution to execute a receipt and release in such form as the Benefits Administration Committee determines.

14.4 Prescribed Forms

Except as provided in Section 14.5, all elections, authorizations, applications, and other actions required of Employees, Participants, or Beneficiaries under the Plan must, in order to be effective, be made in writing on forms prescribed for such purposes by the Benefits Administration Committee and delivered or communicated to the Benefits Administration Committee, as the Benefits Administration Committee may direct, by such dates as may be prescribed by the Benefits Administration Committee. Participants and Beneficiaries must furnish the Benefits Administration Committee such evidence or information, including change of address, as the Committee considered necessary or desirable for the purpose of administering the Plan and the benefits of each such person are conditioned upon prompt furnishing of all evidence or information requested.

14.5 Telephonic Voice Response Service or Electronic Systems

Notwithstanding anything in the Plan to the contrary, if so required by the Benefits Administration Committee, any election, application or authorization of an Employee, Participant, Beneficiary or Alternate Payee shall be made by the response of such person in compliance with the rules established by the Benefits Administration Committee with respect to such telephone voice response service or other electronic systems as may be established by the Benefits Administration Committee. Without limitation of the foregoing, responses on such voice response service or electronic systems may be directed to the Trustee or any agent designated by the Trustee or the Benefits Administration Committee, and persons shall be required to execute such forms as may be required by the Trustee or such agent in connection with establishing and controlling entry to such service.

Any such voice response service or other electronic systems shall provide for written confirmation to an Employee, Participant, Beneficiary or Alternate Payee of elections and authorization made thereunder, and elections and authorizations so made and so confirmed shall be binding on such person.

14.6 Temporary Investment of Assets

Any funds held in any account under the Plan or allocated to Participants and not yet invested as directed by the Participant or required by the Plan may, pending the disposition or investment of such funds, be temporarily invested in interest-bearing obligations of a short-term nature. For such purposes, funds may be commingled.

14.7 Attainment of Age

A Participant shall be deemed to have attained a given age on the first moment of the anniversary of his birth corresponding to such age.

14.8 Alienation of Benefits

Except as provided in this Section and Section 17.1, or to the extent required by law, no benefit deliverable, transferable, or payable to a Participant under the Plan shall be subject in any manner to anticipation, assignment, pledge, alienation, or charge by any Participant, and any

attempt so to anticipate, assign, pledge, alienate, or charge the same shall be void; nor shall any such benefit be in any manner liable for or subject to the debts, contracts, liabilities, or torts of any Participant; nor shall any interest of any Participant under the Plan be subject to garnishment, attachment, lien, execution, or levy of any kind.

A Participant's benefit may be reduced if a court order or requirement to pay arises from: (1) a judgment of conviction for a crime involving the Plan; (2) a civil judgment (or consent order or decree) that is entered by a court in an action brought in connection with a breach (or alleged breach) of fiduciary duty under ERISA; or (3) a settlement agreement entered into by the Participant and either the Secretary of Labor or the Pension Benefit Guaranty Corporation in connection with a breach of fiduciary duty under ERISA by a fiduciary or any other person. The court order, judgment, decree, or settlement agreement must specifically require that all or part of the amount to be paid to the Plan be offset against the Participant's Plan benefits.

14.9 No Guarantee of Benefits by Company

Neither the Company nor any other Employer guarantees any of the benefits or payments provided under the Plan, but Employer Contributions once made shall be irrevocable. Except as provided herein or permitted from time to time by the Code or ERISA, no part of any of the funds in the possession of the Trustee shall revert to the Company or any other Employer or be diverted to or used for any purposes other than for the exclusive benefit of Participants and their Beneficiaries; provided, however, that in the event that the Benefits Administration Committee shall direct the return of any contribution to the Trust Fund and shall certify with respect to such contribution that (i) such contribution has been made by an Employer by a mistake of fact, (ii) such contribution has been conditioned on initial qualification of the Plan under Section 401 of the Code and that such qualification has been denied or revoked, or (iii) such contribution has been conditioned upon the deductibility thereof under Section 404 of the Code and that such deduction has been disallowed or redetermined, the Trustee shall return such contribution (or the value thereof if less) to the Employer that made such contribution in accordance with such direction, but in no event shall any such return be made later than the expiration of one year following the payment of any such contribution in the case of a direction under (i) above, the denial or revocation of qualification in the case of a direction under (ii) above, or the disallowance or redetermination of the deduction in the case of a direction under (iii) above.

14.10 Payment of Expenses

Unless paid by an Employer, expenses of the Plan shall be paid out of the Trust.

14.11 Statement of Accounting

The Benefits Administration Committee will use its best efforts to furnish not less than once each calendar year to each Participant a statement of his Account, and shall furnish or make available at its offices copies of the statements of the Trustee with respect to the Trust. Any Participant desiring to make objection as to any matters covered by the statement of Account shall give written notice to the Benefits Administration Committee within 60 days after the date the statement was furnished to him. Failure to object within such period shall bar any right (except as otherwise required by ERISA) thereafter to object to any of the matters covered by such statement.

14.12 Plan May be Sued

The Plan may sue or be sued as an entity separate from the Company. Except as otherwise required by ERISA, every right of action by a Participant, former Participant or Beneficiary with respect to the Plan or Trust, irrespective of the place where such action may be brought, shall be barred after the expiration of three years from the date of Separation from Service of the Participant or the date of receipt of the notice of denial of a claim for benefits, if earlier.

14.13 Inability to Find Payee

If the Benefits Administration Committee is unable to make or direct the payment of any benefit due under the Plan to the person entitled thereto ("Payee") for a period of one year after such benefit became payable because the whereabouts of such person cannot be ascertained, notwithstanding the Committee's reasonable efforts to locate the Payee including, among other things, the mailing of a notice by registered or certified mail to the Payee's last known address as shown on the records of the Benefits Administration Committee or the Company, then the Benefits Administration Committee shall file a report with the Secretary of the Treasury, as provided for in Section 105 of ERISA and in Section 6057(c) of the Code, containing information on the benefit rights of the Payee. If, within a period of at least one additional year, the Benefits Administration Committee is unable to make or direct the payment, then such benefit shall be paid to the person or persons in the following classes of successive preference: (A) Payee's Spouse, (B) one or more of the Payee's children as the Benefits Administration Committee shall determine and in such proportions as said Committee shall determine, (C) Payee's parents equally, and (D) one or more of the Payee's brothers or sisters as the Benefits Administration Committee shall determine and in such proportions as said Committee shall determine. During any period in which a benefit is not paid, the amount thereof may be transferred to and remain in an Investment Fund intended to provide preservation of principal and interest income pending further disposition. If any benefit is paid to any relative of the Payee as provided above, all obligations of the Plan and Trust shall be fully discharged with respect to the amount paid. If the Benefits Administration Committee is unable to make or direct the payment to a relative of the Payee as provided above, the Benefits Administration Committee may declare such benefit forfeited and the amount thereof placed in the Forfeiture Account under the Plan. If, however, a Payee is located subsequent to his benefits being forfeited pursuant to the preceding sentence, such benefit shall be restored.

14.14 State Law

Except to the extent preempted or superseded by Section 514 of ERISA, the Plan shall be construed and enforced according to the laws of the State of Delaware, and all the provisions thereof shall be administered according to the laws of said State (other than the conflicts of laws provisions).

14.15 Construction

In determining the meaning of any provisions of the Plan, words importing the masculine gender shall include the feminine and the singular shall include the plural, unless the context requires otherwise. Terms defined in Article 1 shall have a corresponding meaning when used in a different tense and, if defined in the singular, when used in the plural. Headings of Articles in the Plan are for convenience only and are not intended to modify or affect the meaning of the substantive provisions of the Plan.

ARTICLE 15 -

ROLLOVER CONTRIBUTIONS AND TRANSFERS

15.1 Rollover of Funds From Other Plans

In the event that an individual: (1) becomes an Employee other than an Employee described in Section 2.3; (2) has been a participant in an employer's plan described in Section 401(a) of the Code, which is exempt from tax under Section 501(a) of the Code; and (3) receives from such trust an eligible rollover distribution, as defined in Section 402(c)(4) of the Code, and, provided that such property consists of money, or, in the case of an Employee who became an Employee as a result of the Company's acquisition of his former employer, such property consists of money or money and a loan or loans from such former employer's tax-qualified 401(k) plan, then, with the consent of the Benefits Administration Committee, the eligible Employee may rollover any portion of the distribution to this Plan on or before the sixtieth (60th) day after the day on which he received such property and, if the distribution includes a loan, on or before ninety (90) days of the date the Participant first became eligible to effect the rollover, subject to the Employee providing such information and documentation as the Benefits Administration Committee requires in order to determine the amount in an eligible rollover distribution under Section 402(c)(4) of the Code. Such rollover may be made even though such Employee has not satisfied the age and service requirements for Plan participation at such time. Furthermore, the eligible Employee may direct the prior trust to transfer any portion of the distribution directly to the Plan. Upon receipt by the Plan, such amount shall be credited to the Rollover Account established hereunder pursuant to Article 5. The eligible Employee shall have a one hundred percent (100%) vested and nonforfeitable right to all amounts credited to his Rollover Account as a result of such transfer.

15.2 Rollover of Funds From Conduit Individual Retirement Account (IRA)

In the event that an individual

(A) becomes an Employee other than an Employee described in Section 2.3, and

(B) has established an Individual Retirement Account or Individual Retirement Annuity (hereinafter collectively referred to as "IRA") described in Sections 408(a) and 408(b), respectively, of the Code, which IRA is comprised solely of amounts constituting a rollover contribution of an eligible rollover distribution, as defined in Section 402(c)(4) of the Code, from an employer's plan described in Section 401(a) of the Code, which is exempt from tax under Section 501(a) of the Code, or an annuity plan described in Section 403(a) of the Code, and

(C) received from such IRA the entire amount of the account or the entire value of the annuity, including any earnings on such sums, pursuant to Section 408(d)(3)(A)(ii) of the Code, then, with the consent of the Benefits Administration Committee, the eligible Employee may transfer the entire amount received in such distribution to this Plan (for the benefit of such individual) on or before the sixtieth (60th) day after the day on which he received such payment or distribution, and upon receipt by the Plan, such amount shall be credited to the Rollover Account established hereunder pursuant to Article 5. Such transfer may be made even though such Employee has not satisfied the age and service requirements for Plan participation at such time.

The eligible Employee shall have a one-hundred percent (100%) vested and nonforfeitable right to all amounts credited to his Rollover Account.

15.3 Transfers Directly from Other Plans

There may be transferred directly from the trustee of any other qualified plan to the Trustee, subject to the approval of the Benefits Administration Committee and the Trustee, all or any of the assets, including after-tax contributions, if any, held (whether by trustee, custodian or otherwise) under the Plan for any eligible Employees (other than Employees described in Section 2.3); provided, however, that the transfer satisfies Section 411(d)(6) of the Code. Such transfer may be made even though such Employee has not satisfied the age and service requirements for Plan participation at such time. A separate account shall be established for such assets for each eligible Employee.

Notwithstanding the foregoing, an eligible Employee may not transfer any amount which, if transferred into this Plan would cause the Plan to be a direct or indirect transferee plan, within the meaning of Section 401(a)(11)(B)(iii)(III) of the Code and any regulations or rulings effective thereunder, of a plan described in Section 401 (a)(11)(B)(i) or (ii) of the Code. Transfers pursuant to this Section may be made regardless of whether the eligible Employee has satisfied any applicable eligibility service requirement of this Plan.

15.4 Mistaken Rollover

If it is determined that a Participants rollover contribution did not qualify under the Code for a tax free rollover, then as soon as reasonably possible the balance in the Participant’s Rollover Account shall be:

(A) segregated from all other Plan assets,

(B) treated as a non-qualified trust established by and for the benefit of the Participant, and

(C) distributed to the Participant.

Such a mistaken rollover contribution shall be deemed never to have been a part of the Plan and shall not adversely affect the tax qualification of the Plan under the Code.

ARTICLE 16 -

TOP-HEAVY PROVISIONS

16.1 Top-Heavy Plan Defined

This Article shall apply if the Plan is a "Top-Heavy Plan" as hereinafter provided. The Plan shall be a Top-Heavy Plan in a Plan Year if, as of the Determination Date, the present value of the cumulative accrued benefits (as calculated below) of all Key Employees exceeds sixty percent (60%) of the present value of the accumulative accrued benefits under the Plan of all Employees and Key Employees, but excluding the value of the accrued benefits of former Key Employees.

All plans that are part of the Required Aggregation Group shall be treated as a single plan. Solely for the purpose of determining if the Plan, or any other plan included in a Required Aggregation Group of which this Plan is a part, is Top-Heavy, the accrued benefit of a Non-Key Employee shall be determined under (A) the method, if any, that uniformly applies for accrual purposes under all plans maintained by the affiliated employers, or (B) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional accrual rate of Section 411(b)(1)(C) of the Code.

For this purpose, the present value of an Employee's accrued benefit is equal to the sum of (A) and (B) below:

(A) The sum of (i) the present value of an Employee's accrued retirement income in each defined benefit plan which is included in the Required Aggregation Group determined as of the most recent valuation date within the twelve (12) month period ending on the Determination Date and as if the Employee had terminated service as of such valuation date and (ii) the aggregate distribution made with respect to such Employee during the five-year period ending on the Determination Date from all defined benefit plans included in the Required Aggregation Group and not reflected in the value of his accrued retirement income as of the most recent valuation date. In determining present value for all plans in the Required Aggregation Group, the actuarial assumptions set forth for this purpose in the Employer's defined benefit plan shall be utilized and the commencement date shall be determined taking any nonproportional subsidy into account; and

(B) The sum of (i) the aggregate balance of his accounts in all defined contribution plans which are part of the Required Aggregation Group as of the most recent valuation date within the twelve (12) month period ending on the Determination Date, (ii) any contributions allocated to such an account after the valuation date and on or before the Determination Date and (iii) the aggregate distributions made with respect to such Employee during the five-year period ending on the Determination Date from all defined contribution plans which are part of the Required Aggregation Group and not reflected in the value of his account(s) as of the most recent valuation date.

Provided, however, the following special rules shall apply unless allowed to "sunset."

(i) The present values of accrued benefits and the amounts of account balances of an employee as of the determination date shall be increased by the distributions made with respect to the employee under the Plan and any plan aggregated with the Plan under section 416(g)(2) of the Code during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting "5-year period" for "1-year period."

(ii) The accounts of any individual who has not performed services for the Employer during the 1-year period ending on the determination date shall not be taken into account.

16.2 Other Definitions

For the purposes of this Article, the following terms shall have the following meanings:

(A) "Determination Date" means the last day of the preceding Plan Year except that in the case of the first Plan Year, the term "Determination Date" shall mean the last day of the Plan Year.

(B) "Employee" means (i) a current employee or (ii) a former employee who performed services for the Employer during the Plan Year containing the Determination Date or any of the four (4) preceding Plan Years.

(C) "Key Employee" means any employee or former employee (including any deceased employee) who at any time during the plan year that includes the determination date was an officer of the Employer having annual compensation greater than $130,000 (as adjusted under section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5-percent owner of the Employer, or a 1- percent owner of the Employer having annual compensation of more than $150,000. For this purpose, annual compensation means compensation within the meaning of section 415(c)(3) of the Code. The determination of who is a Key Employee will be made in accordance with Section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

(D) "Non-Key Employee" means an Employee who is not a Key Employee.

(E) "Required Aggregation Group" means

(1) Each qualified plan of the Employer in which a Key Employee participates or participated (regardless of whether the Plan has terminated); and

(2) Each other such qualified plan of an Employer which enables any plan in which a Key Employee participates to meet the requirements of Section 401(a)(4) or Section 410 of the Code.

16.3 Top-Heavy Contributions

Solely in the event that a Non-Key Employee is not covered by a defined benefit plan of the Employer which provides the minimum benefit required by Section 416(c)(1) of the Code during a Plan Year in which this Plan is a Top-Heavy Plan, the Employer contributions and forfeitures allocated to each such Non-Key Employee who has not separated from service by the end of the Plan Year shall be equal to not less than the lesser of:

(A) Three percent (3%) of such Participant's Compensation in the Plan Year, or

(B) The percentage of such Participant's Compensation in the Plan Year which is equal to the percentage at which contributions and forfeitures are made to the Key Employee for whom such percentage is the highest for the year.

The percentage referred to in Paragraph (B) above shall be determined by dividing the contributions and forfeitures-allocated to the Key Employee by such Employee's Compensation. For purposes of this Section, Tax Deferred Deposits shall be disregarded in determining the amount of Employer Contributions allocated to Non-Key Employees. The Employer shall make such additional contribution to the Plan as shall be necessary to make the allocation described above. The provisions of this section apply without regard to contributions or benefits under Social Security or any other Federal or State law. An adjustment may be made to this Section, as permitted under Treasury Regulations, in the event an Employee is also entitled to an increased benefit in any other Top Heavy plan while it is in the Aggregation Group with this Plan. Employer Matching Contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of Section 416(c)(2) of the Code and the Plan. Employer Matching Contributions that are used to satisfy the minimum contribution requirements may nevertheless be treated as Employer Matching Contributions for purposes of the Actual Contribution Percentage test and other requirements of Section 401(m) of the Code.

A Non-Key Employee who is otherwise entitled to a minimum contribution under this Section shall not fail to receive the required minimum contribution because the Employee is excluded from participation because the Employee failed to make elective Tax Deferred Deposits under the Plan or because the Employee failed to accrue 1,000 Hours of Service during the Plan Year.

ARTICLE 17 -

QUALIFIED DOMESTIC RELATIONS ORDERS (QDROs)

17.1 Terms of a QDRO

Notwithstanding the provisions of Section 14.8, if the Benefits Administration Committee determines an order to be a "Qualified Domestic Relations Order," within the meaning of Code Section 414(p), payment of benefits shall be made in accordance with the terms of such order, except that, if the value of the benefits to be paid to the Alternate Payee does not exceed $5,000 (effective October 1, 2004, $1,000), then such benefits shall be paid in a lump sum as soon as administratively practicable following the date that the order is deemed to be qualified.

17.2 Notification of Receipt of Order

The Benefits Administration Committee shall promptly notify a Participant and any other Alternate Payee of the receipt of a Qualified Domestic Relations Order and of the Plan's procedure for determining whether the order meets the requirements of a Qualified Domestic Relations Order. Within a reasonable period of time after the receipt of such order, the Benefits Administration Committee, in accordance with such procedures as it shall from time to time establish, shall determine whether such order meets the requirements of a Qualified Domestic Relations Order, and shall notify the Participant and each Alternate Payee of such determination.

ARTICLE 18 -

DIRECT ROLLOVER PROVISIONS

18.1 Application of Article

Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this Article, a Distributee may elect, at the time and in the manner prescribed by the Benefits Administration Committee, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

18.2 Definitions

(A) **Eligible Rollover Distribution**

An Eligible Rollover Distribution is any distribution of all or any portion of any benefit due to the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of other Distributee or other joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten (10) years or more; any distribution to the extent such distribution is

required under Section 401(a)(9) of the Code; the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); any hardship distribution described in Section 401(k)(2)(B)(i)(IV) of the Code (or any distribution made upon hardship); and any other distribution(s) that is reasonably expected to total less than $200 during a Plan Year. A portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be transferred only to an individual retirement account or annuity described in section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in section 401(a) or 403(a) of the Code that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

(B) **Eligible Retirement Plan**

An eligible retirement plan is an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), a qualified trust described in Code Section 401(a), an annuity contract described in Code Section 403(b), or an eligible plan under Code Section 457(b) (maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state), where the plan sponsor agrees to accept the distributee's eligible rollover distribution and, in the case of a 457(b) plan or 403(b) annuity contract, also agrees to separately account for such transferred amounts; the definition of an eligible retirement plan shall also apply in the case of a eligible rollover distribution to a surviving spouse or to a spouse or former spouse who is an alternate payee, as defined in Code Section 414(p).

(C) **Distributee**

A Distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a Qualified Domestic Relations Order are Distributees with regard to the interest of the spouse or former spouse.

(D) **Direct Rollover**

A Direct Rollover is a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

This amendment and restatement of the Plan is executed this __ day of ____, 2004, to be effective as previously stated in the Preamble.

ADS ALLIANCE DATA SYSTEMS, INC.

By: /s/ Dwayne H. Tucker
Title: Executive Vice President

APPENDIX A

SPECIAL SERVICE CREDITING PROVISIONS

The following shall establish to what extent, if any, service with a prior employer shall be credited for purposes of determining Years of Eligibility Service and Years of Vesting Service, for Employees who were employed by the following companies immediately prior to being employed by the Company. Any such credit shall be based entirely on records provided to the Company by the prior employer.

Employing Company	Years of Eligibility	Years of Vesting
AEP, Inc. (“AEP”)*	Date of hire by AEP, but only if employed by the Company as of 03/01/2003	Date of hire by AEP, but only if employed by the Company as of 03/01/2003
Capstone Consulting Partners, Inc. (“Capstone”)*	Date of hire by Capstone if employed by Capstone on 11/1/2004 and hired by the Company on or before 11/2/2004.	Date of hire by Capstone if employed by Capstone on 11/1/2004 and hired by the Company on or before 11/2/2004.
ConneXt	Date of hire with ConneXt if employed by ConneXt on 08/23/2001	Date of hire with ConneXt if employed by ConneXt on 08/23/2001
Conservation Billing Services, Inc. (“CBSI”)*	Date of hire by CBSI, but only if employed by the Company as of 09/16/2003	Date of hire by CBSI, but only if employed by the Company as of 09/16/2003
Dresser Industries (“Dresser”)	Date of hire with Dresser if employed by Dresser on 07/15/1997	Date of hire with Dresser if employed by Dresser on 07/15/1997
Epsilon Marketing Services, Inc. (“Epsilon”)*	Date of hire by Epsilon if employed by Epsilon on 10/31/2004 and hired by the Company on 11/1/2004 or if employed by Epsilon’s affiliate on 12/31/2004 and hired by the Company on or before 1/1/2005, but no less than one Year of Eligibility Service.	Date of hire by Epsilon if employed by Epsilon on 10/31/2004 and hired by the Company on 11/1/2004 or if employed by Epsilon’s affiliate on 12/31/2004 and hired by the Company on or before 1/1/2005.
ExoLink, Inc. (“ExoLink”)	Date of hire with ExoLink, but only if employed by the Company as of 01/01/2003	Date of hire with ExoLink, but only if employed by the Company as of 01/01/2003

Employing Company	Years of Eligibility	Years of Vesting
Frequency Marketing, Inc. (“FMI”)	Date of hire with FMI if employed with FMI on 12/31/2001	Date of hire with FMI if employed with FMI on 12/31/2001
Harmonic Systems	Date of hire with Harmonic Systems if employed by Harmonic Systems on 08/11/1998	Date of hire with Harmonic Systems if employed by Harmonic Systems on 08/11/1998
Huntington National Bank (“HNB”)	Date of hire with HNB if employed by HNB on 07/19/1998	Date of hire with HNB if employed by HNB on 07/19/1998
Loyalty RealTime, Inc. (formerly d/b/a Loyalty RealTime, LLC (“LRI”)	Date of hire with LRI if employed with LRI on 12/31/2001	Date of hire with LRI if employed with LRI on 12/31/2001
Mail Box Capital Corporation (“Mail Box”)	Date of hire with Mail Box if employed by Mail Box on 09/24/2001	Date of hire with Mail Box if employed by Mail Box on 09/24/2001
National City Card Services Division of National City Bank Columbus (“NBCC”)	Date of hire with NBCC if employed with NBCC on 11/22/1996	Date of hire with NBCC if employed with NBCC on 11/22/1996
Orcom Solutions, Inc. (“Orcom”)*	Date of hire by Orcom, but only if employed by the Company as of 12/02/2003, or within 30 days thereafter	Date of hire by Orcom, but only if employed by the Company as of 12/02/2003, or within 30 days thereafter
Specialty Retailers (TX), LP (“Specialty”) *	Date of hire by Specialty, but only if employed by the Company as of 09/12/2003	Date of hire by Specialty, but only if employed by the Company as of 09/12/2003
SPS (The Associates) (“SPS”)	Date of hire with SPS if employed with SPS on 07/14/1999	Date of hire with SPS if employed with SPS on 07/14/1999
SPS Fleetshare (The Associates) (“SPS”)	Date of hire with SPS if employed by SPS on 07/14/1999 and on 06/30/2000	Date of hire with SPS if employed by SPS on 07/14/1999 and on 06/30/1999

Employing Company	Years of Eligibility	Years of Vesting
Utilipro	Date of hire with Utilipro if employed by Utilipro on 02/28/2001	Date of hire with Utilipro if employed by Utilipro on 02/28/2001

* Affected Employees never become eligible to receive a Retirement Contribution.

FIRST AMENDMENT TO
THE ALLIANCE DATA SYSTEMS 401(k) AND RETIREMENT SAVINGS PLAN
(amended and restated as of January 1, 2004)

ADS Alliance Data Systems, Inc. hereby adopts this Amendment No. 1 to the Alliance Data Systems 401(k) and Retirement Savings Plan, amended and restated as of January 1, 2004 (the "Plan"), effective as of May 14, 2005.

1. Appendix A of the Plan shall be amended by adding the following new language at the end thereof:

Employing Company	Years of Eligibility	Years of Vesting
Atrana Solutions, Inc. ("Atrana")	Date of hire by Atrana, but only if employed by the Company as of May 14, 2005.	Date of hire by Atrana, but only if employed by the Company as of May 14, 2005.

IN WITNESS WHEREOF, this amendment has been executed on this 2nd date of June, 2005, but effective as provided above.

ADS ALLIANCE DATA SYSTEMS, INC.

By: /s/ Dwayne H. Tucker

SECOND AMENDMENT TO
THE ALLIANCE DATA SYSTEMS 401(k) AND RETIREMENT SAVINGS PLAN
(amended and restated as of January 1, 2004)

ADS Alliance Data Systems, Inc. hereby adopts this Amendment No. 2 to the Alliance Data Systems 401(k) and Retirement Savings Plan, amended and restated as of January 1, 2004 (the "Plan"), effective as of September 24, 2005.

1. Appendix A of the Plan shall be amended by adding the following new language at the end thereof:

Employing Company	Years of Eligibility	Years of Vesting
Bigfoot Interactive, Inc. ("Bigfoot")	Date of hire by Bigfoot, but only if employed by the Company as of September 24, 2005.	Date of hire by Bigfoot, but only if employed by the Company as of September 24, 2005.

IN WITNESS WHEREOF, this amendment has been executed on this 20th day of December, 2005, but effective as provided above.

ADS ALLIANCE DATA SYSTEMS, INC.

By: /s/ Transient C. Taylor

THIRD AMENDMENT TO
THE ALLIANCE DATA SYSTEMS 401(k) AND RETIREMENT SAVINGS PLAN
(amended and restated as of January 1, 2004)

ADS Alliance Data Systems, Inc. hereby adopts this Amendment No. 3 to the Alliance Data Systems 401(k) and Retirement Savings Plan, amended and restated as of January 1, 2004 (the "Plan"), effective as provided below.

1. Appendix A of the Plan shall be amended by adding the following new language at the end thereof:

Employing Company	Years of Eligibility	Years of Vesting
iCom Information & Communications L.P. ("iCom")	Date of hire by iCom, but only if employed by the Company as of February 6, 2006.	Date of hire by iCom, but only if employed by the Company as of February 6, 2006.
DoubleClick, Inc. ("Doubleclick")	Date of hire by DoubleClick, but only if employed by the Company as of April 3, 2006.	Date of hire by DoubleClick, but only if employed by the Company as of April 3, 2006.

IN WITNESS WHEREOF, this amendment has been executed on this 20th day of April, 2006, but effective as provided above.

ADS ALLIANCE DATA SYSTEMS, INC.

By: /s/ Transient C. Taylor

FOURTH AMENDMENT TO
THE ALLIANCE DATA SYSTEMS 401(k) AND RETIREMENT SAVINGS PLAN
(amended and restated as of January 1, 2004)

ADS Alliance Data Systems, Inc. hereby adopts this Amendment No. 4 to the Alliance Data Systems 401(k) and Retirement Savings Plan, amended and restated as of January 1, 2004 (the "Plan"), effective as of such date, except as otherwise noted.

1. The Preamble to the Plan is amended to delete the period at the end of the first sentence and to add the following new language:

, and make changes necessary to qualify the Plan for the "safe harbor" testing option provided under Code Section 401(k)(12). For each year the Plan intends to qualify for this testing option, the Committee shall provide the notice to Participants required thereunder.

2. Section 1.25 of the Plan is amended to read as follows:

1.25 Entry Date

The first day on which it is administratively practicable to enroll in the Plan an Employee who is eligible under Article 2, which date shall in no case be more than 30 days after the date the Employee first becomes eligible under Article 2.

3. The final sentence of Section 4.8 of the Plan shall be replaced with the following:

The Discretionary Profit Sharing Contribution shall satisfy all applicable requirements of the Code, shall be conditioned on its immediate deductibility under Code Section 404, and, subject to the overall permitted disparity limits described below, shall be allocated to the eligible Participants' Accounts as follows:

STEP ONE: The Discretionary Profit Sharing Contribution shall be allocated to each eligible Participant's Account in the ratio that the sum of each Participant's Compensation and Compensation in excess of the taxable wage base in effect under section 230 of the Social Security Act at the beginning of the Plan Year (the "TWB") bears to the sum of all Participants' Compensation and Compensation in excess of the TWB, but not in excess of the Maximum Excess Allowance. For this purpose, the Maximum Excess Allowance shall be exceeded to the extent that the percentage of Compensation which is contributed with respect to that portion of each Participant's Compensation in excess of the TWB (the "excess contribution percentage") exceeds the percentage of Compensation contributed with respect to that portion of each Participant's Compensation not in excess of the TWB (the "base contribution percentage"), by the lesser of (A) the base contribution percentage, or (B) the greater of (i) 5.7 percentage points, or (ii) the

percentage equal to the portion of the rate of tax under Code section 3111(a) (in effect as of the beginning of the year) which is attributable to old age insurance.

STEP TWO: Any remaining Discretionary Profit Sharing Contribution shall be allocated to each Participant's account in the ratio that each Participant's Compensation for the Plan Year bears to all Participants' Compensation that year.

Overall Permitted Disparity Limits

Annual overall permitted disparity limit: Notwithstanding the preceding paragraphs, for any Plan Year a Discretionary Profit Sharing Contribution is allocated to any Participant who benefits under another qualified plan or simplified employee pension, as defined in § 408(k) of the Code, maintained by the Employer that provides for permitted disparity (or imputes disparity), the contribution will be allocated to the account of such Participant in the ratio that such Participant's total Compensation bears to the total Compensation of all Participants.

Cumulative permitted disparity limit: The cumulative permitted disparity limit for a Participant is 35 total cumulative permitted disparity years. Total cumulative permitted years means the number of years credited to the Participant for allocation or accrual purposes under this Plan, any other qualified plan or simplified employee pension plan (whether or not terminated) ever maintained by the Employer. For purposes of determining the Participant's cumulative permitted disparity limit, all years ending in the same calendar year are treated as the same year. However, a Participant who has not benefited under a defined benefit plan or a target benefit plan maintained by the Employer for any Plan Year beginning on or after January 1, 1994, has no cumulative permitted disparity limit.

4. Section 8.5 of the Plan shall be revised to read as follows:

8.5 Forfeitures

If a Participant's employment is terminated, any portion of his Company Account in which the Participant does not have a nonforfeitable interest shall be forfeited as of the earlier of (i) the date he receives a distribution of any portion of his vested Accrued Benefit, or (ii) the first date he incurs five (5) consecutive One-Year Breaks in Service. If a Participant's employment terminates at a time when he has no vested interest in any portion of his Accrued Benefit, the Participant shall be deemed to have received a distribution of his entire Account balance upon his termination of employment.

If a Participant incurs a forfeiture under the preceding paragraph and again becomes an Employee prior to incurring five (5) consecutive One-Year Breaks in Service, the Employer shall reinstate (as of the Participant's Reemployment

Commencement Date), the dollar amount of his Company Account forfeited, unadjusted for any gains or losses which occurred during said One-Year Breaks in Service. However, in the case of a Participant who received an actual distribution upon termination, the amounts forfeited will be reinstated only upon satisfaction of the following conditions:

(1) the Participant repays to the Plan the full amount of the distribution previously made to him, and

(2) the repayment is effected within five (5) years of the date on which he is credited with an Hour of Service for the performance of duties for an Employer.

The amount required to reinstate a forfeited Company Account shall be paid from the Forfeiture Account to the extent such Account is sufficient. To the extent the available forfeitures are insufficient to fully reinstate Participants' previously nonvested amounts, the Employer will make an additional contribution to the Plan sufficient to fully reinstate such amounts.

5. Section 9.5 of the Plan shall be amended to read as follows:

Any benefit provided under the Plan shall be subject to the requirements of Code Section 401(a)(9), the provisions of which are incorporated by reference, including, without limitation, the incidental death benefit requirement of Code Section 401(a)(9)(G). Distributions shall be made in accordance with this section and with Treas. Reg. Sections 1.401(a)(9)-2 through 1.401(a)(9)-9, which override any distribution provision in the Plan to the extent inconsistent. To summarize these requirements, the entire interest of each employee shall be distributed to such employee not later than the required beginning date, or will be distributed, beginning not later than the required beginning date, in accordance with such regulations, over the life of such employee or over the lives of such employee and a designated beneficiary (or over a period not extending beyond the life expectancy of such employee or the life expectancy of such employee and a designated beneficiary). The term required beginning date means April 1 of the calendar year following the later of the calendar year in which the employee attains age 70/4, or the calendar year in which the employee retires.

6. Section 10.4 of the Plan shall be amended, effective January 1, 2006, to expand the definition of "immediate and heavy financial need" by revising the second paragraph to read as follows:

The Benefits Administration Committee shall approve any such application only to relieve an immediate and heavy financial need of the Participant (including his Spouse or any dependent), but only in an amount not in excess of the amount required to relieve such financial need, and only if, and to the extent, such need cannot be satisfied from other resources reasonably available to him (including assets of his Spouse and minor children reasonably available to him). For

purposes of this paragraph, an immediate and heavy financial need shall be limited to any one of the following circumstances: (a) medical expenses (within the meaning of Section 213(d) of the Code) incurred by the Participant, his Spouse, or any dependent, or amounts necessary for these persons to obtain medical care described in Code Section 213(d); (b) purchase (excluding mortgage payments) of the Participant's principal residence; (c) payment of tuition and related educational fees for the next 12 months of post-secondary education for the Participant, his Spouse, or any dependent of the Participant (d) the need to prevent (i) the eviction of the Participant from his principal residence or (ii) the foreclosure on the mortgage of his principal residence; (e) payments for burial or funeral expenses for the employee's deceased parent, spouse, child or other dependent); (f) expenses for the repair of damage to the employee's principal residence that would qualify for the casualty deduction under section 165 (determined without regard as to whether the loss exceeds 10% of adjusted gross income); and (g) such other immediate and heavy financial needs as determined by the Commissioner of the Internal Revenue Service and announced by publication of revenue rulings, notices, and other documents of general applicability.

IN WITNESS WHEREOF, this amendment has been executed on this 31st day of October, 2006, but effective as provided above.

ADS ALLIANCE DATA SYSTEMS, INC.

By: /s/ Transient C. Taylor

FIFTH AMENDMENT TO
THE ALLIANCE DATA SYSTEMS 401 (k) AND RETIREMENT SAVINGS PLAN
(amended and restated as of January 1, 2004)

ADS Alliance Data Systems, Inc. hereby adopts this Amendment No. 5 to the Alliance Data Systems 401 (k) and Retirement Savings Plan, amended and restated as of January 1, 2004 (the "Plan"), effective as provided below.

1. Appendix A of the Plan shall be amended by adding the following new language at the end thereof:

Employing Company	Years of Eligibility	Years of Vesting
Big Designs, Inc. ("Big")	Date of hire by Big, but only if employed by the Company as of August 15, 2006.	Date of hire by Big, but only if employed by the Company as of August 15, 2006.
CPC Associates, Inc. ("CPC")	Date of hire by CPC, but only if employed by the Company as of October 1, 2006.	Date of hire by CPC, but only if employed by the Company as of October 1, 2006.

IN WITNESS WHEREOF, this amendment has been executed on this 31st day of October, 2006, but effective as provided above.

ADS ALLIANCE DATA SYSTEMS, INC

By: /s/ Transient C. Taylor

SIXTH AMENDMENT TO
THE ALLIANCE DATA SYSTEMS 401(k) AND RETIREMENT SAVINGS PLAN
(amended and restated as of January 1, 2004)

ADS Alliance Data Systems, Inc. hereby adopts this Amendment No. 6 to the Alliance Data Systems 401(k) and Retirement Savings Plan, amended and restated as of January 1, 2004 (the "Plan"), effective as provided below.

1. Effective January 1, 2007, for all Participants who are credited with an Hour of Service on or after such date, the number "5" shall be replaced with tire number "3" in both places it appears in the second vesting schedule of Section 8.2.

2. Appendix A of the Plan shall be amended by adding the following new language at the end thereof:

Employing Company	Years of Eligibility	Years of Vesting
Abacus and Data Management Divisions of DoubleClick Inc. ("Abacus")	All service recognized for this purpose under the 401 (k) plan previously sponsored by Abacus, but only if employed by the Company as of February 1, 2007.	All service recognized for this purpose under the 401 (k) plan previously sponsored by Abacus, but only if employed by the Company as of February 1, 2007.

IN WITNESS WHEREOF, this amendment has been executed on this 20th day of March, 2007, but effective as provided above.

ADS ALLIANCE DATA SYSTEMS, INC.

By: /s/ Transient C. Taylor

Exhibit 10.27

EXECUTION VERSION

[Dealer]
[Address]
Attn:
Telephone:
Facsimile:

August 4, 2008

Alliance Data Systems Corporation
17655 Waterview Parkway
Dallas, TX 75252
Attn: Chief Financial Officer
Telephone: (972) 348-5100
Facsimile: (972) 348-5326

Re: Issuer Warrant Transaction Amendment

Pursuant to notice by [_____] ("**Dealer**") to Alliance Data Systems Corporation ("**Issuer**") on August 4, 2008 of Dealer's exercise in full of its option, pursuant to Section 8(o) of the letter agreement, dated July 23, 2008 (the "**Confirmation**"), between Issuer and Dealer pursuant to which Dealer has purchased from Issuer 4,458,720 Warrants, to purchase up to 668,808 additional Warrants (the "**Additional Warrants**"), this letter agreement (the "**Amendment**") amends the terms and conditions of the Transaction entered into between Dealer and Issuer under the Confirmation. This Amendment relates to, and sets forth the terms of, the purchase by Dealer from Issuer of Additional Warrants.

Upon the effectiveness of this Amendment, all references in the Confirmation to the "Number of Warrants" will be deemed to be to the Number of Warrants as amended hereby and all references in the Confirmation to the "Transaction" will be deemed to be to the Transaction as amended hereby. Except to the extent specified below, all other provisions of the Confirmation shall apply to the Additional Warrants as if such Additional Warrants were originally subject to the Confirmation. Capitalized terms used herein without definition shall have the meanings assigned to them in the Confirmation.

Amendments. The Confirmation is hereby amended, and the terms relating to the purchase by Dealer of the Additional Warrants are, as follows:

1. The "**Number of Warrants**" specified in Annex A to the Confirmation for Components 1 through 79 are hereby each replaced with the number "64,094" and, for Component 80, is hereby replaced with the number "64,102".

2. An additional "**Premium**" of $6,142,500 shall be paid by Dealer to Issuer with respect to the Additional Warrants on August 7, 2008 as if such date were a Premium Payment Date.

3. Section 8(e) is hereby amended by deleting the number "8,917,440" in the third line thereof and replacing it with the number "10,255,056."

4. For the purposes of clause (i) of Section 8(l), the "Trade Date" with respect to the Additional Warrants shall be August 4, 2008.

5. Section 8(o) of the Confirmation is hereby deleted in its entirety.

6. If, prior to August 7, 2008, Dealer reasonably determines that it is advisable to cancel this Amendment because of concerns that Dealer's related hedging activities could be viewed as not complying with applicable securities laws, rules or regulations, this Amendment shall be cancelled and shall not become effective, and neither party shall have any obligation to the other party in respect of this Amendment.

Representations. With respect to this Amendment, each of Issuer and Dealer hereby repeat their respective representations and warranties set forth in Sections 3(a) and (b) of the Agreement, with references therein to "this Agreement" deemed to be references to this Amendment. With respect to the Additional Warrants, each of Issuer and Dealer hereby repeats their respective representations, warranties and agreements set forth in Section 7 of the Confirmation as if the date hereof were the Trade Date and August 7, 2008 were the Effective Date.

No Additional Amendments or Waivers. Except as amended hereby, all the terms of the Transaction and provisions in the Confirmation shall remain and continue in full force and effect and are hereby confirmed in all respects.

Counterparts. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all of the signatures thereto and hereto were upon the same instrument.

Governing Law; Jurisdiction. **THIS AMENDMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. THE PARTIES HERETO IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK IN CONNECTION WITH ALL MATTERS RELATING HERETO AND WAIVE ANY OBJECTION TO THE LAYING OF VENUE IN, AND ANY CLAIM OF INCONVENIENT FORUM WITH RESPECT TO, THESE COURTS.**

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing this Amendment and returning it in the manner indicated in the attached cover letter.

Very truly yours,

[DEALER]

By: _____
Name:
Title:

Accepted and confirmed
as of the Trade Date:

ALLIANCE DATA SYSTEMS CORPORATION

By: /s/ Edward J. Heffernan
Authorized Signatory
Name: Edward J. Heffernan
Executive Vice President and
Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF THE
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

I, J. Michael Parks, 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 last fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting;

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/ J. MICHAEL PARKS

J. Michael Parks
Chief Executive Officer

Date: August 8, 2008

Exhibit 31.2

CERTIFICATION OF THE
CHIEF FINANCIAL 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 last fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ EDWARD J. HEFFERNAN

Edward J. Heffernan
Chief Financial Officer

Date: August 8, 2008

Exhibit 32.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2008 (the "Form 10-Q") of Alliance Data Systems Corporation (the "Registrant").

I, J. Michael Parks, 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/ J. MICHAEL PARKS
Name: J. Michael Parks
Chief Executive Officer

Dated: August 8, 2008

Subscribed and sworn to before me
this 8th day of August, 2008.

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

My commission expires:
October 23, 2008

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

Exhibit 32.2

CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF
ALLIANCE DATA SYSTEMS CORPORATION

This certification is provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2008 (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
Name: Edward J. Heffernan
Chief Financial Officer

Dated: August 8, 2008

Subscribed and sworn to before me
this 8th day of August, 2008.

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

My commission expires:
October 23, 2008

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.