

TEXAS INSTRUMENTS INC
Form 4
January 30, 2015

FORM 4

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

OMB APPROVAL

OMB Number: 3235-0287
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
DELAGI R GREGORY

2. Issuer Name and Ticker or Trading Symbol
TEXAS INSTRUMENTS INC [TXN]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)
12500 TI BOULEVARD

(Street)

3. Date of Earliest Transaction (Month/Day/Year)
01/28/2015

____ Director _____ 10% Owner
 Officer (give title below) _____ Other (specify below)
Sr. Vice President

DALLAS, TX 75243

(City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)			
			Code	V	Amount or Price					
Common Stock	01/28/2015		A ⁽¹⁾		33,371	A	\$ 0	306,114.48	D	
Common Stock	01/30/2015		S ⁽²⁾		54,167	D	\$ 54.2121	251,947.48	D	
Common Stock								8 ⁽³⁾	I	By Son
Common Stock								7,699.72 ⁽⁴⁾	I	By Trust--401(k)
Common Stock								4,245.43 ⁽⁵⁾	I	By Trust--PS

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Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)
				Code	V (A) (D)	Date Exercisable Expiration Date	Title Amount or Number of Shares
NQ Stock Option (Right to Buy)	\$ 53.94	01/28/2015		A	189,713	⁽⁶⁾ 01/28/2025	Common Stock 189,713

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DELAGI R GREGORY 12500 TI BOULEVARD DALLAS, TX 75243			Sr. Vice President	

Signatures

/s/ Daniel M. Drory, Attorney
In Fact
Date: 01/30/2015

__Signature of Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Award of restricted stock units pursuant to 2009 Long-Term Incentive Plan.

(2) The price in Table 1 is a weighted average sale price. The sales were at prices ranging from \$53.99 to \$54.57. The Issuer undertakes to provide upon request a detailed breakout of the sale prices and the number of shares sold at each price.

(3) Beneficial ownership by reporting person disclaimed.

(4) Estimated shares attributable to TI 401(k) Account as of 12-31-2014. (Interests in this account are denominated in units. Consequently, share amount shown is an estimate.) This statement does not include changes in beneficial ownership of shares held in this account occurring after 12-31-2014 that are eligible for deferred reporting on Form 5.

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Estimated shares attributable to TI Universal Profit Sharing Account as of 12-31-2014. (Interests in this account are denominated in units.

- (5) Consequently, share amount shown is an estimate.) This statement does not include changes in beneficial ownership of shares held in such account occurring after 12-31-2014 that are eligible for deferred reporting on Form 5.
- (6) The option becomes exercisable in four equal annual installments beginning on January 28, 2016.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. `olspan="2"`

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(1.22

)

(1.21

)

Common stock transactions(2)

(0.04

)

0.10

0.10

0.02

(0.11

)

Net asset value at end of year

\$

10.31

\$

10.56

\$

10.72

\$

10.83

\$

10.36

Per share market value at end of year

\$

7.37

\$

10.63

\$

10.80

\$

11.39

\$

10.11

Total return based on market value(3)

(20.84

%)

10.88

%

6.24

%

27.21

%

17.22

%

Total return based on net asset value(3)

11.47

%

10.97

%

10.91

%

Explanation of Responses:

18.03

%

12.54

%

Shares of common stock outstanding at end of year

359,090,759

342,626,637

247,836,965

139,633,870

107,606,690

Weighted average shares of common stock outstanding

353,648,522

300,283,941

207,069,971

114,394,554

85,978,757

Ratios/Supplemental Data

Explanation of Responses:

Net assets at end of year

\$
3,703,049

\$
3,618,182

\$
2,656,494

\$
1,511,974

\$
1,114,357

Portfolio turnover rate

25.32
%

15.21
%

29.24
%

29.06
%

27.63
%

Annualized ratio of operating expenses to average net assets

11.70
%

11.11
%

Explanation of Responses:

11.50

%

10.73

%

8.47

%

Annualized ratio of net investment income to average net assets

9.91

%

11.18

%

14.86

%

14.92

%

10.60

%

(1) Per share data amount is based on the weighted average number of common shares outstanding for the period presented (except for dividends to shareholders which is based on actual rate per share).

Common stock transactions include the effect of our issuance of common stock in public offerings (net of (2) underwriting and offering costs), shares issued in connection with our dividend reinvestment plan and shares issued to acquire investments.

Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our (3) dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.

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Note 17. Selected Quarterly Financial Data (Unaudited)

The following table sets forth selected financial data for each quarter within the three years ended June 30, 2015.

Quarter Ended	Investment Income		Net Investment Income		Net Realized and Unrealized Gains (Losses)		Net Increase in Net Assets from Operations	
	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)
September 30, 2012	\$ 123,636	\$ 0.76	\$ 74,027	\$ 0.46	\$ (26,778)	\$ (0.17)	\$ 47,249	\$ 0.29
December 31, 2012	166,035	0.85	99,216	0.51	(52,727)	(0.27)	46,489	0.24
March 31, 2013	120,195	0.53	59,585	0.26	(15,156)	(0.07)	44,429	0.20
June 30, 2013	166,470	0.68	92,096	0.38	(9,407)	(0.04)	82,689	0.34
September 30, 2013	161,034	0.62	82,337	0.32	(2,437)	(0.01)	79,900	0.31
December 31, 2013	178,090	0.62	92,215	0.32	(6,853)	(0.02)	85,362	0.30
March 31, 2014	190,327	0.60	98,523	0.31	(16,422)	(0.05)	82,101	0.26
June 30, 2014	182,840	0.54	84,148	0.25	(12,491)	(0.04)	71,657	0.21
September 30, 2014	202,021	0.59	94,463	0.28	(10,355)	(0.04)	84,108	0.24
December 31, 2014	198,883	0.56	91,325	0.26	(5,355)	(0.02)	85,970	0.24
March 31, 2015	191,350	0.53	87,441	0.24	(5,949)	(0.01)	81,492	0.23
June 30, 2015	198,830	0.55	89,518	0.25	5,251	0.01	94,769	0.26

Per share amounts are calculated using the weighted average number of common shares outstanding for the period (1) presented. As such, the sum of the quarterly per share amounts above will not necessarily equal the per share amounts for the fiscal year.

Note 18. Subsequent Events

On July 1, 2015, we provided \$31,000 of first lien senior secured financing, of which \$30,200 was funded at closing, to Intelius, Inc. ("Intelius"), an online information commerce company.

On July 8, 2015, we sold 27.45% of the outstanding principal balance of the senior secured Term Loan A investment in InterDent, Inc. for \$34,415. There was no gain or loss realized on the sale.

On July 23, 2015, we made an investment of \$37,969 to purchase 80.73% of the subordinated notes in Halcyon Loan Advisors Funding 2015-3 Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On July 23, 2015, we issued 193,892 shares of our common stock in connection with the dividend reinvestment plan.

On July 24, 2015, TB Corp. repaid the \$23,628 loan receivable to us.

On August 6, 2015, we provided \$92,500 of first lien senior secured debt to support the refinancing of Crosman Corporation. Concurrent with the refinancing, we received repayment of the \$40,000 second lien term loan previously outstanding.

On August 7, 2015, Ryan, LLC repaid the \$72,701 loan receivable to us.

On August 11, 2015, we made a \$13,500 follow-on first lien senior secured debt investment in Intelius, of which \$13,000 was funded at closing, to support an acquisition.

On August 12, 2015, we made an investment of \$22,898 to purchase 50.04% of the subordinated notes in Octagon Investment Partners XVIII, Ltd.

On August 12, 2015, we sold 780 of our small business whole loans purchased from OnDeck to Jefferies Asset Funding LLC for proceeds of \$26,562, net of related transaction expenses, and a trust certificate representing a 41.54% interest in the MarketPlace Loan Trust, Series 2015-OD2.

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On August 14, 2015, we announced the then current conversion rate on the 2018 Notes as 84.1497 shares of common stock per \$1 principal amount of the 2018 Notes converted, which is equivalent to a conversion price of approximately \$11.88.

On August 20, 2015, we issued 152,896 shares of our common stock in connection with the dividend reinvestment plan.

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On August 21, 2015, we committed to funding a \$16,000 second lien secured investment in a provider of customer care outsourcing services.

During the period from July 1, 2015 through August 26, 2015, we made seven follow-on investments in NPRC totaling \$52,852 to support the online consumer lending initiative. We invested \$12,508 of equity through NPH and \$40,344 of debt directly to ACL Loan Holdings, Inc., a wholly-owned subsidiary of NPRC.

During the period from July 1, 2015 through August 26, 2015, our wholly-owned subsidiary PSBL purchased \$14,101 of small business whole loans from OnDeck.

During the period from July 1, 2015 through August 26, 2015, we issued \$32,362 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$31,870. In addition, we sold \$1,425 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$1,405 with expected closing on August 27, 2015.

During the period from July 28, 2015 through August 14, 2015 (with settlement dates of July 31, 2015 to August 19, 2015), we repurchased 4,158,750 shares of our common stock at an average price of \$7.22 per share, including commissions.

On August 24, 2015, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.08333 per share for September 2015 to holders of record on September 30, 2015 with a payment date of October 22, 2015; and

\$0.08333 per share for October 2015 to holders of record on October 30, 2015 with a payment date of November 19, 2015.

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First Tower Finance Company LLC
and Subsidiaries
(formerly First Tower Holdings LLC)
Consolidated Financial Statements
December 31, 2014 and 2013

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Independent Auditor's Report

To the Board of Members
First Tower Finance Company LLC and Subsidiaries
Flowood, Mississippi

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Tower Finance Company LLC and Subsidiaries (the "Company") which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in members' equity (deficit), and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Raleigh, North Carolina
March 31, 2015

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Consolidated Balance Sheets
December 31, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	\$ 10,906,825	\$ 5,821,481
Investment in trading securities	1,594,391	1,473,768
Investment securities available for sale	51,942,251	49,536,651
Finance receivables, net	431,395,397	421,309,663
Prepaid reinsurance premiums	24,645	392,662
Reinsurance receivable and recoverable	1,239,614	1,687,537
Other receivables	601,794	686,865
Real estate acquired by foreclosure	834,832	797,935
Property and equipment, net	11,839,506	8,563,664
Deferred policy acquisition costs	976,967	874,979
Intangible assets, net	20,769,578	23,384,176
Goodwill	108,941,160	122,558,807
Debt issue costs, net	1,037,384	3,068,778
Other assets	503,727	543,920
Total assets	\$ 642,608,071	\$ 640,700,886
Liabilities and Members' Equity (Deficit)		
Liabilities:		
Notes payable	\$ 291,497,668	\$ 276,900,091
Subordinated notes payable to members	313,844,000	—
Unearned premiums	40,585,670	38,531,397
Policy claim reserves	2,386,867	2,524,084
Accounts payable and accrued expenses	6,708,800	5,644,448
Other liabilities	1,518,504	1,383,523
Deferred tax liabilities, net	3,831,412	3,003,771
Total liabilities	660,372,921	327,987,314
Commitments and contingencies		
Members' Equity (Deficit):		
Class A members	(18,221,959	) 312,771,733
Class B members	(50,402	) 138,051
Class C members	—	—
Class D members	177,298	107,542
Accumulated other comprehensive income (loss), net of income tax effect of \$196,000 and (\$181,000) as of December 31, 2014 and 2013, respectively	330,213	(303,754)
Total members' equity (deficit)	(17,764,850	) 312,713,572
Total liabilities and members' equity (deficit)	\$ 642,608,071	\$ 640,700,886

See notes to consolidated financial statements.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2014 and 2013

	2014	2013
Revenues:		
Interest and fee income from finance receivables	\$ 162,821,460	\$ 162,687,677
Insurance premiums	31,137,142	23,613,523
Net investment income	836,748	770,771
Net realized investment gains (losses)	(53,942)	) 110,837
Other income	11,615,562	9,982,617
Total revenues	206,356,970	197,165,425
Expenses:		
Interest expense	44,205,889	11,758,168
Policyholders' benefits	5,184,863	5,105,706
Salaries and fringe benefits	36,514,752	33,260,014
Provision for credit losses	56,186,665	59,937,057
Other operating expenses	46,900,257	43,706,625
Total expenses	188,992,426	153,767,570
Income before income taxes	17,364,544	43,397,855
Provision for income taxes	432,948	1,527,828
Net income	16,931,596	41,870,027
Other comprehensive income (loss), net of income tax effects of approximately \$377,000 as of December 31, 2014 and (\$383,000) as of December 31, 2013		
Unrealized holding gains (losses) on securities	601,967	(650,223)
Reclassification adjustments for amounts included in net income	32,000	19,537
Other comprehensive income (loss)	633,967	(630,686)
Comprehensive income	\$ 17,565,563	\$ 41,239,341

See notes to consolidated financial statements.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Consolidated Statements of Changes in Members' Equity (Deficit)
Years Ended December 31, 2014 and 2013

	Class A Members Equity (Deficit)	Class B Members Equity (Deficit)	Class C Members Equity	Class D Members Equity	Accumulated Over Comprehensive Income (Loss)	Total
Balance, January 1, 2013	\$333,687,368	\$149,960	\$—	\$37,786	\$326,932	\$334,202,046
Member compensation vested	—	—	—	69,756	—	69,756
Net income	41,846,202	23,825	—	—	—	41,870,027
Distributions paid	(62,761,837)	(35,734)	—	—	—	(62,797,571)
Change in net unrealized gain (loss) on investment securities available for sale	—	—	—	—	(630,686)	(630,686)
Balance, January 1, 2014	312,771,733	138,051	—	107,542	(303,754)	312,713,572
Member compensation vested	—	—	—	69,756	—	69,756
Net income	16,921,961	9,635	—	—	—	16,931,596
Distributions paid	(34,250,240)	(19,501)	—	—	—	(34,269,741)
Subordinated debt financed distributions	(313,665,413)	(178,587)	—	—	—	(313,844,000)
Change in net unrealized gain (loss) on investment securities available for sale	—	—	—	—	633,967	633,967
Balance, December 31, 2014	\$(18,221,959)	\$(50,402)	\$—	\$177,298	\$330,213	\$(17,764,850)

See notes to consolidated financial statements.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Net income	\$ 16,931,596	\$ 41,870,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,764,275	20,208,165
Amortization of discount on securities, net	1,191,607	1,206,979
Loss on sales of investments - net	51,822	31,639
(Gain) loss on trading securities	2,120	(142,476)
(Gain) loss on sales of assets	(49,744	) 52,104
Loss from sales and impairments of real estate	261,360	237,494
Deferred income tax provision	450,495	1,527,828
Provision for credit losses	56,186,665	59,937,057
Compensation expense	69,756	69,756
Net loan costs deferred	(968,792	) (1,853,270)
PIK Rate interest added to principal	1,113,196	—
Purchase of trading securities	(123,603	) (1,500,907)
Proceeds from sales of trading securities	860	1,298,643
Changes in operating assets and liabilities:		
Reinsurance recoverables	815,940	1,680,368
Receivables	85,071	(111,352)
Other assets	40,193	(149,946)
Deferred policy acquisition cost	(101,988	) (874,979)
Policy claim reserves	(137,217	) (47,454)
Accounts payable and accrued expenses	1,064,352	499,466
Unearned premiums	2,054,273	6,764,783
Other liabilities	134,981	11,937
Net cash provided by operating activities	\$ 99,837,218	\$ 130,715,862
(Continued)		

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Investing Activities		
Loans originated	\$(586,037,272)	\$(556,300,281)
Loans repaid or sold	519,686,122	477,608,635
Proceeds from sales of investment in real estate	749,286	442,415
Proceeds from calls or maturities of investment securities	5,113,523	5,026,869
Proceeds from sales of investment securities	7,480,249	5,793,902
Purchases of investment securities	(15,231,688)	(16,434,774)
Proceeds from sales of property and equipment	129,829	79,180
Purchase of property and equipment	(5,856,563)	(3,796,359)
Net cash used in investing activities	(73,966,514)	(87,580,413)
Cash Flows From Financing Activities		
Net changes in short-term borrowings	14,597,577	19,804,437
Principal payments on subordinated notes payable	(1,113,196)	—
Debt issue cost paid	—	(300,000)
Distributions paid	(34,269,741)	(62,797,571)
Net cash used in financing activities	(20,785,360)	(43,293,134)
Increase (decrease) in cash and cash equivalents	5,085,344	(157,685)
Cash and cash equivalents		
Beginning of period	5,821,481	5,979,166
End of period	\$10,906,825	\$5,821,481
Supplemental Disclosures of Cash Flow Information		
Real estate acquired in satisfaction of finance receivables	\$1,048,000	\$790,000
Return of capital distributed as subordinated notes payable to members	\$313,844,000	\$—
Cash payments for interest on notes payable	\$9,972,000	\$13,003,000
Cash payments for interest, including paid-in-kind interest, on subordinated notes payable to members	\$32,203,000	\$—

See notes to consolidated financial statements.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: First Tower Finance Company LLC (formerly First Tower Holdings LLC) is a Mississippi limited liability company and is engaged in consumer lending and related insurance activities through its wholly-owned subsidiaries, First Tower, LLC, Tower Loan of Mississippi, LLC, Tower Loan of Illinois, LLC, First Tower Loan, LLC, Gulfco of Mississippi, LLC, Gulfco of Alabama, LLC, Gulfco of Louisiana, LLC, Tower Loan of Missouri, LLC, and Tower Auto Loan, LLC. Tower Loan of Mississippi, LLC is the sole member of American Federated Holding Company, which has two wholly-owned subsidiaries, American Federated Insurance Company (AFIC), and American Federated Life Insurance Company (AFLIC). These entities are collectively referred to as “the Company”. The Company acquires and services finance receivables (direct loans, real estate loans and sales finance contracts) through branch offices principally located in Mississippi, Louisiana, Alabama, Illinois and Missouri. In addition, the Company writes credit insurance when requested by its loan customers.

Government regulation: The Company is subject to various state and federal laws and regulations in each of the states in which it operates that are enforced by the respective state regulatory authorities. These state laws and regulations impact the economic terms of the Company’s products. In addition, these laws regulate collection procedures, the keeping of books and records and other aspects of the operation of consumer finance companies. As a result, the terms of products offered by the Company vary among the states in which it operates in order to comply with each state’s specific laws and regulations.

Each of the Company’s branch offices is separately licensed under the laws of the state in which the office is located. Licenses granted by the regulatory agencies in these states are subject to renewal every year and may be revoked for failure to comply with applicable state and federal laws and regulations.

The Company is also subject to state regulations governing insurance agents in the states in which it sells credit insurance. State insurance regulations require that insurance agents be licensed; govern the commissions that may be paid to agents in connection with the sale of credit insurance and limit the premium amount charged for such insurance.

A summary of the Company’s significant accounting policies follows:

Principles of consolidation: In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic (“ASC”) 810, Consolidation, a company’s consolidated financial statements are required to include subsidiaries in which the company has a controlling financial interest. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The Company’s consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing its financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of revenues and expenses for the years ended December 31, 2014 and 2013. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change include the determination of the allowance for credit losses, policy claim reserves, impairment of goodwill, deferred tax assets and liabilities and the valuation of investments.

Investment in Trading Securities: The Company has an investment in a large capitalization equity mutual fund which is classified as a trading security. Changes in the unrealized gains and losses of this investment are recognized through earnings. Dividends on trading securities are recognized in net investment income.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Investment Securities Available for Sale: Investments in debt securities are classified as available for sale. Available for sale securities are carried at fair value, with changes in the fair value of such securities being reported as other comprehensive income (loss), net of related deferred income taxes (benefit). When the fair value of a security falls below carrying value, an evaluation must be made to determine if the unrealized loss is a temporary or other than temporary impairment. Impaired debt securities that are not deemed to be temporarily impaired are written down to net realizable value by a charge to earnings to the extent the impairment is related to credit losses or if the Company intends, or more-likely-than not will be required, to sell the security before recovery of the security's amortized cost basis. In estimating other than temporary impairments, the Company considers the duration of time and extent to which the amortized cost exceeds fair value, the financial condition of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for anticipated recovery in fair value.

Premiums and discounts on debt securities are recognized as adjustments to net investment income by the interest method over the period to maturity and adjusted for prepayments as applicable. Realized gains and losses on sales of investment securities are determined using the specific identification method.

Fair Value Measurements: The Company carries its trading securities, and its investment securities available-for-sale at fair value on a recurring basis and measures certain other assets and liabilities at fair value on a nonrecurring basis using a hierarchy of measurements which requires it to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Three levels of inputs are used to measure fair value:

Level 1 Valuations based on unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 Valuations derived for similar assets in active markets, or other inputs that are observable or can be corroborated by market data.

Level 3 Valuations derived from unobservable (supported by little or no market activity) inputs that reflect an entity's best estimate of what hypothetical market participants would use to determine a transaction price at the reporting date.

When quoted market prices in active markets are unavailable, the Company determines fair value using various valuation techniques and models based on a range of observable market inputs including pricing models, quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, prepayment speeds, default rates and discounted cash flow. In most cases, these estimates are determined based on independent third party valuation information, and the amounts are disclosed as Level 2. Generally, the Company obtains a single price or quote per instrument from independent third parties to assist in establishing the fair value of these investments.

If quoted market prices and independent third party valuation information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or 3.

On occasions when pricing service data is unavailable, the Company may rely on bid/ask spreads from dealers in determining fair value.

To the extent the Company determines that a price or quote is inconsistent with actual trading activity observed in that investment or similar investments, or if the Company does not think the quote is reflective of the market value for the investment, the Company internally develops a fair value using this other market information and discloses the input as a Level 3.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Finance Receivables: Finance receivables are stated at the amount of unpaid principal and finance charges, including deferred loan costs, and reduced by unearned finance charges, unearned discounts and an allowance for credit losses. Non-refundable loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the finance receivable yield over the contractual life of the related loan using the interest method. Unamortized amounts are recognized in income when finance receivables are renewed or paid in full.

Real Estate Acquired by Foreclosure: The Company records real estate acquired by foreclosure at the lesser of the outstanding finance receivable amount (including accrued interest, if any) or fair value, less estimated costs to sell, at the time of foreclosure. Any resulting loss on foreclosure is charged to the allowance for credit losses and a new basis is established in the property. A valuation allowance and a corresponding charge to operations is established to reflect declines in value subsequent to acquisition, if any, below the new basis. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

Property and Equipment: Property and equipment are stated at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income when incurred; significant improvements and betterments are capitalized. The Company evaluates the recoverability of property, plant and equipment and other long-term assets when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable, based upon expectations of non-discounted cash flows and operating income.

Goodwill and Other Intangible Assets: Goodwill represents the excess of the consideration transferred in a business combination over the fair value of the identifiable net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangibles with finite lives are amortized over their estimated useful lives. Additionally, during 2013, the Company elected to early adopt the alternative permitted for private companies and began amortizing goodwill over ten years by the straight-line method. Goodwill and other intangible assets are subject to impairment testing annually or more frequently if events or circumstances indicate possible impairment. Other intangible assets consist of trade names, sales finance relationships, non-competition and license agreements and internally developed technology. Intangible assets are reviewed for events or circumstances which could impact the recoverability of the intangible asset, such as a loss of significant relationships, increased competition or adverse changes in the economy. No impairment was identified for the Company's goodwill or its other intangible assets during 2014 and 2013.

Debt Issue Costs: Debt issue costs represents costs associated with obtaining the Company's credit facility, and is amortized on a straight line basis over the life of the related financing agreement which approximates the interest method. Amortization expense for the years ended December 31, 2014 and 2013 approximated \$2,031,000 and \$1,925,000, respectively, and is included in interest expense.

Deferred Policy Acquisition Costs: Costs incurred to acquire credit insurance policies are deferred and amortized over the life of the underlying insurance contracts.

Income Recognition: Precomputed finance charges are included in the gross amount of the Company's finance receivables. These precomputed charges are deferred and recognized as income on an accrual basis using the effective interest method over the terms of receivables. However, with certain exceptions, state regulations allow interest refunds to be made according to the Rule of 78's method for payoffs and renewals. Since a significant percentage of the Company's precomputed accounts are paid off or renewed prior to maturity, the result is that a majority of the precomputed accounts effectively yield on a Rule of 78's basis. The difference between income previously recognized under the interest yield method and the Rule of 78's method is recognized as an adjustment to interest income at the time of the renewal or payoff.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Insurance premiums on credit life and accident and health policies written by the Company are earned over the term of the policy using the pro-rata method, for level-term life policies, and the effective yield method, for decreasing-term life policies. Premiums on accident and health policies are earned based on an average of the pro-rata method and the effective yield method. Property and casualty credit insurance premiums written by the Company are earned over the period of insurance coverage using the pro-rata method or the effective yield method, depending on whether the amount of insurance coverage generally remains level or declines.

Commissions earned from the sale of accidental death and dismemberment insurance coverage and motor club memberships to finance customers are recognized at the time of origination. The Company has no future obligations related to the sale of these products. Other income includes commissions earned of approximately \$10,175,000 and \$9,012,000 for the year ended December 31, 2014 and 2013, respectively.

Credit Losses: For periods subsequent to the acquisition date of the acquired finance receivables portfolio and for finance receivables originated by the Company, the allowance for credit losses is determined by several factors based upon each portfolio segment. Segments in the finance receivable portfolio include personal property, real estate and sales finance. Historical loss experience is the primary factor in the determination of the allowance for credit losses. An evaluation is performed to compare the amount of accounts charged off, net of recoveries of such accounts, in relation to the average net outstanding finance receivables for the period being reviewed. Historically, management has found that this methodology has provided an adequate allowance due to the Company's loan portfolio segments consisting of a large number of smaller balance homogeneous finance receivables. Further, management routinely evaluates the inherent risks and change in the volume and composition of the Company's finance receivable portfolio based on its extensive experience in the consumer finance industry in consideration of estimating the adequacy of the allowance. Also considered are delinquency trends, economic conditions, and industry factors. Provisions for credit losses are charged to income in amounts sufficient to maintain an allowance for credit losses at a level considered adequate to cover the probable loss inherent in the finance receivable portfolio. Since the estimates used in determining the allowance for credit losses are influenced by outside factors, such as consumer payment patterns and general economic conditions, there is uncertainty inherent in these estimates, making it reasonably possible that they could change. Interest on past due finance receivables is recognized until charge-off. Finance receivables are generally charged off when they are five months contractually past due.

Policy Claim Reserves: Policy claim reserves represent (i) the liability for losses and loss-adjustment expenses related to credit property insurance and (ii) the liabilities for future policy benefits related to credit life and accident and health insurance. The liability for loss and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount based on past experience, for losses incurred but not reported. The liabilities for future policy benefits have been computed utilizing accepted actuarial techniques. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in earnings currently.

Reinsurance Receivable: The Company has reduced its exposure relating to credit accident and health insurance through a quota share reinsurance agreement. Amounts recoverable from the reinsurer are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Effective December 31, 2012, the reinsurance agreement was terminated for all new business. The receivable will be fully recovered when unearned premiums on the ceded policies reaches \$0.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Income Taxes: First Tower Holdings LLC and its finance company subsidiaries are limited liability companies organized as partnerships for federal and state tax purposes and are not considered taxable entities. Taxable income or loss is reported by the Company's members on their respective tax returns in accordance with the limited liability agreement.

American Federated Holding Company and its wholly-owned subsidiaries, AFIC and AFLIC, are subject to income taxes at the corporate level. As such, deferred income taxes are provided for temporary differences between financial statement carrying amounts of assets and liabilities and their respective bases for income tax purposes using enacted tax rates in effect in the years in which the differences are expected to reverse.

Potential exposures involving tax positions taken that may be challenged by taxing authorities contain assumptions based upon past experiences and judgments about potential actions by taxing jurisdictions. Management does not believe that the ultimate settlement of these items will result in a material amount. Because 2012 was the first taxable year for the Company's limited liability companies, 2012 and subsequent years are subject to income tax examinations. With minimum exceptions, AFIC and AFLIC are no longer subject to income tax examinations prior to 2011.

Cash and Cash Equivalents: For purposes of the consolidated statements of cash flows, the Company considers certificates of deposit and all short-term securities with original maturities of three months or less to be cash equivalents.

Fair Value Disclosures of Financial Instruments: The following methods and assumptions were used by the Company to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents: The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair values.

Investment Securities: The fair value of investments in trading securities and securities available for sale are generally obtained from independent pricing services based upon valuations for similar assets in active markets or other inputs derived from objectively verifiable information.

Finance Receivables: The fair value of finance receivables approximates the carrying value since the estimated life, assuming prepayments, is short-term in nature.

Other Receivables and Payables: The carrying amounts reported in the consolidated balance sheets approximate their fair values.

Notes Payable: The carrying amounts of borrowings under the line-of-credit agreements reported in the consolidated balance sheets approximate their fair values as the interest charged for these borrowings fluctuate with market changes.

Subordinated Notes Payable to Members: The estimated fair value of subordinated notes payable to members was estimated using discounted cash flow analysis.

Comprehensive Income: Comprehensive income for the Company consists of net earnings and changes in unrealized gains on investment securities classified as available-for-sale, net of taxes, and are presented in the consolidated statements of income and comprehensive income.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Advertising: Advertising costs are expensed as incurred. Advertising expenses approximated \$4,909,000 and \$4,912,000 for the years ended December 31, 2014 and 2013, respectively.

Share-Based Compensation: The Company entered into employment agreements with certain executives and, in connection therewith, granted member interests consisting of Class D share awards which vest over a ten year period. Compensation expense for these awards is determined based on the estimated fair value of the shares awarded on the applicable grant or award date, June 14, 2012, and is recognized over the applicable award's vesting period.

Subsequent events: The Company has evaluated its subsequent events (events occurring after December 31, 2014) through March 31, 2015, which represents the date the financial statements were available to be issued.

Effects of Recent Accounting Guidance: In January 2014, the FASB issued ASU 2014-04, "Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)" which clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. This ASU states that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. This new guidance is effective beginning for annual periods beginning after December 15, 2014, and may be applied using either a modified retrospective transition method or a prospective transition method as described in ASU 2014-04. The adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

In May 2014, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Company on January 1, 2018. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing (Topic 860)." ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 is effective for the Company on January 1, 2015 and is not expected to have a significant impact on the Company's consolidated financial statements.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

In January 2015, the FASB issued ASU 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 is effective for the Company beginning January 1, 2016, though early adoption is permitted. ASU 2015-01 is not expected to have a significant impact on the Company's consolidated financial statements.

Note 2. Investment Securities

The cost or amortized cost of securities available for sale and their fair values at December 31, 2014 and 2013 were as follows:

	Cost or Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
December 31, 2014				
Debt securities:				
U.S. Government agencies and corporations	\$7,039,353	\$7,115,145	\$79,820	\$4,028
Obligations of states and political subdivisions	26,750,006	27,132,906	454,713	71,813
Corporate securities	15,707,027	15,812,756	140,010	34,281
Residential mortgage-backed securities	771,286	779,264	7,978	—
Commercial mortgage-backed securities	713,606	701,874	—	11,732
Other loan-backed and structured securities	400,582	400,306	—	276
Total investment securities	\$51,381,860	\$51,942,251	\$682,521	\$122,130
December 31, 2013				
Debt securities:				
U.S. Government agencies and corporations	\$7,612,186	\$7,440,515	\$3,953	\$175,624
Obligations of states and political subdivisions	26,151,621	25,860,654	125,159	416,126
Corporate securities	14,745,737	14,763,422	118,145	100,460
Residential mortgage-backed securities	756,473	731,087	—	25,386
Commercial mortgage-backed securities	749,002	740,973	2,271	10,300
Total investment securities	\$50,015,019	\$49,536,651	\$249,528	\$727,896

As of December 31, 2014 and 2013, accumulated other comprehensive income (loss) includes unrealized gains (losses) on available for sale securities, net of income tax effects, of approximately \$330,000 and (\$304,000), respectively.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 2. Investment Securities (Continued)

The length of time impaired available-for-sale securities have been held in a loss position are as follows:

December 31, 2014	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies and corporations	\$1,779,646	\$3,734	\$500,702	\$294	\$2,280,348	\$4,028
Obligations of states and political subdivisions	933,380	1,571	1,946,507	70,242	2,879,887	71,813
Corporate securities	4,248,109	12,794	2,587,369	21,487	6,835,478	34,281
Commercial mortgage-backed securities	260,296	1,438	441,578	10,294	701,874	11,732
Other loan-backed and structured securities	400,306	276	—	—	400,306	276
Total	\$7,621,737	\$19,813	\$5,476,156	\$102,317	\$13,097,893	\$122,130

December 31, 2013

U.S. Government agencies and corporations	\$3,115,552	\$22,541	\$1,958,318	\$153,083	\$5,073,870	\$175,624
Obligations of states and political subdivisions	13,854,644	298,337	1,569,119	117,789	15,423,763	416,126
Corporate securities	5,526,887	85,748	664,537	14,712	6,191,424	100,460
Residential mortgage-backed securities	731,086	25,386	—	—	731,086	25,386
Commercial mortgage-backed securities	467,227	10,300	—	—	467,227	10,300
Total	\$23,695,396	\$442,312	\$4,191,974	\$285,584	\$27,887,370	\$727,896

Substantially all gross unrealized losses at December 31, 2014 and 2013 were attributable to interest rate changes rather than an adverse change in cash flows or a fundamental weakness in the credit quality of the issuer or the underlying assets and are thus considered temporarily impaired. Due to the issuers' continued satisfaction of the securities' obligations in accordance with contractual terms, the expectation that they will continue to do so and the Company's intent and ability to hold these investments, management believes the securities in unrealized loss positions are temporarily depressed. As of December 31, 2014 the Company had 65 debt securities with temporary impairments, including 11 U.S. government securities, 15 securities classified as obligations of state and political subdivisions, 35 securities classified as corporate securities, and 4 investment classified as commercial mortgage-backed securities. As of December 31, 2013 the Company had 127 debt securities with temporary impairments, including 10 U.S. government securities, 69 securities classified as obligations of state and political subdivisions, 43 securities classified as corporate securities, 3 investments classified as residential mortgage-backed securities and 2 investments classified as commercial mortgage-backed securities.

Management of the Company evaluates securities for other-than-temporary impairment ("OTTI") no less than annually or when economic or market concerns warrant such evaluation. The evaluation is based upon factors such as the creditworthiness of the issuer, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer.

First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 2. Investment Securities (Continued)

The Company segregates the OTTI impact on impaired securities where impairment in value was deemed to be other than temporary between the component representing credit loss and the component representing loss related to other factors.

The Company assesses whether a credit loss exists by considering whether (i) the Company has the intent to sell the security, (ii) it is more likely than not that it will be required to sell the security before recovery, or (iii) it does not expect to recover the entire amortized cost basis of a debt security. The portion of the fair value decline attributable to credit loss is recognized as a charge to earnings. The credit loss evaluation is determined by comparing the present value of the cash flows expected to be collected, discounted at the rate in effect before recognizing any OTTI with the amortized cost basis of the debt security. The Company uses the cash flow expected to be realized from the security, which includes assumptions about interest rates, timing and severity of defaults, estimates of potential recoveries, the cash flow distribution from the bond indenture and other factors, then applies a discount rate equal to the effective yield of the security. The difference between the present value of the expected cash flows and the amortized book value is considered a credit loss. The difference between the fair market value and the security's remaining amortized cost is recognized in other comprehensive income or loss.

The amortized cost and fair value of debt securities at December 31, 2014, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepay penalties.

December 31, 2014	Cost or Amortized Cost	Fair Value
Due in one year or less	\$6,498,538	\$6,505,171
Due after one year but less than five years	20,893,496	21,030,923
Due after five years but less than ten years	21,381,410	21,794,775
Due after ten years	722,942	729,938
Residential mortgage-backed securities	771,286	779,264
Commercial mortgage-backed securities	713,606	701,874
Other loan-backed and structured securities	400,582	400,306
Total debt securities	\$51,381,860	\$51,942,251

Investment securities with amortized cost of approximately \$3,063,000 and with estimated fair values of \$3,070,000 at December 31, 2014, were pledged by the Company with various states as required by state law. Investment securities with amortized cost of approximately \$3,057,000 and with estimated fair values of \$3,080,000 at December 31, 2013, were pledged by the Company with various states as required by state law.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 2. Investment Securities (Continued)

Major categories of net investment income are summarized as follows for the year ended December 31, 2014 and 2013:

December 31,	2014	2013	
Debt securities	\$883,487	\$721,447	
Common stocks	122,744	202,265	
Mortgage and collateral loans	7,800	7,800	
Cash and short-term investments	509	457	
	1,014,540	931,969	
Investment expenses	(177,792)(161,198)
Net investment income	\$836,748	\$770,771	

Net realized investment gains are summarized as follows for the year ended December 31, 2014 and 2013:

December 31,	2014	2013	
Gross realized gains on sale of securities available for sale	\$34,363	\$14,910	
Gross realized losses on sale of securities available for sale	(86,185)(46,549)
Gain (loss) from investments in trading securities	(2,120	)142,476
Net realized investment gains (losses)	\$(53,942	)\$110,837

Proceeds from sales of investment securities available for sale aggregated approximately \$7,480,000 and \$5,794,000 for the years ended December 31, 2014 and 2013, respectively.

Note 3. Finance Receivables

Finance receivables were as follows:

December 31,	2014	2013	
Consumer finance receivables:			
Personal property	\$496,914,298	\$476,832,230	
Real estate	34,630,530	43,665,858	
Sales finance	117,697,434	102,659,880	
	649,242,262	623,157,968	
Add (deduct):			
Net deferred origination costs	5,350,272	4,381,480	
Unearned income	(177,266,473)(164,182,157)
Unearned discount on acquired loans	(1,262,484)(9,242,643)
Allowance for credit losses	(44,668,180)(32,804,985)
Finance receivables, net	\$431,395,397	\$421,309,663	

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 3. Finance Receivables (Continued)

Changes in the allowance for credit losses were as follows during the year ended December 31, 2014 and 2013:

December 31,	2014	2013
Balance at beginning of year	\$(32,804,985)	\$(13,324,265)
Provision for credit losses	(56,186,665)	(59,937,057)
Receivables charged-off	57,641,988	52,562,233
Charge-offs recovered	(13,318,518)	(12,105,896)
Balance at end of year	\$(44,668,180)	\$(32,804,985)

The balance in the allowance for credit losses by portfolio segment at December 31, 2014 and 2013 was as follows:

December 31,	Balance at			Provision for	Balance at	Finance	Allowance as	
2014	Beginning of	Charge-offs	Recoveries	Credit Losses	End of	Receivables at	Percentage of	
	Period				Period	End of Period	Finance	Receivables at
							Receivables at	End of Period
Personal	\$31,182,545	\$(54,309,913)	\$12,559,363	\$53,093,822	\$42,525,817	\$369,688,435	11.5	%
Property								
Real Estate	199,938	(513,329)	40,455	501,451	228,515	23,553,939	1.0	%
Sales Finance	1,422,502	(2,818,746)	718,700	2,591,392	1,913,848	77,470,931	2.5	%
Total loans	\$32,804,985	\$(57,641,988)	\$13,318,518	\$56,186,665	\$44,668,180	\$470,713,305	9.5	%
December 31,								
2013								
Personal	\$12,535,995	\$(49,610,961)	\$11,355,276	\$56,902,235	\$31,182,545	\$353,542,477	8.8	%
Property								
Real Estate	145,641	(422,774)	58,864	418,207	199,938	27,954,965	0.7	%
Sales Finance	642,629	(2,528,498)	691,756	2,616,615	1,422,502	68,235,726	2.1	%
Total loans	\$13,324,265	\$(52,562,233)	\$12,105,896	\$59,937,057	\$32,804,985	\$449,733,168	7.3	%

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 3. Finance Receivables (Continued)

The Company classifies delinquent accounts based upon the number of contractual installments past due. An aging of delinquent gross finance receivables as of December 31, 2014 and 2013 is as follows:

December 31, 2014	Current	Past Due 30-90 Days	Past Due 91-150 Days	Past Due Greater Than 150 Days	Total
Personal Property	\$439,980,023	\$44,222,982	\$12,708,607	\$2,686	\$496,914,298
Real Estate	30,854,113	2,992,238	261,914	522,265	34,630,530
Sales Finance	113,782,755	3,190,905	714,992	8,782	117,697,434
Gross Finance Receivables	\$584,616,891	\$50,406,125	\$13,685,513	\$533,733	\$649,242,262

December 31, 2013

Personal Property	\$415,630,566	\$47,439,548	\$13,759,974	\$2,142	\$476,832,230
Real Estate	38,485,840	4,522,937	591,422	65,659	43,665,858
Sales Finance	98,857,928	3,054,278	723,329	24,345	102,659,880
Gross Finance Receivables	\$552,974,334	\$55,016,763	\$15,074,725	\$92,146	\$623,157,968

Nonperforming loans consisted of loans past due greater than 150 days and approximated \$534,000 and \$92,000 at December 31, 2014 and 2013, respectively. Additionally, the Company had gross finance receivables relating to customers in bankruptcy and which the terms of the original contract have been modified approximating \$3,810,000 and \$4,583,000 at December 31, 2014 and 2013, respectively.

Note 4. Reinsurance

The Company is party to a quota share reinsurance agreement that ceded 40% of its credit accident and health business written prior to January 1, 2013 in order to limit its exposure on credit disability coverages. Reinsurance contracts do not relieve the Company from its primary obligation to policyholders. Failure of any reinsurer to honor its obligations could result in losses to the Company.

The ceded reinsurance agreement contains a retrospective rating provision that results in a favorable adjustment to the reinsurance premiums if certain underwriting results are achieved on the reinsured business during the experience period. The Company estimates the amount of ultimate premium adjustment that the Company may earn upon completion of the experience period and recognizes an asset for the difference between the initial reinsurance premiums paid and the estimated ultimate premium. The Company adjusts such estimated ultimate premium amounts during the course of the experience period based on actual results to date. The resulting adjustment is recorded as either a reduction of or an increase to the ceded premiums for the year. Included in reinsurance recoverables at December 31, 2014 and 2013 are estimated receivables relating to the retrospective rating provisions of approximately \$1,168,000 and \$1,215,000, respectively. During the years ended December 31, 2014 and 2013 ceded premiums have been reduced by retrospective premium adjustments of approximately \$217,000 and \$482,000, respectively.

First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 4. Reinsurance (Continued)

The effect of reinsurance on premiums written and earned is as follows for the year end December 31, 2014 and 2013:

December 31, 2014	Written	Earned
Direct	\$33,083,850	\$30,666,460
Ceded	470,682	470,682
Net premiums	\$33,554,532	\$31,137,142
December 31, 2013		
Direct	\$30,256,508	\$22,190,544
Ceded	1,422,979	1,422,979
Net premiums	\$31,679,487	\$23,613,523

Note 5. Property and Equipment

Property and equipment at December 31, 2014 and 2013 is as follows:

	Estimated Useful Lives	December 31, 2014	December 31, 2013
Land		\$408,188	\$307,320
Building and improvements	15 to 40 years	2,868,338	2,104,397
Office furniture and fixtures	5 to 10 years	1,591,073	1,161,970
Data processing equipment	3 years	8,298,217	4,559,523
Automotive equipment	3 years	1,510,648	1,328,411
Leasehold improvements	5 years	1,596,903	1,215,642
		16,273,367	10,677,263
Less accumulated depreciation		4,433,861	2,113,599
Property and equipment, net		\$11,839,506	\$8,563,664

Depreciation expense for the years ended December 31, 2014 and 2013 approximated \$2,500,000 and \$1,557,000, respectively.

Note 6. Goodwill and Intangible Assets

A summary of goodwill and its estimated finite life is as follows:

	Estimated Useful Lives	December 31, 2014	December 31, 2013
Goodwill	10 years	\$136,176,452	\$136,176,452
Less accumulated amortization		27,235,292	13,617,645
Goodwill, net		\$108,941,160	\$122,558,807

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 6. Goodwill and Intangible Assets (Continued)

A summary of the other intangible assets and their estimated finite lives were as follows:

	Estimated Useful Lives	December 31, 2014	December 31, 2013
Trade names	5 to 15 years	\$24,400,000	\$24,400,000
Non-competition and license agreements	2 to 4 years	2,323,800	2,323,800
Internally developed technology	2 years	1,000,000	1,000,000
Customer relationships and other	2 to 3 years	488,700	488,700
		28,212,500	28,212,500
Less accumulated amortization		7,442,922	4,828,324
Intangible assets, net		\$20,769,578	\$23,384,176

Aggregate amortization expense for goodwill and intangible assets for the year ended December 31, 2014 approximated \$13,618,000 and \$2,615,000, respectively. Aggregate amortization expense for goodwill and intangible assets for the year ended December 31, 2013 approximated \$13,618,000 and \$3,070,000, respectively. The estimated amortization expense of goodwill and the finite-lived intangible assets for future years is summarized as follows:

2015	\$15,718,131
2016	15,456,187
2017	15,251,812
2018	15,224,312
2019	15,224,312
Thereafter	52,835,983
Total	\$129,710,738

Note 7. Notes Payable and Credit Arrangements for Business Operations

On June 15, 2012, the Company entered into a new revolving loan agreement to provide for a total credit facility of up to \$400,000,000 which terminates on June 15, 2016. Borrowings are limited to a borrowing base as defined in the related agreement. This agreement was amended during 2014 to allow for the issuance of the subordinated notes payable as described in Note 8.

Borrowings under the revolving loan agreement bear interest at an annualized referenced rate equal to the higher of (i) the federal funds rate plus 0.50%, (ii) the lenders prime rate, or (iii) LIBOR plus 1%, and adjusted for an applicable margin based upon the current borrowing availability. The applicable margin ranges from 1.50% to 3.00% depending on the reference rate and borrowing availability percentage as defined in the agreement. Borrowings are collateralized by substantially all of the Company's consumer finance assets, including all finance receivables and intangibles.

The loan agreement contains covenants which place restrictions on the Company, including limitations on distributions, additional indebtedness, transactions with affiliates, and require that certain minimum interest coverage and senior debt leverage ratios be maintained. At December 31, 2014 and 2013, the Company was in compliance with the covenants.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 7. Notes Payable and Credit Arrangements for Business Operations (Continued)

In addition, the Company has a \$7,000,000 revolving line of credit with a bank which expires June 30, 2016. Advances under the line of credit bear interest at one-month LIBOR plus 2.75% with a floor rate of 3.75%, adjusted monthly, and are collateralized by all of the outstanding shares of American Federated Life Insurance Company and certain deeds of trust.

At December 31, 2014 and 2013, the amount outstanding under the revolving loan agreement was approximately \$285,500,000 and \$271,759,000, respectively, with an average effective interest rate of 3.78% and 3.93%, respectively. The amount outstanding under the revolving line of credit with the bank was approximately \$5,998,000 with an interest rate of 3.80% at December 31, 2014 and \$5,141,000 with an interest rate of 3.80% at December 31, 2013. Interest is payable monthly.

Note 8. Subordinated Notes Payable to Members

On June 24, 2014, First Tower, LLC ("FT LLC") issued subordinated term loan notes payable to the members of the Company in the aggregate amount of \$313,844,000 pursuant to a subordinated loan agreement (the "Subordinated Loan Agreement"). The proceeds of the subordinated term loans were distributed to the Company, which were then distributed to its members as a return of capital.

Under the terms of the Subordinated Loan Agreement, these subordinated term loans bear interest at a rate per annum equal to 10% plus a paid-in-kind rate (the "PIK Rate") of 7%. Effective October 1, 2014, the PIK Rate was increased to 12%. Interest accruing at the 10% rate is payable monthly in cash and the PIK Rate interest is payable monthly in cash, at FT LLC's option, subject to certain restrictions as specified by the terms of a subordination and intercreditor agreement with lenders of the Company's credit facility and revolving line of credit (See Note 7). Accruing PIK Rate interest that may be prohibited from being paid currently under the subordination and intercreditor agreement as a result of distributable income limitations from operating subsidiaries is automatically added to the principal of the subordinated term loan notes.

The subordinated term loan notes mature on the earlier of June 24, 2019 or six months after the termination of the Company's credit facility. Subject to the subordination and intercreditor agreement, FT LLC may prepay in whole or in part amounts outstanding. However, any amounts prepaid prior to the third anniversary of the issuance would be subject to a prepayment premium ranging from 1% - 3% depending on the timing of the prepayment. FT LLC's obligations under the subordinated term loan notes are secured by a lien granted to Prospect Capital Corporation as collateral agent for the benefit of the holders of the subordinated term loan notes against all of the LLC interests of its wholly-owned finance company subsidiaries and all other First Tower, LLC assets.

The Subordinated Loan Agreement contains various provisions which require FT LLC to make mandatory prepayments, subject to specified exceptions, with the proceeds of asset dispositions, debt and specified equity issuances, changes of control, and certain other events. In addition to other covenants, the Subordinated Loan Agreement places limits on FT LLC and its subsidiaries' ability to declare dividends or redeem or repurchase capital stock, prepay, redeem or purchase debt, incur liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, amend or otherwise alter debt and other material agreements, make capital expenditures, engage in mergers, acquisitions and asset sales, transact with affiliates and alter its business. Further, the Subordinated Loan Agreement contains events of default, including cross defaults under other debt obligations of the Company.

At December 31, 2014, the principal amount outstanding of the subordinated term loan notes payable was \$313,844,000. During 2014, paid-in-kind interest of \$1,113,196 was added to the principal of the subordinated term loan notes payable and repaid. Interest expense, including PIK Rate interest, incurred on the subordinated term loan notes approximated \$32,203,000 during 2014.

First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 9. Policy Claim Liabilities

Activity in policy claim reserves, including claim adjustment expenses for the year ended from December 31, 2014 and 2013, is summarized as follows:

December 31,	2014	2013
Balance at beginning of year	\$2,524,084	\$2,571,538
Less reinsurance recoverables	413,045	674,746
Net balance at beginning of year	2,111,039	1,896,792
Incurred related to:		
Current period	5,731,101	5,547,196
Prior years	(546,238	)(441,490
Total incurred	5,184,863	5,105,706
Paid related to:		
Current period	3,586,918	3,589,178
Prior years	1,380,266	1,302,281
Total paid	4,967,184	4,891,459
Net balance at end of year	2,328,718	2,111,039
Plus reinsurance recoverables	58,149	413,045
Balance at end of year	\$2,386,867	\$2,524,084

Note 10. Income Taxes

The Company's insurance subsidiaries file income tax returns in the U. S. federal jurisdiction and in the states in which they operate. The multiple state tax jurisdictions in which the insurance subsidiaries operate require the appropriate allocation of income and expense to each state based on a variety of apportionment or allocation bases.

The provisions for income taxes of the Company's insurance subsidiaries for the year ended December 31, 2014 and 2013 consisted of the following:

December 31,	2014	2013
Current benefit	\$(17,547)\$—
Deferred expense	450,495	1,527,828
Provision for income taxes	\$432,948	\$1,527,828

The Company did not have unrecognized tax benefits as of December 31, 2014 and does not expect this to change significantly over the next 12 months. It is the Company's policy to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2014, the Company had no accrued interest or penalties related to uncertain tax positions.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 10. Income Taxes (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes relating to the Company's insurance subsidiaries. The tax effects of significant items comprising the Company's net deferred tax liability and asset were as follows:

	December 31, 2014	December 31, 2013
Deferred tax assets:		
Policy claim reserves and unearned premiums	\$2,170,553	\$2,172,755
Goodwill and intangible assets	551,579	—
Net operating and capital losses carryforward	1,492,501	1,952,934
Unrealized holding loss on available for sale securities	—	180,703
	4,214,633	4,306,392
Valuation allowance	—	—
	4,214,633	4,306,392
Deferred tax liabilities:		
Reinsurance recoverables	323,269	249,152
Goodwill and intangible assets	—	43,101
Deferred acquisition costs	7,459,096	6,949,882
Unrealized holding gain on trading securities	67,237	68,028
Unrealized gain on securities available for sale	196,443	—
	8,046,045	7,310,163
Deferred tax liabilities, net	\$(3,831,412)	\$(3,003,771)

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 10. Income Taxes (Continued)

The provision for income taxes differs from the amount computed by applying the federal statutory rate of 35% to income before income taxes as follows:

December 31,	2014	2013	
Consolidated income before taxes	\$ 17,364,544	\$ 43,397,855	
Less: non-taxable entities	16,257,002	44,169,728	
Income before taxes from taxable entities	\$ 1,107,542	\$ (771,873))
Tax based on federal statutory rate	\$ 376,564	\$ (262,437))
Mark to market adjustments	251,388	2,394,521	
Non taxable interest income	(176,917)	(176,948))
State income taxes and other	(14,914)	38,990	
Adjustment to prior year taxes	16,021	(430,104))
Transactional costs	(230,269)	(247,269))
Goodwill	211,075	211,075	
Provision for income taxes	\$ 432,948	\$ 1,527,828	

The Company's insurance subsidiaries have approximately \$4,258,000 in federal net operating loss carryforwards that will expire in 2032, if not used.

Note 11. Employee Profit Sharing Plan

The Company has a profit sharing plan covering substantially all the Company's employees that includes a 401(k) provision which allows employees to contribute salary subject to the maximum contribution allowed by the IRS. The Company matches 50% of the first 6% of employee contributions. Additional contributions may be made at the discretion of the Company. Profit sharing expense approximated \$397,000 and \$360,000 for the years ended December 31, 2014 and 2013, respectively.

Note 12. Members Equity

The Company's capital structure consists of four classes of member common units. All classes of common units, except for Class D common units, share in the profits and losses of the Company and in the distributions of member capital on a pro-rata basis in proportion to total number of such units outstanding. The four classes of member common units are as follows:

Class A common units – These units have voting rights in proportion to the total number of Class A, Class B and Class C common units outstanding. There were 104,530,989 Class A common units issued to members for the value of the contributed assets on June 14, 2012 which remain outstanding as of December 31, 2014 and 2013. Issuance of additional Class A common units in excess of 10% of the fully diluted outstanding units of Class A and Class B common units require the approval of at least 81% of the outstanding Class A common units.

Class B common units – These units have voting rights in proportion to the total number of Class A, Class B and Class C common units outstanding. There were 39,677 Class B common units issued for cash on June 14, 2012. An additional 19,838 Class B common units were issued for cash on October 1, 2012. As of December 31, 2014 and 2013, there are 59,515 Class B common units outstanding.

First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 12. Members Equity (Continued)

Class C common units – These units have voting rights in proportion to the total number of Class A, Class B and Class C common units outstanding. As of December 31, 2014 and 2013, no Class C common units have been issued. These units will be issued upon the conversion of Class D common units.

Class D common units – These units have no voting rights and are unvested upon issuance. Class D common units vest over a ten year period beginning June 15, 2012 at 10% per year. Unvested Class D common units are forfeited upon the termination of the holder's employment for any reason. Each holder of Class D common units has the right to convert such units to Class C common units at a ratio of four Class D common units for one Class C common unit provided that (i) the date of such conversion occurs no earlier than the 10th anniversary of June 15, 2012, (ii) such holder notifies the Company thirty days prior to conversion, and (iii) the internal rate of return as of the most recent fiscal quarter exceeds a pre-defined minimum. On June 14, 2012, the Company entered into employment contracts with two key executives and, in connection therewith, granted these executives 12,941,176 unvested Class D common units with an estimated fair value at date of grant of approximately \$698,000. Compensation expense related to Class D common units approximated \$70,000 annually for the years ended December 31, 2014 and 2013.

Members have no power to vote on any matter except matters on which a vote of units is required pursuant to the Company's Operating Agreement. The Operating Agreement provides for, among other things, limitations on the transfer of member units, rights of first refusal, pre-emptive rights, and certain call and put provisions.

Note 13. Statutory Financial Information of Insurance Subsidiaries

Generally accepted accounting principles (GAAP) differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (Statutory). A reconciliation between net income and stockholder's equity of the Company's insurance subsidiaries as reported under GAAP and Statutory follows as of December 31, 2014 and 2013:

December 31, 2014	Net Income (Loss)	Stockholder's Equity
GAAP basis, including effects of purchase accounting	\$675,196	\$70,929,278
Adjustments to:		
Non-admitted assets	1,600	(46,529)
Accumulated depreciation	—	55,137
Investment securities and related unrealized gains	505,082	(1,783,268)
Deferred acquisition costs	(1,519,537	) (22,147,866)
Goodwill and intangible assets	4,448,554	(33,858,921)
Policy claim reserves and unearned premiums	353,267	(609,083)
Deferred income taxes and income taxes payable	420,711	10,320,919
Asset valuation and interest maintenance reserves	45,596	(107,354)
Statutory Basis	\$4,930,469	\$22,752,313

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 13. Statutory Financial Information of Insurance Subsidiaries (Continued)

December 31, 2013	Net Income (Loss)	Stockholder's Equity
GAAP basis, including effects of purchase accounting	\$(2,299,526	) \$73,033,267
Adjustments to:		
Non-admitted assets	1,600	(50,270)
Reinsurance receivables	—	55,001
Investment securities and related unrealized gains	424,592	(1,223,560)
Deferred acquisition costs	(6,936,756)	(20,628,322)
Goodwill and intangible assets	4,551,165	(38,310,663)
Policy claim reserves and unearned premiums	6,882,516	(1,017,353)
Deferred income taxes and income taxes payable	1,527,828	5,622,722
Asset valuation and interest maintenance reserves	47,587	(168,820)
Statutory Basis	\$4,199,006	\$17,312,002

Under state statutes, each of the insurance subsidiaries is required to maintain minimum capital and surplus of \$1,500,000.

Insurance regulations limit the amount of dividends that may be paid without approval of the insurance subsidiaries' regulatory agency. At December 31, 2014 and 2013, there were no undistributed earnings and surplus available for future distributions as dividends are not permitted, without the prior approval of the State of Mississippi Insurance Department.

The National Association of Insurance Commissioners (NAIC) measures the adequacy of an insurance company's capital by its risk-based capital ratio (the ratio of its total capital, as defined, to its risk-based capital). The requirements provide a measurement of minimum capital appropriate for an insurance company to support its overall business operations based upon its size and risk profile which considers (i) asset risk, (ii) insurance risk, (iii) interest rate risk, and (iv) business risk. An insurance company's risk-based capital is calculated by applying a defined factor to various statutory-based assets, premiums, and reserve items, wherein the factor is higher for items with greater underlying risk.

The State of Mississippi statutes have provided levels of progressively increasing regulatory action for remedies when an insurance company's risk-based capital ratio falls below a ratio of 2:1. As of December 31, 2014 and 2013 (latest information available), the Company's insurance subsidiaries were in compliance with these minimum capital requirements as follows:

December 31, 2014	AFLIC	AFIC
Total adjusted capital	\$10,069,089	\$12,760,517
Authorized control level risk-based capital	722,357	2,522,020
Ratio of adjusted capital to risk based capital	13.9:1	5.1:1
December 31, 2013		
Total adjusted capital	\$8,139,231	\$9,242,097
Authorized control level risk-based capital	646,982	2,959,300
Ratio of adjusted capital to risk based capital	12.6:1	3.1:1

First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 14. Leases

The Company leases office facilities under noncancellable operating leases. Rental expense approximated \$2,182,000 and \$1,909,000 for the years ended December 31, 2014 and 2013, respectively. Future minimum lease payments at December 31, 2014 are as follows:

Fiscal Year 2015	\$1,997,745
Fiscal Year 2016	1,695,391
Fiscal Year 2017	1,323,529
Fiscal Year 2018	774,143
Fiscal Year 2019	256,444
Thereafter	104,153
	\$6,151,405

Note 15. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of finance receivables. Concentrations of credit risk with respect to finance receivables are limited due to the large number of customers comprising the Company's customer base. These finance receivables are mainly from customers located in Mississippi, Louisiana, Alabama, Illinois and Missouri.

At December 31, 2014 and 2013, the Company had funds on deposit with depository and investment institutions in excess of insured limits of approximately \$9,849,000 and \$5,027,000, respectively.

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First Tower Finance Company LLC and Subsidiaries
(formerly First Tower Holdings LLC)

Notes to Consolidated Financial Statements

Note 16. Fair Value Measurements

The fair value measurements by input level at December 31, 2014 and 2013 for assets and liabilities measured at fair value on a recurring basis follow:

December 31, 2014	Total	Level 1	Level 2	Level 3
Trading securities - equity mutual funds	\$1,594,391	\$1,594,391	\$—	\$—
Available-for-sale securities:				
U.S. Government agencies and corporations	7,115,145	6,907,601	207,544	—
Obligations of states and political subdivisions	27,132,906	—	27,132,906	—
Corporate securities	15,812,756	—	15,812,756	—
Residential mortgage-backed securities	779,264	—	779,264	—
Commercial mortgage-backed securities	701,874	—	701,874	—
Other loan-backed and structured securities	400,306	—	400,306	—
	\$53,536,642	\$8,501,992	\$45,034,650	\$—

December 31, 2013

Trading securities - equity mutual funds	\$1,473,768	\$1,473,768	\$—	\$—
Available-for-sale securities:				
U.S. Government agencies and corporations	7,440,515	7,192,739	247,776	—
Obligations of states and political subdivisions	25,860,654	—	25,860,654	—
Corporate securities	14,763,422	—	14,763,422	—
Residential mortgage-backed securities	731,087	—	731,087	—
Commercial mortgage-backed securities	740,973	—	740,973	—
	\$51,010,419	\$8,666,507	\$42,343,912	\$—

Certain assets and liabilities are potentially measured at fair value on a nonrecurring basis (for example, when there is evidence of impairment). In addition, to the assets and liabilities measured at fair value at date of acquisition (see Note 2), assets measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities subject to measurement at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets subject to measurement at fair value for impairment assessment. During the years ended December 31, 2014 and 2013, certain foreclosed real estate assets, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for credit losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. Foreclosed assets measured at fair value upon initial recognition during the year ended December 31, 2014 and 2013 were not material.

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First Tower Finance Company LLC and Subsidiaries
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Notes to Consolidated Financial Statements

Note 17. Disclosures About Fair Value of Financial Instruments

The carrying values and approximate fair values of the Company's financial instruments were as follows:

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 10,906,825	\$ 10,906,825	\$ 5,821,481	\$ 5,821,481
Trading securities	1,594,391	1,594,391	1,473,768	1,473,768
Investment securities available for sale	51,942,251	51,942,251	49,536,651	49,536,651
Finance receivables - net	431,395,397	431,395,397	421,309,663	421,309,663
Financial Liabilities:				
Notes payable	291,497,668	291,497,668	276,900,091	276,900,091
Subordinated notes payable to members	313,844,000	313,844,000	—	—

Certain financial instruments are not carried at fair value in the accompanying consolidated balance sheets, including receivables, payables and accrued liabilities. The carrying amount of financial instruments not carried at fair value is a reasonable estimate of their fair value because of the generally short periods of time in which these related assets or liabilities are expected to be realized or liquidated, and because they do not present unanticipated credit concerns.

The estimated fair values are significantly affected by assumptions used, principally the timing of future cash flows, the discount rate, judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the instrument. Potential tax ramifications related to the realization of unrealized gains and losses that would be incurred in an actual sale and/or settlement have not been taken into consideration.

Note 18. Contingencies

As of December 31, 2014, the Company is involved in various legal actions resulting from normal business activities. Many of these actions do not specify an amount of damages. Also, many of these actions are in very early stages of discovery or discovery has not begun. As a result, legal counsel is unable to provide an estimate of the probability or range of potential exposure. However, based on its experience with lawsuits alleging similar claims, management is of the opinion that the resolution of such actions will not result in a material adverse effect on the consolidated financial statements. Accordingly, with respect to these matters, no provision for loss or liability has been provided in the consolidated financial statements.

The Company's insurance subsidiaries are required by law to participate in the guaranty associations of the various states in which they are licensed to do business. The state guaranty associations ensure payment of guaranteed benefits, with certain restrictions, to policyholders of impaired or insolvent insurance companies by assessing all other companies operating in similar lines of business. As a result, the Company is exposed to undeterminable future assessments resulting from the insolvency of other insurers. For the year ended December 31, 2014, the expenses incurred related to guaranty assessments were minimal.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted into law. This act established the Consumer Financial Protection Bureau ("CFPB") as a federal authority responsible for administering and enforcing the laws and regulations for consumer financial products and services. The legislation does not specifically target installment lending and is specifically prohibited from instituting federal usury interest rate caps. However, it is unclear to what extent the CFPB will impact the future regulation of the industry in which the Company operates.

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HARBORTOUCH PAYMENTS, LLC

FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

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HARBORTOUCH PAYMENTS, LLC

BALANCE SHEET
DECEMBER 31, 2014
UNAUDITED

Assets	
Current assets:	
Cash	\$6,059,898
Accounts receivable, less allowance for doubtful accounts of \$97,820	21,948,820
Loans receivable:	
Employee and agent loans receivable (note 1)	518,303
Related party (note 8)	2,526
Prepaid expenses	404,783
 Total current assets	 28,934,330
 Leasehold improvements, software and equipment:	
At cost, less accumulated depreciation of \$359,169 (notes 1 and 2)	 2,295,582
 Other assets:	
Deposits:	
Lease security	55,978
Processing agent (note 1)	611,064
Promotional equipment not in service	2,498,959
Goodwill (note 1)	204,438,721
Intangible assets (note 3)	199,998,032
 Total other assets	 407,602,754
 Total assets (note 5)	 \$438,832,666

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HARBORTOUCH PAYMENTS, LLC

BALANCE SHEET
DECEMBER 31, 2014
UNAUDITED

Liabilities and Members' Equity

Current liabilities:

Accounts payable:

Trade	\$18,677,815
Related party (note 8)	58,838
Current portion of residual liability (note 9)	397,126
Current portion of long-term debt (note 5)	5,231,202
Deferred revenue (note 4)	2,941,725
Accrued expenses (notes 1 and 10)	6,396,576
Contingent liability (note 3)	1,311,635
 Total current liabilities	 35,014,917
 Residual liability (note 9)	 1,010,974
 Long-term debt (note 5)	 310,819,175
 Deferred revenue (note 4)	 6,964,130
 Contingent liability (note 3)	 1,735,108
 Accrued paid-in-kind interest (note 5)	 5,744,434
 Cumulative preferred distributions (note 11)	 4,455,050
 Members' equity (note 11)	 73,088,878
 Total liabilities and members' equity	 \$438,832,666

See accompanying notes to financial statements

HARBORTOUCH PAYMENTS, LLC

STATEMENT OF OPERATIONS
 FOR THE PERIOD MARCH 27, 2014 (DATE OF INCEPTION)
 THROUGH DECEMBER 31, 2014
 UNAUDITED

Gross revenues	\$205,511,144	
Cost of services	148,584,499	
Selling, general and administrative expenses	69,631,552	
Loss from operations	(12,704,907)
Other income (expense):		
Interest expense (note 5)	(22,428,819)
Transaction costs (notes 1 and 3)	(3,164,429)
Other income (note 4)	352,788	
Interest income	15,484	
Total other income (expense)	(25,224,976)
Net loss	\$(37,929,883)

See accompanying notes to financial statements

Explanation of Responses:

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HARBORTOUCH PAYMENTS, LLC

STATEMENT OF MEMBERS' EQUITY
FOR THE PERIOD MARCH 27, 2014 (DATE OF INCEPTION)
THROUGH DECEMBER 31, 2014
UNAUDITED

Balance - March 27, 2014	\$—	
Capital contributions	121,001,374	
Preferred distributions (note 11)	(9,982,613)
Net loss	(37,929,883)
Balance - December 31, 2014	\$73,088,878	

See accompanying notes to financial statements

HARBORTOUCH PAYMENTS, LLC

STATEMENT OF CASH FLOWS
 FOR THE PERIOD MARCH 27, 2014 (DATE OF INCEPTION)
 THROUGH DECEMBER 31, 2014
 UNAUDITED

Cash flows from operating activities:	
Cash received from customers	\$90,495,302
Cash paid to suppliers and employees	(55,722,862)
Interest paid	(15,856,280)
Interest received	15,484
Net cash provided from operating activities	18,931,644
Cash flows from investing activities:	
Acquisition of substantially all of the assets of MSND, LLC	(34,827,773)
Acquisition of substantially all of the assets of MSI Merchant Holdings, LLC	(148,476,899)
Acquisition of leasehold improvements, software and equipment (net of assets acquired in connection with the acquisition of MSI Merchant Holdings, LLC, United Bank Card, Inc. and United Cash Solutions, Inc.)	(869,116)
Acquisition of deferred origination costs (net of assets acquired in connection with the acquisition of United Bank Card, Inc.)	(5,189,980)
Acquisition of merchant portfolios	(3,977,982)
Increase in employee and agent loans receivable	(183,769)
Increase in accounts payable related party	58,838
Decrease in related party loans receivable	118,633
Net cash used in investing activities	(193,348,048)
Cash flows from financing activities:	
Repayment of debt	(1,694,225)
Proceeds from debt	186,698,090
Contributed capital	1,000,000
Distributions to members	(5,527,563)
Net cash provided from financing activities	180,476,302
Net increase in cash	6,059,898
Cash - March 27, 2014	—
Cash - December 31, 2014	\$6,059,898
See accompanying notes to financial statements	

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HARBORTOUCH PAYMENTS, LLC

STATEMENT OF CASH FLOWS
 FOR THE PERIOD MARCH 27, 2014 (DATE OF INCEPTION)
 THROUGH DECEMBER 31, 2014
 UNAUDITED

Cash flows from operating activities:

Net loss		\$(37,929,883)
Adjustments:			
Depreciation		359,169	
Amortization		45,077,459	
Accrued paid-in-kind interest		5,744,434	
Accrued interest rolled into note balance		828,105	
Changes in assets and liabilities (net of assets acquired and liabilities assumed in connection with the transaction with MSI Merchant Services Holding, LLC, MSND, LLC, United Bank Card, Inc., United Cash Solutions, Inc. and Harbortouch Financial, LLC):			
Increase in accounts receivable		(18,345)
Increase in prepaid expenses		(110,838)
Decrease in processing agent deposit		501,541	
Decrease in promotional equipment not in service		179,222	
Increase in accounts payable		1,647,600	
Decrease in accrued expenses		(2,612,019)
Decrease in residual liability		(130,120)
Decrease in sweepstakes liability		(23,018)
Increase in deferred revenue		5,680,644	
Decrease in contingent liability		(262,307)
Total adjustments		56,861,527	
Net cash provided from operating activities		\$ 18,931,644	

See accompanying notes to financial statements

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Business

Harbortouch Payments, LLC (the "Company") was formed in the State of New Jersey on March 27, 2014. The Company was formed for the purpose of purchasing substantially all of the assets of MSDN Financial, LLC and the outstanding members' interests in MSI Service Holding, LLC along with a contribution of all of the assets and liabilities of United Bank Card, Inc. The transactions were effective March 31, 2014 and the Company began operations at that time.

Harbortouch Payments, LLC provides point-of sale solutions and card-based payment processing services to business merchants located throughout the United States. The Company's facilities are located in Allentown, Pennsylvania and Morrisville, North Carolina.

Cash

The Company maintains its cash with high credit quality financial institutions. The total cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. At December 31, 2014, approximately \$6,500,000 was in excess of the FDIC insurance limits.

Accounts Receivable

Accounts receivable are primarily comprised of amounts due from the Company's processors from revenues earned, net of related interchange and processing fees. The receivables are typically received within 15-20 days following the end of each month. Accounts are considered past due when payments exceed normal customer payment periods.

Amounts deemed uncollectible are written-off in the period that determination is made. As of December 31, 2014, an allowance of \$97,820 was recorded.

Employee and Agent Loans Receivable

The Company periodically advances money to agents and employees. The advances at December 31, 2014 amounted to \$518,303. The advances are classified as short-term and are deemed fully collectible.

Leasehold Improvements, Software and Equipment

Leasehold improvements, software and equipment are recorded at cost. The Company's policy is to depreciate all leasehold improvements and equipment using the straight-line depreciation method over the estimated useful lives of the assets. Useful lives range from three to fifteen years.

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 1 - Nature of Business and Significant Accounting Policies

Promotional Equipment Not in Service

Promotional equipment not in service represents credit and debit card terminals, point-of-sale systems and electronic cash registers on hand. These items are deployed to merchants under the Company's free equipment program to merchants as new merchant contracts are signed.

Business Combination and Goodwill

Effective April 1, 2014, the Company entered into an asset purchase agreement to acquire substantially all of the assets of MSND Financial, LLC and a membership purchase agreement to acquire all of the outstanding membership interests in MSI Services Holdings, LLC for a total purchase price of \$203,670,174, comprised of \$183,304,672 in cash and a \$20,365,502 seller note payable (fair value of \$22,170,000). In addition all of the outstanding equity in United Bank Card, Inc., United Cash Solutions, Inc. and HarborTouch Financial, LLC were contributed to the Company for 46.5% ownership. The Company accounted for this acquisition under the purchase method of accounting. The following is the condensed summary of the assets and liabilities acquired:

Current assets	\$20,818,125	
Other Assets	3,836,264	
Deployed equipment	8,910,000	
Fixed assets	1,490,000	
 Total assets	 35,054,389	
 Liabilities	 46,388,818	
 Net assets acquired	 (11,334,429)
 Cash purchase price	 183,304,672	
Seller note payable	22,170,000	
Fair value of United Bank Card, Inc.	198,895,686	
 Total purchase price	 404,370,358	

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 1 - Nature of Business and Significant Accounting Policies

Business Combination and Goodwill

Purchase price in excess of fair value of net assets acquired before the allocation of identified intangible assets	\$415,704,787
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Merchant relationships	\$101,370,000
Developed technology	70,230,000
Trademarks/ Tradenames	18,930,000
Non-competition agreements	3,080,000
In-process research and development	920,000
Leasehold interests	160,000
Goodwill	221,014,787

Total	415,704,787
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The Company has elected to early adopt Accounting Standards Update No. 2014-02, allowing for amortization of existing goodwill over a period of 10 years resulting in recognition of goodwill amortization. Amortization is computed using the straight-line method. At December 31, 2014, accumulated amortization related to goodwill amounted to \$16,576,109.

As of December 31, 2014, estimated amortization expense for goodwill for each of the five succeeding years is as follows:

Year Ending

December 31st:

2015	\$22,101,479
2016	22,101,479
2017	22,101,479
2018	22,101,479
2019	22,101,479

The Company incurred transaction costs totaling \$2,897,266 related to this acquisition which are included in net loss.

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 1 - Nature of Business and Significant Accounting Policies

Impairment of Long-Lived Assets

The Company periodically evaluates the carrying value of long-lived assets, in relation to the respective projected future undiscounted cash flows, to assess recoverability. An impairment loss is recognized if the sum of the expected net cash flows is less than the carrying amount of the long-lived assets being evaluated. The difference between the carrying amount of the long-lived assets being evaluated and the fair value, calculated as the sum of the expected cash flows discounted at a market rate, represents the impairment loss.

Reserve for Losses on Merchant Accounts

Disputes between a cardholder and a merchant periodically arise as a result of, among other things, cardholder dissatisfaction with either merchandise quality of merchant services, non-delivery of goods or non-performance of services. Such disputes may not be resolved in the merchant's favor. In these cases, the transaction is "charged back" to the merchant, which means the disputed amount is refunded to the customer through the merchant's acquiring bank and charged to the merchant. If the merchant has inadequate funds, the Company or under limited circumstances, the Company and the acquiring bank, must bear the credit risk for the full amount of the transaction.

The Company maintains deposits from certain merchants as an offset to potential contingent liabilities that are the responsibility of such merchants. The total amount of merchant deposits included in accrued expenses as of December 31, 2014 is \$10,000. In addition, the Company's sponsorship banks hold merchant funds that are available to meet merchant chargeback liabilities if the merchant has inadequate funds to meet the obligation. Total merchant funds held at the Company's sponsorship banks totaled approximately \$2,823,000 as of December 31, 2014. The Company records a reserve for potential chargeback losses. At December 31, 2014, the reserve for losses on merchant accounts included in accrued expenses totaled \$58,216. The Company's transaction processors require the Company to maintain deposits. At December 31, 2014, the total amount of the Company's funds held at transaction processors and included in other assets was \$611,064.

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 1 - Nature of Business and Significant Accounting Policies

Revenue Recognition and Deferred Revenue

Company revenues are generated from recurring point-of-sale service fees to merchants, as well as fees for card-based payment processing services. Point-of-sale fees are based on the type and quantity of equipment deployed to the merchant, while card-based fees are based on a percentage of sales and the number of transactions processed each month. The Company reports revenues at the time of sale on a gross basis equal to the full amount of the fees charged to the merchant. Revenue is also derived from miscellaneous service fees, including monthly minimum, statement fees, annual fees and other miscellaneous services.

Annual and other fees that relate to multiple months are deferred and recognized as revenue over the respective period the fee covers which is one year or less.

The Company follows the requirements of FASB ASC 605-45-45, Reporting Revenue Gross as a Principal Versus Net as an Agent, in determining revenue reporting. Generally, where the Company has credit risk and ultimate responsibility for the merchant, revenues are reported at the time of sale on a gross basis equal to the full amount of the discount charged to the merchant. This amount includes interchange paid to card issuing banks and assessments paid to credit card companies pursuant to which such parties receive payments based primarily on processing volume for particular groups of merchants. Interchange fees are set by Visa and MasterCard and are based on transaction processing volume and are recognized at the time transactions are processed.

Income Taxes

The Company is organized as a limited liability company in accordance with New Jersey. A limited liability company is not subject to tax in accordance with partnership tax rules. Therefore, there will be no provision for income taxes for this entity since income is taxed on the individual member level.

The Company evaluates uncertain tax positions in accordance with generally accepted accounting principles. The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2014.

Advertising Costs

The Company expenses advertising costs as incurred. For the period March 27, 2014 (date of inception) through December 31, 2014 advertising costs were \$885,323.

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 1 - Nature of Business and Significant Accounting Policies

Concentrations

The majority of the Company's merchant processing activity has been processed by two vendors. The Company believes that these vendors maintain appropriate backup systems and alternative arrangements to avoid a significant disruption of the processing in the event of an unforeseen event.

A majority of the Company's revenue is derived from processing Visa and MasterCard bank card transactions. Because the Company is not a "member bank" as defined by Visa and MasterCard, in order to process these bank card transactions the Company has entered into a sponsorship agreement with a bank. The agreement with the bank sponsor requires, among other things, that the Company abide by the by-laws and regulations of the Visa and MasterCard companies. If the Company breaches the sponsorship agreements, the bank sponsor may terminate the agreement and, under the terms of the agreement, the Company would have 180 days to identify an alternative bank sponsor. The Company is dependent on its bank sponsor, Visa and MasterCard for notification of any compliance breaches.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 2 - Leasehold Improvements, Software and Equipment

The principal categories of leasehold improvements, software and equipment may be summarized as follows:

Leasehold improvements	\$722,830
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Office equipment	359,735
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Capital lease office equipment	293,139
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Software	1,002,212
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Office furniture and fixtures	276,835
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Total cost	2,654,751
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Less accumulated depreciation	359,169
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Undepreciated cost	\$2,295,582
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Depreciation expense for the period March 27, 2014 (date of inception) through December 31, 2014 amounted to \$359,169.

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 3 - Intangible Assets and Contingent Liability

Intangible assets consist of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Amortization Life
Merchant relationships	\$101,370,000	\$12,671,250	\$88,698,750	72 Months
Developed technology	70,230,000	5,267,250	64,962,750	120 Months
Trademarks & tradenames	18,930,000	2,839,500	16,090,500	60 Months
Non-Compete agreements	3,080,000	1,155,000	1,925,000	24 Months
In process research and development	920,000	69,000	851,000	120 Months
Leasehold interest	160,000	6,900	153,100	210 Months
Merchant portfolios	16,564,898	1,432,917	15,131,981	36-60 Months
Deferred origination costs	14,099,980	4,640,756	9,459,224	36-60 Months
Loan closing costs	3,144,547	418,820	2,725,727	60 Months
Total	\$228,499,425	\$28,501,393	\$199,998,032	

As of December 31, 2014, estimated amortization expense for intangible assets for each of the five succeeding years is as follows:

Year Ending

December 31st:

2015	\$37,757,887
2016	36,312,741
2017	34,695,217
2018	31,052,269
2019	26,028,853

Amortization expense for other intangible assets totaled \$28,501,393 for the period March 27, 2014 (date of inception) through December 31, 2014.

Estimated future amortization expense is based on intangible amounts recorded as of December 31, 2014. Actual amounts will increase if additional amortizable assets are acquired.

The Company incurred transaction costs totaling \$267,163 related to the acquisition of the merchant portfolio's acquisition which are included in net loss.

The Company has recorded \$3,046,743 in contingent liability in relation to the purchase of the merchant portfolios above. Payments of these contingent obligations depend on attrition rates and other financial metrics within the respective merchant portfolios.

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 4 - Deferred Revenue

The Company charges merchants annual and PCI fees. These fees related to period of up to one year. The Company defers these and recognizes revenue on them over the period they are respective period earned. As of December 31, 2014, the Company had a total of \$1,730,572 in deferred revenue relating to annual and PCI fees. The Company recognized a total of approximately \$4,982,239 in revenue is recognized on annual and PCI fees for the period March 27, 2014 (date of inception) through December 31, 2014.

As of December 31, 2014, estimated service contract revenue to be recognized for the next year is \$1,730,572.

The Company received a signing bonus as an inducement to enter into a processing agreement. The Company has deferred this revenue and recognizes it over the period of the processing agreement which is seven years. As of December 31, 2014, the Company had a total of \$8,175,283 in deferred revenue relating to deferred signing bonus. The Company also received a one-time payment of \$50,000 for damages caused by the processors system conversion disruptions. A total of \$352,788 in revenue was recognized for signing bonus and damages income for the period March 27, 2014 (date of inception) through December 31, 2014, which is included in other income.

As of December 31, 2014, estimated signing bonus revenue to be recognized for each of the five succeeding years and thereafter is as follows:

Year Ending

December 31st:

2015	\$1,211,153
2016	1,211,153
2017	1,211,153
2018	1,211,153
2019	1,211,153
Thereafter	2,119,518

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 5 - Long-Term Debt

Note payable to finance company, quarterly excess cash flow principal payments based on set formula, monthly interest only payments with interest at the greater of 9% or the applicable term loan margin plus the greater of LIBOR or 2% (9% as of December 31, 2014), due September 2017, secured by all assets of the Company and guaranteed by Rook Holdings, Inc.

130,391,816

Convertible debt to finance company, interest only at the greater of 5.5% or the applicable term loan margin plus the greater of LIBOR or 4% (5.5% as of December 31, 2014) plus 5.5% accrued paid in kind, convertible into 535 units of class A equity, due March 2018, secured by all assets of the Company and guaranteed by Rook Holdings, Inc.

137,226,025

Note payable to finance company, monthly excess cash flow principal payments based on set formula, monthly interest only payments with interest at the greater of 13% or the applicable term loan margin plus the greater of LIBOR or 4% (13% as of December 31, 2014), due September 2018, secured by all assets of the Company and guaranteed by Rook Holdings, Inc.

25,196,292

Subordinated seller note payable to former owners of MSI Merchant Services Holdings, LLC and MSND Financials, LLC, interest accrues at 4.85% (face of note at 7%) and compounds semiannually, due March 2018, secured by all assets of the Company

22,998,105

Total this page

315,812,238

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 5 - Long-Term Debt

Total from previous page	\$315,812,238
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Capital lease payable to financial institution, monthly payment of \$7,671, including interest at 2.86%, due September 2017, secured by phone system with a net book value of \$249,168	238,139
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Total	316,050,377
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Less current portion of long-term debt	5,231,202
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Total debt reflected as long-term	\$310,819,175
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The amounts of long-term debt coming due during the four years ending December 31, 2018 are as follows:

2015	\$5,231,202
2016	5,238,716
2017	130,960,036
2018	174,620,423

Interest expense for the period March 27, 2014 (date of inception) through December 31, 2014 amounted to \$22,428,819.

The Company has agreed to certain loan covenants, including the maintenance of certain financial ratios and restrictions on the level of distributions.

As of December 31, 2014, the Company had a total of \$5,744,434 in accrued paid-in-kind interest.

Note 6 - Employee Benefit Plan

The Company maintains a defined contribution plan under Section 401(k) of the Internal Revenue Code covering full-time employees who meet minimum age and service requirements. The provisions of the plan include a corporate discretionary profit-sharing contribution to the plan. There were no discretionary profit-sharing contributions to the plan for the period March 27, 2014 (date of inception) through December 31, 2014.

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 7 - Operating Leases

The Company leases its facilities under noncancellable agreements which expire at various dates through December 2018 and require monthly lease payments of \$62,017 plus the payment of repairs, maintenance, taxes and insurance. In addition, the Company rents additional warehouse space under month-to-month lease agreements and rents a corporate jet from a related party, see Note 8.

The following are the future minimum rental payments required under the operating leases as of December 31, 2014:

Year Ending

December 31st:

2015	\$752,227
2016	764,932
2017	561,770
2018	340,990

Total future minimum payments required	2,419,919
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Total rental expense included in the determination of net earnings for the period March 27, 2014 (date of inception) through December 31, 2014 amounted to \$817,672.

Note 8 - Related Party Transactions

The Company leases an airplane on a month-to-month basis from the shareholder of the Company. Total expense for this lease amounted to \$270,000 for the period March 27, 2014 (date of inception) through December 31, 2014.

The Company pays management fees to its shareholders. A total expense for management fees to related parties amounted to \$712,500 for the period March 27, 2014 (date of inception) through December 31, 2014.

The Company has a loan receivable from a related party, related through common control. The loan is unsecured and has no repayment terms and is non-interest bearing. The balance due under this loan receivable was \$2,526 as of December 31, 2014.

The Company has accounts payable to a related party, related through common control. The balance due as of December 31, 2014 amounted to \$58,838.

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 9 - Residual Liability

In connection with the Company's sale of the future cash flow rights for its merchant contracts done in prior years, the Company is obligated to pay residual commissions to sales agents on the income from those merchants. The Company recorded the present value of the liability using a discount rate of 13.2%. The residual liability as of December 31, 2014 amounted to \$1,408,100.

The expected amounts of residual liability payments coming due during the five years ending December 31, 2019 and thereafter are as follows:

2015	\$ 397,126
2016	368,701
2017	263,294
2018	166,033
2019	103,735
Thereafter	114,211

Note 10 - Litigation

Various legal claims arise from time-to-time in the normal course of business, which, in the opinion of management, will not have a material impact on the Company. As of December 31, 2014 a total of \$1,297,847 was accrued for legal settlements and included in accrued expenses.

Note 11 - Members' Equity

The Company has four classes of member's interests. All classes of member's interest earn a preferred return of 11% for which any unpaid balances accrue. Class C and class D member's interest contain voting rights while class A and B contain no voting rights.

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HARBORTOUCH PAYMENTS, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

UNAUDITED

Note 12 - Supplemental Cash Flow Information

During the period March 27, 2014 (date of inception) through December 31, 2014, the Company had the following non-cash transactions.

Deferred revenue of \$16,192,134, a merchant portfolio of \$12,429,011, loan closing costs of \$528,619 and transaction fees of \$185,913 were acquired with the assumption of \$283,591 in liabilities, a contingent liability of \$2,621,145 and term-debt of \$26,430,941.

Equipment of \$293,139 was acquired with a capital lease payable.

MSND, LLC and MSI Merchant Holdings, LLC were acquired with \$22,170,000 in sellers note payable.

Merchant portfolios were acquired with \$157,905 in contingent liabilities.

Term-debt of \$23,894,312 and distributions of \$55,000,000 were funded with \$78,894,312 in term-debt.

Contributed capital of \$120,001,374 was received in exchange for the assets and liabilities of United Bank Card, Inc., United Cash Solutions, Inc. and HarborTouch Financial, LLC.

Loan closing costs of \$2,615,928 was acquired with term-debt.

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PROSPECTUS SUPPLEMENT

February 11, 2016

Incapital LLC
BofA Merrill Lynch
Citigroup
RBC Capital Markets