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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from _____ to _____.

COMMISSION FILE NUMBER: 000-26489

ENCORE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**48-1090909**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
3111 Camino Del Rio North, Suite 1300 San Diego, California	**92108**
(Address of principal executive offices)	**(Zip code)**

(877) 445 - 4581
(Registrant's telephone number, including area code)

(Not Applicable)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer x Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding at April 29, 2014**
Common Stock, $0.01 par value	25,707,533 shares

ENCORE CAPITAL GROUP, INC.
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PART I – FINANCIAL INFORMATION
Item 1—Condensed Consolidated Financial Statements (Unaudited)

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Financial Condition
(In Thousands, Except Par Value Amounts)
(Unaudited)

	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 196,389	$ 126,213
Investment in receivable portfolios, net	1,904,030	1,590,249
Deferred court costs, net	42,679	41,219
Receivables secured by property tax liens, net	209,455	212,814
Property and equipment, net	55,879	55,783
Other assets	181,697	154,783
Goodwill	844,567	504,213
Total assets[1]	$ 3,434,696	$ 2,685,274
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 124,803	$ 137,272
Debt	2,612,133	1,850,431
Other liabilities	99,469	95,100
Total liabilities[1]	2,836,405	2,082,803
Commitments and contingencies		
Redeemable noncontrolling interest	26,434	26,564
Redeemable equity component of convertible senior notes	11,176	—
Stockholders' equity:		
Convertible preferred stock, $.01 par value, 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.01 par value, 50,000 shares authorized, 25,681 shares and 25,457 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	257	255
Additional paid-in capital	132,290	171,819
Accumulated earnings	417,808	394,628
Accumulated other comprehensive gain	6,932	5,195
Total Encore Capital Group, Inc. stockholders' equity	557,287	571,897
Noncontrolling interest	3,394	4,010
Total stockholders' equity	560,681	575,907
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$ 3,434,696	$ 2,685,274

(1) The Company's consolidated assets as of March 31, 2014 and December 31, 2013 included $1,857,406 and $1,106,538, respectively, of assets from its variable interest entity, or VIE, that can only be used to settle obligations of the VIE. These assets include cash and cash equivalents of $95,109 and $62,403 as of March 31, 2014 and December 31, 2013, respectively; investment in receivable portfolios, net, of $954,147 and $620,312 as of March 31, 2014 and December 31, 2013, respectively, deferred court costs, net of $854 and zero as of March 31, 2014 and December 31, 2013, respectively; property and equipment, net, of $15,034 and $13,755 as of March 31, 2014 and December 31, 2013, respectively; other assets of $78,812 and $33,772 as of March 31, 2014 and December 31, 2013, respectively; and goodwill of $713,450 and $376,296 as of March 31, 2014 and December 31, 2013, respectively. The Company's consolidated liabilities as of March 31, 2014 and December 31, 2013, included $1,647,157 and $895,792, respectively, of liabilities of its VIE, whose creditors have no recourse to the Company. These liabilities include accounts payable and accrued liabilities of $53,817 and $47,219 as of March 31, 2014 and December 31, 2013, respectively; debt of $1,586,259 and $846,676 as of March 31, 2014 and December 31, 2013, respectively; and other liabilities of $7,081 and $1,897 as of March 31, 2014 and December 31, 2013, respectively. See further details of the assets and liabilities of the Company's VIE in Note 10, "Variable Interest Entity."

See accompanying notes to condensed consolidated financial statements

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Income

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended March 31,	
	2014	**2013**
Revenues		
Revenue from receivable portfolios, net	$ 237,568	$ 140,683
Other revenues	11,349	301
Net interest income	4,824	3,602
Total revenues	253,741	144,586
Operating expenses		
Salaries and employee benefits	58,137	28,832
Cost of legal collections	49,825	42,258
Other operating expenses	26,423	13,265
Collection agency commissions	8,276	3,329
General and administrative expenses	36,694	16,342
Depreciation and amortization	6,117	1,846
Total operating expenses	185,472	105,872
Income from operations	68,269	38,714
Other (expense) income		
Interest expense	(37,962)	(6,854)
Other income	265	159
Total other expense	(37,697)	(6,695)
Income before income taxes	30,572	32,019
Provision for income taxes	(11,742)	(12,571)
Net income	18,830	19,448
Net loss attributable to noncontrolling interest	4,350	—
Net income attributable to Encore Capital Group, Inc. stockholders	$ 23,180	$ 19,448
Earnings per share attributable to Encore Capital Group, Inc.:		
Basic	$ 0.90	$ 0.83
Diluted	$ 0.82	$ 0.80
Weighted average shares outstanding:		
Basic	25,749	23,446
Diluted	28,196	24,414

See accompanying notes to condensed consolidated financial statements

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, In Thousands)

	Three Months Ended March 31,	
	2014	**2013**
Net income	$ 18,830	$ 19,448
Other comprehensive gain (loss), net of tax:		
Unrealized gain on derivative instruments	1,588	620
Unrealized gain (loss) on foreign currency translation	149	(114)
Other comprehensive gain, net of tax	1,737	506
Comprehensive income	20,567	19,954
Comprehensive loss attributable to noncontrolling interest:		
Net loss	4,350	—
Unrealized loss on foreign currency translation	148	—
Comprehensive loss attributable to noncontrolling interests	4,498	—
Comprehensive income attributable to Encore Capital Group, Inc. stockholders	$ 25,065	$ 19,954

See accompanying notes to condensed consolidated financial statements

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited, In Thousands)

	Three Months Ended March 31,	
	2014	**2013**
Operating activities:		
Net income	$ 18,830	$ 19,448
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,117	1,846
Other non-cash interest expense	5,254	1,517
Stock-based compensation expense	4,836	3,001
Deferred income taxes	4,767	207
Excess tax benefit from stock-based payment arrangements	(2,629)	(983)
Reversal of allowances on receivable portfolios, net	(3,230)	(1,006)
Changes in operating assets and liabilities		
Deferred court costs and other assets	(15,213)	(1,671)
Prepaid income tax and income taxes payable	3,123	4,314
Accounts payable, accrued liabilities and other liabilities	(24,446)	(2,980)
Net cash (used in) provided by operating activities	(2,591)	23,693
Investing activities:		
Cash paid for acquisition, net of cash acquired	(257,726)	—
Purchases of receivable portfolios, net of put-backs	(257,175)	(57,893)
Collections applied to investment in receivable portfolios, net	161,927	130,493
Originations and purchases of receivables secured by tax liens	(19,123)	(27,446)
Collections applied to receivables secured by tax liens	22,085	11,812
Purchases of property and equipment	(2,978)	(2,315)
Net cash (used in) provided by investing activities	(352,990)	54,651
Financing activities:		
Payment of loan costs	(14,222)	(2,340)
Proceeds from credit facilities	457,266	33,741
Repayment of credit facilities	(447,045)	(91,800)
Proceeds from senior secured notes	288,645	—
Repayment of senior secured notes	(3,750)	(2,500)
Proceeds from issuance of convertible senior notes	161,000	—
Proceeds from issuance of preferred equity certificates	18,864	—
Repayment of preferred equity certificates	(4,537)	—
Purchases of convertible hedge instruments	(33,576)	—
Proceeds from exercise of stock options	1,214	846
Taxes paid related to net share settlement of equity awards	(5,244)	(2,872)
Excess tax benefit from stock-based payment arrangements	2,629	983
Other, net	(391)	(2,008)
Net cash provided by (used in) financing activities	420,853	(65,950)
Net increase in cash and cash equivalents	65,272	12,394
Effect of exchange rate changes on cash	4,904	—
Cash and cash equivalents, beginning of period	126,213	17,510
Cash and cash equivalents, end of period	$ 196,389	$ 29,904
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 41,130	$ 5,485
Cash paid for income taxes	6,103	7,520
Supplemental schedule of non-cash investing and financing activities:		
Fixed assets acquired through capital lease	$ 1,169	$ 674

See accompanying notes to condensed consolidated financial statements

ENCORE CAPITAL GROUP, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1: Ownership, Description of Business, and Summary of Significant Accounting Policies

Encore Capital Group, Inc. ("Encore"), through its subsidiaries (collectively, the "Company"), is an international specialty finance company providing debt recovery solutions for consumers and property owners across a broad range of financial assets. The Company purchases portfolios of defaulted consumer receivables at deep discounts to face value and manages them by partnering with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers' unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies, commercial retailers, and telecommunication companies. Defaulted receivables may also include receivables subject to bankruptcy proceedings. Encore, through certain subsidiaries, is a market leader in portfolio purchasing and recovery in the United States. Encore's subsidiary, Janus Holdings Luxembourg S.a.r.l. ("Janus Holdings"), through its indirectly held United Kingdom-based subsidiary Cabot Credit Management Limited ("Cabot"), is a market leader in debt management in the United Kingdom, historically specializing in higher balance, semi-performing accounts. Cabot's February 2014 acquisition of Marlin Financial Group Limited ("Marlin") now also provides Cabot with substantial litigation-enhanced collections capabilities for non-performing accounts. Encore's majority-owned subsidiary, Refinancia S.A. ("Refinancia"), through its subsidiaries, is a market leader in debt collection and management in Colombia and Peru. In addition, through Encore's subsidiary, Propel Financial Services, LLC ("Propel"), the Company assists Texas and Nevada property owners who are delinquent on their property taxes by paying these taxes on behalf of the property owners in exchange for payment agreements collateralized by the existing tax liens on the property. Propel also acquires tax liens directly from taxing authorities outside of Texas and Nevada.

Portfolio Purchasing and Recovery

United States. The Company purchases receivable portfolios based on robust, account-level valuation methods and employs a suite of proprietary statistical and behavioral models across the full extent of its operations. These investments allow the Company to value portfolios accurately (and limit the risk of overpaying), avoid buying portfolios that are incompatible with its methods or goals and precisely align the accounts it purchases with its operational channels to maximize future collections. As a result, the Company has been able to realize significant returns from the receivables it acquires. The Company maintains strong relationships with many of the largest credit and telecommunication providers, and possesses one of the industry's best collection staff retention rates.

The Company uses insights discovered during its purchasing process to build account collection strategies. The Company's proprietary consumer-level collectability analysis is the primary determinant of whether an account will be actively serviced post-purchase. The Company continuously refines this analysis to determine the most effective collection strategy to pursue for each account it owns. After the Company's preliminary analysis, it seeks to collect on only a fraction of the accounts it purchases, through one or more of its collection channels. The channel identification process is analogous to a funneling system, where the Company first differentiates those consumers who it believes are not able to pay from those who are able to pay. Consumers who the Company believes are financially incapable of making any payments, facing extenuating circumstances or hardships (such as medical issues), serving in the military, or currently receiving social security as their only source of income are excluded from the next step of its collection process and are designated as inactive. The remaining pool of accounts in the funnel then receives further evaluation. At that point, the Company analyzes and determines a consumer's perceived willingness to pay. Based on that analysis, the Company will pursue collections through letters and/or phone calls to its consumers. Despite its efforts to reach consumers and work out a settlement option, only a small number of consumers who are contacted choose to engage with the Company. Those who do are often offered deep discounts on their obligations, or are presented with payment plans that are better suited to meet their daily cash flow needs. The majority of contacted consumers, however, ignore both the Company's calls and letters, and therefore the Company must then make the difficult decision whether or not to pursue collections through legal means.

The Company continually monitors applicable changes to laws governing statutes of limitations and disclosures to consumers. The Company maintains policies, system controls, and processes designed to ensure that accounts past the applicable statute of limitations do not get placed into legal collections. Additionally, in written and verbal communications with consumers, the Company provides disclosures to the consumer that the account is past its applicable statute of limitations and, therefore, the Company will not pursue collections through legal means.

United Kingdom. Through Cabot, portfolio receivables are purchased using a proprietary pricing model. This model allows Cabot to value portfolios with a high degree of accuracy and quantify portfolio performance in order to maximize future collections. As a result, Cabot has been able to realize significant returns from the assets it has acquired. Cabot maintains strong relationships with many of the largest financial service providers in the United Kingdom.

Cabot also uses insights discovered during its purchasing process to build account collection strategies. Cabot's proprietary consumer-level collectability analysis is the primary determinant of how an account will be serviced post-purchase. Cabot continuously refines this analysis to determine the most effective collection strategy to pursue for each account it owns. In recent years, Cabot has concentrated on buying portfolios that are defined as semi-performing, in which over 50% of the accounts in a portfolio have made a payment in three of the last four months immediately prior to the portfolio purchase. Cabot will try to establish contact with these consumers, in order to transfer payment arrangements and gauge the willingness of these consumers to pay. Consumers who Cabot believes are financially incapable of making any payments, those having negative disposable income, or those experiencing hardships (such as medical issues or mental incapacity), are managed outside of normal collection routines.

The remaining pool of accounts then receives further evaluation. Cabot analyzes and estimates a consumer's perceived willingness to pay. Based on that analysis, Cabot pursues collections through letters and/or phone calls to its consumers. Where contact is made and consumers indicate a willingness to pay, a patient approach of forbearance is applied using regulatory protocols within the United Kingdom to assess affordability and ensure that plans are fair and balanced and therefore, sustainable.

Where consumers are not locatable or refuse to engage in a constructive dialogue, Cabot will pass these accounts through a litigation scorecard and rule set in order to assess suitability for legal action. Through Cabot's newly acquired subsidiary, Marlin, a leading acquirer of non-performing consumer debt in the United Kingdom, Cabot is able to take competitive advantage in the use of litigation-enhanced collections for non-paying financial services receivables.

Colombia and Peru. Refinancia is a market leader in the management of non-performing loans in Colombia and Peru. In addition to purchasing defaulted receivables, Refinancia offers portfolio management services to banks for non-performing loans. Refinancia also specializes in non-traditional niches in the geographic areas in which it operates, including providing financial solutions to individuals with defaulted credit records, payment plan guarantee services through merchants and loan guarantee services to financial institutions.

Tax Lien Business

Propel's principal activities are the acquisition and servicing of residential and commercial tax liens on real property. These liens take priority over most other liens. By funding tax liens, Propel provides state and local taxing authorities and governments with much needed tax revenue. To the extent permitted by local law, Propel works with property owners to structure affordable payment plans designed to allow them to keep their property while paying their property tax obligation over time. Propel maintains a foreclosure rate of less than one-half of one percent.

Propel's receivables secured by property tax liens include Texas tax liens, Nevada tax liens, and tax lien certificates in various other states (collectively, "Tax Liens"). With Texas and Nevada Tax Liens, Texas or Nevada property owners choose to have the taxing authority transfer their tax lien to Propel. Propel pays their tax lien obligation to the taxing authority and the property owner pays Propel over time at a lower interest rate than would be assessed by the taxing authority. Propel's arrangements with Texas and Nevada property owners provide them with repayment plans that are both affordable and flexible when compared with other payment options. Propel also purchases Tax Liens in various other states directly from taxing authorities, securing rights to future property tax payments, interest and penalties. In most cases, such Tax Liens continue to be serviced by the taxing authority. When the taxing authority is paid, it repays Propel the outstanding balance of the lien plus interest, which is established by statute or negotiated at the time of the purchase.

Financial Statement Preparation and Presentation

The accompanying interim condensed consolidated financial statements have been prepared by Encore, without audit, in accordance with the instructions to the Quarterly Report on Form 10-Q, and Rule 10-01 of Regulation S-X promulgated by the United States Securities and Exchange Commission (the "SEC") and, therefore, do not include all information and footnotes necessary for a fair presentation of its consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States ("GAAP").

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the Company's consolidated financial position, results of operations, and cash flows. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company's financial statements and the accompanying notes. Actual results could materially differ from those estimates.

Basis of Consolidation

The consolidated financial statements have been prepared in conformity with GAAP, and reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. The Company also consolidates Variable Interest Entities ("VIE"), for which it is the primary beneficiary. The primary beneficiary has both (a) the power to direct the activities of the VIE that most significantly affect the entity's economic performance, and (b) the obligation to absorb losses or the right to receive benefits. The Company has determined that its less than wholly-owned subsidiary Janus Holdings is a VIE, and the Company is the primary beneficiary of the VIE. As a result, the financial results of Janus Holdings are consolidated under the VIE consolidation model. Refer to Note 10, "Variable Interest Entity," for further details. The Company evaluates its relationships with the VIE on an ongoing basis to ensure that it continues to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

On June 13, 2013, the Company completed its merger with Asset Acceptance Capital Corp. ("AACC"), on July 1, 2013, the Company completed its acquisition of Cabot and on February 7, 2014, Cabot completed the acquisition of Marlin. The condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2013 do not include the results of operations of AACC or the results of operations of Cabot's parent Company, Janus Holdings, as these acquisitions were not completed until after March 31, 2013. Refer to Note 2, "Business Combinations," for further details.

Translation of Foreign Currencies

The financial statements of certain of the Company's foreign subsidiaries are measured using their local currency as the functional currency. Assets and liabilities are translated as of the end of the balance sheet date and revenue and expenses are translated at an average rate over the period. Currency translation adjustments are recorded as a component of other comprehensive income. Transaction gains and losses are included in other (expense) income.

Reclassifications

Certain reclassifications have been made to the condensed consolidated financial statements to conform to the current year's presentation.

Note 2: Business Combinations

AACC Merger

On June 13, 2013, the Company completed its merger with AACC (the "AACC Merger"), a leading provider of debt management and recovery solutions in the United States. The purchase price consisted of $150.8 million in cash consideration and 1.7 million shares of Encore common stock valued at $37.30 per share. In addition, the Company paid off approximately $165.7 million of AACC debt on the closing date of the AACC Merger.

The AACC Merger was accounted for using the acquisition method of accounting and, accordingly, the tangible and intangible assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of the merger. Fair value measurements have been applied based on assumptions that market participants would use in the pricing of the respective assets and liabilities.

The components of the purchase price allocation for the AACC Merger are as follows (*in thousands*):

Purchase price:		
Cash paid at acquisition	$	316,485
Stock consideration		62,352
Total purchase price	$	378,837
Allocation of purchase price:		
Cash	$	23,156
Investment in receivable portfolios		383,382
Deferred court costs		6,940
Property and equipment		11,003
Other assets		16,004
Liabilities assumed		(126,059)
Identifiable intangible assets		1,470
Goodwill		62,941
Total net assets acquired	$	378,837

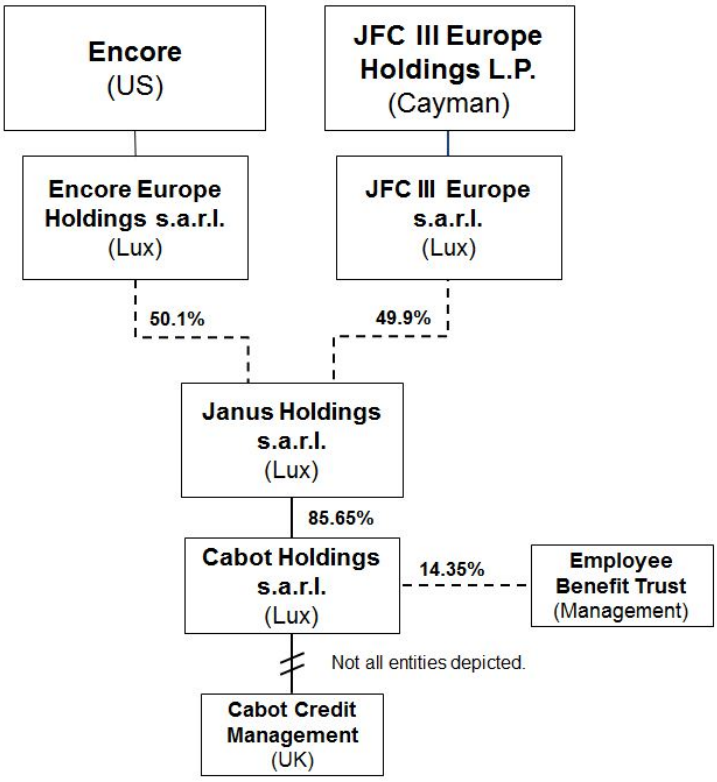
The entire goodwill of $62.9 million related to AACC is not deductible for income tax purposes. The goodwill recognized is primarily attributable to expected synergies when combining AACC with the Company.

Cabot Acquisition

On July 1, 2013, the Company, through its wholly-owned subsidiary Encore Europe Holdings S.a.r.l. (“Encore Europe”), completed its acquisition (the “Cabot Acquisition”) of 50.1% of the equity interest in Janus Holdings, the indirect holding company of United Kingdom-based Cabot from certain funds advised by J.C. Flowers & Co. LLC (“J.C. Flowers”) pursuant to a Securities Purchase Agreement (as amended, the “Purchase Agreement”). Pursuant to the terms and conditions of the Purchase Agreement, Encore Europe purchased from J.C. Flowers: (i) E Bridge preferred equity certificates issued by Janus Holdings, with a face value of £10,218,574 (approximately $15.5 million) (and any accrued interest thereof) (the “E Bridge PECs”), (ii) E preferred equity certificates issued by Janus Holdings with a face value of £96,729,661 (approximately $147.1 million) (and any accrued interest thereof) (the “E PECs”), (iii) 3,498,563 E shares of Janus Holdings (the “E Shares”), and (iv) 100 A shares of Cabot Holdings S.a.r.l. (“ Cabot Holdings”), the direct subsidiary of Janus Holdings, for an aggregate purchase price of approximately £115.1 million (approximately $175.0 million). The E Bridge PECs, E PECs, and E Shares represent 50.1% of all of the issued and outstanding equity and debt securities of Janus Holdings. The remaining 49.9% of Janus Holdings’ equity and debt securities are owned by J.C. Flowers and include: (a) J Bridge preferred equity certificates with a face value of £10,177,781 (approximately $15.5 million) (the “J Bridge PECs”) (represents the amount after the partial redemption of the J Bridge PECs contemplated in the Purchase Agreement and discussed in Note 9, “Debt”), (b) J preferred equity certificates with a face value of £96,343,515 (approximately $146.5 million) (the “J PECs”), (c) 3,484,597 J shares of Janus Holdings (the “J Shares”), and (d) 100 A shares of Cabot Holdings.

Through its acquisition of Janus Holdings, the Company’s effective equity ownership of Cabot is approximately 42.9%, after reflecting the ownership of the noncontrolling interests. The E Bridge PECs and the J Bridge PECs may be redeemed at any time prior to June 18, 2014. Any E Bridge PECs and J Bridge PECs that remain unredeemed as of June 18, 2014 will be converted into E Shares and E PECs, or J Shares and J PECs, as the case may be, in proportion to the number of E Shares and E PECs, or J Shares and J PECs, as applicable, outstanding on the closing date of the Cabot Acquisition. The E Bridge PECs, E PECs, J Bridge PECs and J PECs accrue interest at 12.0% per annum.

The following diagram summarizes Cabot’s corporate structure after the Company’s completion of the Cabot Acquisition. Encore has no interest in the J.C. Flowers entities or the employee benefit trust and they are not included in the Company’s consolidated financial statements.



The Cabot Acquisition was accounted for using the acquisition method of accounting and, accordingly, the tangible and intangible assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of the acquisition. Fair value measurements have been applied based on assumptions that market participants would use in the pricing of the respective assets and liabilities.

The components of the purchase price allocation for the Cabot Acquisition are as follows (*in thousands*):

Purchase price:		
Cash paid at acquisition	$	177,246
Allocation of purchase price:		
Cash	$	57,520
Investment in receivable portfolios		558,951
Property and equipment		13,672
Other assets		20,349
Preferred equity certificates assumed		(211,549)
Debt assumed		(559,907)
Other liabilities assumed		(45,142)
Redeemable noncontrolling interests		(12,064)
Noncontrolling interests		(4,051)
Identifiable intangible assets		7,559
Goodwill		351,908
Total net assets acquired	$	177,246

The goodwill recognized is primarily attributable to (i) the ability to capitalize on Cabot's existing operating platform to gain immediate access to the debt management business in Europe and (ii) substantial synergies that are expected to be

achieved through Cabot's ability to leverage the Company's analytic capacities and efficient operating platform. The entire goodwill of $351.9 million related to the Cabot Acquisition is not deductible for income tax purposes.

As discussed above, the Company purchased a majority interest in Janus Holdings. The Company has determined that Janus Holdings is a VIE and the Company is the primary beneficiary of the VIE. In accordance with authoritative guidance, the Company consolidates the financial results of Janus Holdings under the VIE consolidation model. The J Bridge PECs, J PECs, and any accrued interest are legal form debt, and are included as debt in the Company's consolidated financial statements. In addition, certain other minority owners hold preferred equity certificates at the Cabot Holdings level. These preferred equity certificates and accrued interests are also included as debt. The Company's preliminary valuation study indicated that the fair value of these preferred equity certificates approximates face value. The J shares represent noncontrolling interest at the Janus Holdings level, and the 100 A shares owned by J.C. Flowers represent noncontrolling interest at the Cabot Holdings level, and have been fair valued at the time of acquisition.

In connection with the Cabot Acquisition, the Company entered into an Investors Agreement with J.C. Flowers. Pursuant to the Investors Agreement, J.C. Flowers has the right, at certain times, to offer to sell its interest in Janus Holdings to the Company. The Company would then have the right, but not the obligation, to acquire J.C. Flowers' interest at the offered price, or allow J.C. Flowers to offer Janus Holdings for sale to others. Since J.C. Flowers could force a sale of Janus Holdings if the Company chooses not to purchase J.C. Flowers' interest in Janus Holdings, their noncontrolling interest has been reflected as a redeemable noncontrolling interest in the accompanying condensed consolidated statements of financial condition. The remaining noncontrolling interests represent other minority owners' share of interests in Cabot Holdings.

The amount of revenue and net income included in the Company's condensed consolidated statement of income for the three months ended March 31, 2014 directly related to the Cabot Acquisition was $62.5 million and $2.1 million, respectively. The revenue and loss for the three months ended March 31, 2014 at Janus Holdings was $62.5 million and $6.6 million, respectively. This loss is due to the fact that Janus Holdings recognizes all interest expense related to the outstanding preferred equity certificates owed to Encore, J.C. Flowers, and management. The loss attributable to noncontrolling interests included in the Company's condensed consolidated statement of income of $3.3 million for the three months ended March 31, 2014 represents the total loss at Janus Holdings of $6.6 million multiplied by the noncontrolling ownership interest. The difference of $8.6 million between what was included in the Company's financial statements and what was reported by Janus Holdings, represents Encore's share of preferred equity certificate interest income recognized at Encore Europe and the loss attributable to noncontrolling interests.

The following table summarizes the operating performance of Janus Holdings and Encore Europe *(in thousands)*:

	Three Months Ended March 31, 2014		
	Janus Holdings	Encore Europe	Encore Europe Consolidated
Total revenues	$ 62,520	$ —	$ 62,520
Total operating expenses	(39,576)	—	(39,576)
Income from operations	22,944	—	22,944
Interest expense—non-PEC	(21,776)	—	(21,776)
PEC interest (expense) income	(11,042)	5,367	(5,675)
Other income	75	11	86
(Loss) income before income taxes	(9,799)	5,378	(4,421)
Provision for income taxes	2,146	—	2,146
Net (loss) income	(7,653)	5,378	(2,275)
Net loss attributable to noncontrolling interests	1,099	3,271	4,370
Net (loss) income attributable to Encore	$ (6,554)	$ 8,649	$ 2,095

Marlin Acquisition

On February 7, 2014, Cabot, through its subsidiary Cabot Financial Holdings Group Limited ("Cabot Financial Holdings"), entered into a Share Sale and Purchase Agreement (the "Marlin Purchase Agreement"), pursuant to which Cabot acquired (a) the entire issued share capital of Marlin, a company organized under the laws of England, and (b) certain subordinated fixed rate loan notes of Marlin Financial Intermediate Limited, a company organized under the laws of England, which is a direct wholly-owned subsidiary of Marlin (the "Marlin Acquisition"), from funds managed by Duke Street LLP and certain individuals, including certain executive management of Marlin (collectively, the "Sellers").

Pursuant to the terms and conditions of the Marlin Purchase Agreement and certain ancillary agreements, Cabot Financial Holdings purchased from the Sellers all of the issued and outstanding equity securities of Marlin and certain subordinated fixed rate loan notes of Marlin Financial Intermediate Limited and assumed substantially all of the outstanding debt of Marlin Intermediate Holdings plc, a subsidiary of Marlin. The purchase price consisted of £166.8 million (approximately $274.1 million) in cash consideration, of which £44.8 million (approximately $73.7 million) of the cash consideration was used to pay off Marlin's fixed rate loan notes. In addition, Cabot assumed £150.0 million (approximately $246.5 million) of Marlin's outstanding senior secured notes. The Marlin Acquisition was financed with borrowings under Cabot's existing revolving credit facility and under Cabot's new senior secured bridge facilities. Refer to Note 9 "Debt" for further details of Cabot's revolving credit facility and senior secured bridge facilities.

The Marlin Acquisition was accounted for using the acquisition method of accounting and, accordingly, the tangible and intangible assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of the acquisition. Fair value measurements have been applied based on assumptions that market participants would use in the pricing of the respective assets and liabilities. As of the date of this Quarterly Report on Form 10-Q, the Company is still finalizing the allocation of the purchase price. The initial purchase price allocation presented below was based on the preliminary assessment of assets acquired and liabilities assumed, which is subject to change based on the final valuation study that is expected to be completed by the fourth quarter of 2014.

The components of the preliminary purchase price allocation for the Marlin Acquisition are as follows (*in thousands*):

Purchase price:		
Cash paid at acquisition	$	274,068
Allocation of purchase price:		
Cash	$	16,342
Investment in receivable portfolios		208,450
Deferred court costs		914
Property and equipment		1,508
Other assets		18,091
Liabilities assumed		(301,180)
Goodwill		329,943
Total net assets acquired	$	274,068

The goodwill recognized is primarily attributable to (i) the ability to utilize Marlin's proven competitive advantage in the use of litigation-enhanced collections for non-paying financial services receivables and (ii) synergies that are expected to be achieved by applying Cabot's scoring model to Marlin's portfolio. The entire goodwill of $329.9 million related to the Marlin Acquisition is not deductible for income tax purposes.

Total acquisition and integration costs related to the Marlin Acquisition were approximately $9.8 million for the three months ended March 31, 2014, and have been expensed in the accompanying condensed consolidated statements of income within general and administrative expenses.

Pro forma financial information for the Marlin Acquisition has not been included as the computation of such information is impracticable.

Other Acquisitions

In addition to the business combination transactions discussed above, the Company completed certain other acquisitions in 2013, including the acquisition of Refinancia in December 2013. On February 22, 2014, the Company agreed to acquire approximately 68.2% of the equity ownership interest in Grove Holdings ("Grove"). Grove, through its subsidiaries, is a leading specialty investment firm focused on consumer non-performing loans, including insolvencies in the United Kingdom (in particular, individual voluntary arrangements, or IVAs) and non-bank receivables in Spain. The acquisition of Grove was completed on April 1, 2014. These acquisitions were immaterial to the Company's financial statements individually and in the aggregate.

Note 3: Earnings Per Share

Basic earnings per share is calculated by dividing net earnings attributable to Encore by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, restricted stock, warrants, and the dilutive effect of the convertible senior notes.

A reconciliation of shares used in calculating earnings per basic and diluted shares follows *(in thousands)*:

	Three Months Ended March 31,	
	2014	2013
Weighted average common shares outstanding—basic	25,749	23,446
Dilutive effect of stock-based awards	906	968
Dilutive effect of convertible senior notes	1,461	—
Dilutive effect of warrants	80	—
Weighted average common shares outstanding—diluted	28,196	24,414

No anti-dilutive employee stock options were outstanding during the three months ended March 31, 2014 or 2013.

The Company has the following convertible senior notes outstanding: $115.0 million convertible senior notes due 2017 at a conversion price equivalent to approximately $31.56 per share of the Company's common stock (the "2017 Convertible Notes"), $172.5 million convertible senior notes due 2020 at a conversion price equivalent to approximately $45.72 per share of the Company's common stock (the "2020 Convertible Notes"), and $161.0 million convertible senior notes due 2021 at a conversion price equivalent to approximately $59.39 per share of the Company's common stock (the "2021 Convertible Notes").

In the event of conversion, the 2017 Convertible Notes are convertible into cash up to the aggregate principal amount and permit the excess conversion premium to be settled in cash or shares of Company's common stock. For the 2020 Convertible Notes and 2021 Convertible Notes, the Company has the option to pay cash, issue shares of common stock or any combination thereof for the aggregate amount due upon conversion. The Company's intent is to settle the principal amount of the 2020 and 2021 Convertible Notes in cash upon conversion. As a result, upon conversion of all the convertible senior notes, only the amounts payable in excess of the principal amounts are considered in diluted earnings per share under the treasury stock method. For the three months ended March 31, 2014, diluted earnings per share includes the effect of the common shares issuable upon conversion of the 2017 Convertible Notes and the 2020 Convertible Notes because the average stock price exceeded the conversion price of these notes. However, as described in Note 9 "Debt—Encore Convertible Senior Notes," the Company entered into certain hedge transactions that have the effect of increasing the effective conversion price of the 2017 Convertible Notes to $60.00 and the 2020 Convertible Notes to $61.55. For the three months ended March 31, 2013, the average stock price was below the initial conversion price of the Company's outstanding convertible senior notes and thus the impact of an assumed conversion was not applicable. On January 2, 2014, the 2017 Convertible Notes became convertible as certain conditions for conversion were met in the immediately preceding calendar quarter as defined in the applicable indenture. However, none of the 2017 Convertible Notes were converted during the three months ended March 31, 2014.

In conjunction with the issuance of the 2017 Convertible Notes, the Company entered into privately negotiated transactions with certain counterparties and sold warrants to purchase approximately 3.6 million shares of its common stock. The warrants had an exercise price of $44.19. On December 16, 2013, the Company entered into amendments with the same counterparties to exchange the original warrants with new warrants with an exercise price of $60.00. All other terms and settlement provisions remain unchanged. The warrant restrike transaction was completed on February 6, 2014. Diluted earnings per share includes the effect of these warrants for the three months ended March 31, 2014. The effect of the warrants was anti-dilutive for the three months ended March 31, 2013. Refer to Note 9 "Debt—Encore Convertible Senior Notes—2017 Convertible Senior Notes" for further details of the warrant restrike transaction.

Note 4: Fair Value Measurements

The authoritative guidance for fair value measurements defines fair value as the price that would be received upon sale of an asset or the price paid to transfer a liability, in an orderly transaction between market participants at the measurement date

(*i.e.*, the "exit price"). The guidance utilizes a fair value hierarchy that prioritizes the inputs used in valuation techniques to measure fair value into three broad levels. The following is a brief description of each level:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs, including inputs that reflect the reporting entity's own assumptions.

Financial Instruments Required To Be Carried At Fair Value

Financial assets and liabilities measured at fair value on a recurring basis are summarized below (*in thousands*):

	Fair Value Measurements as of March 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency exchange contracts	$ —	$ 641	$ —	$ 641
Interest rate cap contracts	—	69	—	69
Liabilities				
Foreign currency exchange contracts	—	(2,233)	—	(2,233)
Temporary Equity				
Redeemable noncontrolling interests	—	—	(26,434)	(26,434)

	Fair Value Measurements as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency exchange contracts	$ —	$ 46	$ —	$ 46
Interest rate cap contracts	—	202	—	202
Liabilities				
Foreign currency exchange contracts	—	(4,123)	—	(4,123)
Temporary Equity				
Redeemable noncontrolling interests	—	—	(26,564)	(26,564)

Derivative Contracts:

The Company uses derivative instruments to minimize its exposure to fluctuations in interest rates and foreign currency exchange rates. The Company's derivative instruments primarily include interest rate swap agreements, interest rate cap contracts, and foreign currency exchange contracts. Fair values of these derivative instruments are estimated using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves, foreign currency exchange rates, and forward and spot prices for currencies.

Redeemable Noncontrolling Interests:

As discussed in Note 2, "Business Combinations," some minority shareholders in certain subsidiaries of the Company have the right, at certain times, to require the Company to acquire their ownership interest in those entities at fair value, while others have the right to force a sale of the subsidiary if the Company chooses not to purchase their interests at fair value. The noncontrolling interests subject to these arrangements are included in temporary equity as redeemable noncontrolling interests, and are adjusted to their estimated redemption amounts each reporting period with a corresponding adjustment to additional paid-in capital. Future reductions in the carrying amounts are subject to a "floor" amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The recorded value of the redeemable noncontrolling interests cannot go below the floor level. These adjustments will not affect the calculation of earnings per share.

The components of the change in the redeemable noncontrolling interests for the period ended March 31, 2014 are presented in the following table:

	Amount
Balance at December 31, 2013	$ 26,564
Net loss attributable to redeemable noncontrolling interests	(3,262)
Adjustment of the redeemable noncontrolling interests to fair value	3,271
Effect of foreign currency translation attributable to redeemable noncontrolling interests	(139)
Balance at March 31, 2014	$ 26,434

Financial Instruments Not Required To Be Carried At Fair Value

Investment in Receivable Portfolios:

The Company records its investment in receivable portfolios at cost, which represents a significant discount from the contractual receivable balances due. The Company computes the fair value of its investment in receivable portfolios by discounting the estimated future cash flows generated by its proprietary forecasting models, using an estimated market participant cost to collect of approximately 50.3% and a discount rate of approximately 12.0% for United States portfolios and an estimated blended market participant cost to collect of approximately 30.2% and a blended discount rate of approximately 19.5% for Cabot and Marlin portfolios. Using this method, the fair value of investment in receivable portfolios approximates book value as of March 31, 2014 and December 31, 2013. A 100 basis point fluctuation in the cost to collect and discount rate used would result in an increase or decrease in the fair value of United States and United Kingdom portfolios by approximately $32.4 million and $35.7 million, respectively, as of March 31, 2014. This fair value calculation does not represent, and should not be construed to represent, the underlying value of the Company or the amount which could be realized if its investment in receivable portfolios were sold. The carrying value of the investment in receivable portfolios was $1.9 billion and $1.6 billion as of March 31, 2014 and December 31, 2013, respectively.

Deferred Court Costs:

The Company capitalizes deferred court costs and provides a reserve for those costs that it believes will ultimately be uncollectible. The carrying value of net deferred court costs approximates fair value.

Receivables Secured By Property Tax Liens:

The fair value of receivables secured by property tax liens is estimated by discounting the future cash flows of the portfolio using a discount rate equivalent to the current rate at which similar portfolios would be originated. For tax liens purchased directly from taxing authorities, the fair value is estimated by discounting the expected future cash flows of the portfolio using a discount rate equivalent to the interest rate expected when acquiring these tax liens. The carrying value of receivables secured by property tax liens approximates fair value. Additionally, the carrying value of the related interest receivable also approximates fair value.

Debt:

Encore’s senior secured notes and borrowings under its revolving credit and term loan facilities are carried at historical amounts, adjusted for additional borrowings less principal repayments, which approximate fair value.

Encore’s convertible senior notes are carried at historical cost, adjusted for the debt discount. The carrying value of the convertible senior notes was $448.5 million, net of debt discount of $57.9 million as of March 31, 2014, and $287.5 million, net of debt discount of $42.2 million as of December 31, 2013, respectively. The fair value estimate for these convertible senior notes, which incorporates quoted market prices, was approximately $538.4 million and $412.4 million as of March 31, 2014 and December 31, 2013, respectively.

Cabot’s senior secured notes due 2019 are carried at the fair value determined at the time of the Cabot Acquisition, adjusted by the accretion of debt premium. Cabot’s senior secured notes due 2020 and 2021 are carried at historical cost. Marlin’s senior secured notes due 2020 are carried at the fair value determined at the time of the Marlin Acquisition, adjusted by the accretion of debt premium. The carrying value of all the above senior secured notes then outstanding for the Company was $1.2 billion, including debt premium of $80.0 million, as of March 31, 2014, and $646.9 million, including debt premium of $43.6 million, as of December 31, 2013. The fair value estimate for these senior notes, which incorporates quoted market prices, was approximately $1.3 billion and $680.7 million as of March 31, 2014 and December 31, 2013, respectively.

The Company's preferred equity certificates are legal obligations to the noncontrolling shareholders at its Janus Holdings and Cabot Holdings subsidiaries. They are carried at the face amount, plus any accrued interest. The Company determined, at the time of the Cabot Acquisition and at March 31, 2014, that the carrying value of these preferred equity certificates approximates fair value.

Note 5: Derivatives and Hedging Instruments

The Company may periodically enter into derivative financial instruments to manage risks related to interest rates and foreign currency. Most of the Company's derivative financial instruments qualify for hedge accounting treatment under the authoritative guidance for derivatives and hedging. The Company's Cabot subsidiary also holds interest rate cap contracts with an aggregated notional amount of £125.0 million (approximately $208.4 million) that are used to manage its risk related to interest rate fluctuations. The Company does not apply hedge accounting on the interest rate cap contracts. The impact of the interest rate cap contracts to the Company's consolidated financial statements for the three months ended March 31, 2014, was immaterial.

Interest Rate Swaps

As of March 31, 2014, the Company had no outstanding interest rate swap agreements. During the three months ended March 31, 2013, the Company utilized interest rate swap contracts to manage risks related to interest rate fluctuation. These derivatives were designated as cash flow hedges in accordance with authoritative accounting guidance. The hedging instruments had been highly effective since the inception of the hedge program, therefore no gains or losses were reclassified from other comprehensive income ("OCI") into earnings as a result of hedge ineffectiveness.

Foreign Currency Exchange Contracts

The Company has operations in foreign countries, which exposes the Company to foreign currency exchange rate fluctuations due to transactions denominated in foreign currencies, including Indian rupees. To mitigate this risk, the Company enters into derivative financial instruments, principally forward contracts, which are designated as cash flow hedges, to mitigate fluctuations in the cash payments of future forecasted transactions in Indian rupees for up to 36 months. The Company adjusts the level and use of derivatives as soon as practicable after learning that an exposure has changed and reviews all exposures and derivative positions on an ongoing basis.

Gains and losses on cash flow hedges are recorded in OCI until the hedged transaction is recorded in the consolidated financial statements. Once the underlying transaction is recorded in the consolidated financial statements, the Company reclassifies the OCI on the derivative into earnings. If all or a portion of the forecasted transaction is cancelled, this would render all or a portion of the cash flow hedge ineffective and the Company would reclassify the ineffective portion of the hedge into earnings. The Company generally does not experience ineffectiveness of the hedge relationship and the accompanying consolidated financial statements do not include any such gains or losses.

As of March 31, 2014, the total notional amount of the forward contracts to buy Indian rupees in exchange for United States dollars was $43.2 million. As of March 31, 2014, all outstanding contracts qualified for hedge accounting treatment. The Company estimates that approximately $1.2 million of net derivative loss included in OCI will be reclassified into earnings within the next 12 months. No gains or losses were reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during the three months ended March 31, 2014, and 2013.

The Company does not enter into derivative instruments for trading or speculative purposes.

The following table summarizes the fair value of derivative instruments as recorded in the Company's condensed consolidated statements of financial condition *(in thousands):*

	March 31, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign currency exchange contracts	Other liabilities	$ (2,233)	Other liabilities	$ (4,123)
Foreign currency exchange contracts	Other assets	641	Other assets	46
Derivatives not designated as hedging instruments:				
Interest rate cap	Other assets	69	Other assets	202

The following table summarizes the effects of derivatives in cash flow hedging relationships on the Company's condensed consolidated statements of income for the three months ended March 31, 2014 and 2013 *(in thousands):*

	Gain or (Loss) Recognized in OCI- Effective Portion		Location of Gain or (Loss) Reclassified from OCI into Income - Effective Portion	Gain or (Loss) Reclassified from OCI into Income - Effective Portion		Location of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing	
	Three Months Ended			Three Months Ended			Three Months Ended	
	2014	2013		2014	2013		2014	2013
Interest rate swaps	$ —	$ 222	Interest expense	$ —	$ —	Other (expense) income	$ —	$ —
Foreign currency exchange contracts	1,885	601	Salaries and employee benefits	(356)	(49)	Other (expense) income	—	—
Foreign currency exchange contracts	187	103	General and administrative expenses	(57)	(9)	Other (expense) income	—	—

Note 6: Investment in Receivable Portfolios, Net

In accordance with the authoritative guidance for loans and debt securities acquired with deteriorated credit quality, discrete receivable portfolio purchases during a quarter are aggregated into pools based on common risk characteristics. Once a static pool is established, the portfolios are permanently assigned to the pool. The discount (*i.e.*, the difference between the cost of each static pool and the related aggregate contractual receivable balance) is not recorded because the Company expects to collect a relatively small percentage of each static pool's contractual receivable balance. As a result, receivable portfolios are recorded at cost at the time of acquisition. The purchase cost of the portfolios includes certain fees paid to third parties incurred in connection with the direct acquisition of the receivable portfolios.

In compliance with the authoritative guidance, the Company accounts for its investments in receivable portfolios using either the interest method or the cost recovery method. The interest method applies an internal rate of return ("IRR") to the cost basis of the pool, which remains unchanged throughout the life of the pool, unless there is an increase in subsequent expected cash flows. Subsequent increases in expected cash flows are generally recognized prospectively through an upward adjustment of the pool's IRR over its remaining life. Subsequent decreases in expected cash flows do not change the IRR, but are recognized as an allowance to the cost basis of the pool, and are reflected in the consolidated statements of comprehensive income as a reduction in revenue, with a corresponding valuation allowance, offsetting the investment in receivable portfolios in the consolidated statements of financial condition.

The Company utilizes its proprietary forecasting models to continuously evaluate the economic life of each pool. The collection forecast of each pool is generally estimated to be between 84 to 96 months based on the expected collection period of each pool (up to 120 months for Cabot's semi-performing pools). The Company often experiences collections beyond the 84 to 96 month collection forecast. As of March 31, 2014, the total estimated remaining collections beyond the 84 to 96 month collection forecast, which are not included in the calculation of the Company's IRRs, were $141.7 million. The collection forecast estimates for Cabot include a 120 month collection period which is included in its estimated remaining collections and is used for calculating its IRRs.

The Company accounts for each static pool as a unit for the economic life of the pool (similar to one loan) for recognition of revenue from receivable portfolios, for collections applied to the cost basis of receivable portfolios, and for provision for loss or allowance. Revenue from receivable portfolios is accrued based on each pool's IRR applied to each pool's adjusted cost basis. The cost basis of each pool is increased by revenue earned and decreased by gross collections and portfolio allowances.

If the amount and timing of future cash collections on a pool of receivables are not reasonably estimable, the Company accounts for such portfolios on the cost recovery method as Cost Recovery Portfolios. The accounts in these portfolios have different risk characteristics than those included in other portfolios acquired during the same quarter, or the necessary information was not available to estimate future cash flows and, accordingly, they were not aggregated with other portfolios.

Under the cost recovery method of accounting, no revenue is recognized until the purchase price of a Cost Recovery Portfolio has been fully recovered.

Accretable yield represents the amount of revenue the Company expects to generate over the remaining life of its existing investment in receivable portfolios based on estimated future cash flows. Total accretable yield is the difference between future estimated collections and the current carrying value of a portfolio. All estimated cash flows on portfolios where the cost basis has been fully recovered are classified as zero basis cash flows.

The following table summarizes the Company's accretable yield and an estimate of zero basis future cash flows at the beginning and end of the period presented *(in thousands)*:

	Accretable Yield	Estimate of Zero Basis Cash Flows	Total
Balance at December 31, 2013	$ 2,391,471	$ 8,465	$ 2,399,936
Revenue recognized, net	(231,057)	(6,511)	(237,568)
Net additions on existing portfolios[1]	92,325	8,555	100,880
Additions for current purchases[1][2]	591,205	—	591,205
Balance at March 31, 2014	$ 2,843,944	$ 10,509	$ 2,854,453

	Accretable Yield	Estimate of Zero Basis Cash Flows	Total
Balance at December 31, 2012	$ 984,944	$ 17,366	$ 1,002,310
Revenue recognized, net	(135,072)	(5,611)	(140,683)
Net additions on existing portfolios[1]	173,634	7,061	180,695
Additions for current purchases[1]	66,808	—	66,808
Balance at March 31, 2013	$ 1,090,314	$ 18,816	$ 1,109,130

(1) Estimated remaining collections and accretable yield include anticipated collections beyond the 84 to 96 month collection forecast for United States portfolios.

(2) Includes $208.5 million of portfolios acquired in connection with the Marlin Acquisition discussed in Note 2, "Business Combinations."

During the three months ended March 31, 2014, the Company purchased receivable portfolios with a face value of $4.3 billion for $467.6 million, or a purchase cost of 10.9% of face value. Purchases of charged-off credit card portfolios include $208.5 million of portfolios acquired in conjunction with the Marlin Acquisition. The estimated future collections at acquisition for all portfolios purchased during the quarter amounted to $1.0 billion.

During the three months ended March 31, 2013, the Company purchased receivable portfolios with a face value of $1.6 billion for $58.8 million, or a purchase cost of 3.6% of face value. The estimated future collections at acquisition for all portfolios amounted to $126.6 million.

All collections realized after the net book value of a portfolio has been fully recovered ("Zero Basis Portfolios") are recorded as revenue ("Zero Basis Revenue"). During the three months ended March 31, 2014 and 2013, Zero Basis Revenue was approximately $3.6 million and $4.7 million, respectively.

The following tables summarize the changes in the balance of the investment in receivable portfolios during the following periods (*in thousands, except percentages*):

	Three Months Ended March 31, 2014			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 1,585,587	$ 4,662	$ —	$ 1,590,249
Purchases of receivable portfolios[1]	467,565	—	—	467,565
Gross collections[2]	(389,503)	(660)	(6,511)	(396,674)
Put-backs and recalls	(3,235)	(149)	—	(3,384)
Foreign currency adjustments	8,706	—	—	8,706
Revenue recognized	230,747	—	3,591	234,338
Portfolio allowance reversals, net	310	—	2,920	3,230
Balance, end of period	$ 1,900,177	$ 3,853	$ —	$ 1,904,030
Revenue as a percentage of collections[3]	59.2%	—%	55.2%	59.1%

	Three Months Ended March 31, 2013			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 873,119	$ —	$ —	$ 873,119
Purchases of receivable portfolios	58,771	—	—	58,771
Gross collections[2]	(264,559)	—	(5,611)	(270,170)
Put-backs and recalls	(878)	—	—	(878)
Revenue recognized	135,015	—	4,662	139,677
Portfolio allowance reversals, net	57	—	949	1,006
Balance, end of period	$ 801,525	$ —	$ —	$ 801,525
Revenue as a percentage of collections[3]	51.0%	—%	83.1%	51.7%

(1) Purchases of portfolio receivables include $208.5 million acquired in connection with the Marlin Acquisition in February 2014 discussed in Note 2, “Business Combinations.”

(2) Does not include amounts collected on behalf of others.

(3) Revenue as a percentage of collections excludes the effects of net portfolio allowances or net portfolio allowance reversals.

The following table summarizes the change in the valuation allowance for investment in receivable portfolios during the periods presented (*in thousands*):

	Valuation Allowance	
	Three Months Ended March 31,	
	2014	2013
Balance at beginning of period	$ 93,080	$ 105,273
Provision for portfolio allowances	—	479
Reversal of prior allowances	(3,230)	(1,485)
Balance at end of period	$ 89,850	$ 104,267

Note 7: Deferred Court Costs, Net

Within the United States, the Company contracts with a nationwide network of attorneys that specialize in collection matters. The Company generally refers charged-off accounts to its contracted attorneys when it believes the related consumer has sufficient assets to repay the indebtedness and has, to date, been unwilling to pay. In connection with the Company’s agreement with the contracted attorneys, it advances certain out-of-pocket court costs (“Deferred Court Costs”). The Company capitalizes Deferred Court Costs in its consolidated financial statements and provides a reserve for those costs that it believes will ultimately be uncollectible. The Company determines the reserve based on its analysis of court costs that have been advanced and those that have been recovered. Historically, the Company wrote off Deferred Court Costs not recovered within

three years of placement. However, as a result of a history of court cost recoveries beyond three years, the Company has determined that court costs are recovered over a longer period of time. As a result, in January 2013, on a prospective basis, the Company began increasing its deferral period from three years to five years. Collections received from debtors are first applied against related court costs with the balance applied to the debtors' account balance.

Deferred Court Costs consist of the following as of the dates presented (*in thousands*):

	March 31, 2014	December 31, 2013
Court costs advanced	$ 430,598	$ 399,274
Court costs recovered	(160,852)	(147,166)
Court costs reserve	(227,067)	(210,889)
	$ 42,679	$ 41,219

A roll forward of the Company's court cost reserve is as follows (*in thousands*):

	Court Cost Reserve	
	Three Months Ended March 31,	
	2014	2013
Balance at beginning of period	$ (210,889)	$ (149,080)
Provision for court costs	(16,178)	(13,420)
Balance at end of period	$ (227,067)	$ (162,500)

Note 8: Other Assets

Other assets consist of the following (*in thousands*):

	March 31, 2014	December 31, 2013
Debt issuance costs, net of amortization	$ 41,243	$ 28,066
Deferred tax assets	24,489	13,974
Prepaid expenses	24,443	23,487
Identifiable intangible assets, net	22,579	23,549
Service fee receivables	16,362	29,931
Funds held in escrow	15,155	—
Other financial receivables	8,595	7,962
Interest receivable	8,566	7,956
Prepaid income taxes	4,344	5,009
Security deposits	3,130	2,500
Recoverable legal fees	3,029	3,049
Other	9,762	9,300
	$ 181,697	$ 154,783

Note 9: Debt

The Company is in compliance with all covenants under its financing arrangements. The components of the Company's consolidated debt and capital lease obligations are as follows *(in thousands)*:

	March 31, 2014	December 31, 2013
Encore revolving credit facility	$ 223,000	$ 356,000
Encore term loan facility	151,828	140,625
Encore senior secured notes	55,000	58,750
Encore convertible notes	448,500	287,500
Less: Debt discount	(57,881)	(42,240)
Propel facilities	174,815	170,630
Cabot senior secured notes	1,150,437	603,272
Add: Debt premium	79,964	43,583
Cabot senior revolving credit facility	133,384	—
Preferred equity certificates	222,473	199,821
Capital lease obligations	11,084	12,219
Other	19,529	20,271
	$ 2,612,133	$ 1,850,431

Encore Revolving Credit Facility and Term Loan Facility

On February 25, 2014, Encore amended its revolving credit facility and term loan facility (the "Credit Facility") pursuant to a Second Amended and Restated Credit Agreement, (the "Restated Credit Agreement"). The Restated Credit Agreement includes a revolving credit facility tranche of $692.6 million, a term loan facility tranche of $153.8 million, and an accordion feature that would allow the Company to increase the revolving credit facility by an additional $250.0 million. Including the accordion feature, the maximum amount that can be borrowed under the Credit Facility is $1.1 billion. The Restated Credit Agreement has a five-year maturity, expiring in February 2019, except with respect to two subtranches of the term loan facility of $60.0 million and $6.3 million, expiring in February 2017 and November 2017, respectively.

Provisions of the Restated Credit Agreement include, but are not limited to:

- A revolving loan of $692.6 million, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted London Interbank Offered Rate ("LIBOR"), plus a spread that ranges from 250 to 300 basis points depending on the Company's cash flow leverage ratio; or (2) Alternate Base Rate, plus a spread that ranges from 150 to 200 basis points depending on the Company's cash flow leverage ratio. "Alternate Base Rate," as defined in the agreement, means the highest of (i) the per annum rate which the administrative agent publicly announces from time to time as its prime lending rate, (ii) the federal funds effective rate from time to time, plus 0.5% per annum and (iii) reserved adjusted LIBOR determined on a daily basis for a one month interest period, plus 1.0% per annum;

- An $87.5 million five-year term loan, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 250 to 300 basis points, depending on the Company's cash flow leverage ratio; or (2) Alternate Base Rate, plus a spread that ranges from 150 to 200 basis points, depending on the Company's cash flow leverage ratio. Principal amortizes $4.4 million in 2014, $4.4 million in 2015, $6.6 million in 2016, $8.8 million in 2017, and $8.8 million in 2018 with the remaining principal due at the end of the term;

- A $60.0 million term loan maturing on February 25, 2017, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 200 to 250 basis points, depending on the Company's cash flow leverage ratio; or (2) Alternate Base Rate, plus a spread that ranges from 100 to 150 basis points, depending on the Company's cash flow leverage ratio. Principal amortizes $3.0 million in 2014, $3.0 million in 2015, and $4.5 million in 2016 with the remaining principal due at the end of the term;

- A $6.3 million term loan maturing on November 3, 2017, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 250 to 300 basis points, depending on the Company's cash flow leverage ratio; or (2) Alternate Base Rate, plus a spread that ranges from 150 to 200 basis

points, depending on the Company's cash flow leverage ratio. Principal amortizes $0.4 million in 2014, $0.5 million in 2015, $0.6 million in 2016 and $0.5 million in 2017 with the remaining principal due at the end of the term;

- A borrowing base equal to (1) the lesser of (i) 30%—35% (depending on the Company's trailing 12-month cost per dollar collected) of all eligible non-bankruptcy estimated remaining collections, initially set at 33%, plus 55% of eligible estimated remaining collections for consumer receivables subject to bankruptcy, and (ii) the product of the net book value of all receivable portfolios acquired on or after January 1, 2005 multiplied by 95%, minus (2) the sum of the aggregate principal amount outstanding of Encore's Senior Secured Notes (as defined below) plus the aggregate principal amount outstanding under the term loans;
- The allowance of additional unsecured or subordinated indebtedness not to exceed $450.0 million;
- Restrictions and covenants, which limit the payment of dividends and the incurrence of additional indebtedness and liens, among other limitations;
- Repurchases of up to $50.0 million of Encore's common stock after February 25, 2014, subject to compliance with certain covenants and available borrowing capacity;
- A change of control definition, which excludes acquisitions of stock by Red Mountain Capital Partners LLC, JCF FPK LLP and their respective affiliates of up to 50% of the outstanding shares of Encore's voting stock;
- Events of default which, upon occurrence, may permit the lenders to terminate the facility and declare all amounts outstanding to be immediately due and payable;
- A pre-approved acquisition limit of $75.0 million per acquisition, $225.0 million in the aggregate, for acquisitions after February 25, 2014;
- A basket to allow for investments in unrestricted subsidiaries of $200.0 million;
- An annual foreign portfolio investment basket of $150.0 million; and
- Collateralization by all assets of the Company, other than the assets of unrestricted subsidiaries as defined in the Restated Credit Agreement.

At March 31, 2014, the outstanding balance under the Restated Credit Agreement was $374.8 million. The weighted average interest rate was 2.89% and 3.14% for the three months ended March 31, 2014 and 2013, respectively.

Encore Senior Secured Notes

In 2010 and 2011 Encore entered into an aggregate of $75.0 million in senior secured notes with certain affiliates of Prudential Capital Group (the "Senior Secured Notes"). $25.0 million of the Senior Secured Notes bear an annual interest rate of 7.375%, mature in 2018 and require quarterly principal payments of $1.25 million. Prior to May 2013, these notes required quarterly payments of interest only. The remaining $50.0 million of Senior Secured Notes bear an annual interest rate of 7.75%, mature in 2017 and require quarterly principal payments of $2.5 million. Prior to December 2012 these notes required quarterly interest only payments. As of March 31, 2014, $55.0 million is outstanding under these obligations.

The Senior Secured Notes are guaranteed in full by certain of Encore's subsidiaries. Similar to, and *pari passu* with, Encore's credit facility, the Senior Secured Notes are also collateralized by all of the assets of the Company other than the assets of unrestricted subsidiaries as defined in the Restated Credit Agreement. The Senior Secured Notes may be accelerated and become automatically and immediately due and payable upon certain events of default, including certain events related to insolvency, bankruptcy, or liquidation. Additionally, the Senior Secured Notes may be accelerated at the election of the holder or holders of a majority in principal amount of the Senior Secured Notes upon certain events of default by Encore, including the breach of affirmative covenants regarding guarantors, collateral, most favored lender treatment, minimum revolving credit facility commitment or the breach of any negative covenant. If Encore prepays the Senior Secured Notes at any time for any reason, payment will be at the higher of par or the present value of the remaining scheduled payments of principal and interest on the portion being prepaid. The discount rate used to determine the present value is 50 basis points over the then current Treasury Rate corresponding to the remaining average life of the senior secured notes. The covenants are substantially similar to those in the Restated Credit Agreement. Prudential Capital Group and the administrative agent for the lenders of the Restated Credit Agreement have an intercreditor agreement related to their pro rata rights to the collateral, actionable default, powers and duties and remedies, among other topics. The terms of the Senior Secured Notes were amended and restated on May 9, 2013 in connection with the Restated Credit Agreement in order to properly align certain provisions between the two agreements.

Encore Convertible Senior Notes

2017 Convertible Senior Notes

On November 27, 2012, Encore sold $100.0 million in aggregate principal amount of 3.0% convertible senior notes due November 27, 2017 in a private placement transaction. On December 6, 2012, the initial purchasers exercised, in full, their option to purchase an additional $15.0 million of the convertible senior notes, which resulted in an aggregate principal amount of $115.0 million of the convertible senior notes outstanding (collectively, the "2017 Convertible Notes"). Interest on the 2017 Convertible Notes is payable semi-annually, in arrears, on May 27 and November 27 of each year, beginning on May 27, 2013. The 2017 Convertible Notes are the Company's general unsecured obligations. In the event of conversion, the 2017 Convertible Notes are convertible into cash up to the aggregate principal amount and permits the excess conversion premium to be settled in cash or shares of the Company's common stock. The 2017 Convertible Notes are convertible at an initial conversion rate of 31.6832 shares of the Company's common stock per $1,000 principal amount of the 2017 Convertible Notes, subject to adjustment upon certain events, which is equivalent to an initial conversion price of approximately $31.56 per share of the Company's common stock.

Authoritative guidance related to debt with conversion and other options requires that issuers of convertible debt instruments that, upon conversion, may be settled fully or partially in cash, must separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Additionally, debt issuance costs are required to be allocated in proportion to the allocation of the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively.

The Company determined that the fair value of the 2017 Convertible Notes was approximately $100.3 million, and designated the residual value of approximately $14.7 million as the equity component. Additionally, the Company allocated approximately $3.3 million of the $3.8 million original Convertible Notes issuance cost as debt issuance cost and the remaining $0.5 million as equity issuance cost.

During the quarter ending December 31, 2013, the closing price of the Company's common stock exceeded 130% of the conversion price of the 2017 Convertible Notes for more than 20 trading days during a 30 consecutive trading day period , thereby satisfying one of the early conversion events. As a result, the 2017 Convertible Notes became convertible on demand effective January 2, 2014, and the holders were notified that they could elect to submit their 2017 Convertible Notes for conversion. The carrying value of the 2017 Convertible Notes continues to be reported as debt as the Company intends to draw on the Credit Facility or use cash on hand to settle the principal amount of any such conversions in cash. No gain or loss was recognized when the debt became convertible. The estimated fair value of the 2017 Convertible Notes was approximately $177.5 million as of March 31, 2014. In addition, upon becoming convertible, a portion of the equity component that was recorded at the time of the issuance of the 2017 Convertible Notes was considered redeemable and that portion of the equity was reclassified to temporary equity in the Company's condensed consolidated statements of financial condition. Such amount was determined based on the cash consideration to be paid upon conversion and the carrying amount of the debt. Upon conversion, the holders of the 2017 Convertible Notes will be paid in cash for the principal amount and issued shares or a combination of cash and shares for the remaining value of the 2017 Convertible Notes. As a result, the Company reclassified $11.2 million of the equity component to temporary equity as of March 31, 2014. If a conversion event takes place, this temporary equity balance will be recalculated based on the difference between the 2017 Convertible Notes principal and the debt carrying value. If the 2017 Convertible Notes are settled, an amount equal to the fair value of the liability component, immediately prior to the settlement, will be deducted from the fair value of the total settlement consideration transferred and allocated to the liability component. Any difference between the amount allocated to the liability and the net carrying amount of the 2017 Convertible Notes (including any unamortized debt issue costs and discount) will be recognized in earnings as a gain or loss on debt extinguishment. Any remaining consideration is allocated to the reacquisition of the equity component and will be recognized as a reduction in stockholders' equity.

None of the 2017 Convertible Notes were converted during the three months ended March 31, 2014.

In accordance with authoritative guidance related to derivatives and hedging and earnings per share calculation, only the conversion spread of the 2017 Convertible Notes is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company's common stock during any quarter exceeds $31.56. The average share price of the Company's common stock for the three months ended March 31, 2014 exceeded $31.56. The dilutive effect from the 2017 Convertible Notes was approximately 1.3 million shares for the three months ended March 31, 2014. See Note 3, "Earnings Per Share" for additional information.

Concurrent with the pricing of the 2017 Convertible Notes, the Company entered into privately negotiated convertible note hedge transactions (together, the "Convertible Note Hedge Transactions") with certain counterparties. The Convertible Note Hedge Transactions collectively cover, subject to customary anti-dilution adjustments, the number of shares of the

Company's common stock underlying the 2017 Convertible Notes, as described below. Concurrently with entering into the Convertible Note Hedge Transactions, the Company also entered into separate, privately negotiated warrant transactions (together, the "Warrant Transactions") with the same counterparties, whereby the Company sold to the counterparties warrants to purchase, collectively, subject to customary anti-dilution adjustments, up to the same number of shares of the Company's common stock as in the Convertible Note Hedge Transactions. Subject to certain conditions, the Company may settle the warrants in cash or on a net-share basis.

The Convertible Note Hedge Transactions are expected generally to reduce the potential dilution and/or offset the potential cash payments the Company is required to make in excess of the principal amount upon conversion of the 2017 Convertible Notes in the event that the market price per share of the Company's common stock, is greater than the strike price of the Convertible Note Hedge Transactions, which initially corresponds to the conversion price of the 2017 Convertible Notes and is subject to anti-dilution adjustments. However, if the market price per share of the Company's common stock, as measured under the terms of the Warrant Transactions, exceeds the strike price of the warrants, there would nevertheless be dilution to the extent that such market price exceeds the strike price of the warrants, unless the Company elects, subject to certain conditions, to settle the Warrant Transactions in cash. The strike price of the Warrant Transactions was initially $44.19 per share of the Company's common stock and was subject to certain adjustments under the terms of the Warrant Transactions. Taken together, the Convertible Note Hedge Transactions and the Warrant Transactions had the effect of increasing the effective conversion price of the 2017 Convertible Notes to $44.19 per share.

On December 16, 2013, the Company entered into amendments to the warrants to increase the strike price from $44.19 to $60.00. All other terms and settlement provisions of the warrants remained unchanged. Warrants representing approximately 358,000 shares of common stock were modified as of December 31, 2013. The remaining 3.3 million shares represented by the warrants were modified between January 1, 2014 and February 6, 2014. The Company paid the holders of the warrants approximately $7.66 per warrant, or approximately $27.9 million in total in consideration for amending the warrants. The Company recorded the payment as a reduction of shareholders' equity in the condensed consolidated statements of financial condition because, prior to being amended, the warrants were classified in permanent equity. The amended warrants meet the definition of derivatives; however, because these instruments have been determined to be indexed to the Company's own stock and meet the criteria for equity classification, the amended warrants have also been recorded in shareholders' equity in the condensed consolidated statements of financial condition. The costs for the warrant restrike completed in 2013 and 2014 were approximately $2.7 million and $25.2 million, respectively.

2020 Convertible Senior Notes

On June 24, 2013, Encore sold $150.0 million in aggregate principal amount of 3.0% convertible senior notes due July 1, 2020 in a private placement transaction. On July 18, 2013, the initial purchasers exercised, in full, their option to purchase an additional $22.5 million of the convertible senior notes, which resulted in an aggregate principal amount of $172.5 million of the convertible senior notes outstanding (collectively, the "2020 Convertible Notes"). The 2020 Convertible Notes are general unsecured obligations of the Company. Interest on the 2020 Convertible Notes is payable semi-annually, in arrears, on January 1 and July 1 of each year, beginning on January 1, 2014. Prior to January 1, 2020, the 2020 Convertible Notes will be convertible only during specified periods, if certain conditions are met. On or after January 1, 2020, the 2020 Convertible Notes will be convertible regardless of these conditions. Upon conversion, holders will receive cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. The conversion rate for the 2020 Convertible Notes is 21.8718 shares per $1,000 principal amount, which is equivalent to an initial conversion price of approximately $45.72 per share of common stock. As of March 31, 2014, none of the conditions allowing holders of the 2020 Convertible Notes to convert their notes had occurred.

As noted above, upon conversion, holders of the Company's 2020 Convertible Notes will receive cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. However, the Company's current intent is to settle conversions through combination settlement (*i.e.*, convertible into cash up to the aggregate principal amount, and shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, for the remainder). As a result, and in accordance with authoritative guidance related to derivatives and hedging and earnings per share, only the conversion spread is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company's common stock during any quarter exceeds $45.72. The average share price of the Company's common stock for the three months ended March 31, 2014 exceeded $45.72. The dilutive effect from the 2020 Convertible Notes was approximately 0.2 million shares for the three months ended March 31, 2014. See Note 3, "Earnings Per Share" for additional information.

In connection with the pricing of the 2020 Convertible Notes, the Company entered into privately negotiated capped call transactions (the "Capped Call Transactions") with one or more of the initial purchasers (or their affiliates) and one or more

other financial institutions (the "Option Counterparties"). The Capped Call Transactions cover, collectively, the number of shares of the Company's common stock underlying the 2020 Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the 2020 Convertible Notes. The cost of the Capped Call Transactions was approximately $18.1 million. In accordance with authoritative guidance, the Company recorded the net cost of the Capped Call Transactions as a reduction in additional paid in capital, and will not recognize subsequent changes in fair value of these financial instruments in its consolidated financial statements.

The Capped Call Transactions are expected generally to reduce the potential dilution and/or offset the cash payments the Company is required to make in excess of the principal amount upon conversion of the 2020 Convertible Notes in the event that the market price of the Company's common stock is greater than the strike price of the Capped Call Transactions (which initially corresponds to the initial conversion price of the 2020 Convertible Notes and is subject to certain adjustments under the terms of the Capped Call Transactions), with such reduction and/or offset subject to a cap based on the cap price of the Capped Call Transactions. The cap price of the Capped Call Transactions is $61.5475 per share, and is subject to certain adjustments under the terms of the Capped Call Transactions.

The Capped Call Transactions are separate transactions, in each case, entered into by the Company with the Option Counterparties, and are not part of the terms of the 2020 Convertible Notes and will not affect any holder's rights under the 2020 Convertible Notes. Holders of the 2020 Convertible Notes do not have any rights with respect to the Capped Call Transactions.

The net proceeds from the issuance of the 2020 Convertible Notes were approximately $167.4 million, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses paid by the Company. The Company used approximately $18.1 million of the net proceeds from this offering to pay the cost of the Capped Call Transactions and used the remainder of the net proceeds from this offering to pay a portion of the purchase price for the Cabot Acquisition and for general corporate purposes.

The Company determined that the fair value of the 2020 Convertible Notes at the date of issuance was approximately $140.2 million, and designated the residual value of approximately $32.3 million as the equity component. Additionally, the Company allocated approximately $4.9 million of the $6.0 million original 2020 Convertible Notes issuance cost as debt issuance costs and the remaining $1.1 million as equity issuance costs.

2021 Convertible Senior Notes

On March 5, 2014, Encore sold $140.0 million in aggregate principal amount of 2.875% convertible senior notes due March 15, 2021 in a private placement transaction. On March 6, 2014, the initial purchasers exercised, in full, their option to purchase an additional $21.0 million of the convertible senior notes, which resulted in an aggregate principal amount of $161.0 million of the convertible senior notes outstanding (collectively, the "2021 Convertible Notes"). The 2021 Convertible Notes are general unsecured obligations of the Company. Interest on the 2021 Convertible Notes is payable semi-annually, in arrears, on March 15 and September 15 of each year, beginning on September 15, 2014. Prior to September 15, 2020, the 2021 Convertible Notes will be convertible only during specified periods, if certain conditions are met. On or after September 15, 2020, the 2021 Convertible Notes will be convertible regardless of these conditions. Upon conversion, holders will receive cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. The conversion rate for the 2021 Convertible Notes is 16.8386 shares per $1,000 principal amount, which is equivalent to an initial conversion price of approximately $59.39 per share of common stock. As of March 31, 2014, none of the conditions allowing holders of the 2021 Convertible Notes to convert their notes had occurred.

As noted above, upon conversion, holders of the Company's 2021 Convertible Notes will receive cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. However, the Company's current intent is to settle conversions through combination settlement (*i.e.*, convertible into cash up to the aggregate principal amount, and shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, for the remainder). As a result, and in accordance with authoritative guidance related to derivatives and hedging and earnings per share, only the conversion spread is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company's common stock during any quarter exceeds $59.39.

In connection with the pricing of the 2021 Convertible Notes, the Company entered into privately negotiated capped call transactions (the "2014 Capped Call Transactions") with one or more of the initial purchasers (or their affiliates) and one or more other financial institutions (the "2014 Option Counterparties"). The Capped Call Transactions cover, collectively, the number of shares of the Company's common stock underlying the 2021 Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the 2021 Convertible Notes. The cost of the 2014 Capped Call Transactions was approximately $19.5 million. In accordance with authoritative guidance, the Company recorded the cost of the 2014 Capped

Call Transactions as a reduction in additional paid in capital, and will not recognize subsequent changes in fair value of these financial instruments in its consolidated financial statements.

The 2014 Capped Call Transactions are expected generally to reduce the potential dilution and/or offset the cash payments the Company is required to make in excess of the principal amount upon conversion of the 2021 Convertible Notes in the event that the market price of the Company's common stock is greater than the strike price of the 2014 Capped Call Transactions (which initially corresponds to the initial conversion price of the 2021 Convertible Notes and is subject to certain adjustments under the terms of the 2014 Capped Call Transactions), with such reduction and/or offset subject to a cap based on the cap price of the 2014 Capped Call Transactions. The cap price of the Capped Call Transactions is $83.1425 per share, and is subject to certain adjustments under the terms of the 2014 Capped Call Transactions.

The 2014 Capped Call Transactions are separate transactions, in each case, entered into by the Company with the 2014 Option Counterparties, and are not part of the terms of the 2021 Convertible Notes and will not affect any holder's rights under the 2021 Convertible Notes. Holders of the 2021 Convertible Notes do not have any rights with respect to the 2014 Capped Call Transactions.

The net proceeds from the sale of the 2021 Convertible Notes were approximately $155.7 million, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses paid by the Company. The Company used approximately $19.5 million of the net proceeds from this offering to pay the cost of the 2014 Capped Call Transactions and used the remainder of the net proceeds from this offering to pay for general corporate purposes, including working capital.

The Company determined that the fair value of the 2021 Convertible Notes at the date of issuance was approximately $143.6 million, and designated the residual value of approximately $17.4 million as the equity component. Additionally, the Company allocated approximately $4.7 million of the $5.3 million original 2021 Convertible Notes issuance cost as debt issuance costs and the remaining $0.6 million as equity issuance costs.

The balances of the liability and equity components of all of the convertible senior notes outstanding were as follows *(in thousands)*:

	March 31, 2014	December 31, 2013
Liability component—principal amount	$ 448,500	$ 287,500
Unamortized debt discount	(57,881)	(42,240)
Liability component—net carrying amount	$ 390,619	$ 245,260
Equity component	$ 53,133	$ 46,954

The debt discount is being amortized into interest expense over the remaining life of the convertible notes using the effective interest rates, which are 6.00%, 6.35%, and 4.70% for the 2017, 2020, and 2021 Convertible Notes, respectively.

Interest expense related to the convertible notes was as follows *(in thousands)*:

	Three Months Ended March 31,	
	2014	2013
Interest expense—stated coupon rate	$ 2,456	$ 858
Interest expense—amortization of debt discount	1,755	607
Total interest expense—convertible notes	$ 4,211	$ 1,465

Propel Facilities

Propel Facility I

Propel has a $200.0 million syndicated loan facility (the "Propel Facility I"). The Propel Facility I is used to originate or purchase tax lien assets related to properties in Texas and Arizona.

The Propel Facility I expires in May 2015 and includes the following key provisions:

- Interest at Propel's option, at either: (1) LIBOR, plus a spread that ranges from 300 to 375 basis points, depending on Propel's cash flow leverage ratio; or (2) Prime Rate, which is defined in the agreement as the rate of interest per annum equal to the sum of (a) the interest rate quoted in the "Money Rates" section of *The Wall Street Journal* from

time to time and designated as the "Prime Rate" *plus* (b) the Prime Rate Margin, which is a spread that ranges from 0 to 75 basis points, depending on Propel's cash flow leverage ratio;

- A borrowing base of 90% of the face value of the tax lien collateralized payment arrangements;
- Interest payable monthly; principal and interest due at maturity;
- Restrictions and covenants, which limit, among other things, the payment of dividends and the incurrence of additional indebtedness and liens; and
- Events of default which, upon occurrence, may permit the lender to terminate the Propel Facility I and declare all amounts outstanding to be immediately due and payable.

The Propel Facility I is primarily collateralized by the Tax Liens in Texas and requires Propel to maintain various financial covenants, including a minimum interest coverage ratio and a maximum cash flow leverage ratio.

At March 31, 2014, the outstanding balance on the Propel Facility I was $157.3 million. The weighted average interest rate was 3.66% and 3.54% for the three months ended March 31, 2014 and 2013, respectively.

Propel Facility II

On May 9, 2013, the Company, through subsidiaries of Propel, entered into a $100.0 million revolving credit facility (the "Propel Facility II"). The Propel Facility II is used to purchase tax liens from taxing authorities in various states.

The Propel Facility II expires in May 2017 and includes the following key provisions:

- During the first two years of the four-year term, the committed amount can be drawn on a revolving basis. During the following two years, no additional draws are permitted, and all proceeds from the tax liens are used to repay any amounts outstanding under the facility. After the four-year period ends, if any amounts are still outstanding, an alternate interest rate applies until all amounts owed are repaid;
- Prior to the expiration of the four-year term, interest at a per annum floating rate equal to LIBOR plus a spread of 325 basis points;
- Following the expiration of the four-year term or upon the occurrence of an event of default, interest at 400 basis points plus the greater of (i) a per annum floating rate equal to LIBOR plus a spread of 325 basis points, or (ii) Prime Rate, which is defined in the agreement as the rate most recently announced by the lender at its branch in San Francisco, California, from time to time as its prime commercial rate for United States dollar-denominated loans made in the United States;
- Proceeds from the tax liens are applied to pay interest, principal and other obligations incurred in connection with the Propel Facility II on a monthly basis as defined in the agreement;
- Special purpose entity covenants designed to protect the bankruptcy-remoteness of the borrowers and additional restrictions and covenants, which limit, among other things, the payment of certain dividends, the occurrence of additional indebtedness and liens and use of the collections proceeds from the certain Tax Liens; and
- Events of default which, upon occurrence, may permit the lender to terminate the Propel Facility II and declare all amounts outstanding to be immediately due and payable.

The Propel Facility II is collateralized by the Tax Liens acquired under the Propel Facility II. At March 31, 2014, the outstanding balance on the Propel Facility II was $17.5 million and, for the three months ended March 31, 2014, bore a weighted average interest rate of 3.04%.

On May 6, 2014, the Propel Facility II was amended by the parties to provide for the following changes:

- The commitment amount was increased from $100.0 million to the following: (a) during the period from July 1, 2014 to and including September 30, 2014, $190.0 million or (b) at any other time, $150.0 million;
- Termination of the revolving period for purchasing tax liens from taxing authorities was extended for a period of two years to May 15, 2017 (unless terminated earlier in accordance with the terms of the facility);
- The maturity date was extended two years to May 10, 2019;

- The amended facility allows for (a) the funding of tax liens in both Texas and Nevada in an aggregate amount up to $80.0 million (in addition to allowing for the purchase of tax liens in states other than Texas and Nevada) and (b) the right to finance vacant land in an amount equal to 5% of eligible assets (collectively the "Additional Assets");
- The applicable interest rate for advances related to tax liens in Texas is LIBOR plus 2.50%;
- In connection with the Additional Assets, the amended facility provides for certain technical changes throughout the governing tax lien loan and security agreement (*e.g.*, definitions, waterfall mechanics, representations and warranties) which were required to facilitate the addition of the Additional Assets; and
- The amended Propel Facility II increases the advance rate for certain states.

Cabot Senior Secured Notes

On September 20, 2012, Cabot Financial (Luxembourg) S.A. ("Cabot Financial"), an indirect subsidiary of Janus Holdings, issued £265.0 million (approximately $438.4 million) in aggregate principal amount of 10.375% Senior Secured Notes due 2019 (the "Cabot 2019 Notes"). Interest on the Cabot 2019 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year.

On August 2, 2013, Cabot Financial issued £100 million (approximately $151.7 million) in aggregate principal amount of 8.375% Senior Secured Notes due 2020 (the "Cabot 2020 Notes"). Interest on the Cabot 2020 Notes is payable semi-annually, in arrears, on February 1 and August 1 of each year, beginning on February 1, 2014.

Of the proceeds from the issuance of the Cabot 2020 Notes, approximately £75.0 million (approximately $113.8 million) was used to repay all amounts outstanding under the senior credit facilities of Cabot Financial (UK) Limited ("Cabot Financial UK"), an indirect subsidiary of Janus Holdings, and £25.0 million (approximately $37.9 million) was used to partially repay a portion of the J Bridge PECs (as anticipated in the Purchase Agreement discussed in Note 2, "Business Combinations") to J.C. Flowers.

On March 21, 2014, Cabot Financial issued £175.0 million (approximately $291.8 million) in aggregate principal amount of 6.5% Senior Secured Notes due 2021 (the "Cabot 2021 Notes" and, together with the Cabot 2019 Notes and Cabot 2020 Notes, the "Cabot Notes"). Interest on the Cabot 2021 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year, beginning on October 1, 2014. The total debt issuance cost associated with the Cabot 2021 Notes was approximately $4.4 million.

Of the proceeds from the issuance of the Cabot 2021 Notes, approximately £105.0 million (approximately $174.8 million) was used to repay all amounts outstanding under the Senior Secured Bridge Facilities described below.

The Cabot Notes are fully and unconditionally guaranteed on a senior secured basis by the following indirect subsidiaries of the Company: Cabot, Cabot Financial Limited, and all material subsidiaries of Cabot Financial Limited (other than Cabot Financial and Marlin Intermediate Holdings plc). The Cabot Notes are secured by a first ranking security interest in all the outstanding shares of Cabot Financial and the guarantors (other than Cabot) and substantially all the assets of Cabot Financial and the guarantors (other than Cabot).

On July 25, 2013, Marlin Intermediate Holdings plc, a subsidiary of Marlin, issued £150.0 million (approximately $246.5 million) in aggregate principal amount of 10.5% Senior Secured Notes due 2020 (the "Marlin Bonds"). Interest on the Marlin Bonds is payable semi-annually, in arrears, on February 1 and August 1 of each year. Cabot assumed the Marlin Bonds as a result of the Marlin Acquisition. The carrying value of the Marlin Bonds was adjusted to approximately $284.2 million to reflect the fair value of the Marlin Bonds at the time of acquisition.

The Marlin Bonds are fully and unconditionally guaranteed on a senior secured basis by Cabot Financial Limited and each of Cabot Financial Limited's material subsidiaries other than Marlin Intermediate Holdings plc, each of which is an indirect subsidiary of the Company.

Interest expense related to the Cabot Notes and Marlin Bonds was as follows *(in thousands)*:

	Three Months Ended March 31, 2014
Interest expense—stated coupon rate	$ 19,255
Interest income—accretion of debt premium	(2,232)
Total interest expense—Cabot Notes and Marlin Bonds	$ 17,023

Cabot Senior Revolving Credit Facility

On September 20, 2012, Cabot Financial UK entered into an agreement for a senior committed revolving credit facility of £50.0 million (approximately $82.7 million) (the "Cabot Credit Agreement"). This agreement was amended and restated on June 28, 2013 to increase the size of the revolving credit facility to £85.0 million (approximately $140.6 million) (the "Cabot Credit Facility").

The Cabot Credit Facility has a five-year term expiring in September 2017, and includes the following key provisions:

- Interest at LIBOR plus a maximum of 4.0% depending on the loan to value ("LTV") ratio determined quarterly, calculated as being the ratio of the net financial indebtedness of Cabot (as defined in the Cabot Credit Agreement) to Cabot's estimated remaining collections capped at 84-months;
- A restrictive covenant that limits the LTV ratio to 0.75;
- Additional restrictions and covenants which limit, among other things, the payment of dividends and the incurrence of additional indebtedness and liens; and
- Events of default which, upon occurrence, may permit the lenders to terminate the Cabot Credit Facility and declare all amounts outstanding to be immediately due and payable.

The Cabot Credit Facility is unconditionally guaranteed by the following indirect subsidiaries of the Company: Cabot, Cabot Financial Limited, and all material subsidiaries of Cabot Financial Limited. The Cabot Notes are secured by a first ranking security interest in all the outstanding shares of Cabot Financial UK and the guarantors (other than Cabot) and substantially all the assets of Cabot Financial UK and the guarantors (other than Cabot).

On February 7, 2014, Cabot Financial UK acquired all of the equity interest of Marlin, a leading acquirer of non-performing consumer debt in the United Kingdom, for an aggregate purchase price of approximately £166.8 million (approximately $274.1 million). The Acquisition was financed with £75.0 million (approximately $122.3 million) in borrowings under the Cabot Credit Facility and under the Senior Secured Bridge Facilities described below.

At March 31, 2014, the outstanding borrowings under the Cabot Credit Facility were approximately $133.4 million.

Senior Secured Bridge Facilities

The Marlin Acquisition was financed with borrowings under the existing Cabot Credit Facility and under new senior secured bridge facilities (the "Senior Secured Bridge Facilities") that Cabot Financial Limited entered into on February 7, 2014 pursuant to a Senior Secured Bridge Facilities Agreement. The Senior Secured Bridge Facilities were paid off in full by using proceeds from borrowings under the £175.0 million (approximately $291.8 million) Cabot 2021 Notes issued on March 21, 2014.

The Senior Secured Bridge Facilities Agreement provided for (a) a senior secured bridge facility in an aggregate principal amount of up to £105.0 million ("Bridge Facility A") and (b) a senior secured bridge facility in an aggregate principal amount of up to £151.5 million ("Bridge Facility B," and together with Bridge Facility A, the "Bridge Facilities"). The purpose of Bridge Facility A was to provide funding for the financing, in full or in part, of the purchase price for the Marlin Acquisition and the payment of costs, fees and expenses in connection with the Marlin Acquisition, and was fully drawn on as of the closing of the Marlin Acquisition. The purpose of Bridge Facility B was to finance, in full or in part, the repurchase of any bonds tendered in any change of control offer required to be made to the holders of the Marlin Bonds and the premium payable thereon. Bridge Facility B was intended to be utilized only to the extent that any holders of the Marlin Bonds elected to tender their Marlin Bonds within a defined period. No Marlin Bonds were tendered during the defined period and Bridge Facility B expired without drawdown. The Senior Secured Bridge Facilities Agreement also provided for uncommitted incremental facilities in an amount of up to £80.0 million for the purposes of financing future debt portfolio acquisitions. The Senior Secured Bridge Facilities had an initial term of one year and an extended term of 6.5 years if they were not repaid during the first year of issuance.

Prior to their initial maturity date, the rate of interest payable under the Senior Secured Bridge Facilities was the aggregate, per annum, of (i) LIBOR, *plus* (ii) an initial spread of 6.00% per annum (such spread stepping up by 50 basis points for each three-month period that the Senior Secured Bridge Facilities remained outstanding), not to exceed total caps set forth in the Senior Secured Bridge Facilities Agreement.

Loan fees associated with the Senior Secured Bridge Facilities were approximately $2.0 million. These fees were originally recorded as debt issuance costs and were written off at the time of repayment and termination of the agreement. This $2.0 million was charged to interest expense in the Company's condensed consolidated financial statements for the three months ended March 31, 2014.

Preferred Equity Certificates

As discussed in Note 2, “Business Combinations,” on July 1, 2013, the Company, through Encore Europe, completed the Cabot Acquisition by acquiring E Bridge PECs, E PECs, and E Shares that represent 50.1% of all of the issued and outstanding equity and debt securities of Janus Holdings. The remaining 49.9% of Janus Holdings’ equity and debt securities constitute J Bridge PECs, J PECs, and J shares owned by J.C. Flowers. All of the PECs accrue interest at 12% per annum. In accordance with authoritative guidance related to debt and equity securities, the J Bridge PECs, J PECs and any accrued interests thereof are classified as liabilities and are included in debt in the Company’s accompanying condensed consolidated statements of financial condition. In addition, certain other minority owners hold PECs at the Cabot Holdings level (the “Management PECs”). These PECs are also included in debt in the Company’s accompanying condensed consolidated statements of financial condition. The E Bridge PECs and E PECs held by the Company, and their related interest eliminate in consolidation and therefore are not included in debt. The J Bridge PECs, J PECs, and the Management PECs do not require the payment of cash interest expense as they have characteristics similar to equity with a preferred return. The ultimate payment of the accumulated interest would be satisfied only in connection with the disposition of the noncontrolling interests of J.C. Flowers and management.

The Company determined, at the time of the Cabot Acquisition, that the fair value of the preferred equity certificates and the respective accrued interests approximated their face value.

As anticipated in the Purchase Agreement, and as discussed in Note 2, “Business Combinations,” in August 2013, Cabot made a payment of approximately $41.2 million to J.C. Flowers for a partial redemption of the J Bridge PECs.

As of March 31, 2014, the outstanding balance of the PECs and their accrued interests was approximately $222.5 million.

Capital Lease Obligations

The Company has capital lease obligations primarily for computer equipment. As of March 31, 2014, the Company’s combined obligations for these equipment leases were approximately $11.1 million. These lease obligations require monthly or quarterly payments through 2018 and have implicit interest rates that range from zero to approximately 11.38%.

Note 10: Variable Interest Entity

On July 1, 2013, the Company, through Encore Europe, completed its acquisition of 50.1% of the equity interest in Janus Holdings. See Note 2, “Business Combinations” for more information. The Company has determined that Janus Holdings is a VIE, and the Company is the primary beneficiary of the VIE. As a result, the financial results of Janus Holdings are consolidated under the VIE consolidation model. A VIE is defined as a legal entity whose equity owners do not have sufficient equity at risk, or, as a group, the holders of the equity investment at risk lack any of the following three characteristics: decision-making rights, the obligation to absorb losses, or the right to receive the expected residual returns of the entity. The primary beneficiary is identified as the variable interest holder that has both the power to direct the activities of the VIE that most significantly affect the entity’s economic performance and the obligation to absorb expected losses or the right to receive benefits from the entity that could potentially be significant to the VIE. The key activities that affect Cabot’s economic performance include, but are not limited to, operational budgets and purchasing decisions. Through its control of the board of directors of Cabot’s immediate parent company, the Company controls the key operating activities at Cabot. The Company evaluates its relationships with the VIE on an ongoing basis to ensure that it continues to be the primary beneficiary.

The Company considers that the rights granted to J.C. Flowers under the contractual arrangements are more protective in nature rather than participating rights.

The Company does not intend to provide financial support to Janus Holdings. The Company did not apply push down accounting to Janus Holdings as a result of the business combination.

The Company's consolidated assets as of March 31, 2014 and December 31, 2013 included assets from Janus Holdings that can only be used to settle obligations of Janus Holdings. The Company's consolidated liabilities as of March 31, 2014 and December 31, 2013 included liabilities of Janus Holdings, whose creditors have no recourse to the Company. The following table presents Janus Holdings' assets and liabilities (after elimination of intercompany transactions and balances) in the Company's condensed consolidated statement of financial condition as of March 31, 2014 and December 31, 2013 (*in thousands):*

	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 95,109	$ 62,403
Investment in receivable portfolios, net	954,147	620,312
Deferred court costs, net	854	—
Property and equipment, net	15,034	13,755
Other assets	78,812	33,772
Goodwill	713,450	376,296
Total assets	$ 1,857,406	$ 1,106,538
Liabilities		
Accounts payable and accrued liabilities	$ 53,817	$ 47,219
Debt	1,586,259	846,676
Other liabilities	7,081	1,897
Total liabilities	$ 1,647,157	$ 895,792

Note 11: Income Taxes

During the three months ended March 31, 2014, and 2013, the Company recorded an income tax provision of $11.7 million and $12.6 million, respectively.

The effective tax rates for the respective periods are shown below:

	Three Months Ended March 31,	
	2014	2013
Federal provision	35.0 %	35.0 %
State provision	5.8 %	6.6 %
State benefit	(2.0)%	(2.3)%
International benefit[1]	(3.4)%	— %
Permanent items[2]	2.3 %	— %
Other	0.7 %	— %
Effective rate	38.4 %	39.3 %

(1) Relates primarily to the lower tax rate on the income attributable to international operations.

(2) Represents a provision for nondeductible items.

The Company's subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2018 and a 50% tax holiday for the subsequent four years. The impact of the tax holiday in Costa Rica for the three months ended March 31, 2014 was immaterial.

As of March 31, 2014, the Company had a gross unrecognized tax benefit of $88.2 million primarily related to an uncertain tax position resulting from the AACC Merger due to AACC's tax revenue recognition policy. This uncertain tax position, if recognized, would result in a net tax benefit of $18.7 million and would have a favorable effect on the Company's effective tax rate. The uncertain tax benefit increased $5.2 million during the three months ended March 31, 2014 as a result of the Marlin Acquisition described in Note 2, "Business Combinations." The uncertain tax benefit is included in "Other liabilities" in the Company's condensed consolidated statements of financial condition.

During the three months ended March 31, 2014, the Company did not provide for United States income taxes or foreign withholding taxes on the quarterly undistributed earnings from operations of its subsidiaries operating outside of the United States because the net operations resulted in a loss. Undistributed net loss of these subsidiaries during the three months ended March 31, 2014, was approximately $2.4 million.

Note 12: Commitments and Contingencies

Litigation

The Company is involved in disputes, legal actions, regulatory investigations, inquiries, and other actions from time to time in the ordinary course of business. The Company, along with others in its industry, is routinely subject to legal actions based on the Fair Debt Collection Practices Act ("FDCPA"), comparable state statutes, the Telephone Consumer Protection Act ("TCPA"), state and federal unfair competition statutes, and common law causes of action. The violations of law alleged in these actions often include claims that the Company lacks specified licenses to conduct its business, attempts to collect debts on which the statute of limitations has run, has made inaccurate assertions of fact in support of its collection actions and/or has acted improperly in connection with its efforts to contact consumers. Such litigation and regulatory actions involve potential compensatory or punitive damage claims, fines, sanctions, or injunctive relief. Many continue on for some length of time and involve substantial litigation, effort, and negotiation before a result is achieved, and during the process the Company often cannot determine the substance or timing of any eventual outcome.

There have been no material developments in any of the legal proceedings disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

In certain legal proceedings, the Company may have recourse to insurance or third party contractual indemnities to cover all or portions of its litigation expenses, judgments, or settlements. In accordance with authoritative guidance, the Company records loss contingencies in its financial statements only for matters in which losses are probable and can be reasonably estimated. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum estimated liability. The Company continuously assesses the potential liability related to its pending litigation and revises its estimates when additional information becomes available. As of March 31, 2014, the Company has no material reserves for litigation. Additionally, based on the current status of litigation matters, either the estimate of exposure is immaterial to the Company's financial statements or an estimate cannot yet be determined. The Company's legal costs are recorded to expense as incurred.

Purchase Commitments

In the normal course of business, the Company enters into forward flow purchase agreements and other purchase commitment agreements. As of March 31, 2014, the Company has entered into agreements to purchase receivable portfolios with a face value of approximately $1.0 billion for a purchase price of approximately $127.0 million. The Company has no purchase commitments extending past one year.

Note 13: Segment Information

The Company conducts business primarily through two reportable segments: portfolio purchasing and recovery and tax lien business. The Company's management relies on internal management reporting processes that provide segment revenue, segment operating income, and segment asset information in order to make financial decisions and allocate resources. The operating results from the Company's tax lien business segment are immaterial to the Company's total consolidated operating results. However, total assets from the tax lien business segment are significant as compared to the Company's total consolidated assets. As a result, in accordance with authoritative guidance on segment reporting, the Company's tax lien business segment is determined to be a reportable segment.

Segment operating income includes income from operations before depreciation, amortization of intangible assets, and stock-based compensation expense. The following table provides a reconciliation of revenue and segment operating income by reportable segment to consolidated results and was derived from the segments' internal financial information as used for corporate management purposes *(in thousands)*:

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Portfolio purchasing and recovery	$ 248,589	$ 140,683
Tax lien business	5,152	3,903
	$ 253,741	$ 144,586
Operating income:		
Portfolio purchasing and recovery	$ 77,568	$ 42,680
Tax lien business	1,654	881
	79,222	43,561
Depreciation and amortization	(6,117)	(1,846)
Stock-based compensation	(4,836)	(3,001)
Other expense	(37,697)	(6,695)
Income from operations before income taxes	$ 30,572	$ 32,019

Additionally, assets are allocated to operating segments for management review. As of March 31, 2014, total segment assets were $3.2 billion and $257.8 million for the portfolio purchasing and recovery segment and tax lien business segment, respectively.

The following presents information about geographic areas in which the Company operates *(in thousands)*:

	Three Months Ended March 31,	
	2014	2013
Revenues[(1)] :		
Domestic	$ 184,745	$ 144,586
International	68,996	—
	$ 253,741	$ 144,586

(1) Revenues are attributed to countries based on location of customer.

Note 14: Goodwill and Identifiable Intangible Assets

In accordance with authoritative guidance, goodwill is tested at the reporting unit level annually for impairment and in interim periods if certain events occur that indicate the fair value of a reporting unit may be below its carrying value. Goodwill was allocable to reporting units included in the Company's reportable segments, as follows *(in thousands):*

	Portfolio Purchasing and Recovery	Tax Lien Business	Total
Balance, December 31, 2013	$ 454,936	$ 49,277	$ 504,213
Goodwill acquired	329,943	—	329,943
Goodwill adjustment	3,457	—	3,457
Effect of foreign currency translation	6,954	—	6,954
Balance, March 31, 2014	$ 795,290	$ 49,277	$ 844,567

The Company's acquired intangible assets are summarized as follows *(in thousands)*:

	As of March 31, 2014			As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 1,975	$ (160)	$ 1,815	$ 1,975	$ (74)	$ 1,901
Developed technologies	4,909	(713)	4,196	4,909	(468)	4,441
Trade name and other	15,631	(1,025)	14,606	15,631	(386)	15,245
Other intangibles—indefinite lived	1,962	—	1,962	1,962	—	1,962
Total intangible assets	$ 24,477	$ (1,898)	$ 22,579	$ 24,477	$ (928)	$ 23,549

Note 15: Subsequent Events

Propel Securitized Financing Facility

On May 6, 2014, Propel, through its subsidiaries, completed the securitization of a pool of approximately $141.5 million in payment agreements and contracts relating to unpaid real property taxes, assessments, and other charges secured by liens on real property located in the State of Texas (the "Texas Tax Liens"). In connection with the securitization, investors purchased approximately $134.0 million in aggregate principal amount of 1.44% notes collateralized by the Texas Tax Liens (the "Propel Notes"), due 2029. The payment agreements and contracts will continue to be serviced by Propel. Proceeds from the sale of the Propel Notes will be used to pay the purchase price for the Texas Tax Liens to Propel, pay certain expenses incurred in connection with the issuance of the Propel Notes and fund certain reserves. Propel will use the net proceeds to pay down borrowings on the Propel Facility I. Refer to Note 9, "Debt - Propel Facilities" for detailed information related to the Propel Facility I and Part II - Item 5, "Other Information," for detailed information related to the securitization.

Acquisition of Tax Lien Portfolio

On May 2, 2014, Propel completed the acquisition of a portfolio of tax liens and other assets in a transaction valued at approximately $43.0 million. The acquired tax liens are secured by real estate in 18 states and the District of Columbia. The purchase was financed with cash on hand and from proceeds of a new $31.9 million term loan.

Share Repurchase Program

On April 24, 2014, the Company's Board of Directors approved a $50.0 million share repurchase program. Repurchases under the Company's share repurchase program are expected to be made with cash on hand and may be made from time to time, subject to market conditions and other factors, in the open market, through solicited or unsolicited privately negotiated transactions or otherwise. The program does not obligate the Company to acquire any particular amount of common stock, and it may be modified or suspended at any time at the Company's discretion.

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains "forward-looking statements" relating to Encore Capital Group, Inc. ("Encore") and its subsidiaries (which we may collectively refer to as the "Company," "we," "our" or "us") within the meaning of the securities laws. The words "believe," "expect," "anticipate," "estimate," "project," "intend," "plan," "will," "may," and similar expressions often characterize forward-looking statements. These statements may include, but are not limited to, projections of collections, revenues, income or loss, estimates of capital expenditures, plans for future operations, products or services and financing needs or plans, as well as assumptions relating to these matters. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we caution that these expectations or predictions may not prove to be correct or we may not achieve the financial results, savings or other benefits anticipated in the forward-looking statements. These forward-looking statements are necessarily estimates reflecting the best judgment of our senior management and involve a number of risks and uncertainties, some of which may be beyond our control or cannot be predicted or quantified, that could cause actual results to differ materially from those suggested by the forward-looking statements. Many factors, including but not limited to those set forth in our Annual Report on Form 10-K under "Part I, Item 1A. Risk Factors" and those set forth in this Quarterly Report on Form 10-Q under "Part II, Item 1A, Risk Factors," could cause our actual results, performance, achievements or industry results to be very different from the results, performance, achievements or industry results expressed or implied by these forward-looking statements. Our business, financial condition or results of operations could also be materially and adversely affected by other factors besides those listed. Forward-looking statements speak only as of the date the statements were made. We do not undertake any obligation to update or revise any forward-looking statements to reflect new information or future events, or for any other reason, even if experience or future events make it clear that any expected results expressed or implied by these forward-looking statements will not be realized. In addition, it is generally our policy not to make any specific projections as to future earnings, and we do not endorse projections regarding future performance that may be made by third parties.

Our Business and Operating Segments

We are an international specialty finance company providing debt recovery solutions for consumers and property owners across a broad range of financial assets. We purchase portfolios of defaulted consumer receivables at deep discounts to face value and manage them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers' unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies, commercial retailers, and telecommunication companies. Defaulted receivables may also include receivables subject to bankruptcy proceedings. Through certain subsidiaries, we are a market leader in portfolio purchasing and recovery in the United States. Our subsidiary, Janus Holdings Luxembourg S.a.r.l. ("Janus Holdings"), through its indirectly held United Kingdom-based subsidiary Cabot Credit Management Limited and its subsidiaries ("Cabot"), is a market leader in debt management in the United Kingdom historically specializing in portfolios consisting of higher balance, semi-performing accounts (*i.e.*, debt portfolios in which over 50% of accounts have made a payment in three of the last four months immediately prior to the portfolio purchase). Cabot's February 2014 acquisition of Marlin Financial Group Limited ("Marlin") now also provides Cabot with substantial litigation-enhanced collections capabilities for non-performing accounts. Our newly acquired majority-owned subsidiary, Refinancia S.A. ("Refinancia"), is a market leader in management of non-performing loans in Colombia and Peru. In addition, through our subsidiary, Propel Financial Services, LLC and its subsidiaries (collectively, "Propel"), we assist Texas and Nevada property owners who are delinquent on their property taxes by paying these taxes on behalf of the property owners in exchange for payment agreements collateralized by a tax lien on the property. Through Propel, we also purchase tax liens in various other states directly from taxing authorities.

We conduct business through two reportable segments: portfolio purchasing and recovery and tax lien business. The operating results from our tax lien business segment are immaterial to our total consolidated operating results. However, the total segment assets are significant as compared to our total consolidated assets. As a result, in accordance with authoritative guidance on segment reporting, our tax lien business segment is determined to be a reportable segment.

Our long-term growth strategy involves extending our knowledge about financially distressed consumers, growing our core portfolio purchase and recovery business, expanding into new asset classes and geographic areas, utilizing our core capabilities to align our business, investor and financial strategies to drive shareholder return, and investing in initiatives to safeguard and promote consumer financial health.

Portfolio Purchasing and Recovery

United States. Our portfolio purchasing and recovery segment purchases receivables based on robust, account-level valuation methods and employs proprietary statistical and behavioral models across the full extent of our operations. These investments allow us to value portfolios accurately (and limit the risk of overpaying), avoid buying portfolios that are

incompatible with our methods or goals and align the accounts we purchase with our business channels to maximize future collections. As a result, we have been able to realize significant returns from the receivables we acquire. We maintain strong relationships with many of the largest credit and telecommunication providers in the United States and believe we possess one of the industry's best collection staff retention rates.

While seasonality does not have a material impact on our portfolio purchasing and recovery segment, collections are generally strongest in our first calendar quarter, slower in the second and third calendar quarters, and slowest in the fourth calendar quarter. Relatively higher collections in the first quarter could result in a lower cost-to-collect ratio compared to the other quarters, as our fixed costs are relatively constant and applied against a larger collection base. The seasonal impact on our business may also be influenced by our purchasing levels, the types of portfolios we purchase, and our operating strategies.

Collection seasonality with respect to our portfolio purchasing and recovery segment can also affect revenue as a percentage of collections, also referred to as our revenue recognition rate. Generally, revenue for each pool group declines steadily over time, whereas collections can fluctuate from quarter to quarter based on seasonality, as described above. In quarters with lower collections (*e.g.*, the fourth calendar quarter), the revenue recognition rate can be higher than in quarters with higher collections (*e.g.*, the first calendar quarter).

In addition, seasonality could have an impact on the relative level of quarterly earnings. In quarters with stronger collections, total costs are higher as a result of the additional efforts required to generate those collections. Since revenue for each pool group declines steadily over time, in quarters with higher collections and higher costs (*e.g.*, the first calendar quarter), all else being equal, earnings could be lower than in quarters with lower collections and lower costs (*e.g.*, the fourth calendar quarter). Additionally, in quarters where a greater percentage of collections come from our legal and agency outsourcing channels, cost to collect will be higher than if there were more collections from our internal collection sites.

United Kingdom. Through Cabot, we purchase receivable portfolios using a proprietary pricing model that utilizes account-level statistical and behavioral data. This model allows Cabot to value portfolios with a high degree of accuracy and quantify portfolio performance in order to maximize future collections. As a result, Cabot has been able to realize significant returns from the assets it has acquired. Cabot maintains strong relationships with many of the largest financial service providers in the United Kingdom.

On February 7, 2014, Cabot acquired Marlin (the "Marlin Acquisition"), a leading acquirer of non-performing consumer debt in the United Kingdom. Marlin is differentiated by its proven competitive advantage in the use of litigation-enhanced collections for non-paying financial services receivables.

While seasonality does not have a material impact on Cabot's operations, collections are generally strongest in the second and third calendar quarters and slower in the first and fourth quarters, largely driven by the impact of the December holiday season and the New Year holiday, and the related impact on its customers' ability to repay their balances. This drives a higher level of plan defaults over this period, which are typically repaired across the first quarter of the following year. The August vacation season in the United Kingdom also has an unfavorable effect on the level of collections, but this is traditionally compensated for by higher collections in July and September.

Colombia and Peru. In December 2013, we acquired a majority ownership interest in Refinancia, a market leader in the management of non-performing loans in Colombia and Peru. In addition to purchasing defaulted receivables, Refinancia offers portfolio management services to banks for non-performing loans. Refinancia also specializes in non-traditional niches in the geographic areas in which it operates, including providing financial solutions to individuals who have previously defaulted on their obligations, payment plan guarantee services to merchants and loan guarantee services to financial institutions.

Tax Lien Business

Our tax lien business segment focuses on the property tax financing industry. Propel's principal activities are the acquisition and servicing of residential and commercial tax liens on real property. Propel's receivables secured by property tax liens include Texas tax liens, Nevada tax liens, and tax lien certificates (collectively, "Tax Liens"). With Texas and Nevada Tax Liens, Texas or Nevada property owners choose to have the taxing authority transfer their tax lien to Propel. Propel pays their tax lien obligation to the taxing authority and the property owner pays Propel over time at a lower interest rate than is being assessed by the taxing authority. Propel's arrangements with Texas and Nevada property owners provide them with repayment plans that are both affordable and flexible when compared with other payment options. Propel also purchases Tax Liens in various other states directly from taxing authorities, securing rights to future property tax payments, interest and penalties. In most cases, such Tax Liens continue to be serviced by the taxing authority. When the taxing authority is paid, it repays Propel the outstanding balance of the lien plus interest, which is established by statute or negotiated at the time of the purchase.

Revenue from our tax lien business segment comprised 2% of total consolidated revenues for each of the three months ended March 31, 2014 and 2013. Operating income from our tax lien business segment comprised 2% of our total consolidated operating income for each of the three months ended March 31, 2014 and 2013.

Cabot Acquisition

On July 1, 2013, through our wholly-owned subsidiary Encore Europe Holdings S.a.r.l., we completed the purchase of 50.1% of the equity interest in Janus Holdings, the indirect holding company of Cabot (the "Cabot Acquisition"), from an affiliate of J.C. Flowers & Co. LLC ("J.C. Flowers"). Our effective equity ownership of Cabot is approximately 42.9%, after reflecting the ownership of the noncontrolling interests. Cabot is a market leader in debt management in the United Kingdom specializing in higher balance, "semi-performing" accounts. The Cabot Acquisition will provide Cabot with access to more capital, which will enable Cabot to purchase additional debt and expand into other asset categories. In addition, the Cabot Acquisition provides synergy opportunities through Cabot's ability to leverage our analytic capabilities and efficient operating platform. Our initial focus is to help Cabot expand into the large secondary and tertiary markets by leveraging our analytical insights in these markets and utilizing our workforce in India, during the day, when this site would otherwise be dormant. Beginning in January 2014, our India call center began to service Cabot's United Kingdom accounts. The Cabot Acquisition also enables us to deploy capital globally in a market that we believe has strong growth potential. Cabot continues to be a stand-alone entity. It will retain its current staff and brand and continue to be run as its own company. The condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2013 does not include the results of operations of Janus Holdings, as the Cabot Acquisition was completed on July 1, 2013.

As discussed in Note 1, "Ownership, Description of Business and Summary of Significant Accounting Policies" in the notes to our condensed consolidated financial statements, we have determined that our less than wholly-owned subsidiary, Janus Holdings is a Variable Interest Entity, or VIE, and that we are the primary beneficiary of the VIE. As a result, the financial results of Janus Holdings are consolidated under the VIE consolidation model. Consequently, all financial data included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" has been presented on a consolidated basis prior to the allocation of noncontrolling interests.

On February 7, 2014, Cabot acquired Marlin, a leading acquirer of non-performing consumer debt in the United Kingdom. Marlin is differentiated by its proven competitive advantage in the use of litigation-enhanced collections for non-paying financial services receivables. We expect Marlin's litigation capabilities will create substantial uplift from Cabot's existing portfolio of non-performing accounts. Similarly, we believe that there may be further synergies by applying Cabot's scoring model to Marlin's portfolio.

AACC Merger

On June 13, 2013, we completed our merger with Asset Acceptance Capital Corp. ("AACC"), another leading provider of debt management and recovery solutions in the United States (the "AACC Merger"). We believe that our operating and cost advantages will improve the profitability of AACC's investments and that the AACC Merger will provide us with valuable operations capabilities and synergy opportunities. However, the success of the merger will depend on our ability to continue to successfully integrate AACC's business with our business in a cost-effective manner that does not disrupt the existing business relationships of either company. The condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2013 does not include the results of operations of AACC as the AACC Merger was completed on June 13, 2013.

In January 2012, Asset Acceptance, LLC, a subsidiary of AACC, entered into a consent decree with the Federal Trade Commission ("FTC"). The consent decree ended an FTC investigation into Asset Acceptance, LLC's compliance with the Federal Trade Commission Act, Fair Debt Collection Practices Act and Fair Credit Reporting Act. As part of the consent decree, Asset Acceptance, LLC agreed to undertake certain consumer protection practices, including, among other things, furnishing additional disclosures when collecting debt past the statute of limitations, and paid a civil penalty of $2,500,000. These practices continue to apply to the portfolios we purchased as a result of the AACC Merger. We do not expect compliance with the consent decree to have a material effect on our business.

Purchases and Collections

Portfolio Pricing, Supply and Demand

United States Markets

Prices for portfolios offered for sale directly from credit issuers continued to remain elevated during the first quarter of 2014, especially for fresh portfolios. Fresh portfolios are portfolios that are generally transacted within six months of the consumer's account being charged-off by the financial institution. We believe this elevated pricing is due to a reduction in the supply of charged-off accounts and continued demand in the marketplace. We believe that the reduction in supply is partially due to shifts in underwriting standards by financial institutions, which have resulted in lower volumes of charged-off accounts. We believe that this reduction in supply is also the result of certain financial institutions temporarily halting their sales of charged-off accounts while they conduct audits of debt management and recovery companies, including Encore. We expect that pricing will remain at these elevated levels for some period of time. We believe that pricing will not decline until buyers who have paid prices that are too high recognize that they are unable to realize a profit or until the financial institutions complete their audits of debt management and recovery companies and resume selling their charged-off accounts in volumes greater than current levels.

We believe that smaller competitors are facing difficulties in the portfolio purchasing market because of the high cost to operate due to regulatory pressure and because the issuers are being more selective with buyers in the marketplace, resulting in consolidation within the portfolio purchasing and recovery industry. We believe this favors larger participants in this market, such as us, because the larger market participants are better able to adapt to these pressures. Furthermore, as smaller competitors limit their participation in or exit the market, it may provide additional opportunities for us to purchase portfolios from competitors or to acquire competitors directly.

United Kingdom Markets

While prices for portfolios offered for sale directly from credit issuers in the United Kingdom remain at levels higher than historical averages, as a result of a backlog caused by issuers reducing their sales volumes during the 2008-2010 time period, we believe that the supply of debt sold to debt purchasers has increased and is expected to increase further in the coming year. Additionally, over the last few years, portfolios are being sold earlier in the life cycle, and therefore, include a higher proportion of paying accounts. We expect, that as a result of an increase in available funding to industry participants and lower return requirements for certain debt purchasers, pricing will remain elevated. However, we also believe that as Cabot's business increases in scale, and with anticipated improvements in the rate of collections and improved efficiencies in collections, Cabot's margins will remain competitive. Additionally, the acquisition of Marlin resulted in a new channel of liquidation through litigation in the United Kingdom, which will enable Cabot to collect from consumers who have the ability to pay, but are unwilling to do so. This further complements Cabot's success with collecting on semi-performing debt, where consumers have a high willingness to pay. We believe that the combined companies will have an enhanced ability to compete for portfolios.

Purchases by Type

The following table summarizes the types of charged-off consumer receivable portfolios we purchased for the periods presented *(in thousands)*:

	Three Months Ended March 31,	
	2014	2013
Credit card—United Kingdom[1]	$ 351,319	$ —
Credit card—United States [2]	116,246	43,414
Telecom	—	15,357
	$ 467,565	$ 58,771

(1) Purchases of consumer portfolio receivables in the United Kingdom for the three months ended March 31, 2014 include $208.5 million acquired in connection with the Marlin Acquisition.

(2) Purchases of consumer portfolio receivables in the United States include immaterial portfolios purchases in Latin America.

During the three months ended March 31, 2014, we invested $467.6 million to acquire portfolios, primarily charged-off credit card portfolios, with face values aggregating $4.3 billion, for an average purchase price of 10.9% of face value. Purchases of charged-off credit card portfolios include $208.5 million of portfolios acquired in conjunction with the Marlin Acquisition. This is a $408.8 million increase in the amount invested, compared with the $58.8 million invested during the

three months ended March 31, 2013, to acquire charged-off credit card and telecom portfolios with a face value aggregating $1.6 billion, for an average purchase price of 3.6% of face value.

Average purchase price, as a percentage of face value, varies from period to period depending on, among other things, the quality of the accounts purchased and the length of time from charge-off to the time we purchase the portfolios. The increase in purchase price as a percentage of face value was primarily related to our acquisition of a higher percentage of fresh portfolios in addition to a general increase in the price of portfolios offered for sale directly from credit issuers.

Collections by Channel

We currently utilize various business channels for the collection of our receivables. The following table summarizes the total collections by collection channel and geographic areas *(in thousands)*:

	Three Months Ended March 31,	
	2014	**2013**
United States:		
Legal collections	$ 151,029	$ 122,273
Collection sites	136,525	126,562
Collection agencies[(1)]	21,901	21,335
Subtotal	309,455	270,170
United Kingdom:		
Collection sites	45,861	—
Collection agencies	27,922	—
Legal collections	7,598	—
Subtotal	81,381	—
Other geographic area:		
Collection sites	5,838	—
Total collections	$ 396,674	$ 270,170

(1) Collections through our collection agency channel in the United States include accounts subject to bankruptcy filings collected by others. Additionally, collection agency collections often include accounts purchased from a competitor where we maintain the collection agency servicing until the accounts can be recalled and placed in our collection channels.

Gross collections increased $126.5 million, or 46.8%, to $396.7 million during the three months ended March 31, 2014, from $270.2 million during the three months ended March 31, 2013, primarily due to collections on portfolios acquired through the AACC Merger, the Cabot Acquisition and the Marlin Acquisition.

Results of Operations

Results of operations, in dollars and as a percentage of total revenue, were as follows *(in thousands, except percentages)*:

	Three Months Ended March 31,			
	2014		2013	
Revenues				
Revenue from receivable portfolios, net	$ 237,568	93.6 %	$ 140,683	97.3 %
Other revenues	11,349	4.5 %	301	0.2 %
Net interest income	4,824	1.9 %	3,602	2.5 %
Total revenues	253,741	100.0 %	144,586	100.0 %
Operating expenses				
Salaries and employee benefits	58,137	22.9 %	28,832	19.9 %
Cost of legal collections	49,825	19.6 %	42,258	29.2 %
Other operating expenses	26,423	10.4 %	13,265	9.2 %
Collection agency commissions	8,276	3.3 %	3,329	2.3 %
General and administrative expenses	36,694	14.5 %	16,342	11.3 %
Depreciation and amortization	6,117	2.4 %	1,846	1.3 %
Total operating expenses	185,472	73.1 %	105,872	73.2 %
Income from operations	68,269	26.9 %	38,714	26.8 %
Other (expense) income				
Interest expense	(37,962)	(15.0)%	(6,854)	(4.7)%
Other income	265	0.1 %	159	0.1 %
Total other expense	(37,697)	(14.9)%	(6,695)	(4.6)%
Income before income taxes	30,572	12.0 %	32,019	22.1 %
Provision for income taxes	(11,742)	(4.6)%	(12,571)	(8.7)%
Net income	18,830	7.4 %	19,448	13.5 %
Net loss attributable to noncontrolling interest	4,350	1.7 %	—	— %
Net income attributable to Encore shareholders	$ 23,180	9.1 %	$ 19,448	13.5 %

Non-GAAP Disclosure

In addition to the financial information prepared in conformity with Generally Accepted Accounting Principles (“GAAP”), we provide certain historical non-GAAP financial information. Management believes that the presentation of such non-GAAP financial information is meaningful and useful in understanding the activities and business metrics of our operations. Management believes that these non-GAAP financial measures reflect an additional way of viewing aspects of our business that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business.

Management believes that the presentation of these measures provides investors with greater transparency and facilitates comparison of operating results across a broad spectrum of companies with varying capital structures, compensation strategies, derivative instruments, and amortization methods, which provide a more complete understanding of our financial performance, competitive position, and prospects for the future. Readers should consider the information in addition to, but not instead of, our financial statements prepared in accordance with GAAP. This non-GAAP financial information may be determined or calculated differently by other companies, limiting the usefulness of these measures for comparative purposes.

Adjusted Income Per Share. Management uses non-GAAP adjusted income and adjusted income per share (which we also refer to from time to time as adjusted earnings per share), to assess operating performance, in order to highlight trends in our business that may not otherwise be apparent when relying on financial measures calculated in accordance with GAAP. Adjusted income attributable to Encore excludes non-cash interest and issuance cost amortization relating to our convertible notes, one-time charges and acquisition and integration related expenses, all net of tax. The following table provides a reconciliation between income and diluted income per share attributable to Encore calculated in accordance with GAAP to adjusted income and adjusted income per share attributable to Encore, respectively. In addition, as described in Note 3,

"Earnings Per Share" in the notes to our condensed consolidated financial statements, GAAP diluted earnings per share for the three months ended March 31, 2014, includes the effect of approximately 1.5 million common shares issuable upon conversion of our $115.0 million convertible senior notes due 2017 (the "2017 Convertible Notes") and $172.5 million convertible senior notes due 2020 (the "2020 Convertible Notes") because the average stock price exceeded the conversion price of these notes. However, as described in Note 9 "Debt—Encore Convertible Senior Notes," in the notes to our condensed consolidated financial statements, we entered into certain hedging transactions that have the effect of increasing the effective conversion price of the 2017 Convertible Notes to $60.00 and the 2020 Convertible Notes to $61.55. Accordingly, while these common shares are included in our diluted earnings per share, the hedge transactions will offset the impact of this dilution and no shares will be issued unless our stock price exceeds the effective conversion price, thereby creating a discrepancy between the accounting effect of those notes under GAAP and their economic impact. We have presented the following metrics both including and excluding the dilutive effect of the 2017 and 2020 Convertible Notes to better illustrate the economic impact of those notes and the related hedging transactions to shareholders, under the "Per Diluted Share-Accounting" and "Per Diluted Share-Economic" columns, respectively *(in thousands, except per share data):*

	Three Months Ended March 31,					
	2014			2013		
	$	Per Diluted Share—Accounting	Per Diluted Share—Economic	$	Per Diluted Share—Accounting	Per Diluted Share—Economic
GAAP net income attributable to Encore, as reported	$ 23,180	$ 0.82	$ 0.87	$ 19,448	$ 0.80	$ 0.80
Adjustments:						
Convertible notes non-cash interest and issuance cost amortization, net of tax	1,291	0.05	0.05	673	0.03	0.03
Acquisition and integration related expenses, net of tax	4,358	0.15	0.16	775	0.03	0.03
Adjusted income attributable to Encore	$ 28,829	$ 1.02	$ 1.08	$ 20,896	$ 0.86	$ 0.86

Adjusted EBITDA. Management utilizes adjusted EBITDA (defined as net income before interest, taxes, depreciation and amortization, stock-based compensation expenses, portfolio amortization, one-time charges, and acquisition and integration related expenses), which is materially similar to a financial measure contained in covenants used in the Encore revolving credit and term loan facility, in the evaluation of our operations and believes that this measure is a useful indicator of our ability to generate cash collections in excess of operating expenses through the liquidation of our receivable portfolios. Adjusted EBITDA for the periods presented is as follows *(in thousands):*

	Three Months Ended March 31,	
	2014	2013
GAAP net income, as reported	$ 18,830	$ 19,448
Adjustments:		
Interest expense	37,962	6,854
Provision for income taxes	11,742	12,571
Depreciation and amortization	6,117	1,846
Amount applied to principal on receivable portfolios	159,106	129,487
Stock-based compensation expense	4,836	3,001
Acquisition related legal and advisory fees	11,081	1,276
Adjusted EBITDA	$ 249,674	$ 174,483

Adjusted Operating Expenses. Management utilizes adjusted operating expenses in order to facilitate a comparison of approximate cash costs to cash collections for the portfolio purchasing and recovery business. Adjusted operating expenses for our portfolio purchasing and recovery business are calculated by starting with GAAP total operating expenses and backing out stock-based compensation expense, operating expenses related to non-portfolio purchasing and recovery business, one-time charges, and acquisition and integration related operating expenses. Operating expenses related to non-portfolio purchasing and recovery business include operating expenses from our tax lien business and other non-reportable operating segments, as well

as corporate overhead not related to our portfolio purchasing and recovery business. Adjusted operating expenses related to our portfolio purchasing and recovery business for the periods presented are as follows *(in thousands):*

	Three Months Ended March 31,	
	2014	2013
GAAP total operating expenses, as reported	$ 185,472	$ 105,872
Adjustments:		
Stock-based compensation expense	(4,836)	(3,001)
Operating expenses related to non-portfolio purchasing and recovery business	(17,154)	(5,274)
Acquisition related legal and advisory fees	(11,081)	(1,276)
Adjusted operating expenses	$ 152,401	$ 96,321

Comparison of Results of Operations

Revenues

Our revenues consist primarily of portfolio revenue, contingent fee income, and net interest income from our tax lien business.

Portfolio revenue consists of accretion revenue and zero basis revenue. Accretion revenue represents revenue derived from pools (quarterly groupings of purchased receivable portfolios) with a cost basis that has not been fully amortized. Revenue from pools with a remaining unamortized cost basis is accrued based on each pool's effective interest rate applied to each pool's remaining unamortized cost basis. The cost basis of each pool is increased by revenue earned and decreased by gross collections and portfolio allowances. The effective interest rate is the Internal Rate of Return ("IRR") derived from the timing and amounts of actual cash received and anticipated future cash flow projections for each pool. All collections realized after the net book value of a portfolio has been fully recovered, or Zero Basis Portfolios, are recorded as revenue, or Zero Basis Revenue. We account for our investment in receivable portfolios utilizing the interest method in accordance with the authoritative guidance for loans and debt securities acquired with deteriorated credit quality. Interest income, net of related interest expense represents net interest income on receivables secured by property tax liens.

The following tables summarize collections, revenue, end of period receivable balance and other related supplemental data, by year of purchase from our portfolio purchasing and recovery segment (*in thousands, except percentages*):

	Three Months Ended March 31, 2014					As of March 31, 2014	
	Collections(1)	Gross Revenue(2)	Revenue Recognition Rate(3)	Net Portfolio Allowance Reversal	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR
United States (4):							
ZBA (5)	$ 6,511	$ 3,591	55.2%	$ 2,920	1.5%	$ —	—%
2006	1,287	338	26.3%	—	0.1%	1,516	5.3%
2007	2,338	1,227	52.5%	—	0.5%	4,544	7.7%
2008	8,373	5,062	60.5%	310	2.2%	14,613	9.9%
2009	16,500	12,740	77.2%	—	5.4%	17,241	21.1%
2010	31,963	22,138	69.3%	—	9.4%	40,348	15.5%
2011	45,649	29,245	64.1%	—	12.5%	86,579	9.9%
2012	78,858	37,357	47.4%	—	15.9%	235,250	4.6%
2013	119,772	64,437	53.8%	—	27.5%	435,471	4.5%
2014	4,042	1,973	48.8%	—	0.8%	114,321	2.6%
Subtotal	315,293	178,108	56.5%	3,230	76.0%	949,883	5.6%
United Kingdom:							
2013	63,594	43,373	68.2%	—	18.5%	604,962	2.4%
2014	17,787	12,857	72.3%	—	5.5%	349,185	2.2%
Subtotal	81,381	56,230	69.1%	—	24.0%	954,147	2.3%
Total	$ 396,674	$ 234,338	59.1%	$ 3,230	100.0%	$ 1,904,030	4.0%

	Three Months Ended March 31, 2013					As of March 31, 2013	
	Collections(1)	Gross Revenue(2)	Revenue Recognition Rate(3)	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR
ZBA(5)	$ 5,611	$ 4,662	83.1%	$ 949	3.4%	$ —	—
2005	2,251	233	10.4%	10	0.2%	108	5.3%
2006	2,503	1,140	45.5%	(459)	0.8%	6,415	5.1%
2007	3,378	1,554	46.0%	343	1.1%	8,966	5.1%
2008	12,114	7,031	58.0%	163	5.0%	29,395	7.1%
2009	23,232	14,695	63.3%	—	10.5%	38,683	10.9%
2010	45,224	28,392	62.8%	—	20.3%	87,624	9.5%
2011	67,236	36,348	54.1%	—	26.0%	164,466	6.5%
2012	104,172	43,295	41.6%	—	31.0%	409,360	3.1%
2013	4,449	2,327	52.3%	—	1.7%	56,508	3.8%
Total	$ 270,170	$ 139,677	51.7%	$ 1,006	100.0%	$ 801,525	5.1%

(1) Does not include amounts collected on behalf of others.

(2) Gross revenue excludes the effects of net portfolio allowance or net portfolio allowance reversals.

(3) Revenue recognition rate excludes the effects of net portfolio allowance or net portfolio allowance reversals.

(4) United States data includes immaterial results from other geographic areas.

(5) ZBA revenue typically has a 100% revenue recognition rate. However, collections on ZBA pool groups where a valuation allowance remains must first be recorded as an allowance reversal until the allowance for that pool group is zero. Once the entire valuation allowance is reversed, the revenue recognition rate will become 100%.

Total revenues were $253.7 million during the three months ended March 31, 2014, an increase of $109.2 million, or 75.5%, compared to total revenues of $144.6 million during the three months ended March 31, 2013.

Accretion revenue from our portfolio purchasing and recovery segment was $237.6 million during the three months ended March 31, 2014, an increase of $96.9 million, or 68.9%, compared to revenue of $140.7 million during the three months ended March 31, 2013. The increase in portfolio purchase and recovery revenue during the three months ended March 31, 2014 compared to 2013 was due to additional accretion revenue associated with a higher portfolio balance, primarily associated with portfolios acquired through the Cabot Acquisition and the AACC Merger, and increases in yields on certain pool groups due to over-performance, offset by lower yields on recently formed pool groups. During the three months ended March 31, 2014, we recorded a portfolio allowance reversal of $3.2 million, compared to a net portfolio allowance reversal of $1.0 million during the three months ended March 31, 2013.

Other revenues primarily represent contingent fee income at our Cabot subsidiary earned on accounts collected on behalf of others, primarily credit originators. This contingent fee-based revenue was $6.3 million for the three months ended March 31, 2014.

Net interest income from our tax lien business segment was $4.8 million and $3.6 million for the three months ended March 31, 2014 and 2013, respectively.

Operating Expenses

Total operating expenses were $185.5 million during the three months ended March 31, 2014, an increase of $79.6 million, or 75.2%, compared to total operating expenses of $105.9 million during the three months ended March 31, 2013.

Operating expenses are explained in more detail as follows:

Salaries and Employee Benefits

Salaries and employee benefits increased $29.3 million, or 101.6%, to $58.1 million during the three months ended March 31, 2014, from $28.8 million during the three months ended March 31, 2013. The increase was primarily the result of increases in headcount as a result of the Cabot Acquisition, the AACC Merger, the Marlin Acquisition and increases in headcount and related compensation expense to support our growth. Salaries and employee benefits related to our internal legal channel in the United States were approximately $5.7 million and $2.8 million for the three months ended March 31, 2014 and 2013, respectively.

Stock-based compensation increased $1.8 million, or 61.1% to $4.8 million during the three months ended March 31, 2014, from $3.0 million during the three months ended March 31, 2013. This increase was primarily attributable to the higher fair value of equity awards granted in recent periods due to an increase in our stock price and an increase in the number of shares granted.

Salaries and employee benefits broken down between the reportable segments are as follows *(in thousands)*:

	Three Months Ended March 31,	
	2014	2013
Salaries and employee benefits:		
Portfolio purchasing and recovery	$ 56,398	$ 27,414
Tax lien business	1,739	1,418
	$ 58,137	$ 28,832

Cost of Legal Collections—Portfolio Purchasing and Recovery

The cost of legal collections increased $7.6 million, or 17.9%, to $49.8 million during the three months ended March 31, 2014, compared to $42.3 million during the three months ended March 31, 2013. These costs represent contingent fees paid to our nationwide network of attorneys and costs of litigation in the United States. The increase in the cost of legal collections was primarily the result of an increase of $36.4 million, or 29.7%, in gross collections through our legal channels. Gross legal collections were $158.6 million during the three months ended March 31, 2014, up from $122.3 million collected during the three months ended March 31, 2013. The cost of legal collections decreased as a percentage of gross collections through this channel to 31.4% during the three months ended March 31, 2014 from 34.6% during the same period in the prior year. This decrease was primarily due to increased collections in our internal legal channel for which we do not pay a commission.

Additionally, the decrease was attributable to the lower cost of legal collections through Marlin, our indirectly owned subsidiary in the United Kingdom.

The following table summarizes our legal collection channel performance and related direct costs *(in thousands, except percentages)*:

	Three Months Ended March 31,			
	2014		2013	
United States:				
Collections:				
Collections - legal outsourcing	$ 119,733	79.3%	$ 112,642	92.1%
Collections - internal legal	31,296	20.7%	9,631	7.9%
Collections - legal networks	$ 151,029	100.0%	$ 122,273	100.0%
Costs:				
Commissions - legal outsourcing	$ 30,665	25.6%	$ 28,810	25.6%
Court cost expense - legal outsourcing[1]	11,426	9.5%	10,015	8.9%
Court cost expense - internal legal[1]	5,152		2,515	
Other[2]	1,125		918	
Direct costs - legal networks	$ 48,368	32.0%	$ 42,258	34.6%
United Kingdom:				
Collections - legal networks	$ 7,598		$ —	
Direct cost - legal networks	$ 1,457	19.2%	$ —	—
Total collections - legal networks	$ 158,627		$ 122,273	
Total direct costs - legal networks[3]	$ 49,825	31.4%	$ 42,258	34.6%

(1) We advance certain out-of-pocket court costs and capitalize these costs in our consolidated financial statements and provide a reserve and corresponding court cost expense for the costs that we believe will be ultimately uncollectible. This amount includes changes in our anticipated recovery rate of court costs expensed.

(2) Other costs consist of costs related to counter claims and legal network subscription fees.

(3) Total direct costs—legal networks do not include internal legal channel employee salaries and benefits, and other related direct operating expenses. These expenses were $7.0 million and $4.1 million for the three months ended March 31, 2014 and 2013, respectively.

Other Operating Expenses

Other operating expenses increased $13.2 million, or 99.2%, to $26.4 million during the three months ended March 31, 2014, from $13.3 million during the three months ended March 31, 2013. The increase was primarily the result of the AACC Merger, the Cabot Acquisition and the Marlin Acquisition.

Other operating expenses broken down between the reportable segments are as follows *(in thousands)*:

	Three Months Ended March 31,	
	2014	2013
Other operating expenses:		
Portfolio purchasing and recovery	$ 25,296	$ 12,380
Tax lien business	1,127	885
	$ 26,423	$ 13,265

Collection Agency Commissions—Portfolio Purchasing and Recovery

During the three months ended March 31, 2014, we incurred $8.3 million in commissions to third-party collection agencies, or 16.6% of the related gross collections of $49.8 million. During the period, the commission rate as a percentage of related gross collections was 16.9% and 16.4% for our collection outsourcing channels in the United States and United Kingdom, respectively. During the three months ended March 31, 2013, we incurred $3.3 million in commissions, or 15.6%, of the related gross collections of $21.3 million. The increase in the net commission rate as a percentage of the related gross

collections from the prior period was primarily due to the lower commission rates on purchased bankruptcy receivable portfolios in the United States which, during the three months ended March 31, 2013, represented a higher percentage of our third-party collections.

General and Administrative Expenses

General and administrative expenses increased $20.4 million, or 124.5%, to $36.7 million during the three months ended March 31, 2014, from $16.3 million during the three months ended March 31, 2013. The increase was primarily the result of the AACC Merger, the Cabot Acquisition, the Marlin Acquisition, and general increases in expense in order to support our growth. General and administrative expenses include one-time acquisition and integration related costs of $9.8 million.

General and administrative expenses broken down between the reportable segments are as follows *(in thousands)*:

	Three Months Ended March 31,	
	2014	**2013**
General and administrative expenses:		
Portfolio purchasing and recovery	$ 36,062	$ 15,623
Tax lien business	632	719
	$ 36,694	$ 16,342

Depreciation and Amortization

Depreciation and amortization expense increased $4.3 million, or 231.4%, to $6.1 million during the three months ended March 31, 2014, from $1.8 million during the three months ended March 31, 2013. The increase during the three months ended March 31, 2013 was primarily related to increased depreciation expenses resulting from the acquisition of fixed assets in the current and prior years and additional depreciation and amortization expenses resulting from the AACC Merger, the Cabot Acquisition, and the Marlin Acquisition.

Cost per Dollar Collected—Portfolio Purchasing and Recovery

The following tables summarize our cost per dollar collected *(in thousands, except percentages)*:

	Three Months Ended March 31,							
	2014				2013			
	Collections	Cost	Cost Per Channel Dollar Collected	Cost Per Total Dollar Collected	Collections	Cost	Cost Per Channel Dollar Collected	Cost Per Total Dollar Collected
United States:								
Collection sites[1]	$ 136,525	$ 8,410	6.2%	2.7%	$ 126,562	$ 7,243	5.7%	2.7%
Legal outsourcing	119,733	43,216	36.1%	14.0%	112,642	39,590	35.1%	14.7%
Internal legal[2]	31,296	12,189	38.9%	4.0%	9,631	6,566	68.2%	2.4%
Collection agencies	21,901	3,706	16.9%	1.2%	21,335	3,329	15.6%	1.2%
Other indirect costs[3]	—	59,516	—	19.2%	—	39,593	—	14.7%
Subtotal	309,455	127,037		41.1%	270,170	96,321		35.7%
United Kingdom:								
Collection sites[1]	45,861	2,723	5.9%	3.4%	—	—	—	—
Legal outsourcing	7,598	1,457	19.2%	1.8%	—	—	—	—
Collection agencies	27,922	4,570	16.4%	5.6%	—	—	—	—
Other indirect costs[3]	—	14,739	—	18.1%	—	—	—	—
Subtotal	81,381	23,489		28.9%	—	—		—
Other geographic areas:								
Collection sites[1]	5,838	864	14.8%	14.8%	—	—	—	—
Other indirect costs[3]	—	1,011	—	17.3%	—	—	—	—
Subtotal	5,838	1,875		32.1%	—	—		—
Total[4]	$ 396,674	$ 152,401		38.4%	$ 270,170	$ 96,321		35.7%

(1) Cost in collection sites represents only account managers and their supervisors' salaries, variable compensation, and employee benefits. Collection sites in the United States include collection site expenses for our India and Costa Rica call centers.

(2) Cost in internal legal channel represents court costs expensed, internal legal channel employee salaries and benefits, and other related direct operating expenses.

(3) Other indirect costs represent non-collection site salaries and employee benefits, general and administrative expenses, other operating expenses and depreciation and amortization.

(4) Total cost represents all operating expenses, excluding stock-based compensation expense, operating expenses related to non-portfolio purchasing and recovery business, one-time charges, and acquisition and integration related operating expenses. We include this information in order to facilitate a comparison of approximate cash costs to cash collections for the debt purchasing business in the periods presented. Refer to the "Non-GAAP Disclosure" section for further details.

During the three months ended March 31, 2014, overall cost per dollar collected increased by 270 basis points to 38.4% of gross collections from 35.7% of gross collections during the three months ended March 31, 2013. This increase was primarily due to the increased cost to collect in the United States, offset by lower cost to collect at our Cabot subsidiary in the United Kingdom. During the same periods, cost to collect in the United States increased to 41.1% from 35.7%. Over time, we expect our cost to collect to remain competitive, but also expect that it will fluctuate from quarter to quarter based on seasonality, acquisitions, the cost of investments in new operating initiatives, and the ongoing management of the changing regulatory and legislative environment.

The increase in total cost to collect in the United States was due to several factors, including:

- The cost from our collection sites, which includes account manager salaries, variable compensation, and employee benefits, as a percentage of total collections in the United States, remained consistent at 2.7% during the three months ended March 31, 2014 and 2013, but as a percentage of our site collections, increased to 6.2% during the three months ended March 31, 2014, from 5.7% during the three months ended March 31, 2013. The increase in cost as a percentage of site collections, through our collection sites in the United States, was primarily due to the higher cost to collect attributable to AACC.

- The cost of legal collections through our internal legal channel, as a percentage of total collections in the United States, increased to 4.0% during the three months ended March 31, 2014, from 2.4% during the three months ended March 31, 2013 and, as a percentage of channel collections, decreased to 38.9% during the three months ended March 31, 2014, from 68.2% during the three months ended March 31, 2013. This increase in cost as a percentage of total collections was primarily due to increased collections as a result of our continued expansion of our internal legal channel. The decrease in cost as a percentage of channel collections was primarily due to increased productivity in our internal legal platform, which we expect to continue as the channel matures.
- Other costs not directly attributable to specific channel collections (other indirect costs) increased to 19.2% for the three months ended March 31, 2014, from 14.7% for the three months ended March 31, 2013. These costs include non-collection site salaries and employee benefits, general and administrative expenses, other operating expenses, and depreciation and amortization. The dollar increase, and the increase in cost per dollar collected, were due to several factors including increases in corporate legal expense, headcount, and general and administrative expenses necessary to support growth in addition to investments in initiatives relating to the evolving regulatory environment.

The increase in cost per dollar collected in the United States was partially offset by:

- The cost of legal collections through our legal outsourcing channel, as a percentage of total collections in the United States, decreased to 14.0% during the three months ended March 31, 2014, from 14.7% during the three months ended March 31, 2013 and, as a percentage of channel collections, increased to 36.1% from 35.1% compared to the same period in the prior year. The decrease in the cost of legal collections as a percentage of total collections was primarily related to a decrease in this channel's collections as a percentage of total collections as a result of increased reliance on our internal legal channel. The increase in the cost of legal collections as a percentage of channel collections was due to a higher cost to collect through the legal channel at our AACC subsidiary.

Interest Expense—Portfolio Purchasing and Recovery

Interest expense increased $31.1 million to $38.0 million during the three months ended March 31, 2014, from $6.9 million during the three months ended March 31, 2013.

The following table summarizes our interest expense (*in thousands, except percentages*):

	Three Months Ended March 31,			
	2014	2013	$ Change	% Change
Stated interest on debt obligations	$ 29,332	$ 5,477	$ 23,855	435.5 %
Interest expense on preferred equity certificates	5,675	—	5,675	
Amortization of loan fees and other loan costs	3,432	770	2,662	345.7 %
(Accretion of debt premium), net of amortization of debt discount	(477)	607	(1,084)	(178.6)%
Total interest expense	$ 37,962	$ 6,854	$ 31,108	453.9 %

The payment of the accumulated interest on the preferred equity certificates issued in connection with the Cabot Acquisition will only be satisfied in connection with the disposition of the noncontrolling interests of J.C. Flowers and management.

The increase in interest expense during the three months ended March 31, 2014 was primarily attributable to interest expense of $27.5 million incurred at Cabot, including the $5.7 million of interest expense on the preferred equity certificates. The increase was also a result of increased interest expense related to additional borrowings to finance the AACC Merger, the Cabot Acquisition and the Marlin Acquisition.

Provision for Income Taxes

During the three months ended March 31, 2014 and 2013, we recorded income tax provisions of $11.7 million and $12.6 million, respectively.

The effective tax rates for the respective periods are shown below:

	Three Months Ended March 31,	
	2014	2013
Federal provision	35.0 %	35.0 %
State provision	5.8 %	6.6 %
State benefit	(2.0)%	(2.3)%
International benefit[1]	(3.4)%	— %
Permanent items[2]	2.3 %	— %
Other	0.7 %	— %
Effective rate	38.4 %	39.3 %

(1) Represents reserves taken for certain tax position adopted by the Company.

(2) Represents a provision for nondeductible items.

Our subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2018 and a 50% tax holiday for the subsequent four years. The impact of the tax holiday in Costa Rica for the three months ended March 31, 2014 and 2013 was immaterial.

As of March 31, 2014, we had a gross unrecognized tax benefit of $88.2 million primarily related to an uncertain tax position resulting from our AACC Merger due to AACC's tax revenue recognition policy. This uncertain tax position, if recognized, would result in a net tax benefit of $18.7 million and would have a favorable effect on our effective tax rate. The uncertain tax benefit increased $5.2 million during the three months ended March 31, 2014 as a result of the Marlin Acquisition described in Note 2, "Business Combinations," to our condensed consolidated financial statements.

During the three months ended March 31, 2014, we did not provide for United States income taxes or foreign withholding taxes on the quarterly undistributed earnings of our subsidiaries operating outside of the United States. Undistributed net loss of these subsidiaries during the three months ended March 31, 2014 was approximately $2.4 million.

Supplemental Performance Data—Portfolio purchasing and recovery

Cumulative Collections to Purchase Price Multiple

The following table summarizes our purchases and related gross collections by year of purchase *(in thousands, except multiples)*:

Year of Purchase	Purchase Price[1]	Cumulative Collections through March 31, 2014													
		<2004	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total[2]	CCM[3]
Charged-off consumer receivables:															
United States[4]:															
<1999	$ 41,117	$133,727	$ 4,202	$ 2,042	$ 1,513	$ 989	$ 501	$ 406	$ 296	$ 207	$ 128	$ 100	$ 23	$ 144,134	3.5
1999	48,712	76,104	8,654	5,157	3,513	1,954	1,149	885	590	487	345	256	47	99,141	2.0
2000	6,153	21,580	2,293	1,323	1,007	566	324	239	181	115	103	96	20	27,847	4.5
2001	38,185	108,453	28,551	20,622	14,521	5,644	2,984	2,005	1,411	1,139	991	731	145	187,197	4.9
2002	61,490	118,549	62,282	45,699	33,694	14,902	7,922	4,778	3,575	2,795	1,983	1,715	299	298,193	4.8
2003	88,496	59,038	86,958	69,932	55,131	26,653	13,897	8,032	5,871	4,577	3,582	2,882	580	337,133	3.8
2004	101,316	—	39,400	79,845	54,832	34,625	19,116	11,363	8,062	5,860	4,329	3,442	702	261,576	2.6
2005	192,585	—	—	66,491	129,809	109,078	67,346	42,387	27,210	18,651	12,669	9,552	1,959	485,152	2.5
2006	141,026	—	—	—	42,354	92,265	70,743	44,553	26,201	18,306	12,825	9,468	1,901	318,616	2.3
2007	204,065	—	—	—	—	68,048	145,272	111,117	70,572	44,035	29,619	20,812	3,994	493,469	2.4
2008	227,773	—	—	—	—	—	69,049	165,164	127,799	87,850	59,507	41,773	8,416	559,558	2.5
2009	253,282	—	—	—	—	—	—	96,529	206,773	164,605	111,569	80,443	16,535	676,454	2.7
2010	346,004	—	—	—	—	—	—	—	125,465	284,541	215,088	150,558	30,444	806,096	2.3
2011	382,649	—	—	—	—	—	—	—	—	122,224	300,536	225,451	45,618	693,829	1.8
2012	474,871	—	—	—	—	—	—	—	—	—	186,472	322,962	71,807	581,241	1.2
2013	544,392	—	—	—	—	—	—	—	—	—	—	223,862	111,348	335,210	0.6
2014	116,204	—	—	—	—	—	—	—	—	—	—	—	6,705	6,705	0.1
Subtotal	3,268,320	517,451	232,340	291,111	336,374	354,724	398,303	487,458	604,006	755,392	939,746	1,094,103	300,543	6,311,551	1.9
United Kingdom:															
2013	620,900	—	—	—	—	—	—	—	—	—	—	134,259	63,594	197,853	0.3
2014	351,319	—	—	—	—	—	—	—	—	—	—	—	17,787	17,787	0.1
Subtotal	972,219	—	—	—	—	—	—	—	—	—	—	134,259	81,381	215,640	0.2
Purchased bankruptcy receivables:															
2010	11,971	—	—	—	—	—	—	—	388	4,247	5,598	6,248	1,523	18,004	1.5
2011	1,642	—	—	—	—	—	—	—	—	1,372	1,413	1,070	113	3,968	2.4
2012	83,436	—	—	—	—	—	—	—	—	—	1,249	31,020	7,050	39,319	0.5
2013	39,978	—	—	—	—	—	—	—	—	—	—	12,806	6,064	18,870	0.5
Subtotal	137,027	—	—	—	—	—	—	—	388	5,619	8,260	51,144	14,750	80,161	0.6
Total	$4,377,566	$517,451	$232,340	$291,111	$336,374	$354,724	$398,303	$487,458	$604,394	$761,011	$948,006	$1,279,506	$396,674	$6,607,352	1.5

(1) Adjusted for put-backs and account recalls. Put-backs represent accounts that are returned to the seller in accordance with the respective purchase agreement ("Put-Backs"). Recalls represent accounts that are recalled by the seller in accordance with the respective purchase agreement ("Recalls").
(2) Cumulative collections from inception through March 31, 2014, excluding collections on behalf of others.
(3) Cumulative Collections Multiple ("CCM") through March 31, 2014 refers to collections as a multiple of purchase price.
(4) United States data includes immaterial results from Latin America.

Total Estimated Collections to Purchase Price Multiple

The following table summarizes our purchases, resulting historical gross collections, and estimated remaining gross collections, by year of purchase *(in thousands, except multiples)*:

	Purchase Price[1]	Historical Collections[2]	Estimated Remaining Collections [3], [4]	Total Estimated Gross Collections	Total Estimated Gross Collections to Purchase Price
Charged-off consumer receivables:					
United States [5]*:*					
<2005	$ 385,469	$ 1,355,221	$ 351	$ 1,355,572	3.5
2005	192,585	485,152	646	485,798	2.5
2006	141,026	318,616	6,969	325,585	2.3
2007	204,065	493,469	18,570	512,039	2.5
2008	227,773	559,558	41,514	601,072	2.6
2009	253,282	676,454	88,202	764,656	3.0
2010	346,004	806,096	185,398	991,494	2.9
2011	382,649	693,829	301,561	995,390	2.6
2012	474,871	581,241	466,465	1,047,706	2.2
2013	544,392	335,210	1,054,471	1,389,681	2.6
2014	116,204	6,705	190,260	196,965	1.7
Subtotal	3,268,320	6,311,551	2,354,407	8,665,958	2.7
United Kingdom:					
2013	620,900	197,853	1,464,976	1,662,829	2.7
2014	351,319	17,787	834,371	852,158	2.4
Subtotal	972,219	215,640	2,299,347	2,514,987	2.6
Purchased bankruptcy receivables:					
2010	11,971	18,004	4,943	22,947	1.9
2011	1,642	3,968	125	4,093	2.5
2012	83,436	39,319	59,501	98,820	1.2
2013	39,978	18,870	40,160	59,030	1.5
Subtotal	137,027	80,161	104,729	184,890	1.3
Total	$ 4,377,566	$ 6,607,352	$ 4,758,483	$ 11,365,835	2.6

(1) Adjusted for Put-Backs and Recalls.

(2) Cumulative collections from inception through March 31, 2014, excluding collections on behalf of others.

(3) Estimated remaining collections (“ERC”) for charged off consumer receivables includes $120.7 million related to accounts that converted to bankruptcy after purchase.

(4) The collection forecast of each pool is generally estimated to be between 84 to 96 months based on the expected collection period of each pool in the United States and up to 120 months in the United Kingdom. Expected collections beyond the 84 to 96 month collection forecast in the United States are included in ERC but are not included in the calculation of IRRs.

(5) United States data includes immaterial results from Latin America.

Estimated Remaining Gross Collections by Year of Purchase

The following table summarizes our estimated remaining gross collections by year of purchase *(in thousands)*:

	Estimated Remaining Gross Collections by Year of Purchase[1], [2], [3]										
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**>2022**	**Total**
Charged-off consumer receivables:											
United States[4]*:*											
<2006	$ 431	$ 314	$ 165	$ 70	$ 17	$ —	$ —	$ —	$ —	$ —	$ 997
2006	3,549	2,390	1,004	19	7	—	—	—	—	—	6,969
2007	8,552	6,427	2,888	672	26	5	—	—	—	—	18,570
2008	17,185	12,319	6,544	3,938	1,528	—	—	—	—	—	41,514
2009	34,731	25,716	14,129	7,595	4,430	1,601	—	—	—	—	88,202
2010	59,392	53,967	34,104	19,931	9,993	5,694	2,317	—	—	—	185,398
2011	93,842	88,198	53,308	31,831	17,821	8,759	5,665	2,137	—	—	301,561
2012	137,757	132,012	82,013	51,493	31,058	16,632	8,271	5,534	1,695	—	466,465
2013	231,078	271,579	193,981	128,683	86,784	58,198	38,771	23,175	14,422	7,800	1,054,471
2014	52,618	55,683	33,736	19,305	11,261	6,972	4,476	2,883	1,876	1,450	190,260
Subtotal	639,135	648,605	421,872	263,537	162,925	97,861	59,500	33,729	17,993	9,250	2,354,407
United Kingdom:											
2013	151,446	223,326	207,171	182,066	159,022	140,542	126,841	115,953	106,399	52,210	1,464,976
2014	83,910	125,051	115,397	100,459	87,643	78,103	70,153	62,749	54,795	56,111	834,371
Subtotal	235,356	348,377	322,568	282,525	246,665	218,645	196,994	178,702	161,194	108,321	2,299,347
Purchased bankruptcy receivables:											
2010	2,512	1,902	529	—	—	—	—	—	—	—	4,943
2011	55	42	26	2	—	—	—	—	—	—	125
2012	17,838	19,748	12,855	6,885	2,175	—	—	—	—	—	59,501
2013	13,526	15,115	8,755	2,652	112	—	—	—	—	—	40,160
Subtotal	33,931	36,807	22,165	9,539	2,287	—	—	—	—	—	104,729
Total	$ 908,422	$ 1,033,789	$ 766,605	$ 555,601	$ 411,877	$ 316,506	$ 256,494	$ 212,431	$ 179,187	$ 117,571	$ 4,758,483

(1) ERC for Zero Basis Portfolios can extend beyond our collection forecasts.

(2) ERC for charged off consumer receivables includes $120.7 million related to accounts that converted to bankruptcy after purchase.

(3) The collection forecast of each pool is generally estimated to be between 84 to 96 months based on the expected collection period of each pool in the United States and up to 120 months in the United Kingdom. Expected collections beyond the 84 to 96 month collection forecast in the United States are included in ERC but are not included in the calculation of IRRs.

(4) United States data includes immaterial results from Latin America.

Unamortized Balances of Portfolios

The following table summarizes the remaining unamortized balances of our purchased receivable portfolios by year of purchase *(in thousands, except percentages)*:

	Unamortized Balance as of March 31, 2014	Purchase Price[1]	Unamortized Balance as a Percentage of Purchase Price	Unamortized Balance as a Percentage of Total
Charged-off consumer receivables:				
United States [2]*:*				
2006	$ 1,516	$ 141,026	1.1%	0.2%
2007	4,544	204,065	2.2%	0.5%
2008	14,613	227,773	6.4%	1.7%
2009	17,241	253,282	6.8%	2.0%
2010	37,463	346,004	10.8%	4.3%
2011	86,522	382,649	22.6%	10.0%
2012	183,535	474,871	38.6%	21.2%
2013	407,235	544,392	74.8%	47.0%
2014	114,321	116,204	98.4%	13.2%
Subtotal	866,990	2,690,266	32.2%	100.0%
United Kingdom:				
2013	604,962	620,900	97.4%	63.4%
2014	349,185	351,319	99.4%	36.6%
Subtotal	954,147	972,219	98.1%	100.0%
Purchased bankruptcy receivables:				
2010	2,885	11,971	24.1%	3.5%
2011	57	1,642	3.5%	0.1%
2012	51,715	83,436	62.0%	62.3%
2013	28,236	39,978	70.6%	34.1%
Subtotal	82,893	137,027	60.5%	100.0%
Total	$ 1,904,030	$ 3,799,512	50.1%	100.0%

(1) Purchase price refers to the cash paid to a seller to acquire a portfolio less Put-Backs, Recalls, and other adjustments.

(2) United States data includes immaterial results from Latin America.

Estimated Future Amortization of Portfolios

As of March 31, 2014, we had $1.9 billion in investment in receivable portfolios. This balance will be amortized based upon current projections of cash collections in excess of revenue applied to the principal balance. The estimated amortization of the investment in receivable portfolios balance is as follows *(in thousands):*

Years Ending December 31,	Charged-off Consumer Receivables United States	Charged-off Consumer Receivables United Kingdom	Purchased Bankruptcy Receivables	Total Amortization
2014	$ 184,133	$ 39,989	$ 24,081	$ 248,203
2015	233,111	105,363	28,850	367,324
2016	162,637	112,029	19,009	293,675
2017	105,581	101,822	8,720	216,123
2018	71,230	93,206	2,233	166,669
2019	36,627	90,619	—	127,246
2020	6,666	94,573	—	101,239
2021	66,923	103,721	—	170,644
2022	82	116,733	—	116,815
2023	—	89,856	—	89,856
2024	—	6,236	—	6,236
Total	$ 866,990	$ 954,147	$ 82,893	$ 1,904,030

Headcount by Function by Geographical Location

The following table summarizes our headcount by function by geographical location:

	Headcount as of March 31,			
	2014		2013	
	Domestic	International	Domestic	International
General & Administrative	988	1,529	591	576
Internal Legal Account Manager	69	60	19	24
Account Manager	265	2,415	180	1,399
	1,322	4,004	790	1,999

Gross Collections by Account Manager

The following table summarizes our collection performance by account manager *(in thousands, except headcount)*:

	Three Months Ended March 31,	
	2014	2013
United States[1]:		
Gross collections—collection sites	$ 136,525	$ 126,562
Average active Account Manager	1,646	1,589
Collections per average active Account Manager	$ 82.9	$ 79.6
United Kingdom:		
Gross collections—collection sites	$ 45,861	$ —
Average active Account Manager	503	—
Collections per average active Account Manager	$ 91.2	$ —
Overall:		
Collections per average active Account Manager	$ 84.9	$ 79.6

(1) United States represents account manager statistics for United States portfolios and includes collection statistics for our India and Costa Rica call centers.

Gross Collections per Hour Paid

The following table summarizes our gross collections per hour paid to account managers *(in thousands, except gross collections per hour paid)*:

	Three Months Ended March 31,	
	2014	2013
United States[1]:		
Gross collections—collection sites	$ 136,525	$ 126,562
Total hours paid	741	728
Collections per hour paid	$ 184.2	$ 173.8
United Kingdom:		
Gross collections—collection sites	$ 45,861	$ —
Total hours paid	117	—
Collections per hour paid	$ 392.0	$ —
Overall:		
Collections per hour paid	$ 212.6	$ 173.8

(1) United States represents account manager statistics for United States portfolios and includes collection statistics for our India and Costa Rica call centers.

Collection Sites Direct Cost per Dollar Collected

The following table summarizes our gross collections in collection sites and the related direct cost *(in thousands, except percentages)*:

	Three Months Ended March 31,	
	2014	2013
United States[1]:		
Gross collections—collection sites	$ 136,525	$ 126,562
Direct cost[2]	$ 8,410	$ 7,243
Cost per dollar collected[3]	6.2%	5.7%
United Kingdom:		
Gross collections—collection sites	$ 45,861	$ —
Direct cost[2]	$ 2,723	$ —
Cost per dollar collected	5.9%	—
Overall:		
Cost per dollar collected	6.1%	5.7%

(1) United States statistics include gross collections and direct costs for our India and Costa Rica call centers.

(2) Represent account managers and their supervisors' salaries, variable compensation, and employee benefits.

(3) The increase in cost as a percentage of total collections, through our collection sites in the United States, was primarily due to the higher cost to collect attributable to our AACC subsidiary.

Salaries and Employee Benefits by Function

The following table summarizes our salaries and employee benefits by function (excluding stock-based compensation) *(in thousands)*:

	Three Months Ended March 31,	
	2014	2013
Portfolio purchasing and recovery activities		
Collection site salaries and employee benefits[1]	$ 11,997	$ 7,243
Non-collection site salaries and employee benefits[2]	39,565	17,170
Subtotal	51,562	24,413
Tax lien business	1,739	1,418
	$ 53,301	$ 25,831

(1) Represent account managers and their supervisors' salaries, variable compensation, and employee benefits.

(2) Includes internal legal channel salaries and employee benefits of $5.7 million and $2.8 million for the three months ended March 31, 2014 and 2013, respectively.

Purchases by Quarter

The following table summarizes the charged-off consumer receivable portfolios we purchased by quarter, and the respective purchase prices (*in thousands*):

Quarter	# of Accounts	Face Value	Purchase Price
Q1 2012	2,132	$ 2,902,409	$ 130,463
Q2 2012	3,679	6,034,499	230,983
Q3 2012	1,037	1,052,191	47,311
Q4 2012	3,125	8,467,400	153,578
Q1 2013	1,678	1,615,214	58,771
Q2 2013[1]	23,887	68,906,743	423,113
Q3 2013[2]	4,232	13,437,807	617,852
Q4 2013	614	1,032,472	105,043
Q1 2014[3]	1,104	4,288,159	467,565

(1) Includes $383.4 million of portfolios acquired with a face value of approximately $68.2 billion in connection with the AACC Merger.

(2) Includes $559.0 million of portfolios acquired with a face value of approximately $12.8 billion in connection with the Cabot Acquisition.

(3) Includes $208.5 million of portfolios acquired with a face value of approximately $2.4 billion in connection with the Marlin Acquisition.

Liquidity and Capital Resources

Historically, we have met our cash requirements by utilizing our cash flows from operations, bank borrowings, convertible debt offerings, and equity offerings. Our primary cash requirements have included the purchase of receivable portfolios, the acquisition of U.S. and international entities, operating expenses, the payment of interest and principal on borrowings, and the payment of income taxes.

The following table summarizes our cash flows by category for the periods presented *(in thousands)*:

	Three Months Ended March 31,	
	2014	2013
Net cash (used in) provided by operating activities	$ (2,591)	$ 23,693
Net cash (used in) provided by investing activities	(352,990)	54,651
Net cash provided by (used in) financing activities	420,853	(65,950)

On March 5, 2014, we sold $140.0 million in aggregate principal amount of 2.875% convertible senior notes due March 15, 2021 in a private placement transaction. On March 6, 2014, the initial purchasers exercised, in full, their option to purchase an additional $21.0 million of the convertible senior notes, which resulted in an aggregate principal amount of $161.0 million of the convertible senior notes outstanding (collectively, the "2021 Convertible Notes"). The 2021 Convertible Notes are general unsecured obligations of Encore. The net proceeds from the sale of the 2021 Convertible Notes were approximately $155.7 million, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses paid by the Company. The Company used approximately $19.5 million of the net proceeds from this offering to pay the cost of the capped call transactions entered into in connection with the 2021 Convertible Notes and used the remainder of the net proceeds from this offering for general corporate purposes, including working capital.

On February 25, 2014, we amended our revolving credit facility and term loan facility (the "Credit Facility") pursuant to a Second Amended and Restated Credit Agreement (the "Restated Credit Agreement"). Under the Restated Credit Agreement, we have a revolving credit facility tranche of $692.6 million, a term loan facility tranche of $153.8 million, and an accordion feature that allows us to increase the revolving credit facility by an additional $250.0 million. Including the accordion feature, the maximum amount that can be borrowed under the Restated Credit Agreement is $1.1 billion. The Restated Credit Agreement has a five-year maturity, expiring in February 2019, except with respect to two subtranches of the term loan facility of $60.0 million and $6.3 million, expiring in February 2017 and November 2017, respectively. As of March 31, 2014, we had $374.8 million outstanding and $469.6 million of availability under the Credit Facility, excluding the $250.0 million accordion.

Through Cabot Financial (UK) Limited ("Cabot Financial UK"), an indirect subsidiary, we have a revolving credit facility of £85.0 million (the "Cabot Credit Facility"). As of March 31, 2014, there was £80.0 million (approximately $133.4 million) outstanding and we had £5.0 million (approximately $8.3 million) available for borrowing. On February 7, 2014, in

connection to the acquisition of Marlin, Cabot Financial UK borrowed £75.0 million (approximately $122.3 million) under this facility and used the proceeds to pay for a portion of the purchase price.

The Marlin Acquisition was financed with the £75.0 million (approximately $122.3 million) Cabot Credit Facility draw discussed above, and with borrowings under two senior secured bridge facilities (the "Senior Secured Bridge Facilities") entered into on February 7, 2014. On March 21, 2014, Cabot Financial issued £175.0 million (approximately $291.8 million) in aggregate principal amount of 6.5% Senior Secured Notes due 2021 (the "Cabot 2021 Notes"). The Senior Secured Bridge Facilities were paid in full using proceeds from borrowings under the Cabot 2021 Notes.

Propel has a $200.0 million syndicated loan facility (the "Propel Facility I"). The Propel Facility I is used to fund tax liens in Texas and Arizona. As of March 31, 2014, there was $157.3 million outstanding and $42.7 million of availability under our Propel Facility I.

Subsidiaries of Propel have a $100.0 million revolving credit facility (the "Propel Facility II"). The Propel Facility II is used to purchase tax liens in various states directly from taxing authorities. As of March 31, 2014, there was $17.5 million outstanding and $82.5 million of availability under our Propel Facility II. On May 6, 2014, we amended the Propel Facility II and increased the commitment amount from $100.0 million to the following: (a) during the period from July 1, 2014 to and including September 30, 2014, $190.0 million or (b) at any other time, $150.0 million. Refer to Note 9, "Debt - Propel Facilities" in the notes to our condensed consolidated financial statements for detailed information related to the Propel Facility II and the amendment.

On May 6, 2014, Propel, through its subsidiaries, completed the securitization of a pool of approximately $141.5 million in payment agreements and contracts relating to unpaid real property taxes, assessments, and other charges secured by liens on real property located in the State of Texas (the "Texas Tax Liens"). In connection with the securitization, investors purchased approximately $134.0 million in aggregate principal amount of 1.44% notes collateralized by the Texas Tax Liens (the "Propel Notes"), due 2029. The payment agreements and contracts will be serviced by Propel. Proceeds from the sale of the Propel Notes will be used to pay the purchase price for the Texas Tax Liens to Propel, pay certain expenses incurred in connection with the issuance of the Propel Notes and fund certain reserves. Propel will use the net proceeds to pay down borrowings on the Propel Facility I.

Currently, all of our portfolio purchases are funded with cash from operations and borrowings under our Restated Credit Agreement and our Cabot Credit Facility. All of our Texas tax liens are funded with cash from Propel operations and borrowings under the Propel Facility I. All of our tax liens purchased directly from state taxing authorities are funded with cash from operations and borrowings under the Propel Facility II.

See Note 9, "Debt" to our condensed consolidated financial statements for a further discussion of our debt.

Operating Cash Flows

Net cash used in operating activities was $2.6 million during the three months ended March 31, 2014. Net cash provided by operating activities was $23.7 million during the three months ended March 31, 2013.

Cash used in operating activities during the three months ended March 31, 2014 was primarily related to a net decrease in operating liabilities, offset by net income of $18.8 million and various non-cash add backs in operating activities. Cash provided by operating activities during the three months ended March 31, 2013 was primarily related to net income of $19.4 million and various non-cash add backs in operating activities and changes in operating assets and liabilities.

Investing Cash Flows

Net cash used in investing activities was $353.0 million during the three months ended March 31, 2014. Net cash provided by investing activities was $54.7 million during the three months ended March 31, 2013.

The cash flows used in investing activities during the three months ended March 31, 2014 were primarily related to cash paid for the Marlin Acquisition, net of cash acquired, of $257.7 million, receivable portfolio purchases (excluding the portfolios acquired from the acquisition of Marlin of $208.5 million) of $257.2 million, offset by gross collection proceeds applied to the principal of our receivable portfolios in the amount of $161.9 million. The cash flows provided by investing activities during the three months ended March 31, 2013 were primarily related to gross collection proceeds applied to the principal of our receivable portfolios in the amount of $130.5 million, collections applied to our property tax payment agreements receivable of $11.8 million, offset by receivable portfolio purchases of $57.9 million, and originations of property tax payment agreements receivable of $27.4 million.

Capital expenditures for fixed assets acquired with internal cash flow were $3.0 million and $2.3 million for three months ended March 31, 2014 and 2013, respectively.

Financing Cash Flows

Net cash provided by financing activities was $420.9 million for the three months ended March 31, 2014. Net cash used in financing activities was $66.0 million during the three months ended March 31, 2013.

The cash provided by financing activities during the three months ended March 31, 2014 primarily reflects $457.3 million in borrowings under our Restated Credit Agreement, $288.6 million of proceeds from Cabot's senior secured notes due 2021, and $161.0 million of proceeds from the issuance of the 2021 Convertible Notes, offset by $447.0 million in repayments of amounts outstanding under our Restated Credit Agreement and $33.6 million in purchases of convertible hedge instruments, including the payment for our warrant restrike transaction. The cash used in financing activities during the three months ended March 31, 2013 primarily reflects $91.8 million in repayments of amounts outstanding under our Restated Credit Agreement, offset by $33.7 million in borrowings under our Restated Credit Agreement.

We are in compliance with all covenants under our financing arrangements. We believe that we have sufficient liquidity to fund our operations for at least the next twelve months, given our expectation of continued positive cash flows from operations, our cash and cash equivalents of $196.4 million as of March 31, 2014 (approximately $95.1 million of which were held at our Cabot subsidiary), our access to capital markets, and availability under our credit facilities.

Our future cash needs will depend on our acquisitions of portfolios and businesses.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rates. At March 31, 2014, there had not been a material change in any of the foreign currency risk information disclosed in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Interest Rates. At March 31, 2014, there had not been a material change in the interest rate risk information disclosed in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Item 4 – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC") and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and accordingly, management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their most recent evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act are effective.

Changes in Internal Control over Financial Reporting

Except as disclosed in the following paragraph, there was no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We began to monitor and test Cabot's system of internal control over financial reporting as part of management's annual evaluation of internal control over financial reporting in 2014.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

Information with respect to this item may be found in Note 12, “Commitments and Contingencies,” to the condensed consolidated financial statements.

Item 1A – Risk Factors

There is no material change in the information reported under “Part I—Item 1A—Risk Factors” contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 with the exception of the following risks related to our indebtedness:

Risks Related to Our Indebtedness

Our significant indebtedness could adversely affect our financial health and could harm our ability to react to changes to our business.

As of March 31, 2014, our total long-term indebtedness outstanding was approximately $2.6 billion, which includes $1.6 billion of debt at our Cabot subsidiary. Our substantial indebtedness could have important consequences to investors. For example, it could:

- increase our vulnerability to general economic downturns and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to competitors that have less debt; and
- limit, along with the financial and other restrictive covenants contained in the documents governing our indebtedness, our ability to borrow additional funds, make investments and incur liens, among other things.

Any of these factors could materially and adversely affect our business and results of operations. If we do not have sufficient earnings to service our debt, we may be required to refinance all or part of our existing debt, sell assets, borrow more money, or sell securities, none of which we can guarantee we will be able to do.

Servicing our indebtedness requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial indebtedness.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including our Convertible Notes (defined under “Risks Related to Our Convertible Notes and Common Stock” below) or to make cash payments in connection with any conversion of our Convertible Notes depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our indebtedness and make necessary capital expenditures. If we are unable to generate adequate cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring indebtedness or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at that time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

Despite our current indebtedness levels, we may still incur substantially more indebtedness or take other actions which would intensify the risks discussed above.

Despite our current consolidated indebtedness levels, we and our subsidiaries (including the guarantor of our Convertible Notes due 2020 and our Convertible Notes due 2021) may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in our debt instruments, (some of which may be secured indebtedness under our Second Amended and Restated Credit Agreement (the “Restated Credit Agreement”)). We will not be restricted under the terms of the indentures governing our Convertible Notes from incurring additional indebtedness, securing existing or future indebtedness, recapitalizing our indebtedness or taking a number of other actions that are not limited by the terms of the indentures governing our Convertible Notes that could have the effect of diminishing our ability to make payments on our indebtedness. Our

revolving credit facility and term loan facility (the "Credit Facility") under the Restated Credit Agreement currently limits the ability of us and certain of our subsidiaries (including the guarantor of our Convertible Notes due 2020 and our Convertible Notes due 2021) to incur additional indebtedness; however, if that facility is repaid or matures, we may not be subject to similar restrictions under the terms of any subsequent indebtedness.

We may not be able to continue to satisfy the restrictive covenants in our debt agreements.

Our debt agreements impose a number of covenants, including restrictive covenants on how we operate our business. Failure to satisfy any one of these covenants could result in negative consequences including the following, each of which could have a material adverse effect on our liquidity and our ability to conduct business:

- acceleration of outstanding indebtedness;
- exercise by our lenders of rights with respect to the collateral pledged under certain of our outstanding indebtedness;
- our inability to continue to purchase receivables needed to operate our business; or
- our inability to secure alternative financing on favorable terms, if at all.

Significant increases in interest rates could materially adversely affect our results of operations, cash flows, or financial condition.

Portions of our outstanding debt bear interest at a variable rate. Increases in interest rates could increase our interest expense which would, in turn, lower our earnings. We may periodically enter into derivative financial instruments, typically interest rate swap agreements, to reduce our exposure to fluctuations in interest rates on variable interest rate debt and their impact on earnings and cash flows. These strategies may not be effective in protecting us against the effects of fluctuations from movements in interest rates. Significant increases in interest rates could materially adversely affect our results of operations, cash flows, or financial condition.

Risks Related to Our Convertible Notes and Common Stock

Our $115 million in aggregate principal amount of 3.0% convertible senior notes due November 27, 2017 (the "2017 Convertible Notes"), our $172.5 million in aggregate principal amount of 3.0% convertible senior notes due July 1, 2020 (the "2020 Convertible Notes"), our $161.0 million in aggregate principal amount of 2.875% convertible senior notes due March 15, 2021 (the "2021 Convertible Notes" and together with the 2017 Convertible Notes and the 2020 Convertible Notes, the "Convertible Notes") and the guarantees (the "Guarantees") of the 2020 Convertible Notes and the 2021 Convertible Notes by our wholly-owned subsidiary, Midland Credit Management, Inc. (the "Guarantor"), are effectively subordinated to our and the Guarantor's secured indebtedness to the extent of the value of the assets securing that indebtedness.

The Convertible Notes and the Guarantees will be effectively subordinated to claims of our and the Guarantor's secured creditors, respectively, to the value of the assets securing those claims. In the event of our bankruptcy, liquidation, reorganization or other winding up, our and the Guarantor's assets that secure indebtedness ranking senior in right of payment to the Convertible Notes and the Guarantees, which includes all current and future amounts outstanding under our Credit Facility, will be available to pay obligations on the Convertible Notes or make payments under the Guarantees only after the secured indebtedness has been repaid in full from these assets. There may not be sufficient assets remaining to pay amounts due on any or all of the Convertible Notes then outstanding or to fulfill obligations under the Guarantees. The indentures governing the Convertible Notes do not prohibit us from incurring additional senior indebtedness or secured indebtedness, nor do they prohibit any of our subsidiaries, including the Guarantor, from incurring additional liabilities.

As of March 31, 2014, our total consolidated indebtedness was approximately $2.6 billion, approximately $1.9 billion of which was secured indebtedness, and our non-guarantor subsidiaries had approximately $1.9 billion of liabilities (in each case, excluding intercompany liabilities and income tax-related liabilities). The Guarantor had approximately $429.8 million of secured indebtedness (including the guarantee of amounts outstanding under the Credit Facility and our senior secured notes) that would have been effectively senior to the Convertible Notes as of March 31, 2014.

Our operations are conducted through, and substantially all of our consolidated assets are held by, our subsidiaries, and accordingly, we must rely on our subsidiaries to provide us with cash in order to pay amounts due on the Convertible Notes.

The Convertible Notes are our obligations exclusively. The Convertible Notes are not guaranteed by any of our subsidiaries other than the Guarantor, who has guaranteed the 2020 Convertible Notes and the 2021 Convertible Notes. Our operations are conducted through, and substantially all of our consolidated assets are held by, our subsidiaries. Accordingly, our

ability to service our indebtedness, including the Convertible Notes, depends on the results of operations of our subsidiaries and upon the ability of those subsidiaries to provide us with cash, whether in the form of dividends, loans or otherwise, to pay amounts due on our obligations, including the Convertible Notes. Our subsidiaries are separate and distinct legal entities, and other than the Guarantor have no obligation, contingent or otherwise, to make payments on the Convertible Notes or to make any funds available for that purpose. In addition, dividends, loans or other distributions to us from our subsidiaries may be subject to contractual and other restrictions and are subject to other business considerations.

Federal and state laws allow courts, under certain circumstances, to void guarantees and require noteholders to return payments received from guarantors.

The 2020 Convertible Notes and the 2021 Convertible Notes will be guaranteed by the Guarantor. The Guarantees may be subject to review under U.S. federal bankruptcy law and comparable provisions of state fraudulent conveyance laws if a bankruptcy or insolvency proceeding or a lawsuit is commenced by or on behalf of us or the Guarantor or by our unpaid creditors or the unpaid creditors of the Guarantor. Under these laws, a court could void the obligations under the Guarantees, subordinate the Guarantees of the Convertible Notes to the Guarantor's other debt or take other action detrimental to the holders of the Convertible Notes and the Guarantees, if, among other things, the Guarantor, at the time it incurred the indebtedness evidenced by its Guarantees:

- issued the Guarantees to delay, hinder or defraud present or future creditors;
- received less than reasonably equivalent value or fair consideration for issuing the Guarantees at the time it issued the Guarantees;
- was insolvent or rendered insolvent by reason of issuing the Guarantees;
- was engaged, or about to engage, in a business or transaction for which its remaining assets constituted unreasonably small capital to carry on its business; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay as they mature.

In those cases where our solvency or the solvency of the Guarantor is a relevant factor, the measures of insolvency will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a party would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing indebtedness, including contingent liabilities, as they become absolute and mature; or
- it could not pay its indebtedness as it becomes due.

We cannot be sure as to the standard that a court would use to determine whether or not a party was solvent at the relevant time, or, regardless of the standard that the court uses, that the issuance of the Guarantees would not be voided or the Guarantees would not be subordinated to the Guarantor's other debt. If such a case were to occur, the Guarantees could also be subject to the claim that, since the Guarantees were incurred for our benefit and only indirectly for the benefit of the Guarantor, the obligations of the Guarantor were incurred for less than fair consideration.

Recent and future regulatory actions and other events may adversely affect the trading price and liquidity of the Convertible Notes.

We expect that many investors in, and potential purchasers of, the Convertible Notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the Convertible Notes. Investors would typically implement such a strategy by selling short the common stock underlying the Convertible Notes and dynamically adjusting their short position while continuing to hold the Convertible Notes. Investors may also implement this type of strategy by entering into swaps on our common stock in lieu of or in addition to short selling the common stock.

The SEC and other regulatory and self-regulatory authorities have implemented various rules and taken certain actions, and may in the future adopt additional rules and take other actions, that may affect those engaging in short selling activity involving equity securities (including our common stock). These rules and actions include Rule 201 of SEC Regulation SHO, the adoption by the Financial Industry Regulatory Authority, Inc. and the national securities exchanges of a "Limit Up-Limit Down" program, the imposition of market-wide circuit breakers that halt trading of securities for certain periods following specific market declines, and the implementation of certain regulatory reforms required by the Dodd-Frank Act. Any governmental or regulatory action that restricts the ability of investors in, or potential purchasers of, the Convertible Notes to

effect short sales of our common stock or enter into swaps on our common stock could adversely affect the trading price and the liquidity of the Convertible Notes.

In addition, if investors and potential purchasers seeking to employ a convertible arbitrage strategy are unable to borrow or enter into swaps on our common stock, in each case on commercially reasonable terms, the trading price and liquidity of the Convertible Notes may be adversely affected.

Our common stock price may be subject to significant fluctuations and volatility, which could adversely affect the trading price of the Convertible Notes and our shares issuable upon conversion.

The market price of our common stock has been subject to significant fluctuations. Since the beginning of fiscal year 2013, our stock price has ranged from a low of $26.84 on April 23, 2013 to a high of $51.95 on November 8, 2013. These fluctuations could continue. Among the factors that could affect our stock price are:

- our operating and financial performance and prospects;
- our ability to repay our debt;
- our access to financial and capital markets to refinance our debt;
- investor perceptions of us and the industry and markets in which we operate;
- future sales of equity or equity-related securities;
- changes in earnings estimates or buy/sell recommendations by analysts;
- changes in the supply of, demand for or price of portfolios;
- our acquisition activity, including our expansion into new markets;
- regulatory changes affecting our industry generally or our business and operations; and
- general financial, domestic, international, economic and other market conditions.

The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The market price of our common stock could fluctuate significantly for many reasons, including in response to the risks described in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2013, elsewhere in our filings with the SEC from time to time or for reasons unrelated to our operations, such as reports by industry analysts, investor perceptions or negative announcements by our customers, competitors or suppliers regarding their own performance, as well as industry conditions and general financial, economic and political instability. A decrease in the market price of our common stock would likely adversely affect the trading price of the Convertible Notes.

The price of our common stock could also be affected by possible sales of our common stock by investors who view the Convertible Notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving our common stock. This trading activity could, in turn, affect the trading prices of the Convertible Notes.

If securities or industry analysts have a negative outlook regarding our stock or our industry, or our operating results do not meet their expectations, our stock price could decline. The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us. If one or more of the analysts who cover our company downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

Future sales of our common stock or the issuance of other equity securities may adversely affect the market price of our common stock and the trading price of the Convertible Notes.

In the future, we may sell additional shares of our common stock or other equity-related securities to raise capital or issue equity securities to finance acquisitions. In addition, a substantial number of shares of our common stock are reserved for issuance upon the exercise of stock options or vesting of restricted stock awards, upon conversion of the Convertible Notes and the warrant transactions entered into in connection with the 2017 Convertible Notes. We are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock.

The liquidity and trading volume of our common stock is limited. For the three months ended March 31, 2014, the average daily trading volume of our common stock was approximately 308,000 shares. The issuance or sale of substantial amounts of our common stock or other equity or equity-related securities (or the perception that such issuances or sales may

occur) could adversely affect the market price of our common stock and the trading price of the Convertible Notes as well as our ability to raise capital through the sale of additional equity or equity-related securities. We cannot predict the effect that future issuances or sales of our common stock or other equity or equity-related securities would have on the market price of our common stock or the trading price of the Convertible Notes.

We may not have the ability to raise the funds necessary to repurchase the Convertible Notes upon a fundamental change or to settle conversions in cash, and our future indebtedness may contain limitations on our ability to pay cash upon conversion and our current indebtedness contains, and our future indebtedness may contain, limitations on our ability to repurchase the Convertible Notes.

Holders of the Convertible Notes will have the right to require us to repurchase their Convertible Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. In addition, upon a conversion of Convertible Notes, unless we deliver solely shares of our common stock to settle the conversion (other than paying cash in lieu of delivering any fractional shares of our common stock), we will be required to make cash payments for each $1,000 in principal amount of Convertible Notes converted of at least the lesser of $1,000 and the sum of certain daily conversion values. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Convertible Notes surrendered therefor or to settle conversions in cash. In addition, our Restated Credit Agreement contains certain restrictive covenants that limit our ability to engage in specified types of transactions, which may affect our ability to repurchase the Convertible Notes. Further, our ability to repurchase the Convertible Notes or to pay cash upon conversion may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase Convertible Notes or to pay cash upon conversion of the Convertible Notes at a time when the repurchase or cash payment upon conversion is required by any indenture pursuant to which the Convertible Notes were offered would constitute a default under the relevant indenture. A default under any indenture could constitute a default under another indenture or our Restated Credit Agreement, and any such default or the fundamental change itself could also lead to a default under the Restated Credit Agreement or agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Convertible Notes.

The conditional conversion feature of the Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

The 2017 Convertible Notes became convertible on demand effective January 2, 2014, and the holders were notified that they could elect to submit their 2017 Convertible Notes for conversion. None of the 2017 Convertible Notes have been converted. In the event the conditional conversion feature of the 2020 Convertible Notes or the 2012 Convertible Notes is triggered, holders of those Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. Even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the relevant series of Convertible Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Notes, could have a material effect on our reported financial results.

Under U.S. GAAP, an entity must separately account for the debt component and the embedded conversion option of convertible debt instruments that may be settled entirely or partially in cash upon conversion, such as the Convertible Notes, in a manner that reflects the issuer’s economic interest cost. The effect of the accounting treatment for such instruments is that the value of such embedded conversion option would be treated as original issue discount for purposes of accounting for the debt component of the Convertible Notes, and that original issue discount is amortized into interest expense over the term of the Convertible Notes using an effective yield method. As a result, we will be required to record a greater amount of non-cash interest expense as a consequence of the amortization of the original issue discount to face amount of the Convertible Notes over the respective terms of the Convertible Notes and as a consequence of the amortization of the debt issuance costs. Accordingly, we will report lower net income in our financial results because of the recognition of both the current period’s amortization of the debt discount and the coupon interest of the Convertible Notes, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Convertible Notes.

Under certain circumstances, convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partially in cash are evaluated for their impact on earnings per share utilizing the treasury stock method, the effect of which is that any shares issuable upon conversion of the Convertible Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Convertible Notes exceeds their respective principal amount. Under the treasury stock method, for diluted earnings per share purposes, the convertible debt instrument is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares,

are issued. We cannot be certain that the accounting standards in the future will continue to permit the use of the treasury stock method, as is currently the case with the Convertible Notes. If we are unable to use the treasury stock method in accounting for any shares issuable upon conversion of the Convertible Notes, then our diluted earnings per share could be further adversely affected. In addition, if the conditional conversion feature of the Convertible Notes is triggered, even if holders of such notes do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of such notes as a current rather than long-term liability, which could result in a material reduction of our net working capital.

Holders of the Convertible Notes will not be entitled to any rights with respect to our common stock, but will be subject to all changes made with respect to them to the extent our conversion obligation includes shares of our common stock.

Holders of Convertible Notes will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock) prior to the conversion date relating to those Convertible Notes (if we have settled the relevant conversion by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share)) or the last trading day of the relevant observation period (if we pay and deliver, as the case may be, a combination of cash and shares of our common stock in respect of the relevant conversion), but holders of Convertible Notes will be subject to all changes affecting our common stock. For example, if an amendment is proposed to our certificate of incorporation or bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to the conversion date related to a holder's conversion of its Convertible Notes (if we have settled the relevant conversion by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share)) or the last trading day of the relevant observation period (if we pay and deliver, as the case may be, a combination of cash and shares of our common stock in respect of the relevant conversion), that holder will not be entitled to vote on the amendment, although that holder will nevertheless be subject to any changes affecting our common stock.

The conditional conversion feature of the Convertible Notes could result in the holders of the Convertible Notes receiving less than the value of our common stock into which the Convertible Notes would otherwise be convertible.

The 2017 Convertible Notes became convertible on demand effective January 2, 2014, and the holders were notified that they could elect to submit their 2017 Convertible Notes for conversion. None of the 2017 Convertible Notes have been converted. Prior to the close of business on the business day immediately preceding January 1, 2020 in the case of the 2020 Convertible Notes and September 15, 2020 in the case of the 2021 Convertible Notes, holders of Convertible Notes may convert those Convertible Notes only if specified conditions are met. If the specific conditions for conversion for those Convertible Notes are not met, holders of those Convertible Notes will not be able to convert their Convertible Notes, and they may not be able to receive the value of the cash, shares of common stock or combination of cash and shares of common stock, as applicable, into which those Convertible Notes would otherwise be convertible.

Upon conversion of the Convertible Notes, holders of the Convertible Notes may receive less valuable consideration than expected because the value of our common stock may decline after holders of the Convertible Notes exercise their conversion right but before we settle our conversion obligation.

Under the Convertible Notes, a converting holder will be exposed to fluctuations in the value of our common stock during the period from the date that holder surrenders Convertible Notes for conversion until the date we settle our conversion obligation.

In the event of conversion, the 2017 Convertible Notes are convertible into cash up to the aggregate principal amount and permits the excess conversion premium to be settled in cash or shares of common stock. Upon conversion of the 2020 Convertible Notes or the 2021 Convertible Notes, holders will receive cash, shares of common stock or a combination of cash and shares of common stock, at our election. If we settle our conversion obligation solely in cash or in a combination of cash and shares of common stock, the amount of consideration that holders of our Convertible Notes will receive upon conversion of their Convertible Notes will be determined by reference to the volume-weighted average prices of our common stock for each trading day in a 50 consecutive trading-day observation period applicable to each series of the Convertible Notes. For the 2017 Convertible Notes, this period would be (i) if the relevant conversion date occurs prior to May 27, 2017, the 50 consecutive trading-day period beginning on, and including, the second trading day after this conversion date; and (ii) if the relevant conversion date occurs on or after May 27, 2017, the 50 consecutive trading days beginning on, and including, the 52nd scheduled trading day immediately preceding the maturity date. For the 2020 Convertible Notes, this period would be (i) if the relevant conversion date occurs prior to January 1, 2020, the 50 consecutive trading-day period beginning on, and including, the second trading day after this conversion date; and (ii) if the relevant conversion date occurs on or after January 1, 2020, the 50 consecutive trading days beginning on, and including, the 52nd scheduled trading day immediately preceding the maturity date. For the 2021 Convertible Notes, this period would be (i) if the relevant conversion date occurs prior to September 15, 2

020, the 50 consecutive trading-day period beginning on, and including, the second trading day after such conversion date; and (ii) if the relevant conversion date occurs on or after September 15, 2020, the 50 consecutive trading days beginning on, and including, the 52nd scheduled trading day immediately preceding the maturity date. Accordingly, if the price of our common stock decreases during the applicable observation period, the amount and/or value of consideration holders of the Convertible Notes will receive will be adversely affected. In addition, if the market price of our common stock at the end of the applicable observation period is below the average of the volume-weighted average price of our common stock during that period, the value of any shares of our common stock that holders of Convertible Notes will receive in satisfaction of our conversion obligation will be less than the value used to determine the number of shares that those holders will receive.

The Convertible Notes are not protected by restrictive covenants.

The indentures governing the Convertible Notes do not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indentures contain no covenants or other provisions to afford protection to holders of the Convertible Notes in the event of a fundamental change or other corporate transaction involving us except to the extent described in the Convertible Notes and the applicable indenture.

The adjustment to the conversion rate for Convertible Notes converted in connection with a make-whole fundamental change may not adequately compensate holders of the Convertible Notes for any lost value of the Convertible Notes as a result of that transaction.

If a make-whole fundamental change occurs prior to the maturity date, under certain circumstances, we will increase the conversion rate by a number of additional shares of our common stock for Convertible Notes converted in connection with that make-whole fundamental change. The increase in the conversion rate will be determined based on the date on which the specified corporate transaction becomes effective and the price paid (or deemed to be paid) per share of our common stock in that transaction. The adjustment to the conversion rate for Convertible Notes converted in connection with a make-whole fundamental change may not adequately compensate holders of the Convertible Notes for any lost value of the Convertible Notes as a result of that transaction. In addition, if the price of our common stock in the transaction is, in the case of the 2017 Convertible Notes, greater than $150.00 per share or less than $25.25 per share, in the case of the 2020 Convertible Notes, greater than $250.00 per share or less than $35.17 per share, or in the case of the 2021 Convertible Notes, greater than $300.00 per share or less than $47.51 per share (in each case, subject to adjustment), no additional shares will be added to the conversion rate. Moreover, in no event will the conversion rate per $1,000 principal amount of Convertible Notes as a result of any adjustment exceed, in the case of the 2017 Convertible Notes, 39.6039 shares, in the case of the 2020 Convertible Notes, 28.4333 shares, or in the case of the 2021 Convertible Notes, 21.0482 shares, in each case subject to adjustments described in the applicable series of Convertible Notes.

Our obligation to increase the conversion rate upon the occurrence of a make-whole fundamental change could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies.

The conversion rate of the Convertible Notes may not be adjusted for all dilutive events.

The conversion rate of the Convertible Notes is subject to adjustment for certain events, including, but not limited to, the issuance of certain stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, cash dividends and certain issuer tender or exchange offers. However, the conversion rate will not be adjusted for other events, such as a third-party tender or exchange offer or an issuance of common stock for cash, that may adversely affect the trading price of the Convertible Notes or our common stock. An event that adversely affects the value of the Convertible Notes may occur, and that event may not result in an adjustment to the conversion rate.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the Convertible Notes.

Upon the occurrence of a fundamental change, holders of the Convertible Notes have the right to require us to repurchase their Convertible Notes. However, the fundamental change provisions will not afford protection to holders of the Convertible Notes in the event of other transactions that could adversely affect the Convertible Notes. For example, transactions such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated by us may not constitute a fundamental change requiring us to repurchase the Convertible Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of the Convertible Notes.

We have not registered the Convertible Notes or our common stock issuable upon conversion, which will limit the ability to resell them.

The Convertible Notes and the shares of common stock issuable upon conversion of the Convertible Notes, if any, have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. Unless the Convertible Notes and the shares of common stock issuable upon conversion of the Convertible Notes, if any, have been registered, they may not be transferred or resold except in a transaction exempt from or not subject to the registration requirements of the Securities Act and applicable state securities laws. We do not intend to file a registration statement for the resale of the Convertible Notes and our common stock, if any, into which the Convertible Notes are convertible.

An active trading market may not develop for the Convertible Notes.

Prior to the respective offerings of the 2017 Convertible Notes, the 2020 Convertible Notes and the 2021 Convertible Notes, there was no trading market for the Convertible Notes, and we do not intend to apply to list the Convertible Notes on any securities exchange or to arrange for quotation on any automated dealer quotation system. We were informed by the initial purchasers that they intended to make a market in the Convertible Notes after the offering is completed. However, the initial purchasers may cease their market-making at any time without notice. In addition, the liquidity of the trading market in the Convertible Notes, and the market price quoted for the Convertible Notes, may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a result, we cannot assure holders of the Convertible Notes that an active trading market will develop for the Convertible Notes. If an active trading market does not develop or is not maintained, the market price and liquidity of the Convertible Notes may be adversely affected. In that case holders of the Convertible Notes may not be able to sell their Convertible Notes at a particular time or at a favorable price.

Any adverse rating of the Convertible Notes may cause their trading price to fall.

We do not intend to seek a rating on the Convertible Notes. However, if a rating service were to rate the Convertible Notes and if that rating service were to lower its rating on the Convertible Notes below the rating initially assigned to the Convertible Notes or otherwise announces its intention to put the Convertible Notes on credit watch, the trading price of the Convertible Notes could decline.

Holders of the Convertible Notes should carefully consider the U.S. federal income tax consequences of converting the Convertible Notes.

The U.S. federal income tax treatment of the conversion of the Convertible Notes into a combination of our common stock and cash is not entirely certain. Holders of the Convertible Notes should consult their tax advisors with respect to the U.S. federal income tax consequences resulting from the conversion of Convertible Notes into a combination of cash and common stock.

Holders of our Convertible Notes may be deemed to have received a taxable distribution without the receipt of any cash.

The conversion rate of the Convertible Notes will be adjusted in certain circumstances. Under Section 305(c) of the Internal Revenue Code of 1986, as amended (the "Code"), adjustments (or failures to make adjustments) that have the effect of increasing a holder's proportionate interest in our assets or earnings and profits may in some circumstances result in a deemed distribution to that holder. Certain of the conversion rate adjustments with respect to the Convertible Notes (including, without limitation, adjustments in respect of taxable dividends to holders of our common stock) will result in deemed distributions to the holders of Convertible Notes even though they have not received any cash or property as a result of those adjustments. In addition, an adjustment to the conversion rate in connection with a make-whole fundamental change may be treated as a deemed distribution. Any deemed distributions will be taxable as a dividend, return of capital or capital gain in accordance with the distribution rules under the Code. If a holder of the Convertible Notes is a non-U.S. holder , any deemed dividend may be subject to U.S. withholding tax at a 30% rate or such lower rate as may be specified by an applicable tax treaty, which may be set off against subsequent payments on the Convertible Notes (or in certain circumstances, on our common stock). Under proposed regulations, certain "dividend equivalent" payments may be subject to withholding tax at a different time or in a different amount than the withholding tax otherwise imposed on dividends and constructive dividends.

The 2020 Convertible Notes and 2021 Convertible Notes capped call transactions may affect the value of the Convertible Notes and our common stock.

In connection with the offering and sale of the 2020 Convertible Notes and the 2021 Convertible Notes, we entered into capped call transactions with the option counterparties (the "Option Counterparties"). The capped call transactions are expected

to reduce the potential dilution and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of the 2020 Convertible Notes or the 2021 Convertible Notes, with any reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the capped call transactions, the Option Counterparties or their respective affiliates expected to enter into various derivative transactions with respect to our common stock and/or purchase shares of our common stock in privately negotiated transactions and/or open market transactions concurrently with or shortly after the pricing of the respective Convertible Notes. This activity could increase (or reduce the size of any decrease in) the market price of our common stock or the Convertible Notes at that time.

In addition, the Option Counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock in secondary market transactions following the pricing of the Convertible Notes and prior to the maturity of the Convertible Notes (and are likely to do so during any observation period related to a conversion of the Convertible Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the Convertible Notes, which could affect a holder's ability to convert the Convertible Notes and, to the extent the activity occurs during any observation period related to a conversion of the Convertible Notes, it could affect the amount and value of the consideration that a holder will receive upon conversion of the Convertible Notes.

The 2017 Convertible Notes convertible note hedge transactions and warrant transactions may affect the value of the Convertible Notes and our common stock.

In connection with the offering and sale of the 2017 Convertible Notes, we entered into convertible note hedge transactions with certain financial institutions (the "2017 Option Counterparties"). The convertible note hedge transactions are expected to reduce the potential dilution and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of the 2017 Convertible Notes. We also entered into warrant transactions with the 2017 Option Counterparties, which we amended in December 2013. The warrant transactions could separately have a dilutive effect on our earnings per share to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants. However, subject to certain conditions, we may elect to settle the warrant transactions in cash.

The 2017 Option Counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock in secondary market transactions prior to the maturity of the Convertible Notes (and are likely to do so during any observation period related to a conversion of the 2017 Convertible Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the Convertible Notes, which could affect a holder's ability to convert the Convertible Notes and, to the extent the activity occurs during any observation period related to a conversion of the Convertible Notes, it could affect the amount and value of the consideration that a holder will receive upon conversion of the Convertible Notes.

Provisions in our charter documents and Delaware law may delay or prevent acquisition of us, which could decrease the value of shares of our common stock.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions include advance notice provisions, limitations on actions by our stockholders by written consent and special approval requirements for transactions involving interested stockholders. We are authorized to issue up to five million shares of preferred stock, the relative rights and preferences of which may be fixed by our Board of Directors, subject to the provisions of our articles of incorporation, without stockholder approval. The issuance of preferred stock could be used to dilute the stock ownership of a potential hostile acquirer. The provisions that discourage potential acquisitions of us and adversely affect the voting power of the holders of common stock may adversely affect the price of our common stock and the value of the Convertible Notes.

We do not intend to pay dividends on our common stock for the foreseeable future.

We have never declared or paid cash dividends on our common stock. In addition, we must comply with the covenants in our credit facilities if we want to pay cash dividends. We currently intend to retain our future earnings, if any, to finance the further development and expansion of our business and do not intend to pay cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments and such other factors as our Board of Directors deems relevant.

Item 5 – Other Information

Propel Securitization

On May 6, 2014, Propel, through its subsidiaries, completed the securitization of a pool of approximately $141.5 million in payment agreements and contracts relating to unpaid real property taxes, assessments, and other charges secured by liens on real property located in the State of Texas (the "Texas Tax Liens"). In connection with the securitization, investors purchased approximately $134.0 million in aggregate principal amount of 1.44% notes collateralized by the Texas Tax Liens (the "Propel Notes"), due 2029. The payment agreements and contracts will continue to be serviced by Propel. The Notes were offered and sold in a private placement to qualified purchasers in the United States in accordance with Rule 144A under the Securities Act of 1933, as amended (the "Securities Act") and to qualified purchasers outside the United States who are non-U.S. persons (as defined under the Securities Act) in accordance with Regulation S thereunder.

The Notes are payable solely from the collateral and represent non-recourse obligations of PFS Tax Lien Trust 2014-1 (the "Issuer"), a Delaware statutory trust and a subsidiary of Propel. The Notes will be issued with an initial balance of $134.0 million. Interest will accrue monthly at the rate of 1.44% per annum. Payments of principal and interest on the Notes will be made on the 15th day of each calendar month, commencing on June 16, 2014. Principal and accrued interest on the Notes will be payable in full on the Stated Maturity Date, May 15, 2029. On any payment date when the outstanding note balance is less than 15% of the initial note balance, the Issuer, at its option, may redeem all of the Notes, or the Depositor at its option may purchase all (but not less than all) of the remaining Texas Tax Lien assets and cause the Issuer to effect an early redemption of all of the Notes. The Notes have been rated AAA by Standard & Poor's and by Kroll Bond Rating Agency.

Proceeds from the sale of the Propel Notes will be used to pay the purchase price for the Texas Tax Liens to Propel, pay certain expenses incurred in connection with the issuance of the Propel Notes and fund certain reserves. Propel will use the net proceeds to pay down borrowings on the Propel Facility I.

The Notes have not been and will not be registered under the Securities Act or any state or foreign securities laws and may not be offered or sold in the United States absent registration under the Securities Act or reliance upon an available exemption from such registration requirements.

Amendment to Propel Facility II

On May 6, 2014, the Propel Facility II was amended by the parties thereto. Refer to Note 9, "Debt - Propel Facilities" in the notes to our condensed consolidated financial statements for detailed information related to the Propel Facility II and the amendment.

Item 6 – Exhibits

4.1	Indenture (including form of Note), dated as of March 11, 2014, by and between Encore Capital Group, Inc., Midland Credit Management, Inc., as guarantor, and Union Bank, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 11, 2014)
4.2	Second Supplemental Indenture, dated March 14, 2014, by and among Cabot Financial (Luxembourg) S.A., Cabot Financial Limited, Cabot Credit Management Limited, as guarantor, and Citibank, N.A., London Branch, as trustee (filed herewith)
4.3	Second Supplemental Indenture, dated March 14, 2014, by and among Marlin Intermediate Holdings plc, Cabot Financial Limited, the subsidiary guarantors party thereto and the Bank of New York Mellon, London Branch, as trustee (filed herewith)
4.4	Indenture (including form of Note), dated March 27, 2014, between Cabot Financial (Luxembourg) S.A., Cabot Credit Management Limited, Cabot Financial Limited, the subsidiary guarantors party thereto, J.P. Morgan Europe Limited, as security agent, Citibank, N.A., London Branch as trustee, principal paying agent and transfer agent and Citigroup Global Markets Deutschland AG, as registrar (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 28, 2014)
4.5	Indenture (including form of Note), dated May 6, 2014, by and between PFS Tax Lien Trust 2014-1 and Citibank, N.A., as trustee (filed herewith)
10.1	Letter Agreement, dated March 5, 2014, between Citibank, N.A. and Encore Capital Group, Inc., regarding the Base Capped Call Transaction (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 11, 2014)
10.2	Letter Agreement, dated March 5, 2014, between Credit Suisse International and Encore Capital Group, Inc., regarding the Base Capped Call Transaction (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 11, 2014)
10.3	Letter Agreement, dated March 5, 2014, between Morgan Stanley & Co. LLC and Encore Capital Group, Inc., regarding the Base Capped Call Transaction (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 11, 2014)
10.4	Letter Agreement, dated March 5, 2014, between Société Générale and Encore Capital Group, Inc., regarding the Base Capped Call Transaction (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on March 11, 2014)
10.5	Letter Agreement, dated March 6, 2014, between Citibank, N.A. and Encore Capital Group, Inc., regarding the Additional Capped Call Transaction (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on March 11, 2014)
10.6	Letter Agreement, dated March 6, 2014, between Credit Suisse International and Encore Capital Group, Inc., regarding the Additional Capped Call Transaction (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on March 11, 2014)
10.7	Letter Agreement, dated March 6, 2014, between Morgan Stanley & Co. LLC and Encore Capital Group, Inc., regarding the Additional Capped Call Transaction (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed on March 11, 2014)
10.8	Letter Agreement, dated March 6, 2014, between Société Générale and Encore Capital Group, Inc., regarding the Additional Capped Call Transaction (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed on March 11, 2014)
10.9+	Restricted Stock Award Grant Notice and Agreement, dated March 7, 2014, between Encore Capital Group, Inc. and Paul Grinberg (filed herewith)
10.10+	Restricted Stock Award Grant Notice and Agreement, dated April 15, 2013, between Encore Capital Group, Inc. and Kenneth A. Vecchione (filed herewith)
10.11+	Restricted Stock Award Grant Notice and Agreement, dated April 15, 2013, between Encore Capital Group, Inc. and Kenneth A. Vecchione (filed herewith)
10.12+	Performance Stock Grant Notice and Agreement, dated June 4, 2013, between Encore Capital Group, Inc. and Kenneth A. Vecchione (filed herewith)

10.13*	Amendment No. 1 to Tax Lien Loan and Security Agreement, dated May 6, 2014, by and among PFS Financial 1, LLC, PFS Finance Holdings, LLC, the Borrowers from time to time party thereto and Wells Fargo Bank, N.A. (filed herewith)
31.1	Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following financial information from the Encore Capital Group, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Financial Condition; (ii) Condensed Consolidated Statements of Income; (iii) Condensed Consolidated Statements of Comprehensive Income; (iv) Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements

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+ Management contract or compensatory plan or arrangement.

* The asterisk denotes that confidential portions of this exhibit have been omitted in reliance on Rule 24b-2 of the Securities Exchange Act of 1934. The confidential portions have been submitted separately to the Securities and Exchange Commission.

SIGNATURES

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

ENCORE CAPITAL GROUP, INC.

By: /s/ Paul Grinberg

Paul Grinberg
Executive Vice President,
Chief Financial Officer and Treasurer

Date: May 8, 2014

Dated March 14, 2014

SECOND SUPPLEMENTAL INDENTURE

to

INDENTURE
DATED AS OF SEPTEMBER 20, 2012

in respect of

£265,000,000 10.375% SENIOR SECURED NOTES DUE 2019

among

CABOT FINANCIAL (LUXEMBOURG) S.A.
as Issuer

CABOT FINANCIAL LIMITED
as Company

CABOT CREDIT MANAGEMENT LIMITED
as Guarantor

CITIBANK, N.A., LONDON BRANCH
as Trustee

and certain Guarantors named herein

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This SECOND SUPPLEMENTAL INDENTURE (this "Supplemental Indenture") dated as of March 14, 2014, between the Guarantors named in Schedule 1 hereto (together, the "New Guarantors", and each, a "New Guarantor"), CABOT FINANCIAL (LUXEMBOURG) S.A., a *société anonyme* incorporated under Luxembourg law with registered office at L-5365 Munsbach, 6, rue Gabriel Lippmann, registered with the register of commerce and companies of Luxembourg under the number B 171.125 (the "Issuer"), CABOT CREDIT MANAGEMENT LIMITED, a limited liability company organized under the laws of England and Wales ("CCM"), CABOT FINANCIAL LIMITED, a limited liability company incorporated under the laws of England and Wales (the "Company"), certain subsidiaries of the Company from time to time parties hereto and CITIBANK, N.A., LONDON BRANCH, as trustee (the "Trustee"), under the Indenture referred to below.

RECITALS

WHEREAS the Issuer, the Company, and the Trustee are parties to an Indenture, dated as of September 20, 2012 (as amended, supplemented, waived or otherwise modified, including by the first supplemental indenture dated as of June 13, 2013, the "Indenture"), providing for the issuance of the Issuer's 10.375% Senior Secured Notes due 2019;

WHEREAS, pursuant to Section 4.16 of the Indenture, each New Guarantor is required to execute a Supplemental Indenture;

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee and the Issuer are authorized to execute and deliver this Supplemental Indenture, including the agreement to guarantee contained herein;

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantors, the Issuer, and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders as follows:

Section 1. Capitalized Terms.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

Section 2. Agreement to Guarantee.

Pursuant to, and subject to the provisions of, Article XI of the Indenture, each New Guarantor (which term includes each other New Guarantor that hereinafter guarantees the Notes pursuant to the terms of the Indenture) hereby unconditionally and irrevocably guarantees, jointly and severally with each other New Guarantor and all Guarantors, to each Holder and to the Trustee and their successors and assigns to the extent set forth in the Indenture and subject to the provisions thereof (a) the full and punctual payment when due, whether at Stated Maturity, by acceleration, by redemption or otherwise, of all obligations of the Issuer under the Indenture (including obligations to the Trustee) and the Notes, whether for payment of principal of, or interest, premium, if any, on, the Notes and all other monetary obligations of the Issuer under the Indenture and the Notes and (b) the full and punctual performance within applicable grace periods of all other obligations of the Issuer whether for fees, expenses, indemnification or otherwise under the Indenture and the Notes (all the foregoing being hereinafter collectively called the "Guaranteed Obligations"). Each New Guarantor further agrees that the Guaranteed Obligations maybe extended or renewed, in whole or in part, without notice or further assent from such New Guarantor and that such New Guarantors will remain bound under Article XI of the Indenture, notwithstanding any extension or renewal of any Guaranteed Obligation.

The Guaranteed Obligations of each New Guarantor to the Holders of Notes and to the Trustee pursuant to the Indenture as supplemented hereby, are expressly set forth in Article XI of the Indenture

and reference is hereby made to the Indenture for the precise terms of the Guarantee.

The obligations of each New Guarantor hereunder and under the Indenture shall be subject to the limitations set forth in Section 11.02 of the Indenture.

Section 3. Ratification and Effect.

Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and each Holder of Notes, by accepting the Notes whether heretofore or hereafter authenticated and delivered (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee, on behalf of such Holder, to take such action as may be necessary or appropriate to effectuate the subordination as provided in the Indenture and (c) appoints the Trustee attorney-in-fact of such Holder for such purpose; provided, however, that each New Guarantor and each Guarantor shall be released from all its obligations with respect to this Guarantee in accordance with the terms of the Indenture, including Section 11.08 of the Indenture and upon any defeasance of the Notes in accordance with Article VIII of the Indenture.

Section 4. Governing Law.

THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 5. Agent for Service; Submission to Jurisdiction; Waiver of Immunities.

The Issuer and each New Guarantor irrevocably submit to the non-exclusive jurisdiction of any New York State or U.S. federal court located in the Borough of Manhattan in the City and State of New York over any suit, action or proceeding arising out of or relating to this Indenture and irrevocably waive any right to trial by jury in connection with any such suit, action or proceeding. The Issuer and each New Guarantor irrevocably waive, to the fullest extent permitted by law, any objection which they may have, pursuant to New York law or otherwise, to the laying of the venue of any such suit, action or proceeding brought in such a court and any claim that any such suit, action or proceeding brought in such a court has been brought in any inconvenient forum. In furtherance of the foregoing, the Issuer and each New Guarantor hereby irrevocably designate and appoint Corporation Service Company (at its office at 1180 Avenue of the Americas, Suite 210, New York, New York 10036-8401) as its agent to receive service of all process brought against them with respect to any such suit, action or proceeding in any such court in the City and State of New York, such service being hereby acknowledged by it to be effective and binding service in every respect. Copies of any such process so served shall also be given to the Issuer in accordance with Section 13.02 of the Indenture, but the failure of the Issuer to receive such copies shall not affect in any way the service of such process as aforesaid.

Section 6. Counterpart Originals.

The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 7. The Trustee.

The Trustee has entered into this Supplemental Indenture solely upon request of the Issuer and assumes no obligation hereunder. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the other parties hereto and not the Trustee.

Section 8. Effect of Headings.

The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 9. Conflicts.

To the extent of any inconsistency between the terms of the Indenture or the Global Notes and this Supplemental Indenture, the terms of this Supplemental Indenture will control.

Section 10. Counterparts.

The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 11. Successors.

All covenants and agreements in this Supplemental Indenture given by the parties hereto shall bind their successors.

(Signature page follows.)

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

CABOT FINANCIAL (LUXEMBOURG) S.A.
as Issuer

By: /s/ Duncan Smith
Name: Duncan Smith
Title: Director

CABOT FINANCIAL LIMITED
as Company

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

CABOT CREDIT MANAGEMENT LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN FINANCIAL GROUP LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN FINANCIAL INTERMEDIATE LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN FINANCIAL INTERMEDIATE II LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN MIDWAY LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

BLACK TIP CAPITAL HOLDINGS LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN SENIOR HOLDINGS LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN PORTFOLIO HOLDINGS LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN FINANCIAL SERVICES LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN LEGAL SERVICES LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN CAPITAL EUROPE LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MCE PORTFOLIO LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MFS PORTFOLIO LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN EUROPE I LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN EUROPE II LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

ME III LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

ME IV LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

CITIBANK, N.A., LONDON BRANCH
as Trustee

By: /s/ Andrew McIntosh
Name: Andrew McIntosh
Title: Vice President

SCHEDULE 1

NEW GUARANTORS

Name of the Company	Registered Seat	Company Number
MARLIN FINANCIAL GROUP LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	7,195,881
MARLIN FINANCIAL INTERMEDIATE LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	7,196,379
MARLIN FINANCIAL INTERMEDIATE II LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	8346249
MARLIN MIDWAY LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	8255990
BLACK TIP CAPITAL HOLDINGS LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	5927496
MARLIN SENIOR HOLDINGS LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	8215555
MARLIN PORTFOLIO HOLDINGS LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	8,215,352
MARLIN FINANCIAL SERVICES LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	4,618,038

MARLIN LEGAL SERVICES LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	6,200,270
MARLIN CAPITAL EUROPE LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	4,623,224
MCE PORTFOLIO LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	5892466
MFS PORTFOLIO LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	5477405
MARLIN EUROPE I LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	5948653
MARLIN EUROPE II LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	6145019
ME III LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	7255614
ME IV LIMITED	Marlin House 16-22 Grafton Road Worthing West Sussex BN11 1QP United Kingdom	7256706

Exhibit 4.3

Dated March 14, 2014

SECOND SUPPLEMENTAL INDENTURE

to

INDENTURE
DATED AS OF JULY 25, 2013

in respect of

£150,000,000 10.5% SENIOR SECURED NOTES DUE 2020

among

MARLIN INTERMEDIATE HOLDINGS PLC
as Issuer

CABOT FINANCIAL LIMITED
as Company

MARLIN FINANCIAL GROUP LIMITED
as Guarantor

MARLIN FINANCIAL INTERMEDIATE LIMITED
as Guarantor

THE BANK OF NEW YORK MELLON, LONDON BRANCH
as Trustee

J.P. MORGAN EUROPE LIMITED
as Security Agent

and certain Guarantors named herein

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This SECOND SUPPLEMENTAL INDENTURE (this "Supplemental Indenture") dated as of March 14, 2014, among the Guarantors named in Schedule 1 hereto (together with the Company (as defined below), the "New Guarantors", and each, a "New Guarantor"), MARLIN INTERMEDIATE HOLDINGS PLC, a public limited company incorporated under the laws of England and Wales with its registered office at Marlin House, 16-22 Grafton Road, Worthing, West Sussex, United Kingdom, BN11 1QP (the "Issuer"), MARLIN FINANCIAL GROUP LIMITED, a private limited company organized under the laws of England and Wales, MARLIN FINANCIAL INTERMEDIATE LIMITED, a private limited company organized under the laws of England and Wales, CABOT FINANCIAL LIMITED, a private limited company organized under the laws of England and Wales (the "Company"), certain subsidiaries of the Company from time to time parties hereto, THE BANK OF NEW YORK MELLON, LONDON BRANCH, as trustee (the "Trustee") under the Indenture referred to below, and J.P. MORGAN EUROPE LIMITED, as security agent.

RECITALS

WHEREAS the Issuer, the Company, and the Trustee are parties to an Indenture, dated as of July 25, 2013 (as amended, supplemented, waived or otherwise modified, including by the First Supplemental Indenture (as defined below), the "Indenture"), providing for the issuance of the Issuer's 10.5% Senior Secured Notes due 2020;

WHEREAS, the Issuer, the Guarantors and the Trustee have entered into the first supplemental indenture to the Indenture dated as of February 19, 2014 (the "First Supplemental Indenture"), pursuant to which certain amendments set out therein become operative on the date hereof;

WHEREAS, pursuant to Section 4.16 of the Indenture, each New Guarantor is required to execute a Supplemental Indenture;

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee and the Issuer are authorized to execute and deliver this Supplemental Indenture, including the agreement to guarantee contained herein;

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantors, the Issuer, and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders as follows:

Section 1. Capitalized Terms.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

Section 2.Agreement to Guarantee.

Pursuant to, and subject to the provisions of, Article XI of the Indenture, each New Guarantor (which term includes each other New Guarantor that hereinafter guarantees the Notes pursuant to the terms of the Indenture) hereby unconditionally and irrevocably guarantees, jointly and severally with each other New Guarantor and all Guarantors, to each Holder and to the Trustee and their successors and assigns to the extent set forth in the Indenture and subject to the provisions thereof (a) the full and punctual payment when due, whether at Stated Maturity, by acceleration, by redemption or otherwise, of all obligations of the Issuer under the Indenture (including obligations to the Trustee) and the Notes, whether for payment of principal of, or interest, premium, if any, on, the Notes and all other monetary obligations of the Issuer under the Indenture and the Notes and (b) the full and punctual performance within applicable grace periods of all other obligations of the Issuer whether for fees, expenses, indemnification or otherwise under the Indenture and the Notes (all the foregoing being hereinafter collectively called the "Guaranteed Obligations"). Each New Guarantor further agrees that the

Guaranteed Obligations maybe extended or renewed, in whole or in part, without notice or further assent from such New Guarantor and that such New Guarantors will remain bound under Article XI of the Indenture, notwithstanding any extension or renewal of any Guaranteed Obligation.

The Guaranteed Obligations of each New Guarantor to the Holders of Notes and to the Trustee pursuant to the Indenture as supplemented hereby, are expressly set forth in Article XI of the Indenture and reference is hereby made to the Indenture for the precise terms of the Guarantee.

The obligations of each New Guarantor hereunder and under the Indenture shall be subject to the limitations set forth in Section 11.02 of the Indenture.

Notwithstanding any other provision of the Intercreditor Agreement, the Supplemental Indenture, the Cabot Senior Facilities Agreement and the Cabot Bridge Facilities Agreement, the obligations of Cabot Financial (Luxembourg) S.A. under clause 19 of the Cabot Bridge Facilities Agreement, under clause 23 of the Cabot Senior Facilities Agreement and with respect to any guarantees given under the Indenture for the obligations of the Issuer or of any company which is not a direct or indirect subsidiary of Cabot Financial (Luxembourg) S.A., shall be limited to an aggregate amount not exceeding the higher of:

(i) (A) ninety-five (95%) percent of Cabot Financial (Luxembourg) S.A.'s own funds (*capitaux propres*), as referred to in article 34 of the Luxembourg law of 19 December 2002 on the trade and companies register, accounting and companies annual accounts, as amended, determined as at the date of this Supplemental Indenture, and increased by the amount of any Intra-Group Liabilities (without double counting); and

(B) ninety-five (95%) percent of Cabot Financial (Luxembourg) S.A.'s own funds (*capitaux propres*), referred to in article 34 of the Luxembourg law of 19 December 2002 on the trade and companies register, accounting and companies annual accounts, as amended, determined as at the date the guarantee under this Supplemental Indenture and/or the Indenture (as the case may be) is called, and increased by the amount of any Intra-Group Liabilities (without double counting).

(ii) For the purposes of sub-paragraph (i) above, "**Intra-Group Liabilities**" shall mean any amounts owed by Cabot Financial (Luxembourg) S.A. to any other member of the group, that have not been financed (directly or indirectly) by a borrowing or other raising of funds under the Note Documents (as such term is defined in the Indenture).

(iii) The guarantee limitation specified in sub-paragraph (i) above shall not apply to (A) any amounts borrowed or otherwise received by Cabot Financial (Luxembourg) S.A. under the Note Documents and (B) any amounts borrowed or otherwise received under the Note Documents (as such term is defined in the Indenture) and on-lent to Cabot Financial (Luxembourg) S.A. (in any form whatsoever).

For the purposes of this Supplemental Indenture, "**Cabot Bridge Facilities Agreement**" shall mean the senior secured bridge facilities agreement dated 8 February 2014 between, among others, Cabot Financial Limited, the original borrower and original guarantors, party thereto, J.P. Morgan Europe Limited as agent and security agent and the original lenders party thereto, as amended or supplemented from time to time.

Section 3.Ratification and Effect.

Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and each Holder of Notes, by accepting the

Notes whether heretofore or hereafter authenticated and delivered (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee, on behalf of such Holder, to take such action as may be necessary or appropriate to effectuate the subordination as provided in the Indenture and (c) appoints the Trustee attorney-in-fact of such Holder for such purpose; provided, however, that each New Guarantor and each Guarantor shall be released from all its obligations with respect to this Guarantee in accordance with the terms of the Indenture, including Section 11.08 of the Indenture and upon any defeasance of the Notes in accordance with Article VIII of the Indenture.

Section 4.Governing Law.

THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 5.Agent for Service; Submission to Jurisdiction; Waiver of Immunities.

The Issuer and each New Guarantor irrevocably submit to the non-exclusive jurisdiction of any New York State or U.S. federal court located in the Borough of Manhattan in the City and State of New York over any suit, action or proceeding arising out of or relating to this Indenture and irrevocably waive any right to trial by jury in connection with any such suit, action or proceeding. The Issuer and each New Guarantor irrevocably waive, to the fullest extent permitted by law, any objection which they may have, pursuant to New York law or otherwise, to the laying of the venue of any such suit, action or proceeding brought in such a court and any claim that any such suit, action or proceeding brought in such a court has been brought in any inconvenient forum. In furtherance of the foregoing, the Issuer and each New Guarantor hereby irrevocably designate and appoint Corporation Service Company (at its office at 1180 Avenue of the Americas, Suite 210, New York, New York 10036-8401) as its agent to receive service of all process brought against them with respect to any such suit, action or proceeding in any such court in the City and State of New York, such service being hereby acknowledged by it to be effective and binding service in every respect. Copies of any such process so served shall also be given to the Issuer in accordance with Section 13.02 of the Indenture, but the failure of the Issuer to receive such copies shall not affect in any way the service of such process as aforesaid.

Section 6.Counterpart Originals.

The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 7. The Trustee.

The Trustee has entered into this Supplemental Indenture solely upon request of the Issuer and assumes no obligation hereunder. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the other parties hereto and not the Trustee.

Section 8. Effect of Headings.

The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 9. Conflicts.

To the extent of any inconsistency between the terms of the Indenture or the Global Notes and this Supplemental Indenture, the terms of this Supplemental Indenture will control.

Section 10. Counterparts.

The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 11. Successors.

All covenants and agreements in this Supplemental Indenture given by the parties hereto shall bind their successors.

(Signature page follows.)

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

MARLIN INTERMEDIATE HOLDINGS PLC
as Issuer

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

CABOT FINANCIAL LIMITED
as Company and Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN FINANCIAL GROUP LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

MARLIN FINANCIAL INTERMEDIATE LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

CABOT CREDIT MANAGEMENT LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

CABOT FINANCIAL (LUXEMBOURG) S.A.
as Guarantor

By: /s/ Christopher Ross-Roberts
Name:
Title:

CABOT FINANCIAL HOLDINGS GROUP LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

CABOT CREDIT MANAGEMENT GROUP LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

CABOT FINANCIAL DEBT RECOVERY SERVICES LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

CABOT FINANCIAL (UK) LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

CABOT FINANCIAL (EUROPE) LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

FINANCIAL INVESTIGATIONS AND RECOVERIES (EUROPE) LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

APEX CREDIT MANAGEMENT LIMITED
as Guarantor

By: /s/ Christopher Ross-Roberts
Name: Christopher Ross-Roberts
Title: Director

THE BANK OF NEW YORK MELLON, LONDON BRANCH
as Trustee

By: /s/ Trevor Blewer
Name: Trevor Blewer
Title: Vice President

J.P. MORGAN EUROPE LIMITED
as Security Agent

By: /s/ Belinda Lucas
Name: Belinda Lucas
Title: Associate

SCHEDULE 1

NEW GUARANTORS

Name of the Company	Registered Seat	Company Number
CABOT FINANCIAL (LUXEMBOURG) S.A.	6, rue Gabriel Lippmann L-5365 Munsbach Luxembourg	B 171.125
CABOT CREDIT MANAGEMENT LIMITED	1 Kings Hill Avenue Kings Hill West Malling Kent ME19 4UA United Kingdom	5,754,978
CABOT FINANCIAL HOLDINGS GROUP LIMITED	1 Kings Hill Avenue Kings Hill West Malling Kent ME19 4UA United Kingdom	4,934,534
CABOT CREDIT MANAGEMENT GROUP LIMITED	1 Kings Hill Avenue Kings Hill West Malling Kent ME19 4UA United Kingdom	4071551
CABOT FINANCIAL DEBT RECOVERY SERVICES LIMITED	1 Kings Hill Avenue Kings Hill West Malling Kent ME19 4UA United Kingdom	3936134
CABOT FINANCIAL (EUROPE) LIMITED	1 Kings Hill Avenue Kings Hill West Malling Kent ME19 4UA United Kingdom	3439445
FINANCIAL INVESTIGATIONS AND RECOVERIES (EUROPE) LIMITED	1 Kings Hill Avenue Kings Hill West Malling Kent ME19 4UA United Kingdom	3958421
APEX CREDIT MANAGEMENT LIMITED	1 Kings Hill Avenue Kings Hill West Malling Kent ME19 4UA United Kingdom	3,967,099

Exhibit 4.5

PFS TAX LIEN TRUST 2014-1,
as Issuer

and

Citibank, N.A.,

as Indenture Trustee

INDENTURE

Dated as of May 6, 2014

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INDENTURE

This INDENTURE, dated as of May 6, 2014 (this "**Indenture**"), is between PFS TAX LIEN TRUST 2014-1, a statutory trust organized under the laws of the State of Delaware, as issuer (the "**Issuer**") and Citibank, N.A., a national banking association, as indenture trustee (the "**Indenture Trustee**").

RECITALS OF THE ISSUER

WHEREAS, the Issuer has duly authorized the execution and delivery of this Indenture to provide for the issuance $134,000,000 of its 1.44% Texas Tax Lien Collateralized Notes, Series 2014-1.

WHEREAS, when executed by the parties hereto this Indenture shall become a valid agreement of the Issuer, enforceable in accordance with its terms, and when executed by the Issuer and authenticated and delivered by the Indenture Trustee hereunder, the Notes shall become the valid obligations of the Issuer.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Notes by the holders thereof, it is mutually covenanted and agreed, for the benefit of the Noteholders, as follows:

GRANTING CLAUSE

To secure the payment of the principal of and interest on the Notes in accordance with their terms, the payment of all of the sums payable under this Indenture and the performance of the covenants contained in this Indenture, the Issuer hereby Grants to the Indenture Trustee, for the benefit of the Secured Parties, all of the Issuer's right, title and interest in and to the following whether now owned or hereafter acquired and any and all benefits (but none of the Issuer's obligations, if any) accruing to the Issuer from:

(i) the Texas Tax Liens and all REO Properties;

(ii) all Related Rights, Texas Tax Lien Assets and Texas Tax Lien Document Files;

(iii) all rights and remedies under the Transfer Agreement, the Purchase Agreement and the Servicing Agreement;

(iv) all amounts on deposit in the Lockbox Account and the Trust Accounts;

(v) all Collections, including, without limitation, funds received by the Issuer in respect of any Optional Redemption;

(vi) the Issuer's interest in any subsidiaries which own REO Properties;

(vii) all REO Proceeds; and

(viii) proceeds of the foregoing (including, without limitation, all cash proceeds, accounts, accounts receivable, notes, drafts, acceptances, chattel paper, checks, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind, and other forms of obligations and receivables which at any time constitute all or part or are included in the proceeds of any of the foregoing) (collectively, the "**Trust Estate**").

Notwithstanding the foregoing, the Trust Estate shall not include any (i) Texas Tax Liens released from the Lien of this Indenture in accordance with Section 4.05, (ii) Prepayment Premiums and Processing Charges made by a Property Owner, or (iii) Misdirected Deposits.

Such Grant is made in trust to secure (i) the payment of all amounts due on the Notes in accordance with their terms, equally and ratably except as otherwise may be provided in this Indenture, without prejudice, priority, or distinction between any Note by reason of differences in time of issuance or otherwise, and (ii) the payment of all other sums payable under the Notes and this Indenture.

The Indenture Trustee acknowledges such Grant, accepts the trusts hereunder in accordance with the provisions hereof, and agrees to perform the duties provided herein.

ARTICLE I

DEFINITIONS AND OTHER PROVISIONS
OF GENERAL APPLICATION

Section 1.01 General Definitions. In addition to the terms defined elsewhere in this Indenture, capitalized terms shall have the meanings given them in the "Standard Definitions" attached hereto as Annex A.

Section 1.02 Compliance Certificates and Opinions. Upon any written application or request (or oral application with prompt written confirmation) by the Issuer to the Indenture Trustee to take any action under any provision of this Indenture, other than any request that (a) the Indenture Trustee invest moneys in any of the Trust Accounts pursuant to the written directions specified in such request, or (b) the Indenture Trustee pay moneys due and payable to the Issuer hereunder to the Issuer's assignee specified in such request, the Indenture Trustee shall require the Issuer to furnish to the Indenture Trustee an Officer's Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and that the request otherwise is in accordance with the terms of this Indenture, and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that, in the case of any such requested action as to which other evidence of satisfaction of the conditions precedent thereto is specifically required by any provision of this Indenture, no additional certificate or opinion need be furnished.

Section 1.03 Form of Documents Delivered to Indenture Trustee. In any case where several matters are required to be certified by, or covered by an opinion of any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Issuer delivered to the Indenture Trustee may be based, insofar as it relates to legal matters, upon an Opinion of Counsel, unless such officer knows that such Opinion of Counsel with respect to the matters upon which his certificate or opinion is based are erroneous. Any such officer's certificate or opinion and any Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Issuer as to such factual matters unless such officer or counsel knows that the certificate or opinion or representations with respect to such matters are erroneous. Any Opinion of Counsel may be based on the written opinion of other counsel, in which event such Opinion of Counsel shall be accompanied by a copy of such other counsel's opinion which shall contain appropriate language permitting reliance on such other counsel's opinion.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Wherever in this Indenture, in connection with any application or certificate or report to the Indenture Trustee, it is provided that the Issuer shall deliver any document as a condition of the granting of such application, or as evidence of compliance with any term hereof, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in such case be conditions precedent to the right of the Issuer to have such application granted or to the sufficiency of such certificate or report. The foregoing shall not, however, be construed to affect the Indenture Trustee's right to rely upon the truth and accuracy of any statement or opinion contained in any such document as provided in Section 6.01 hereof.

Whenever in this Indenture it is provided that the absence of the occurrence and continuation of a Default or Event of Default is a condition precedent to the taking of any action by the Indenture Trustee at the request or direction of the Issuer, then, notwithstanding that the satisfaction of such condition is a condition precedent to the Issuer's right to make such request or direction, the Indenture Trustee shall be protected in acting in accordance with such request or direction if it does not have knowledge of the occurrence and continuation of such event. For all purposes of this Indenture, the Indenture Trustee shall not be deemed to have knowledge of any Default or Event of Default nor shall the Indenture Trustee have any duty to monitor or investigate to determine whether a Default or an Event of Default (other than an Event of Default of the kind described in Section 5.01(a) or (b) hereof) has occurred unless a Responsible Officer of the Indenture Trustee shall have actual knowledge thereof or shall have been notified in writing thereof by the Issuer, the Servicer or any Noteholder.

Section 1.04 Acts of Noteholders, etc.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Noteholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Noteholders in person or by agents duly appointed in writing, including but not limited to trust agents and administrative agents; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Indenture Trustee and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "**Act**" of the Noteholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.01 hereof) conclusive in favor of the Indenture Trustee and the Issuer, if made in the manner provided in this Section 1.04.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him or her the execution thereof. Where such execution is by a signer acting in a capacity other than his or her individual capacity, such certificate or affidavit shall also constitute sufficient proof of his or her authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Indenture Trustee, in its reasonable discretion, deems sufficient.

(c) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the holder of any Note shall bind every future holder of the same Note and the holder of every Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Indenture Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Note.

(d) By accepting the Notes issued pursuant to this Indenture, each Noteholder irrevocably appoints the Indenture Trustee hereunder as the special attorney-in-fact for such Noteholder vested with full power on behalf of such Noteholder to effect and enforce the rights of such Noteholder for the benefit of such Noteholder; provided that nothing contained in this Section 1.04(d) shall be deemed to confer upon the Indenture Trustee any duty or power to vote on behalf of the Noteholders with respect to any matter on which the Noteholders have a right to vote pursuant to the terms of this Indenture.

Section 1.05 Notice to Noteholders; Waiver.

(a) Where this Indenture provides for notice to Noteholders of any event, or the mailing of any report to Noteholders, such notice or report shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, certified mail return receipt requested, or sent by private courier or confirmed electronically to each Noteholder affected by such event or to whom such report is required to be mailed, at its address as it appears in the Note

Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice or the mailing of such report. In any case where a notice or report to Noteholders is mailed, neither the failure to mail such notice or report, nor any defect in any notice or report so mailed, to any particular Noteholder shall affect the sufficiency of such notice or report with respect to other Noteholders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Noteholders shall be filed with the Indenture Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

(b) In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to mail or send notice to Noteholders, in accordance with Section 1.05(a) hereof, of any event or any report to Noteholders when such notice or report is required to be delivered pursuant to any provision of this Indenture, then such notification or delivery as shall be made with the approval of the Indenture Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 1.06 Effect of Headings and Table of Contents. The Article and Section headings herein and in the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.07 Successors and Assigns. All covenants and agreements in this Indenture by each of the parties hereto shall bind its respective successors and permitted assigns, whether so expressed or not.

Section 1.08 GOVERNING LAW. THIS INDENTURE AND THE NOTES AND ALL QUESTIONS RELATING TO THEIR VALIDITY, INTERPRETATION, PERFORMANCE AND ENFORCEMENT SHALL BE GOVERNED BY, AND CONSTRUED, INTERPRETED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, NOTWITHSTANDING ANY NEW YORK OR OTHER CHOICE-OF-LAW RULES TO THE CONTRARY. THE INDENTURE AND THE NOTES SHALL BE DEEMED TO BE EXECUTED IN THE CITY OF NEW YORK, STATE OF NEW YORK, REGARDLESS OF THE DOMICILE OF THE ISSUER. UNLESS MADE APPLICABLE IN A SUPPLEMENT HERETO, THIS INDENTURE IS NOT SUBJECT TO THE TRUST INDENTURE ACT OF 1939, AS AMENDED, AND SHALL NOT BE GOVERNED THEREBY AND CONSTRUED IN ACCORDANCE THEREWITH.

Section 1.09 Waiver of Jury Trial. THE PARTIES HERETO IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW ALL RIGHT TO TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR IN CONNECTION WITH THIS INDENTURE OR THE NOTES AS WELL AS ANY OBJECTION WHICH EITHER MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

Section 1.10 Legal Holidays. In any case where any Payment Date or the Stated Maturity Date or any other date on which principal of or interest on any Note is proposed to be paid shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Notes) such payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on such Payment Date, Stated Maturity Date, or other date on which principal of or interest on any Note is proposed to be paid, provided that no penalty interest shall accrue for the period from and after such Payment Date, Stated Maturity Date, or any other date on which principal of or interest on any Note is proposed to be paid, as the case may be, until such next succeeding Business Day.

Section 1.11 Execution in Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument. Delivery of an executed counterpart of this Indenture by facsimile or other electronic transmission (i.e., "pdf" or "tif") shall be effective as delivery of a manually executed counterpart hereof and deemed an original.

Section 1.12 Inspection. The Issuer agrees that, on reasonable prior notice, it will permit the representatives of the Indenture Trustee or any Noteholder holding Notes evidencing at least 25% of the Outstanding Notes, during the Issuer's normal business hours, to examine all of the books of account, records, reports and other papers of the Issuer, to make copies thereof and extracts therefrom, and to discuss its affairs, finances and accounts with its designated officers, employees and independent accountants in the presence of such designated officers and employees (and by this provision the Issuer hereby authorizes its accountants to discuss with such representatives such affairs, finances and accounts), all at such reasonable times and as often as may be reasonably requested for the purpose of reviewing or evaluating the financial condition or affairs of the Issuer or the performance of and compliance with the covenants and undertakings of the Issuer in this Indenture or any of the other documents referred to herein or therein. Any expense incident to the exercise by the Indenture Trustee at any time or any Noteholder during the continuance of any Default or Event of Default of any right under this Section 1.12 shall be borne by the Issuer. Nothing contained herein shall be construed as a duty of the Indenture Trustee to perform such inspection. All information obtained by the Indenture Trustee, any Noteholder and their respective representatives pursuant to this Section 1.12 shall be kept confidential; provided that the Indenture Trustee may share any information obtained by it or its representatives pursuant to this Section 1.12 with any Noteholder who shall be deemed to have agreed to keep such information confidential.

Section 1.13 Survival of Representations and Warranties. The representations, warranties and certifications of the Issuer made in this Indenture or in any certificate or other writing delivered by the Issuer pursuant hereto shall survive the authentication and delivery of the Notes hereunder.

ARTICLE IITHE NOTES

Section 2.01 General Provisions.

(a) Form of Notes. The Notes shall be designated as the "PFS Tax Lien Trust 2014-1 __% Texas Tax Lien Collateralized Notes, Series 2014-1". The Notes, together with their

certificates of authentication shall be in substantially the form set forth in Exhibit A hereto, with such appropriate insertions, omissions, substitutions and other variations as are required or are permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon, as may consistently herewith be determined by the Responsible Officer executing such Notes, as evidenced by such Responsible Officer's execution of such Notes.

(b) Denominations. The Outstanding Note Balance of the Notes which may be authenticated and delivered under this Indenture is limited to $134,000,000. The Notes shall be issuable only as registered Notes in the denominations of at least $100,000 and in integral multiples of $1,000; provided, however, that the foregoing shall not restrict or prevent the transfer in accordance with Section 2.04 hereof of any Note with an Outstanding Note Balance of less than $100,000.

(c) Execution, Authentication, Delivery and Dating. The Notes shall be executed manually or by facsimile on behalf of the Issuer by an Authorized Officer of the Owner Trustee. Any Note bearing the signature of an individual who was at the time of execution thereof an Authorized Officer of the Owner Trustee shall bind the Issuer, notwithstanding that such individual ceases to hold such office prior to the authentication and delivery of such Note or did not hold such office at the date of such Note. No Note shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Note a certificate of authentication substantially in the form set forth in Exhibit A hereto, executed on behalf of the Indenture Trustee by one of its Responsible Officers by manual signature, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder. Each Note shall be dated the date of its authentication. The Notes may from time to time be executed by a Responsible Officer of the Owner Trustee on behalf of the Issuer and delivered to the Indenture Trustee for authentication together with an Issuer Order to the Indenture Trustee directing the authentication and delivery of such Notes and thereupon the same shall be authenticated and delivered by the Indenture Trustee in accordance with such Issuer Order.

Section 2.02 Global Notes. Each of the Notes, upon original issuance, shall be issued in the form of one or more book-entry global certificates (the "**Global Notes**" and each, a "**Global Note**") to be deposited with the Indenture Trustee, as custodian for DTC, the initial Depository, by or on behalf of the Issuer. The Notes sold to non-U.S. persons (as defined in Regulation S) in offshore transactions in reliance on Regulation S will be represented by one or more temporary Global Notes (each, a "**Regulation S Temporary Global Note**"). Upon the expiration of the Restricted Period, interests in a Regulation S Temporary Global Note will be exchangeable for interests in one or more permanent Global Notes (together with a Regulation S Temporary Global Note, a "**Regulation S Global Note**"). The Notes sold to U.S. Persons which are Qualified Institutional Buyers will be represented by one or more temporary Global Notes (each, a "**Rule 144A Global Note**"). All Global Notes, including Regulation S Temporary Global Notes and Regulation S Global Notes, shall be initially registered on the Note Register in the name of Cede & Co., the nominee of DTC, and no Note Owner will receive a definitive note (a "**Definitive Note**") representing such Note Owner's interest in the Notes, except as provided in Section 2.03

hereof. Persons acquiring beneficial ownership interests in the Notes may elect to hold such interests through DTC in the United States, or through Clearstream or Euroclear in Europe, through participants in such systems, or through other organizations which are indirect participants in such systems. During the Restricted Period, beneficial interests in the Regulation S Temporary Global Notes may be held only through Clearstream or Euroclear.

Unless and until Definitive Notes have been issued in respect of the Notes pursuant to Section 2.03 hereof:

(a) the provisions of this Section 2.02 shall be in full force and effect with respect to such Notes;

(b) the Issuer, the Servicer and the Indenture Trustee may deal with the Depository and the Depository Participants for all purposes with respect to such Notes (including the making of distributions on such Notes) as the authorized representatives of the respective Note Owners;

(c) to the extent that the provisions of this Section 2.02 conflict with any other provisions of this Indenture, the provisions of this Section 2.02 shall control; and

(d) the rights of the respective Note Owners of the Notes shall be exercised only through the Depository and the Depository Participants and shall be limited to those established by law and agreements between the respective Note Owners and the Depository and/or the Depository Participants. Pursuant to the Depository Agreement, unless and until Definitive Notes are issued in respect of the Notes pursuant to Section 2.03 hereof, the Depository will make book-entry transfers among the Depository Participants and receive and transmit distributions of principal of, and interest on, the Notes to the Depository Participants.

Section 2.03 Definitive Notes. If (a) the Depository (i) advises the Issuer and the Indenture Trustee in writing that the Depository is no longer willing or able to properly discharge its responsibilities as Depository with respect to the Global Notes or (ii) has ceased to be a clearing agency registered under the Securities Exchange Act of 1934, as amended and, in either case the Issuer is unable to locate a qualified successor, (b) the Issuer, at its option, notifies the Indenture Trustee in writing that it elects to cause the issuance of the Definitive Notes or (c) after the occurrence and during the continuation of an Event of Default, Note Owners (other than Propel or an Affiliate thereof) evidencing not less than 51% of the then Outstanding Note Balance of the Global Notes, advise the Indenture Trustee and the Depository through the Depository Participants in writing that the continuation of a book-entry system with respect to such Global Notes through the Depository is no longer in the best interest of such Note Owners, the Indenture Trustee shall direct the Depository to notify all affected Note Owners through the Depository of the occurrence of any such event and of the availability of Definitive Notes to such Note Owners. Neither the Issuer nor the Indenture Trustee shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions. Upon the issuance of Definitive Notes, the Issuer, the Indenture Trustee and the Note Registrar shall recognize registered holders of Definitive Notes as Noteholders hereunder. Upon the issuance of Definitive Notes, all references herein to obligations imposed upon or to be performed by the Depository shall be deemed to be imposed

upon and performed by the Indenture Trustee, to the extent applicable with respect to such Definitive Notes.

Section 2.04 Registration, Transfer and Exchange of Notes.

(a) Note Register. At all times during the term of this Indenture, the Issuer shall cause to be kept at the Corporate Trust Office a register (the "**Note Register**") for the registration, transfer and exchange of Notes. The Indenture Trustee is hereby appointed "**Note Registrar**" for purposes of registering Notes and transfers of Notes as herein provided. The names and addresses of all Noteholders and the names and addresses of the transferees of any Notes shall be registered in the Note Register; provided, however, in no event shall the Note Registrar be required to maintain in the Note Register the names of the individual participants holding Notes through the Depository. The Person in whose name any Note is so registered shall be deemed and treated as the sole owner and Noteholder thereof for all purposes of this Indenture and the Note Registrar, the Issuer, the Indenture Trustee, the Servicer and any agent of any of them shall not be affected by any notice or knowledge to the contrary. A Definitive Note is transferable or exchangeable only upon the surrender of such Note to the Note Registrar at the Corporate Trust Office together with an assignment and transfer (executed by the Holder or his or her duly authorized attorney), subject to the applicable requirements of this Section 2.04. Upon request of the Indenture Trustee, the Note Registrar shall provide the Indenture Trustee with the names and addresses of Noteholders.

(b) Surrender. Upon surrender for registration of transfer of any Definitive Note, subject to the applicable requirements of this Section 2.04, the Issuer shall execute and the Indenture Trustee shall duly authenticate in the name of the designated transferee or transferees, one or more new Notes in denominations of a like aggregate denomination as the Definitive Note being surrendered. Each Note surrendered for registration of transfer shall be canceled in accordance with Section 2.08 hereof. Each new Note issued pursuant to this Section 2.04 shall be registered in the name of any Person as the transferring Holder may request, subject to the applicable provisions of this Section 2.04. All Notes issued upon any registration of transfer or exchange of Notes shall be entitled to the same benefits under this Indenture as the Notes surrendered upon such registration of transfer or exchange.

(c) Securities Laws Restrictions. The issuance of the Notes will not be registered or qualified under the Securities Act or the securities laws of any state. No resale or transfer of any Note or any interest therein may be made unless such resale or transfer is made pursuant to an effective registration statement under the Securities Act and an effective registration or a qualification under applicable state securities laws, or is made in a transaction that does not require such registration or qualification because such transfer satisfies one of the following: (i) such resale or transfer is in compliance with Rule 144A under the Securities Act, to a person who the transferor reasonably believes is a Qualified Institutional Buyer and a Qualified Purchaser that is purchasing for its own account or for the account of a Qualified Institutional Buyer who is a Qualified Purchaser and to whom notice is given that such resale or transfer is being made in reliance upon Rule 144A under the Securities Act as certified by such transferee in a letter in the form of Exhibit B hereto; (ii) such resale or transfer is in compliance with Regulation S under the Securities Act as certified by such transferee in a letter in the form of Exhibit B hereto; (iii) such

resale or transfer is to the Issuer or to the Depositor, or (iv) after the appropriate holding period as is notified by the Issuer to the Indenture Trustee and the Note Registrar, such resale or transfer is pursuant to an exemption from registration under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States and any applicable jurisdiction. None of the Issuer, the Note Registrar, the Servicer or the Indenture Trustee is obligated to register or qualify the Notes under the Securities Act or any other securities law or to take any action not otherwise required under this Indenture to permit the transfer of any Note without registration.

(d) Global Notes Restrictions. In addition to the applicable provisions of this Section 2.04 and the rules of the Depository, the exchange, transfer and registration of transfer of Global Notes or interests therein shall only be made in accordance with this Section 2.04(d).

(i) Rule 144A Global Note to Regulation S Temporary Global Note During the Restricted Period. If, during the Restricted Period, a Note Owner of an interest in a Rule 144A Global Note wishes at any time to transfer its beneficial interest in such Rule 144A Global Note to a Person who wishes to take delivery thereof in the form of a beneficial interest in a Regulation S Temporary Global Note, such Note Owner may, in addition to complying with all applicable rules and procedures of the Depository and Clearstream or Euroclear applicable to transfers by their respective participants (the "**Applicable Procedures**"), transfer or cause the transfer of such beneficial interest for an equivalent beneficial interest in the Regulation S Temporary Global Note only upon compliance with the provisions of this Section 2.04(d)(i). Upon receipt by the Note Registrar at its Corporate Trust Office of (A) written instructions given in accordance with the Applicable Procedures from a Depository Participant directing the Note Registrar to credit or cause to be credited to another specified Depository Participant's account a beneficial interest in the Regulation S Temporary Global Note in an amount equal to the denomination of the beneficial interest in the Rule 144A Global Note to be transferred, (B) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Depository Participant (and the Euroclear or Clearstream account, as the case may be) to be credited with, and the account of the Depository Participant to be debited for, such beneficial interest, and (C) a certification in the form of Exhibit C hereto given by the Note Owner that is transferring such interest, the Note Registrar shall instruct the Depository, to reduce the denomination of the Rule 144A Global Note by the denomination of the beneficial interest in the Rule 144A Global Note to be so transferred and, concurrently with such reduction, to increase the denomination of the Regulation S Temporary Global Note by the denomination of the beneficial interest in the Rule 144A Global Note to be so transferred, and to credit or cause to be credited to the account of the Person specified in such instructions (who shall be a Depository Participant acting for or on behalf of Euroclear or Clearstream, or both, as the case may be) a beneficial interest in the Regulation S Temporary Global Note having a denomination equal to the amount by which the denomination of the Rule 144A Global Note was reduced upon such transfer.

(ii) Rule 144A Global Note to Regulation S Global Note After the Restricted Period. If, after the Restricted Period, a Note Owner of an interest in a Rule 144A Global Note wishes at any time to transfer its beneficial interest in such Rule 144A Global Note to

a Person who wishes to take delivery thereof in the form of a beneficial interest in a Regulation S Global Note, such Note Owner may, in addition to complying with all Applicable Procedures, transfer or cause the transfer of such beneficial interest for an equivalent beneficial interest in a Regulation S Global Note only upon compliance with the provisions of this Section 2.04(d)(ii). Upon receipt by the Note Registrar at its Corporate Trust Office of (A) written instructions given in accordance with the Applicable Procedures from a Depository Participant directing the Note Registrar to credit or cause to be credited to another specified Depository Participant's account a beneficial interest in the Regulation S Global Note in an amount equal to the denomination of the beneficial interest in the Rule 144A Global Note to be transferred, (B) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Depository Participant (and, in the case of a transfer pursuant to and in accordance with Regulation S, the Euroclear or Clearstream account, as the case may be) to be credited with, and the account of the Depository Participant to be debited for, such beneficial interest, and (C) a certification in the form of Exhibit D hereto given by the Note Owner that is transferring such interest, the Note Registrar shall instruct the Depository, to reduce the denomination of the Rule 144A Global Note by the aggregate denomination of the beneficial interest in the Rule 144A Global Note to be so transferred and, concurrently with such reduction, to increase the denomination of the Regulation S Global Note by the aggregate denomination of the beneficial interest in the Rule 144A Global Note to be so transferred, and to credit or cause to be credited to the account of the Person specified in such instructions (who shall be a Depository Participant acting for or on behalf of Euroclear or Clearstream, or both, as the case may be) a beneficial interest in the Regulation S Global Note having a denomination equal to the amount by which the denomination of the Rule 144A Global Note was reduced upon such transfer.

(iii) Regulation S Global Note to Rule 144A Global Note After the Restricted Period. If, after the Restricted Period, the Note Owner of an interest in a Regulation S Global Note wishes at any time to transfer its beneficial interest in such Regulation S Global Note to a Person who wishes to take delivery thereof in the form of a beneficial interest in a Rule 144A Global Note, such Note Owner may, in addition to complying with all Applicable Procedures, transfer or cause the transfer of such beneficial interest for an equivalent beneficial interest in a Rule 144A Global Note only upon compliance with the provisions of this Section 2.04(d)(iii). Upon receipt by the Note Registrar at its Corporate Trust Office of (A) written instructions given in accordance with the Applicable Procedures from a Depository Participant directing the Note Registrar to credit or cause to be credited to another specified Depository Participant's account a beneficial interest in the Rule 144A Global Note in an amount equal to the denomination of the beneficial interest in the Regulation S Global Note to be transferred, (B) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Depository Participant to be credited with, and the account of the Depository Participant (or, if such account is held for Euroclear or Clearstream, the Euroclear or Clearstream account, as the case may be) to be debited for such beneficial interest, and (C) an investor representation letter in the form of Exhibit B hereto from the transferee to the effect that such transferee is a Qualified Institutional Buyer and a Qualified Purchaser, the Note Registrar shall instruct the Depository

to reduce the denomination of the Regulation S Global Note by the denomination of the beneficial interest in the Regulation S Global Note to be transferred, and, concurrently with such reduction, to increase the denomination of the Rule 144A Global Note by the aggregate denomination of the beneficial interest in the Regulation S Global Note to be so transferred, and to credit or cause to be credited to the account of the Person specified in such instructions (who shall be a Depository Participant acting for or on behalf of Euroclear or Clearstream, or both, as the case may be) a beneficial interest in the Rule 144A Global Note having a denomination equal to the amount by which the denomination of the Regulation S Global Note was reduced upon such transfer.

(iv) Transfers Within Regulation S Global Notes During Restricted Period. If, during the Restricted Period, the Note Owner of an interest in a Regulation S Global Note wishes at any time to transfer its beneficial interest in such Note to a Person who wishes to take delivery thereof in the form of a Regulation S Global Note, such Note Owner may transfer or cause the transfer of such beneficial interest for an equivalent beneficial interest in such Regulation S Global Note only upon compliance with the provisions of this Section 2.04(d)(iv) and all Applicable Procedures. Upon receipt by the Note Registrar at its Corporate Trust Office of (A) written instructions given in accordance with the Applicable Procedures from a Depository Participant directing the Note Registrar to credit or cause to be credited to another specified Depository Participant's account a beneficial interest in such Regulation S Global Note in an amount equal to the denomination of the beneficial interest to be transferred, (B) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Depository Participant to be credited with, and the account of the Depository Participant (or, if such account is held for Euroclear or Clearstream, the Euroclear or Clearstream account, as the case may be) to be debited for, such beneficial interest and (C) a certification in the form of Exhibit F hereto given by the transferee, the Note Registrar shall instruct the Depository to credit or cause to be credited to the account of the Person specified in such instructions (who shall be a Depository Participant acting for or on behalf of Euroclear or Clearstream, or both, as the case may be) a beneficial interest in the Regulation S Global Note having a denomination equal to the amount specified in such instructions by which the account to be debited was reduced upon such transfer.

(e) ERISA Considerations. Each investor that acquires Notes and each transferee shall be deemed to have represented and agreed that either (i) such investor is not a Benefit Plan, a plan subject to Similar Law or a person acting on behalf of or with assets of any Benefit Plan or plan subject to Similar Law or (ii) the acquisition, holding or disposition of the Notes will not cause or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violation of any Similar Law. In addition, the Notes and any interest therein may not be purchased by or transferred to any Benefit Plan, plan subject to Similar Law or person acting on behalf of or with assets of any Benefit Plan or plan subject to Similar Law unless it represents that it is not sponsored (within the meaning of Section 3(16)(B) of ERISA) by the Issuer, the Depositor, Propel (in any capacity, including without limitation in its capacity as the Seller and Servicer), the Indenture Trustee, the Back-up Servicer, the Owner Trustee, the Initial Purchasers or by any Affiliate of any such Person.

(f) Transfer Fees, Charges and Taxes. No fee or service charge shall be imposed by the Note Registrar for its services in respect of any registration of transfer or exchange referred to in this Section 2.04. The Note Registrar may require payment by each transferor of a sum sufficient to cover any tax, expense or other governmental charge payable in connection with any such transfer. The Indenture Trustee shall be permitted to request such evidence reasonably satisfactory to it documenting the identity and/or signatures of the transferor and transferee, with such signature guaranteed by an "eligible guarantor institution" meeting the requirements of the Note Registrar, which requirements include membership or participation in Securities Transfer Agents Medallion Program ("**STAMP**") or such other "signature guarantee program" as may be determined by the Note Registar in addition to, or in substitution for, STAMP, all in accordance with the Exchange Act of 1934, as amended.

(g) No Obligation to Register. None of the Issuer, the Indenture Trustee, the Depositor or the Note Registrar is obligated to register or qualify the Notes under the Securities Act or any other securities law or to take any action not otherwise required under this Indenture to permit the transfer of such Notes without registration or qualification. Any such Noteholder desiring to effect such transfer shall, and does hereby agree to, indemnify the Issuer, the Indenture Trustee, the Depositor and the Note Registrar against any loss, liability or expense that may result if the transfer is not so exempt or is not made in accordance with such federal and state laws.

(h) Rule 144A Information. The Issuer agrees to provide such information as required under Rule 144A(d)(4) under the Securities Act so as to allow resales of Notes to Qualified Institutional Buyers in accordance herewith.

(i) Deemed Representation. Each Note Owner, by its acceptance of its beneficial interest in a Note, will be deemed to have acknowledged, represented to and agreed with the Issuer and the Initial Purchasers, to each of the statements set forth in Exhibit B hereto.

(j) Certain Transfer of Notes Null and Void. Any transfer of the Notes shall be null and void if such transfer would cause a termination of the Issuer, cause the Issuer to be treated as a "publicly traded partnership" or otherwise cause the Issuer to cease to be properly classified as a disregarded entity or partnership for U.S. federal income tax purposes or cause the Issuer to be treated as an 'investment company" under the Investment Company Act of 1940, as amended.

(k) Certificates. The Indenture Trustee, the Note Registrar and the Issuer shall be entitled to conclusively rely on the information set forth on the face of any transfer certificate delivered pursuant to this Section 2.04 and shall be able to presume conclusively the continuing accuracy thereof, in each case without further inquiry or investigation. Notwithstanding anything in this Indenture to the contrary, the Indenture Trustee and the Note Registrar shall not be required to obtain any certificate specifically required by the terms of this Section 2.04 if the Indenture Trustee and the Note Registrar are not notified of or are otherwise actually aware of any transfer requiring such a certificate to be presented by the proposed transferor or transferee.

Section 2.05 Mutilated, Destroyed, Lost and Stolen Notes.

(a) If any mutilated Note is surrendered to the Indenture Trustee, the Issuer shall execute and the Indenture Trustee shall authenticate and deliver in exchange therefor a replacement Note of like tenor and principal amount and bearing a number not contemporaneously outstanding.

(b) If there shall be delivered to the Issuer and the Indenture Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Note and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless then, in the absence of actual notice to the Issuer or the Indenture Trustee that such Note has been acquired by a bona fide purchaser, the Issuer shall execute and upon its request the Indenture Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Note, a replacement Note of like tenor and principal amount and bearing a number not contemporaneously outstanding.

(c) In case the final installment of principal on any such mutilated, destroyed, lost or stolen Note has become or will at the next Payment Date become due and payable, the Issuer in its discretion may, instead of issuing a replacement Note, pay such Note.

(d) Upon the issuance of any replacement Note under this Section 2.05, the Issuer or the Indenture Trustee may require the payment by the Noteholder of a sum sufficient to cover any tax or other governmental charge that may be imposed as a result of the issuance of such replacement Note.

(e) Every replacement Note issued pursuant to this Section 2.05 in lieu of any destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Issuer, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

(f) The provisions of this Section 2.05 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

Section 2.06 Payment of Interest and Principal; Rights Preserved.

(a) On each Payment Date, Noteholders shall be entitled to be paid Accrued Interest and principal in accordance with the Priority of Payments.

(b) Any installment of interest or principal, payable on any Note that is punctually paid or duly provided for by or on behalf of the Issuer on the applicable Payment Date shall be paid to the Depository for allocation to the Person in whose name such Note was registered at the close of business on the Record Date for such Payment Date. If such payment is to be made to a Definitive Note, the payment shall be made by wire transfer of federal funds to the account and number specified in the Note Register, in each case on such Record Date for such Person (which shall be, as to each original purchaser of the Notes, the account and number specified by

such purchaser to the Indenture Trustee in writing, or, if no such account or number is so specified, then by check mailed to such Person's address as it appears in the Note Register on such Record Date).

(c) All reductions in the principal amount of a Note shall be binding upon all Holders of such Note and of any Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof, whether or not such payment is noted on such Note. All payments on the Notes shall be paid without any requirement of presentment, except that each Holder of any Note shall be deemed to agree, by its acceptance of the same, to surrender such Note at the Corporate Trust Office of the Indenture Trustee prior to receipt of payment of the final installment of principal of such Note.

Section 2.07 Persons Deemed Owners. Prior to due presentment of a Note for registration of transfer, the Issuer, the Indenture Trustee, and any agent of the Issuer or the Indenture Trustee may treat the registered Noteholder as the owner of such Note for the purpose of receiving payment of principal of and interest on such Note and for all other purposes whatsoever, whether or not payment on such Note is overdue, and neither the Issuer, the Indenture Trustee, nor any agent of the Issuer or the Indenture Trustee shall be affected by notice to the contrary.

Section 2.08 Cancellation. All Notes surrendered for registration of transfer or exchange or following final payment shall, if surrendered to any Person other than the Indenture Trustee, be delivered to the Indenture Trustee and shall be promptly canceled by it. The Issuer may at any time deliver to the Indenture Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Issuer may have acquired in any manner whatsoever, and all Notes so delivered shall be promptly canceled by the Indenture Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes canceled as provided in this Section 2.08, except as expressly permitted by this Indenture. All canceled Notes held by the Indenture Trustee may be disposed of in the normal course of its business or as directed by an Issuer Order.

Section 2.09 Noteholder Lists. The Indenture Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Noteholders. In the event the Indenture Trustee no longer serves as the Note Registrar, the Issuer shall furnish to the Indenture Trustee at least five (5) Business Days before each Payment Date (and in all events in intervals of not more than six months) and at such other times as the Indenture Trustee may request in writing a list in such form and as of such date as the Indenture Trustee may reasonably require of the names and addresses of Noteholders. For so long as Citibank, N.A. is acting in the capacity of Indenture Trustee, it shall also be the Note Registrar hereunder.

Section 2.10 Treasury Notes. In determining whether the Noteholders of the requisite percentage of the Outstanding Notes have concurred in any direction, waiver or consent, Notes held or redeemed by the Issuer or held by an Affiliate of the Issuer shall be considered as though not Outstanding, except that for the purposes of determining whether the Indenture Trustee shall be protected in relying on any such direction, waiver or consent, only Notes which a Responsible Officer of the Indenture Trustee actually knows are so owned shall be so disregarded.

Section 2.11 Notice to Depository. Whenever notice or other communication to the Holders of Global Notes is required under this Indenture, unless and until Definitive Notes have been issued to the related Note Owners pursuant to Section 2.03 hereof, the Indenture Trustee shall give all such notices and communications specified herein to be given to such Note Owners to the Depository.

ARTICLE III

ACCOUNTS; COLLECTION AND
APPLICATION OF MONEYS; REPORTS

Section 3.01 Lockbox Account; Trust Accounts; Investments by Indenture Trustee.

(a) Lockbox Account. On or before the Closing Date, the Issuer shall establish or cause to be established and shall maintain or cause to be maintained a Lockbox Account at the Lockbox Bank. The Noteholders by their acceptance of their Notes acknowledge that the Lockbox Account will be a commingled account with assets other than those of the Issuer. The Issuer shall use its reasonable efforts to reduce and prevent (if possible) such comingling where possible. The Lockbox Account shall at all times be subject to the Lockbox Account Control Agreement. Until an Event of Default has occurred hereunder and the Indenture Trustee has delivered the notice described in the next sentence, the Servicer may effect or direct deposits and withdrawals into and out of the Lockbox Account. Upon the occurrence of an Event of Default, the Indenture Trustee may, or upon the written direction of the Noteholder Majority, shall, deliver a notice of an Event of Default to the Lockbox Bank whereupon the Servicer will no longer be authorized to give any direction to the Lockbox Bank or have access of any kind to the Lockbox Account. The Indenture Trustee is hereby irrevocably authorized and empowered following the occurrence and during the continuance of an Event of Default or Servicer Event of Default, as the Issuer's attorney-in-fact, to endorse any item deposited in the Lockbox Account, or presented for deposit in the Lockbox Account or the Collection Account, requiring the endorsement of the Issuer, which authorization is coupled with an interest and is irrevocable.

(b) On or before the Closing Date, the Indenture Trustee shall establish in the name of the Indenture Trustee for the benefit of the Noteholders as provided in this Indenture, the Trust Accounts, which accounts shall be maintained at the Corporate Trust Office of the Indenture Trustee. From time to time, the Indenture Trustee shall establish, to the extent required under this Indenture, accounts in the name of the Indenture Trustee for the benefit of the Noteholders, which accounts shall be Eligible Bank Accounts.

Subject to the further provisions of this Section 3.01, the Indenture Trustee shall, upon receipt or upon transfer from another account, as the case may be, deposit into such Trust Accounts all amounts received by it which are required to be deposited therein in accordance with the provisions of this Indenture. All such amounts and all investments made with such amounts, including all income and other gain from such investments, shall be held by the Indenture Trustee in such accounts as part of the Trust Estate as herein provided, subject to withdrawal by the Indenture Trustee in accordance with, and for the purposes specified in the provisions of, this Indenture.

(c) The Indenture Trustee shall assume that any amount remitted to it in respect of the Trust Estate is to be deposited into the Collection Account pursuant to Section 3.02(a) hereof.

(d) None of the parties hereto shall have any right of set-off with respect to any Trust Account, or any investment therein.

(e) So long as no Event of Default shall have occurred and be continuing, all or a portion of the amounts in any Trust Account shall be invested and reinvested by the Indenture Trustee pursuant to an Issuer Order in one or more Eligible Investments. Subject to the restrictions on the maturity of investments set forth in Section 3.01(g) hereof, each such Issuer Order may authorize the Indenture Trustee to make the specific Eligible Investments set forth therein, to make Eligible Investments from time to time consistent with the general instructions set forth therein, or to make specific Eligible Investments pursuant to instructions received in writing or by facsimile transmission from the employees or agents of the Issuer, as the case may be, identified therein, in each case in such amounts as such Issuer Order shall specify.

(f) In the event that either (i) the Servicer shall have failed to give investment directions to the Indenture Trustee by 11:30 A.M., New York City time on any Business Day on which there may be uninvested cash or (ii) an Event of Default shall be continuing, the Indenture Trustee shall promptly invest and reinvest the funds then in the designated Trust Account to the fullest extent practicable in Morgan Stanley Prime Liquidity Funds Advisory Class (8341) All investments made by the Indenture Trustee shall mature no later than the maturity date therefor permitted by Section 3.01(g) hereof.

(g) No investment of any amount held in any Trust Account shall mature later than the Business Day immediately preceding the Payment Date which is scheduled to occur immediately following the date of investment. All income or other gains (net of losses) from the investment of moneys deposited in any Trust Account shall be deposited by the Indenture Trustee in such Trust Account immediately upon receipt. Any loss resulting from any such investment shall be charged to such Trust Account

(h) Any investment of any funds in any Trust Account and any sale of any investment held in such accounts, shall be made under the following terms and conditions:

(i) each such investment shall be made in the name of the Indenture Trustee, in each case in such manner as shall be necessary to maintain the identity of such investments as assets of the Trust Estate;

(ii) any certificate or other instrument evidencing such investment shall be delivered directly to the Indenture Trustee and the Indenture Trustee shall have sole possession of such instrument, and all income on such investment;

(iii) the proceeds of any sale of an investment shall be remitted by the purchaser thereof directly to the Indenture Trustee for deposit in the account in which such investment was held; provided that no such sale may occur on any day other than the Business Day immediately preceding a Payment Date (for the avoidance of doubt, any full or partial

liquidation of an investment in a money market fund is not subject to the foregoing date restriction); and

(iv) Except as otherwise provided hereunder or agreed in writing among the parties hereto, the Servicer shall retain the authority to institute, participate and join in any plan of reorganization, readjustment, merger or consolidation with respect to the issuer of any securities held in the Trust Accounts, and, in general, to exercise each and every other power or right with respect to each such asset or investment as individuals generally have and enjoy with respect to their own assets and investment, including power to vote upon any securities.

(i) If any amounts are needed for disbursement from any Trust Account and sufficient uninvested funds are not collected and available therein to make such disbursement, in the absence of an Issuer Order for the liquidation of investments held therein in an amount sufficient to provide the required funds, the Servicer shall direct the Indenture Trustee to select and cause to be sold or otherwise converted to cash a sufficient amount of the investments in such account.

(j) The Indenture Trustee shall not in any way be held liable by reason of any insufficiency in any Trust Account resulting from losses on investments made in accordance with the provisions of this Section 3.01 including, but not limited to, losses resulting from the sale or depreciation in the market value of such investments (but the institution serving as Indenture Trustee shall at all times remain liable for its own obligations, if any, constituting part of such investments). The Indenture Trustee shall not be liable for any investment made by it in accordance with this Section 3.01 on the grounds that it could have made a more favorable investment or a more favorable selection for sale of an investment.

(k) Each party hereto agrees that each of the Trust Accounts constitutes a “securities account” within the meaning of Article 8 of the UCC and in such capacity Citibank, N.A. shall be acting as a “securities intermediary” within the meaning of 8-102 of the UCC and that, regardless of any provision in any other agreement, for purposes of the UCC, the State of New York shall be deemed to be the “securities intermediary’s jurisdiction” under Section 8-110 of the UCC. The Indenture Trustee shall be the “entitlement holder” within the meaning of Section 8-102(a)(7) of the UCC with respect to the Trust Accounts. In furtherance of the foregoing, Citibank, N.A., acting as a “securities intermediary,” shall comply with “entitlement orders” within the meaning of Section 8-102(a)(8) of the UCC originated by the Indenture Trustee with respect to the Trust Accounts, without further consent by the Issuer. Each item of property (whether investment property, financial asset, security, instrument or cash) credited to each Trust Account shall be treated as a “financial asset” within the meaning of Section 8-102(a)(9) of the UCC. All securities or other property underlying any financial assets credited to each Trust Account shall be registered in the name of the Indenture Trustee or indorsed to the Indenture Trustee or in blank and in no case will any financial asset credited to any Trust Account be registered in the name of the Issuer, payable to the order of the Issuer or specially indorsed to the Issuer. The Trust Accounts shall be under the sole dominion and control (as defined in Section 8-106 of the UCC) of the Indenture Trustee and the Issuer shall have no right to close, make withdrawals from, or give

disbursement directions with respect to, or receive distributions from, the Collection Account except in accordance with Section 3.03 hereof.

(l) In the event that Citibank, N.A., as securities intermediary, has or subsequently obtains by agreement, by operation of law or otherwise a security interest in the Trust Accounts or any security entitlement credited thereto, it hereby agrees that such security interest shall be subordinate to the security interest created by this Indenture and that the Indenture Trustee's rights to the funds on deposit therein shall be subject to Section 3.03 hereof. The financial assets credited to, and other items deposited to the Trust Accounts will not be subject to deduction, set-off, banker's lien, or any other right in favor of any Person other than as created pursuant to this Indenture.

(m) If at any time a Trust Account shall cease to be an Eligible Bank Account, the Indenture Trustee shall, within 30 days, establish a new Trust Account that is an Eligible Bank Account. The 30-day period may be extended an additional 30 days if the Indenture Trustee provides to the Rating Agencies an action plan prior to expiration of the entire 30-day period.

Section 3.02 Establishment and Administration of the Trust Accounts.

(a) Collection Account. The Issuer shall cause to be established and shall maintain an account (the "**Collection Account**") for the benefit of the Noteholders. The Collection Account shall be an Eligible Bank Account bearing the following designation "PFS Tax Lien Trust 2014-1 – Collection Account, Citibank, N.A. as Indenture Trustee for the benefit of the Noteholders". The Indenture Trustee on behalf of the Noteholders shall possess all right, title and interest in all funds on deposit from time to time in the Collection Account and in all proceeds thereof. The Collection Account shall be under the sole dominion and control of the Indenture Trustee for the benefit of the Noteholders as their interests appear in the Trust Estate. If, at any time, the Collection Account ceases to be an Eligible Bank Account, the Indenture Trustee shall, in accordance with Section 3.01(m), establish a new Collection Account (which if not maintained by the Indenture Trustee is subject to an account control agreement satisfactory to the Indenture Trustee acting at the direction or with the consent of the Noteholder Majority) which shall be an Eligible Bank Account, transfer any cash and/or any investments to such new Collection Account and from the date such new Collection Account is established, it shall be the "Collection Account". The Indenture Trustee agrees to immediately deposit any amounts received by it into the Collection Account. Misdirected Deposits, including funds received and deposited into the Collection Account that relate to Texas Tax Liens the Depositor or the Seller has repurchased or replaced shall not be part of Available Funds and the Indenture Trustee shall remit such funds to the Depositor or the Seller as directed by the Servicer. On each Payment Date, any funds in the Collection Account that relate to Texas tax liens that are not owned by the Issuer (as notified by the Servicer to the Indenture Trustee in writing) shall be remitted from the Collection Account by the Indenture Trustee to Propel, prior to application of any funds in the Collection Account on such Payment Date pursuant to the Priority of Payments. Amounts on deposit in the Collection Account shall be invested in accordance with Section 3.01 hereof. Withdrawals and payments from the Collection Account shall be made on each Payment Date as provided in Section 3.03 hereof. All investment

earnings on the Collection Account shall be distributed on each Payment Date pursuant to the Priority of Payments.

(b) Expense Reserve Account. The Issuer shall cause to be established and shall maintain an account (the "**Expense Reserve Account**") for the benefit of the Noteholders. On the Closing Date, the Issuer shall cause to be deposited in the Expense Reserve Account an amount equal to $1,150,000 from the proceeds of the sale of the Notes. The Expense Reserve Account shall be an Eligible Bank Account initially established at the Corporate Trust Office of the Indenture Trustee, bearing the following designation "PFS Tax Lien Trust 2014-1 – Reserve Account, Citibank, N.A. as Indenture Trustee for the benefit of the Noteholders". The Indenture Trustee on behalf of the Noteholders shall possess all right, title and interest in all funds on deposit from time to time in the Expense Reserve Account and in all proceeds thereof. The Expense Reserve Account shall be under the sole dominion and control of the Indenture Trustee for the benefit of the Noteholders as their interests appear in the Trust Estate. If, at any time, the Expense Reserve Account ceases to be an Eligible Bank Account, the Indenture Trustee shall, in accordance with Section 3.01(m), establish a new Expense Reserve Account (which if not maintained by the Indenture Trustee is subject to an account control agreement satisfactory to the Indenture Trustee acting at the direction or with the consent of the Noteholder Majority) which shall be an Eligible Bank Account, transfer any cash and/or any investments to such new Expense Reserve Account and from the date such new Expense Reserve Account is established, it shall be the "Expense Reserve Account." Amounts on deposit in the Expense Reserve Account shall be invested in accordance with Section 3.01 hereof. On any Payment Date, the Expense Reserve Account shall be funded pursuant to the Priority of Payments in an amount equal to the product of (I) the sum of the following amounts due on such Payment Date, excluding any amounts that remain unpaid from any prior Payment Date: (A) Accrued Interest; plus (B) the Servicing Fee; plus (C) the Owner Trustee Fees and the Indenture Trustee Fees; plus (D) the Backup Servicing Fees; and (II) three (3) (provided that for purposes of the June 16, 2014 Payment Date, such amounts due are calculated based on 30 days) (the "**Expense Reserve Required Amount**"). The Expense Reserve Required Amount for each Payment Date will be calculated by the Servicer on or prior to such Payment Date and reported to the Indenture Trustee in the Monthly Servicer Report. On each Payment Date, the Indenture Trustee shall transfer any amounts in the Expense Reserve Account in excess of the Required Interest Reserve Amount to the Collection Account to be included in Available Funds for such Payment Date.

(c) Subsequent Texas Tax Lien Account. The Issuer shall cause to be established and shall maintain an account (the "**Subsequent Texas Tax Lien Account**") for the benefit of the Noteholders. The Subsequent Texas Tax Lien Account shall be an Eligible Bank Account initially established at the Corporate Trust Office of the Indenture Trustee, bearing the following designation "PFS Tax Lien Trust 2014-1 – Subsequent Texas Tax Lien Account, Citibank, N.A. as Indenture Trustee for the benefit of the Noteholders". The Indenture Trustee on behalf of the Noteholders shall possess all right, title and interest in all funds on deposit from time to time in the Subsequent Texas Tax Lien Account and in all proceeds thereof. The Subsequent Texas Tax Lien Account shall be under the sole dominion and control of the Indenture Trustee for the benefit of the Noteholders as their interests appear in the Trust Estate. If, at any time, the Subsequent Texas Tax Lien Account ceases to be an Eligible Bank Account, the Indenture Trustee shall, in accordance

with Section 3.01(m), establish a new Subsequent Texas Tax Lien Account (which if not maintained by the Indenture Trustee is subject to an account control agreement satisfactory to the Indenture Trustee acting at the direction or with the consent of the Noteholder Majority) which shall be an Eligible Bank Account, transfer any cash and/or any investments to such new Subsequent Texas Tax Lien Account and from the date such new Subsequent Texas Tax Lien Account is established, it shall be the "Subsequent Texas Tax Lien Account." After the Closing Date, the amount on deposit in the Subsequent Texas Tax Lien Account shall be funded pursuant to the Priority of Payments in an amount determined to be necessary by the Servicer in its reasonable discretion (as indicated on the related Monthly Servicer Report) for the acquisition of Subsequent Texas Tax Liens either (i) pursuant to new Texas Tax Lien Documents, (ii) pursuant to amendments or other modifications to the Texas Tax Lien Documents of the related pre-existing Texas Tax Lien or (iii) pursuant to a Tax Lien Certificate issued pursuant to Section 33.445 of the Texas Tax Code; provided that such amount shall not exceed the Subsequent Texas Tax Lien Account Maximum Amount in effect for the related Payment Date. Amounts on deposit in the Subsequent Texas Tax Lien Account shall be made available on any Business Day and on as many Business Days as requested in each calendar month at the written direction of the Servicer to the Indenture Trustee and in accordance with the provisions of the Servicing Agreement, to the Seller for the acquisition of Subsequent Texas Tax Liens and either (i) pursuant to new Texas Tax Lien Documents or (ii) pursuant to amendments or other modifications to the Texas Tax Lien Documents of the related pre-existing Texas Tax Lien. No later than 10:00 am (Central Time) on any Business Day in accordance with the provisions of the Servicing Agreement, the Servicer will notify the Indenture Trustee of (a) the number and aggregate Redemptive Value of Subsequent Texas Tax Lines to be originated by the Depositor, and (b) the aggregate amount to be withdrawn by the Indenture Trustee from the Subsequent Texas Tax Lien Account and transferred to the Seller no later than 10:00 am (Central Time) on the next succeeding Business Day in exchange for the transfer of such Subsequent Texas Tax Liens by the Seller to the Depositor and by the Depositor to the Issuer in accordance with the provisions of the Purchase Agreement and the Transfer Agreement. Upon receipt of such notice the Indenture Trustee shall liquidate Eligible Investments held in the Subsequent Texas Tax Lien Account as directed by the Servicer and the amount liquidated shall remain uninvested until disbursed by the Indenture Trustee to the Seller on the following Business Day. On each Payment Date, in accordance with the related Monthly Servicer Report, the Indenture Trustee shall transfer all amounts then on deposit in the Subsequent Texas Tax Lien Account to the Collection Account to be included in Available Funds for such Payment Date. The Subsequent Texas Tax Lien Account shall be replenished on each Payment Date solely from Available Funds pursuant to the Priority of Payments. Amounts on deposit in the Subsequent Texas Tax Lien Account shall be invested in accordance with Section 3.01 hereof.

(d) Working Capital Reserve Account. The Issuer shall cause to be established and shall maintain an account (the "**Working Capital Reserve Account**") for the benefit of the Noteholders. The Working Capital Reserve Account shall be an Eligible Bank Account initially established at the Corporate Trust Office of the Indenture Trustee, bearing the following designation "PFS Tax Lien Trust – Working Capital Reserve Account, Citibank, N.A. as Indenture Trustee for the benefit of the Noteholders". The Indenture Trustee on behalf of the Noteholders shall possess all right, title and interest in all funds on deposit from time to time in the Working Capital Reserve Account and in all proceeds thereof. The Working Capital Reserve Account shall be under the

sole dominion and control of the Indenture Trustee for the benefit of the Noteholders as their interests appear in the Trust Estate. If, at any time, the Working Capital Reserve Account ceases to be an Eligible Bank Account, the Indenture Trustee shall, in accordance with Section 3.01(m), establish a new Working Capital Reserve Account (which if not maintained by the Indenture Trustee is subject to an account control agreement satisfactory to the Indenture Trustee acting at the direction or with the consent of the Noteholder Majority) which shall be an Eligible Bank Account, transfer any cash and/or any investments to such new Working Capital Reserve Account and from the date such new Working Capital Reserve Account is established, it shall be the "Working Capital Reserve Account". Amounts on deposit in the Working Capital Reserve Account shall be invested in accordance with Section 3.01 hereof. On the Closing Date, the Issuer shall cause to be deposited into the Working Capital Reserve Account an amount equal to the Working Capital Reserve Required Amount. On each Payment Date, the Working Capital Reserve Account shall be funded from Available Funds in accordance with the Priority of Payments up to the Working Capital Reserve Required Amount. Amounts on deposit in the Working Capital Reserve Account will be used by the Servicer to pay Lien Administration Expenses. Amounts on deposit in the Working Capital Reserve Account shall be made available by the Indenture Trustee to the Servicer on any Business Day and on as many Business Days as may be requested in each calendar month at the written direction of the Servicer to the Indenture Trustee. No later than 10:00 am (Central Time) on any Business Day in accordance with the provisions of the Servicing Agreement, the Servicer will notify the Indenture Trustee of the aggregate amount to be withdrawn by the Indenture Trustee from the Working Capital Reserve Account and transferred to the Servicer on the next succeeding Business Day no later than 10:00 am (Central Time). Upon receipt of such notice the Indenture Trustee shall liquidate Eligible Investments held in the Working Capital Reserve Account as directed by the Servicer and the amount liquidated will remain uninvested until disbursed by the Indenture Trustee to the Servicer on the following Business Day.

(e) Lockbox Account. Regardless of whether such funds are owned by the Issuer, all available funds on deposit in the Lockbox Account shall be remitted by the Servicer to the Collection Account within two (2) Business Days of receipt. On each Payment Date, any funds in the Collection Account that relate to Texas tax liens that are not owned by the Issuer (as reported by the Servicer to the Indenture Trustee in writing) shall be remitted from the Collection Account by the Indenture Trustee to Propel, prior to application of any funds in the Collection Account on such Payment Date pursuant to the Priority of Payments.

Section 3.03 Payments.

(a) Priority of Payments. On each Payment Date, based solely upon the applicable Monthly Servicer Report (upon which the Indenture Trustee may conclusively rely) the Indenture Trustee shall distribute all Available Funds on deposit in the Collection Account (including, for the avoidance of doubt, all amounts on deposit in the Expense Reserve Account in excess of the Required Interest Reserve Amount and in the Subsequent Texas Tax Lien Account and all amounts on deposit in the Working Capital Reserve Account in excess of the Working Capital Reserve Required Amount, after any payment by the Indenture Trustee to Propel pursuant to Section 3.02(a), in the following order of priority (the "**Priority of Payments**"):

1) *Pro rata*, to the Owner Trustee and the Indenture Trustee, based on the amounts owed thereto, any payments (including fees, expenses, and indemnity payments) due and payable to such party on such date, subject, in the case of indemnity payments only, to the Indemnification Cap;

2) *Sequentially*, to the Servicer, the Back-up Servicer and the Indenture Trustee, as applicable,

   (A) accrued and unpaid Servicing Fees and Back-up Servicing Fees, as applicable, due and owing on such date, *then*

   (B) to the Servicer, any outstanding Advances which were advanced prior to the conversion of the related property into an REO Property plus interest thereon at the Advance Rate, *then*

   (C) to the Servicer, the Back-up Servicer and the Indenture Trustee, any reasonable expenses incurred in connection with the transitioning of servicing responsibilities after a termination of the Servicer under the Servicing Agreement, and *then*

   (D) any indemnity amounts (in the case of the Servicer and the Back-up Servicer only),

in the case of (C) and (D) only, subject to the annual Indemnification Cap;

3) To the Noteholders, all Accrued Interest due and owing on such date; provided that to the extent Available Funds are insufficient to pay such Accrued Interest, the Indenture Trustee shall apply up to the Required Interest Reserve Amount on deposit in the Expense Reserve Account to the payment of such Accrued Interest; provided further that any amounts remaining in the Expense Reserve Account after the satisfaction of this clause (3) shall be transferred to the Collection Account and shall constitute Available Funds;

4) *Sequentially*,

   (A) to the Expense Reserve Account, the Expense Reserve Required Amount for such Payment Date; *then*

   (B) to the Working Capital Reserve Account, an amount that when added to the amount on deposit therein on such Payment Date will equal the Working Capital Reserve Required Amount; *then*

   (C) to the Subsequent Texas Tax Lien Account, (i) the Subsequent Texas Tax Lien Account Maximum Amount for such Payment Date or (ii) such lesser amount as the Servicer determines in its reasonable discretion, in either case, as indicated by the Servicer in the related Monthly Servicer Report.

5) To the Noteholders, in payment of principal on the Notes until the Outstanding Note Balance has been reduced to zero;

6) *Pro rata*, to the Owner Trustee, the Indenture Trustee, the Servicer and the Back-up Servicer, based on the amounts owed thereto, any payments due and payable to such party as of such Payment Date in excess of the applicable Indemnification Cap; and

7) To the Issuer, all remaining amounts.

Section 3.04 Reports to Noteholders.

On each Payment Date, based solely upon the information provided by the Servicer in the related Monthly Servicer Report, the Indenture Trustee shall prepare a monthly report substantially in the form attached as Exhibit H hereto (the "**Payment Date Report**"). The Indenture Trustee shall deliver or make available electronically to the Noteholders and the Rating Agencies, via the Indenture Trustee's internet website, each Payment Date Report no later than the related Payment Date.

On or before the 5th day prior to the final Payment Date with respect to the Notes, the Indenture Trustee shall send notice of such Payment Date to the Issuer, the Noteholders and the Rating Agencies. Such notice shall include a statement that if such Notes are paid in full on the final Payment Date, interest shall cease to accrue as of the day immediately preceding such final Payment Date.

The Indenture Trustee's internet website shall initially be located at "www.sf.citidirect.com". Assistance in using the website can be obtained by calling the Indenture Trustee's customer service desk at (800) 422-2066. Parties that are unable to use the above distribution option are entitled to have a paper copy mailed to them via first class mail by calling the customer service desk and indicating such. The Indenture Trustee shall have the right to change the way such reports are distributed in order to make such distribution more convenient and/or more accessible to the above parties and the Indenture Trustee shall provide timely and adequate notification to all above parties regarding any such changes. As a condition to gain access to the Indenture Trustee's internet website, the Indenture Trustee may require registration and the acceptance of a disclaimer. The Indenture Trustee will not be liable for the dissemination of information in accordance with this Indenture. The Indenture Trustee shall be entitled to rely on but shall not be responsible for the content or accuracy of any information provided to it by the Servicer and may affix thereto any disclaimer it deems appropriate in its reasonable discretion.

The Indenture Trustee shall have the right to change the way Payment Date Reports are distributed in order to make such distribution more convenient and/or more accessible to the above parties and the Indenture Trustee shall provide timely and adequate notification to all above parties regarding any such changes.

In the event of the issuance of Definitive Notes, annually (and more often if required by applicable law), the Indenture Trustee on behalf of the Issuer shall report to the Internal Revenue Service and prepare and distribute to Noteholders for each calendar year the amount of any "reportable payment" during such year and the amount of tax withheld, if any, with respect to payments on the Notes.

Section 3.05 Withholding Taxes. The Indenture Trustee, on behalf of the Issuer, shall comply with all requirements of the Code and applicable Treasury regulations and applicable state and local law with respect to the withholding from any distributions made by it to any Noteholder of any applicable withholding taxes imposed thereon and with respect to any applicable reporting requirements in connection therewith.

ARTICLE IV
THE TRUST ESTATE

Section 4.01 Acceptance by Indenture Trustee.

(a) Concurrently with the execution and delivery of this Indenture, the Indenture Trustee does hereby acknowledge and accept the conveyance by the Issuer of the assets constituting the Trust Estate. The Indenture Trustee shall hold the Trust Estate in trust for the benefit of the Secured Parties, subject to the terms and provisions hereof. In connection with the conveyance of the Trust Estate to the Indenture Trustee, the Issuer has delivered or has caused the Seller to deliver to the Servicer the Texas Tax Lien Documents for each Texas Tax Lien conveyed on the Closing Date. On or prior to each Transfer Date, the Issuer shall deliver or cause the Seller or the Depositor, as applicable, to deliver to the Servicer the Texas Tax Lien Documents for each Subsequent Texas Tax Lien or Substitute Texas Tax Lien to be conveyed on such Transfer Date.

(b) The Indenture Trustee shall perform its duties hereunder and under the other Transaction Documents to which it is a party in accordance with the terms of this Indenture and such other Transaction Documents and applicable law and, in each case, taking into account its other obligations hereunder, but without regard to:

(i) any relationship that the Indenture Trustee or any Affiliate of the Indenture Trustee may have with a Property Owner;

(ii) the ownership of any Note by the Indenture Trustee or any Affiliate of the Indenture Trustee;

(iii) the Indenture Trustee’s right to receive compensation for its services hereunder or with respect to any particular transaction; or

(iv) the ownership, or holding in trust for others, by the Indenture Trustee of any other assets or property.

Section 4.02 Tax Treatment.

(a) The provisions of this Indenture shall be construed in furtherance of the Intended Tax Characterization. The conveyance by the Issuer of the Texas Tax Liens to the Indenture Trustee shall not constitute and are not intended to result in an assumption by the Indenture Trustee or any Noteholder of any obligation of the Issuer or the Servicer to the Property Owners, the insurers under any insurance policies, or any other Person in connection with the Texas Tax Liens.

(b) It is the intention of the parties hereto that, with respect to all taxes, the Notes will be treated as indebtedness to the Noteholders secured by the Texas Tax Liens (the "**Intended Tax Characterization**"). The Issuer, by entering into this Indenture, and each Noteholder by the purchase of a Note, agree to report such transactions for purposes of all taxes in a manner consistent with the Intended Tax Characterization, unless otherwise required by applicable law. If the Notes are not properly treated as indebtedness with respect to all taxes, then the parties intend (as provided in the Trust Agreement) that they shall constitute interests in a partnership for such purposes and, in that regard, agree that no election to treat the Issuer in any part as a corporation under Treasury Regulation section 301.7701-3 shall be made by any Person.

(c) The Issuer, the Servicer and the Back-Up Servicer shall take no action inconsistent with the Indenture Trustee's interest in the Texas Tax Liens and shall indicate or shall cause to be indicated in its books and records held on its behalf that each Texas Tax Lien constituting the Trust Estate has been pledged to the Indenture Trustee on behalf of the Noteholders.

Section 4.03 Further Action Evidencing Assignments.

(a) The Issuer agrees that, from time to time, at its expense, it will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or appropriate or that the Noteholder Majority may reasonably request, in order to perfect, protect or more fully evidence the security interest in the Texas Tax Lien Assets or to enable the Indenture Trustee to exercise or enforce any of its rights hereunder. Without limiting the generality of the foregoing, the Issuer will authorize or execute, as applicable, and file (or cause to be filed) Payment Agreements and assignments of Texas Tax Liens and such financing or continuation statements, or amendments thereto or assignments thereof, and such other instruments or notices, as may be necessary or appropriate to create and maintain in the Indenture Trustee a first priority perfected security interest, at all times, in the Trust Estate, including, without limitation, recording and filing Payment Agreements and assignments of Texas Tax Liens in the applicable local recorder's office and recording and filing UCC-1 financing statements, amendments or continuation statements prior to the effective date of any change of the name, identity or structure or relocation of its chief executive office or its jurisdiction of formation or any change that would or could affect the perfection pursuant to any financing statement or continuation statement or assignment previously filed or make any UCC-1 or continuation statement previously filed pursuant to this Indenture seriously misleading within the meaning of applicable provisions of the UCC (and the Issuer shall give the Indenture Trustee at least 30 days prior notice of the expected occurrence of any such circumstance). The Issuer shall promptly deliver to the Indenture Trustee file-stamped copies of any such filing.

(b) (i) The Issuer hereby grants to the Indenture Trustee a power of attorney to execute and file all documents including, but not limited to Payment Agreements and assignments of Texas Tax Liens and UCC financing statements and amendments or continuation statements, on behalf of the Issuer as may be necessary or desirable to effectuate the foregoing; provided, however, that such grant shall not create a duty on the Indenture Trustee to file, prepare, record or monitor, or any responsibility for the contents or adequacy of, any such documents.

Section 4.04 Substitution and Repurchase of Texas Tax Liens.

(a) Mandatory Substitution and Repurchase of Texas Tax Lien Assets for Breach of Representation or Warranty. In the Purchase Agreement, the Seller (and in the Transfer Agreement, the Depositor) makes certain representations and warranties with respect to the accuracy of the information about the Texas Tax Liens and other customary representations and warranties with respect to the validity and enforceability of the Texas Tax Liens. If (A) there is a breach of any Eligibility Representation with respect to a Texas Tax Lien made by the Depositor in the Transfer Agreement (and correspondingly by the Seller in the Purchase Agreement) that either (i) materially adversely affects the value of such Texas Tax Lien Asset or (ii) with respect to Subsequent Texas Tax Liens only, is a breach in any respect of any of representations contained in (26) through (29) of the Eligibility Representations, or (B) the assignment or recording from the Seller to the Depositor or from the Depositor to the Issuer has failed to occur within ninety (90) days following the related Transfer Date (in each case, a "**Defective Texas Tax Lien**"), the Depositor is required in accordance with the provisions of the Transfer Agreement (and correspondingly the Seller in the Purchase Agreement), no later than 90 days following the discovery or notification of such defect (subject to any applicable grace periods), to either (A) cure such breach; (B) pay the Defective Texas Tax Lien Deposit Amount in respect of the related Defective Texas Tax Lien, which the Indenture Trustee shall deposit into the Collection Account; or (C) deliver to the Indenture Trustee one or more Substitute Texas Tax Liens and related Texas Tax Lien Assets, along with any related Substitution Shortfall Amount, which the Indenture Trustee shall deposit into the Collection Account.

(b) Texas Tax Liens Schedule. The Issuer shall cause the Depositor to provide the Indenture Trustee on any date on which a Texas Tax Lien is repurchased or substituted or, in the case of Subsequent Texas Tax Liens, conveyed, with a revised Texas Tax Liens Schedule to the Transfer Agreement, reflecting the removal of Defective Texas Tax Liens and subjecting any Substitute Texas Tax Lien or Subsequent Texas Tax Lien to the provisions thereof.

(c) Officer's Certificate. No substitution of a Texas Tax Lien shall be effective unless the Issuer and the Indenture Trustee shall have received an Officer's Certificate from the Seller or the Depositor indicating that (i) the new Texas Tax Lien meets all the criteria of the definition of "Eligible Texas Tax Lien" and (ii) the Texas Tax Lien Documents for such Substitute Texas Tax Lien have been delivered to the Servicer.

(d) Substitute Texas Tax Liens. On or prior to the related Transfer Date, the Issuer shall direct the Seller to deliver or cause the delivery of the Texas Tax Lien Documents for the related Substitute Texas Tax Lien to the Servicer on or prior to the related Transfer Date in accordance with the provisions of this Indenture.

(e) No obligation of Indenture Trustee. The Indenture Trustee shall have no duty or obligation to determine whether a Defective Texas Tax Lien exists. The Indenture Trustee shall only be required to provide notice to the Seller of a Defective Texas Tax Lien if a Responsible Officer of the Indenture Trustee shall have received written notice thereof. In the absence of its receipt of such written notice, the Indenture Trustee is permitted to assume that there are no Defective Texas Tax Liens.

Section 4.05 Release of Lien.

(a) The Issuer shall be entitled to obtain a release from the Lien of this Indenture for any Texas Tax Lien repurchased or substituted pursuant to Section 4.04 hereof, (i) in the case of any repurchase, after a payment by the Seller of the Defective Texas Tax Lien Deposit Amount of the Texas Tax Lien, or (ii) in the case of any substitution, after payment of any applicable Substitution Shortfall Amount and the delivery of the Texas Tax Lien Documents for the related Substitute Texas Tax Lien to the Servicer.

(b) The Issuer shall be entitled to obtain a release from the Lien of this Indenture for any Texas Tax Lien which has been paid in full.

(c) The Issuer (or the Servicer on its behalf) shall be entitled to obtain a release from the Lien of this Indenture for any REO Property to be disposed of by the Servicer in accordance with the provisions of the Servicing Agreement.

(d) In connection with (a) and (b) above, the Indenture Trustee shall execute and deliver such endorsements, assignments and releases as are provided to it by the Seller, in each case without recourse, representation or warranty, as shall be necessary to vest in the Seller, the legal and beneficial ownership of each repurchased or substituted Texas Tax Lien being released pursuant to this Section 4.05.

(e) In connection with (c) above, the Indenture Trustee shall execute and deliver such endorsements, assignments and releases as are provided to it by the Servicer, in each case without recourse, representation or warranty, as shall be necessary to dispose of the REO Property in accordance with the provisions of the Servicing Agreement.

Section 4.06 Sale of Texas Tax Liens. The parties hereto agree that none of the Texas Tax Liens in the Trust Estate may be sold or disposed of in any manner except as expressly provided for herein.

Section 4.07 Subsequent Texas Tax Liens.

Prior to the acceptance by the Indenture Trustee of any Subsequent Texas Tax Lien or the release to or upon the order of the Seller of any funds in payment therefor, the following conditions must be satisfied on or prior to the related Transfer Date:

(a) the Seller (or the Servicer on its behalf) shall have provided the Indenture Trustee with a notice of a subsequent transfer of Subsequent Texas Tax Lien (a "**Subsequent Texas Tax Lien Notice**"), a form of which is attached hereto as Exhibit G, which notice shall be given no later than 10:00 a.m. (Central Time) on the Business Day immediately preceding such Transfer Date; and

(b) the Indenture Trustee shall have received an Officer's Certificate from the Depositor that after giving effect to the purchase of all Subsequent Texas Tax Liens on such Transfer Date, the Subsequent Texas Tax Lien Criteria is met.

ARTICLE V

EVENTS OF DEFAULT; REMEDIES

Section 5.01 Events of Default. "**Event of Default**" wherever used herein with respect to Notes, means any one of the following:

(a) The failure by the Issuer to pay Available Funds pursuant to the Priority of Payments within two (2) Business Days of each Payment Date; or

(b) The failure by the Issuer to pay all Accrued Interest to the Noteholders within two (2) Business Days of each Payment Date; or

(c) The failure to pay the Outstanding Note Balance and all Accrued Interest by the Stated Maturity Date; or

(d) The failure to cure any breach of a covenant of the Issuer within thirty (30) days (or the required cure period under the Transaction Documents, whichever is shorter) of the Issuer's or the Servicer's actual knowledge thereof or the Issuer's or the Servicer's receipt of written notice thereof; or

(e) If any representation or warranty of the Issuer made in this Indenture or in another Transaction Document is breached in a material respect as of the time when the same shall have been made, and such breach is not remedied within the earlier of (i) 30 days of the Issuer's or the Servicer's actual knowledge thereof or the Issuer's or the Servicer's receipt of written notice thereof or (ii) the required cure period under such Transaction Document); or

(f) The entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization, or other similar law or (ii) a decree or order adjudging the Issuer a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment, or composition of or in respect of the Issuer under any applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer, or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of sixty (60) consecutive days; or

(g) The commencement by the Issuer of a voluntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization, or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by either to the entry of a decree or order for relief in respect of the Issuer in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization, or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable

federal or state law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or similar official of the Issuer or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the Issuer's failure to pay its debts generally as they become due, or the taking of corporate action by the Issuer in furtherance of any such action; or

(h) One or more final, non-appealable judgment(s) against the Issuer in excess of $1,000,000, individually or in the aggregate; or

(i) The Issuer becoming subject to registration as an "investment company" under the Investment Company Act of 1940, as amended; or

(j) The failure of the Seller or the Depositor to either cure, substitute for, or pay Defective Texas Tax Lien Deposit Amounts for, Defective Texas Tax Liens in accordance with the provisions of the Purchase Agreement or the Transfer Agreement, as applicable, with the aggregate Redemptive Value of such Defective Texas Tax Liens equaling or exceeding $250,000; or

(k) Any Transaction Document is terminated (other than in accordance with its terms) or ceases to be in full force and effect; or

(l) Any license, consent, authorization, registration or approval necessary to enable the Issuer to comply with any of its obligations under the Transaction Documents is revoked, withdrawn or withheld or is modified or amended in a manner prejudicial (as determined by the Noteholder Majority) to the interests of the Noteholders, in each case, that is remains unremedied thirty (30) days after the earlier of the Issuer's or the Servicer's discovery or receipt of written notice thereof; provided that if the Issuer or the Servicer is diligently proceeding to remedy such default, such grace period shall be extended to sixty (60) days after the earlier of the Issuer's or the Servicer's discovery or receipt of written notice thereof; or

(m) The assignment by the Issuer of its rights under any Transaction Document (other than in accordance with its terms); or

(n) (i) The failure of the Indenture Trustee (on behalf of the Noteholders) to have a first priority, perfected security interest in the Collateral or (ii) a third party takes legal action to enforce a security interest, lien, or other encumbrance against any Texas Tax Lien Asset and the security interest of the Indenture Trustee (on behalf of the Noteholders) is not senior to such security interest, lien, or other encumbrance.

A Servicer Event of Default shall not constitute an Event of Default hereunder.

Section 5.02 Acceleration of Maturity; Rescission and Annulment.

(a) Upon the occurrence of an Event of Default (after giving effect to any applicable notice and cure periods, and which is not waived by the Noteholder Majority), the Indenture Trustee (a) may and, if so directed by the Noteholder Majority, shall (i) accelerate the payment of the Notes and all other amounts due and payable by the Issuer hereunder and (ii) shall, if so directed by the Noteholder Majority, exercise any other typical default remedies, including but not limited to exercising its rights against the Collateral; provided that upon the occurrence of an Event of Default pursuant to Sections 5.01(f) or (g), the Notes and all other amounts due and payable by the Issuer hereunder shall accelerate automatically without any declaration or other act on the part of the Indenture Trustee or any Noteholder.

(b) Upon any such declaration of acceleration pursuant to Section 5.02(a), the then Outstanding Note Balance of the Notes together with all accrued and unpaid interest thereon shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Issuer. The Indenture Trustee shall promptly send a notice of any declaration of acceleration to the Rating Agencies.

(c) At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Indenture Trustee as hereinafter in this Article provided, the Noteholder Majority (other than Propel or an Affiliate thereof) by written notice to the Issuer and the Indenture Trustee, may rescind and annul such declaration and its consequences if:

(i) The amounts on deposit in the Trust Accounts and other funds from collections with respect to the Texas Tax Liens in the possession of the Servicer but not yet deposited in the Trust Accounts, is a sum sufficient to pay:

(A) all principal due with respect to the Notes which has become due otherwise than by such declaration of acceleration and interest thereon from the date when the same first became due until the date of payment or deposit at the Note Rate,

(B) all interest due with respect to the Notes and, to the extent that payment of such interest is lawful, interest upon overdue interest from the date when the same first became due until the date of payment or deposit at a rate per annum equal to the Note Rate, and

(C) all sums paid or advanced by the Indenture Trustee hereunder and the reasonable compensation, expenses, disbursements, and advances of each of the Indenture Trustee, the Servicer and the Back-Up Servicer, and their respective agents and counsel;

and

(ii) all Events of Default with respect to the Notes which became due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13 hereof.

(d) Notwithstanding Section 5.02(c) above, (i) if the Indenture Trustee has commenced making payments as described in Section 5.06 hereof, no acceleration may be rescinded or annulled and (ii) no rescission shall affect any subsequent Event of Default or impair any right consequent thereon.

Section 5.03 Remedies.

(a) If an Event of Default with respect to the Notes occurs and is continuing of which a Responsible Officer of the Indenture Trustee has actual knowledge, the Indenture Trustee shall immediately give notice to each Noteholder as set forth in Section 6.02 hereof and shall solicit such Noteholders for advice. The Indenture Trustee shall then take such action as so directed by the Noteholder Majority subject to the provisions of this Indenture. Notwithstanding anything herein to the contrary, without receiving prior written consent from each Noteholder, the Indenture Trustee shall not liquidate the Collateral for an amount less than the Outstanding Note Balance.

(b) Following any acceleration of the Notes pursuant to Section 5.02, the Indenture Trustee shall have all of the rights, powers and remedies with respect to the Trust Estate as are available to secured parties under the UCC or other applicable law, subject to subsection (c) below. Such rights, powers and remedies may be exercised by the Indenture Trustee in its own name as trustee of an express trust.

(c) If an Event of Default occurs and is continuing, the Indenture Trustee may in its discretion, and at the instruction of the Noteholder Majority, shall, proceed to protect and enforce its rights and the rights of the Noteholders by such appropriate judicial or other proceedings as the Indenture Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy. The Indenture Trustee shall notify the Issuer, the Rating Agencies, the Servicer and the Noteholders of any such action.

(d) If the Notes have been declared due and payable following an Event of Default and such declaration and its consequences have not been rescinded and annulled, the Indenture Trustee shall, at the written direction of the Noteholder Majority, refrain from selling the Collateral and may apply all other amounts receivable with respect to such Collateral to the payment of the principal of and interest and other sums due pursuant to the provisions of Section 3.03 hereof in the respective order set forth therein, all as if there had not been a declaration of acceleration of the maturity of the Notes; provided that, the Noteholders shall not have directed the Trustee in accordance with the provisions of the last sentence of clause (a) of this Section 5.03 to sell the Collateral securing the Notes.

Section 5.04 Indenture Trustee May File Proofs of Claim.

(a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Issuer, or any other obligor in respect of the Notes, or the property of the Issuer, or such other obligor or their creditors, the Indenture Trustee (irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Indenture Trustee shall have made any demand on the Issuer for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(i) to file and prove a claim for the whole amount of principal and interest owing and unpaid in respect of the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee and any predecessor Indenture Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee and any predecessor Indenture Trustee, their agents and counsel) and of the Noteholders allowed in such judicial proceeding;

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and

(iii) to participate as a member, voting or otherwise, of any official committee of creditors appointed in such matter; and any custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Noteholder to make such payments to the Indenture Trustee and to pay to the Indenture Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee and any predecessor Indenture Trustee, their agents and counsel, and any other amounts due the Indenture Trustee and any predecessor Indenture Trustee under Section 6.06 hereof.

(b) Nothing herein contained shall be deemed to authorize the Indenture Trustee to authorize or consent to or accept or adopt on behalf of any Noteholder any plan of reorganization, agreement, adjustment or composition affecting the Notes or the rights of any Noteholder thereof or affecting the Texas Tax Lien Assets or the other assets constituting the Trust Estate or to authorize the Indenture Trustee to vote in respect of the claim of any Noteholder in any such proceeding.

Section 5.05 Indenture Trustee May Enforce Claims Without Possession of Notes. All rights of action and claims under this Indenture, the Notes, the Texas Tax Lien Assets or the other assets constituting the Trust Estate may be prosecuted and enforced by the Indenture Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Indenture Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provisions for the payment of reasonable compensation, expenses, disbursements and advances of the Indenture Trustee and any predecessor Indenture Trustee, their agents and counsel, be for the benefit of the Noteholders in respect of which such judgment has been recovered, and distributed pursuant to the

priorities contemplated by Section 3.03 hereof. By their acceptance of the Notes, the Noteholders shall be deemed to have consented and agreed to the provisions of this Seciton 5.05.

Section 5.06 Application of Money Collected.

(a) Subject to the following paragraph, if the Notes have been declared, or otherwise become due and payable following an Event of Default (an "**Acceleration Event**") and such Acceleration Event has not been rescinded or annulled, any money collected by the Indenture Trustee in respect of the Trust Estate and any other money that may be held thereafter by the Indenture Trustee as security for the Notes, including without limitation the amounts on deposit in the Expense Reserve Account, the Subsequent Texas Tax Lien Account and the Working Capital Reserve Account, shall be distributed pursuant to the priorities contemplated by Section 3.03 hereof on the date or dates fixed by the Indenture Trustee and, in case of the distribution of such money on account of principal or interest, without presentment of any Notes.

Section 5.07 Limitation on Suits. No Noteholder, solely by virtue of its status as Noteholder, shall have any right by virtue or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture, unless the Holders of Notes evidencing not less than 25% of the then Outstanding Note Balance of the Notes shall have made written request upon the Indenture Trustee to institute such action, suit or proceeding in its own name as Indenture Trustee hereunder and shall have offered to the Indenture Trustee indemnity reasonably satisfactory to the Indenture Trustee against the cost, expenses and liabilities to be incurred therein or thereby, and the Indenture Trustee, for 60 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding and no direction inconsistent with such written request has been given such Indenture Trustee during such 60-day period by such Noteholders; it being understood and intended, and being expressly covenanted by each Noteholder with every other Noteholder and the Indenture Trustee, that no one or more Noteholders shall have any right in any manner whatever by virtue or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of the Holders of any other of such Notes, or to obtain or seek to obtain priority over or preference to any other such Holder, or to enforce any right under this Indenture, except in the manner herein provided and for the benefit of all Noteholders. For the protection and enforcement of the provisions of this Section 5.07, each and every Noteholder and the Indenture Trustee shall be entitled to such relief as can be given either at law or in equity.

Section 5.08 Unconditional Right of Noteholders to Receive Principal and Interest. Notwithstanding any other provision in this Indenture, other than the provisions hereof limiting the right to recover amounts due on the Notes to recoveries from the property comprising the Trust Estate, the Holder of any Note shall have the absolute and unconditional right to receive payment of the principal of and interest on such Note as such payments of principal and interest become due, including on the Stated Maturity Date, and such right shall not be impaired without the consent of such Noteholder.

Section 5.09 Restoration of Rights and Remedies. If the Indenture Trustee or any Noteholder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined

adversely to the Indenture Trustee or to such Noteholder, then and in every such case, subject to any determination in such proceeding, the Issuer, the Indenture Trustee and the Noteholders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Indenture Trustee and the Noteholders continue as though no such proceeding had been instituted.

Section 5.10 Rights and Remedies Cumulative. Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost, or stolen Notes in Section 2.05 hereof, no right or remedy herein conferred upon or reserved to the Indenture Trustee or to the Noteholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.11 Delay or Omission Not Waiver. No delay or omission of the Indenture Trustee or of any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Indenture Trustee or to the Noteholders may be exercised from time to time, and as often as may be deemed expedient, by the Indenture Trustee or by the Noteholders, as the case may be.

Section 5.12 Control by Noteholders. Except as may otherwise be provided in this Indenture, including the provisions of Section 5.03(a) hereof, until such time as the conditions specified in Sections 10.01(a)(i) and (ii) hereof have been satisfied in full, the Noteholder Majority shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or exercising any trust or power conferred on the Indenture Trustee, with respect to the Notes. Notwithstanding the foregoing:

(a) no such direction shall be in conflict with any rule of law or with this Indenture;

(b) the Indenture Trustee shall not be required to follow any such direction which the Indenture Trustee reasonably believes might result in any personal liability on the part of the Indenture Trustee for which the Indenture Trustee is not adequately indemnified; and

(c) the Indenture Trustee may take any other action deemed proper by the Indenture Trustee which is not inconsistent with any such direction; provided that the Indenture Trustee shall give notice of any such action to each Noteholder.

Section 5.13 Waiver of Events of Default.

(a) The Noteholder Majority may, by one or more instruments in writing, waive any Event of Default on behalf of all Noteholders hereunder and its consequences, except a continuing Event of Default:

(i) in respect of the payment of the principal of or interest on any Note (which may only be waived by the Holder of such Note), or

(ii) in respect of a covenant or provision hereof which under Article VIII hereof cannot be modified or amended without the consent of the Holder of each Outstanding Note affected (which only may be waived by the Holders of all Outstanding Notes affected).

(b) A copy of each waiver pursuant to Section 5.13(a) hereof shall be furnished by the Issuer to the Indenture Trustee and each Noteholder. Upon any such waiver, such Event of Default shall cease to exist and shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

Section 5.14 Undertaking for Costs. All parties to this Indenture agree (and each Holder of any Note by its acceptance thereof shall be deemed to have agreed) that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Indenture Trustee for any action taken, suffered or omitted by it as Indenture Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.14 shall not apply to any suit instituted by the Indenture Trustee, to any suit instituted by the Noteholder Majority or to any suit instituted by any Noteholder for the enforcement of the payment of the principal of or interest on any Note on or after the maturities for such payments, including the Stated Maturity Date, as applicable.

Section 5.15 Waiver of Stay or Extension Laws. The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Indenture Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 5.16 Sale of Trust Estate.

(a) The power to effect any sale of any portion of the Trust Estate pursuant to Section 5.03 hereof shall not be exhausted by any one or more sales as to any portion of the Trust Estate remaining unsold, but shall continue unimpaired until the entire Trust Estate so allocated shall have been sold or all amounts payable on the Notes shall have been paid. The Indenture Trustee may from time to time, upon directions in accordance with Section 5.12 hereof, postpone any public sale by public announcement made at the time and place of such sale.

(b) [Reserved].

(c) In connection with a sale of all or any portion of the Trust Estate:

(i) any one or more Noteholders or the Owner may bid for and purchase the property offered for sale, and upon compliance with the terms of sale may hold, retain, and possess and dispose of such property, without further accountability, and any Noteholder may, in paying the purchase money therefor, deliver in lieu of cash any Outstanding Notes or claims for interest thereon for credit in the amount that shall, upon distribution of the net proceeds of such sale, be payable thereon, and the Notes, in case the amounts so payable thereon shall be less than the amount due thereon, shall be returned to the Noteholders after being appropriately stamped to show such partial payment; provided, however, that the Owner may irrevocably waive its option to bid for and purchase the property offered for sale by delivering a waiver letter to the Indenture Trustee;

(ii) the Indenture Trustee shall execute and deliver an appropriate instrument of conveyance prepared by the Servicer transferring the Issuer's interest without representation or warranty and without recourse in any portion of the Trust Estate in connection with a sale thereof;

(iii) the Indenture Trustee is hereby irrevocably appointed the agent and attorney-in-fact of the Issuer to transfer and convey the Issuer's interest in any portion of the Trust Estate in connection with a sale thereof, and to take all action necessary to effect such sale;

(iv) no purchaser or transferee at such a sale shall be bound to ascertain the Indenture Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys; and

(v) The method, manner, time, place and terms of any sale of all or any portion of the Trust Estate shall be commercially reasonable.

ARTICLE VI

THE INDENTURE TRUSTEE

Section 6.01 Certain Duties. The Indenture Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and such other Transaction Documents to which it is a party, the Indenture Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture and such other Transaction Documents, and no implied covenants or obligations shall be read into this Indenture against the Indenture Trustee.

(a) In the absence of bad faith on its part, the Indenture Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Indenture Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Indenture Trustee, the Indenture Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements

of this Indenture, provided however, the Indenture Trustee shall not be required to verify or recalculate the contents thereof.

(b) In case an Event of Default has occurred and is continuing, the Indenture Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs; provided, however, that no provision in this Indenture shall be construed to limit the obligations of the Indenture Trustee to provide notices under Section 6.02 hereof.

(c) The Indenture Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture or to institute, conduct or defend any litigation hereunder or in relation hereto at the request, order or direction of any of the Noteholders pursuant to this Indenture, unless such Noteholders shall have offered to the Indenture Trustee security or indemnity reasonably satisfactory to the Indenture Trustee (which may be in the form of written assurances) against the costs, expenses and liabilities which might be incurred by it in compliance with such request, order or direction.

(d) No provision of this Indenture shall be construed to relieve the Indenture Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) the Indenture Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it shall be proved that the Indenture Trustee shall have been negligent in ascertaining the pertinent facts; and

(ii) the Indenture Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the written direction of the holders of the requisite principal amount of the outstanding Notes, or in accordance with any written direction delivered to it under Section 5.02(a) hereof, relating to the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or exercising any trust or power conferred upon the Indenture Trustee, under this Indenture.

(e) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee shall be subject to the provisions of this Section 6.01.

(f) The Indenture Trustee makes no representations or warranties with respect to the Texas Tax Lien Assets.

(g) Notwithstanding anything to the contrary herein, the Indenture Trustee is not required to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(h) The right of the Indenture Trustee to perform any discretionary act enumerated in this Indenture shall not be construed as a duty, and the Indenture Trustee shall not be answerable for other than its negligence or willful misconduct in the performance of such act.

(i) The Indenture Trustee shall not be required to give any bond or surety in respect of the execution of the trust funds created hereby or the powers granted hereunder.

(j) The Indenture Trustee shall have no duty (A) to see to any recording, filing, or depositing of this Indenture or any agreement referred to herein or any financing statement or continuation statement evidencing a security interest, or to see to the maintenance of any such recording or filing or depositing or to any rerecording, refiling or redepositing of any thereof, (B) to see to any insurance, (C) to see to the payment or discharge of any tax, assessment, or other governmental charge or any lien or encumbrance of any kind owing with respect to, assessed or levied against, any part of the trust funds other than from funds available in the Collection Account or (D) to confirm or verify the contents of any reports or certificates of the Servicer delivered to the Indenture Trustee pursuant to this Indenture believed by the Indenture Trustee to be genuine and to have been signed or presented by the proper party or parties.

(k) In making or disposing of any investment permitted by this Indenture, the Indenture Trustee is authorized to deal with itself (in its individual capacity) or with any one or more of its Affiliates, in each case on an arm's-length basis and on standard market terms, whether it or such Affiliate is acting as a subagent of the Indenture Trustee or for any third Person or dealing as principal for its own account.

(l) The Indenture Trustee shall not be responsible for delays or failures in performance resulting from acts beyond its control (such acts include but are not limited to acts of God, strikes, lockouts, riots and acts of war).

(m) To help fight the funding of terrorism and money laundering activities, the Indenture Trustee will obtain, verify, and record information that identifies individuals or entities that establish a relationship or open an account with the Indenture Trustee. The Indenture Trustee will ask for the name, address, tax identification number and other information that will allow the Indenture Trustee to identify the individual or entity who is establishing the relationship or opening the account. The Indenture Trustee may also ask for formation documents such as articles of incorporation, an offering memorandum, or other identifying documents to be provided.

(n) Notwithstanding anything to the contrary herein, any and all email communications (both text and attachments) by or from the Indenture Trustee that the Indenture Trustee deems to contain confidential, proprietary, and/or sensitive information may be encrypted. The recipient (the “Email Recipient”) of the encrypted email communication will be required to complete a registration process. Instructions on how to register and/or retrieve an encrypted message will be included in the first secure email sent by the Indenture Trustee to the Email Recipient. Additional information and assistance on using the encryption technology can be found at Citibank’s secure email website located at http://www.citi.com/citi/citizen/privacy/email.htm or by calling (866) 535-2504 (in the U.S.) or (904) 954-6181.

(o) In accordance with the U.S. Unlawful Internet Gambling Act (the "Act"), the Issuer may not use the Accounts or other Citibank, N.A. facilities in the United States to process "restricted transactions" as such term is defined in U.S. 31 CFR Section 132.2(y). Therefore, neither the Issuer nor any person who has an ownership interest in or control over the Accounts may use it to process or facilitate payments for prohibited internet gambling transactions. For more information about the Act, including the types of transactions that are prohibited, please refer to the following link: HTTP://WWW.FEDERALRESERVE.GOV/NEWSEVENTS/PRESS/BCREG/20081112B.HTM.

(p) The Indenture Trustee or its Affiliates are permitted to provide services and to receive additional compensation that could be deemed to be in the Indenture Trustee's economic self-interest for (i) serving as investment adviser, administrator, shareholder, servicing agent, custodian or sub-custodian with respect to certain of the Eligible Investments, (ii) using Affiliates to effect transactions in certain Eligible Investments and (iii) effecting transactions in certain Eligible Investments; if otherwise qualified, obligations of the Indenture Trustee or any of its Affiliates shall qualify as Eligible Investments hereunder;

Section 6.02 Notice of Events of Default. The Issuer shall promptly notify the Indenture Trustee of any event of which it has actual knowledge which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both. The Indenture Trustee shall promptly (but in any event within three Business Days) notify the Issuer, the Servicer, the Rating Agencies and the Noteholders upon a Responsible Officer obtaining actual knowledge of any event which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both, provided, further, that this Section 6.02 shall not limit the obligations of the Indenture Trustee to provide notices expressly required by this Indenture.

Section 6.03 Certain Matters Affecting the Indenture Trustee. Subject to the provisions of Section 6.01 hereof:

(a) The Indenture Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any request or direction of any Noteholders, the Issuer, the Back-Up Servicer or the Servicer mentioned herein shall be in writing;

(c) Whenever in the performance of its duties hereunder the Indenture Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Indenture Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate or an Opinion of Counsel;

(d) The Indenture Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be deemed full and complete authorization and protection in respect of any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon;

(e) Prior to the occurrence of an Event of Default, or after the curing of all Events of Default which may have occurred, the Indenture Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond or other paper document, unless requested in writing so to do by the Noteholder Majority; provided, however, that if the payment within a reasonable time to the Indenture Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the reasonable opinion of the Indenture Trustee, not reasonably assured to the Indenture Trustee by the security afforded to it by the terms of this Indenture, the Indenture Trustee may require indemnity reasonably satisfactory to it against such cost, expense or liability as a condition to so proceeding. The reasonable expense of every such examination shall be paid by the Servicer or, if paid by the Indenture Trustee, shall be reimbursed by the Servicer upon demand;

(f) The Indenture Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys or a custodian (which may be Affiliates of the Indenture Trustee) and the Indenture Trustee shall not be liable for any acts or omissions of such agents, attorneys or custodians appointed with due care by it hereunder; and

(g) Delivery of any reports, information and documents to the Indenture Trustee provided for herein is for informational purposes only (unless otherwise expressly stated) and the Indenture Trustee's receipt of such shall not constitute constructive knowledge of any information contained therein or determinable from information contained therein, including the Servicer's or the Issuer's compliance with any of its representations, warranties or covenants hereunder (as to which the Indenture Trustee is entitled to rely exclusively on Officers' Certificates).

Section 6.04 Indenture Trustee Not Liable for Notes or Texas Tax Liens.

(a) The recitals contained herein and in the Notes (other than the certificate of authentication on the Notes) shall be taken as statements of the Issuer and the Indenture Trustee assumes no responsibility for their correctness. The Indenture Trustee makes no representations as to the validity or sufficiency of this Indenture or any other Transaction Document, the Notes (other than the authentication thereof) or of any Texas Tax Lien Assets. The Indenture Trustee shall not be accountable for the use or application by the Issuer of funds paid to the Issuer in consideration of conveyance of the Texas Tax Lien Assets to the Trust Estate. The Indenture Trustee shall not be responsible for the legality or validity of this Indenture of the validity, priority, perfection or sufficiency of the security for the Notes issued or intended to be issued hereunder.

(b) The Indenture Trustee shall have no responsibility or liability for or with respect to the validity of any security interest in any property securing a Texas Tax Lien; the existence or validity of any Texas Tax Lien, the validity of the assignment of any Texas Tax Lien

to the Trust Estate or of any intervening assignment; the review of any Texas Tax Lien, any Texas Tax Lien Document, the receipt by the Servicer of any Texas Tax Lien Document (it being understood that the Indenture Trustee has not reviewed and does not intend to review such matters); the performance or enforcement of any Texas Tax Lien; the compliance by the Issuer or the Servicer with any covenant or the breach by the Servicer or the Issuer of any warranty or representation made hereunder or in any other Transaction Document or the accuracy of any such warranty or representation; the acts or omissions of the Servicer or any Property Owner; or any action of the Servicer taken in the name of the Indenture Trustee.

Section 6.05 Indenture Trustee May Own Notes. The Indenture Trustee in its individual or any other capacity may become the owner or pledgee of Notes with the same rights as it would have if it were not Indenture Trustee.

Section 6.06 Indenture Trustee's Fees and Expenses; Indemnification. On each Payment Date, the Indenture Trustee shall be entitled to the Indenture Trustee Fee and reimbursement of Indenture Trustee Expenses in the priority provided in Section 3.03 hereof. The Issuer agrees to indemnify and hold harmless the Indenture Trustee and its officers, directors, employees and agents from and against any and all loss, liability, claim, obligation, damage, injury, judgment or expense (including the reasonable compensation and the reasonable expenses and disbursements of its agents and counsel) incurred without negligence, bad faith or willful misconduct on its part, arising out of or in connection with the Collateral or arising out of or in connection with the acceptance or administration by the Indenture Trustee of its duties or the exercise or performance of its powers under the Indenture or under the other Transaction Documents. Anything in this Indenture to the contrary notwithstanding, in no event shall the Indenture Trustee be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Indenture Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

Section 6.07 Eligibility Requirements for Indenture Trustee. The Indenture Trustee hereunder shall at all times (a) be a corporation, national banking association, depository institution, or trust company organized and doing business under the laws of the United States of America or any state thereof authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least $50,000,000, (b) be subject to supervision or examination by federal or state authority, (c) be capable of maintaining an Eligible Bank Account, (d) have a long-term unsecured debt rating of not less than "A" from S&P, and (e) shall be acceptable to the Noteholder Majority. If such institution publishes reports of condition at least annually, pursuant to the requirements of the aforesaid supervising or examining authority, then for the purpose of this Section 6.07, the combined capital and surplus of such institution shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Indenture Trustee shall cease to be eligible in accordance with the provisions of this Section 6.07, the Indenture Trustee shall resign immediately in the manner and with the effect specified in Section 6.08 hereof.

Section 6.08 Resignation or Removal of Indenture Trustee.

(a) Subject to clause (c) below, the Indenture Trustee may at any time resign and be discharged with respect to the Notes by giving 60 days' written notice thereof to the Servicer, the Issuer and the Noteholders. Upon receiving notice of resignation from the Indenture Trustee, the Issuer shall promptly appoint a successor Indenture Trustee meeting the requirements of Section 6.07 hereof by written instrument, a copy of which shall be delivered to the Servicer, the successor Indenture Trustee, the predecessor Indenture Trustee and each Rating Agency. The Noteholder Majority may remove the Indenture Trustee at any time and shall appoint a successor that meets the requirements of Section 6.07 hereof by written instrument, a copy of which shall be delivered to the Issuer, the Servicer, the successor Indenture Trustee, the predecessor Indenture Trustee and each Rating Agency. If no successor Indenture Trustee shall have been appointed and have accepted appointment within 60 days after such removal or the giving of such notice of resignation, the Indenture Trustee, the Issuer or the Noteholder Majority may petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

(b) If at any time the Indenture Trustee shall cease to be eligible in accordance with the provisions of Section 6.07 hereof and shall fail to resign after written request therefor by the Issuer, or if at any time the Indenture Trustee shall be legally unable to act, fails to perform in any material respect its obligations under this Indenture, or shall be adjudged a bankrupt or insolvent, or a receiver of the Indenture Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Indenture Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer shall direct, and the Servicer shall follow such direction and, subject to clause (c) below, remove the Indenture Trustee. If it removes the Indenture Trustee under the authority of the immediately preceding sentence, the Issuer shall promptly appoint a successor that meets the requirements of Section 6.07 hereof by written instrument, with a copy to the Servicer, the successor Indenture Trustee, the predecessor Indenture Trustee and each Rating Agency.

(c) Any resignation or removal of the Indenture Trustee and appointment of a successor Indenture Trustee pursuant to any of the provisions of this Section 6.08 shall not become effective until acceptance of appointment by the successor Indenture Trustee as provided in Section 6.09 hereof.

Section 6.09 Successor Indenture Trustee.

(a) Any successor Indenture Trustee appointed as provided in Section 6.08 hereof shall execute, acknowledge and deliver to each of the Servicer, the Issuer, the Noteholders and to its predecessor Indenture Trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor Indenture Trustee shall become effective and such successor Indenture Trustee, without any further act, deed or conveyance, shall become fully vested with all the rights, powers, duties and obligations of its predecessor hereunder with like effect as if originally named an Indenture Trustee. The predecessor Indenture Trustee shall deliver or cause to be delivered to the successor Indenture Trustee or its custodian any Transaction Documents and statements held by it or its custodian hereunder; and the Servicer and the Issuer and the predecessor Indenture Trustee shall execute and deliver such instruments and do such other

things as may reasonably be required for the full and certain vesting and confirmation in the successor Indenture Trustee of all such rights, powers, duties and obligations.

(b) In case of the appointment hereunder of a successor Indenture Trustee with respect to the Notes, the Issuer, the retiring Indenture Trustee and the successor Indenture Trustee shall execute and deliver an indenture supplemental hereto wherein such successor Indenture Trustee shall accept such appointment and which shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, such successor Indenture Trustee all the rights, powers, trusts and duties of the retiring Indenture Trustee with respect to the Notes. Upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Indenture Trustee shall become effective to the extent provided therein and such successor Indenture Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Indenture Trustee; but, on request of the Issuer or such successor Indenture Trustee, such retiring Indenture Trustee shall duly assign, transfer and deliver to such successor Indenture Trustee all property and money held by such retiring Indenture Trustee hereunder.

Upon request of the successor Indenture Trustee, the Issuer shall execute any and all instruments for more fully and certainly vesting in and confirming to the successor trustee all such rights, powers and trusts referred to in the preceding paragraph.

(c) No successor Indenture Trustee shall accept appointment as provided in this Section 6.09 unless at the time of such acceptance such successor Indenture Trustee shall be eligible under the provisions of Section 6.07 hereof.

(d) Upon acceptance of appointment by a successor Indenture Trustee as provided in this Section 6.09, the Servicer shall mail notice of the succession of such Indenture Trustee hereunder to each Noteholder at its address as shown in the Note Register. If the Servicer fails to mail such notice within 10 days after acceptance of appointment by the successor Indenture Trustee, the successor Indenture Trustee shall cause such notice to be mailed at the expense of the Issuer and the Servicer.

Section 6.10 Merger or Consolidation of Indenture Trustee. Any corporation into which the Indenture Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Indenture Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Indenture Trustee, shall be the successor of the Indenture Trustee hereunder, provided such corporation shall be eligible under the provisions of Section 6.07 hereof, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

Section 6.11 Appointment of Co-Indenture Trustee or Separate Indenture Trustee.

(a) At any time or times for the purpose of meeting any legal requirement of any jurisdiction in which any part of the Trust Estate may at the time be located or in which any action of the Indenture Trustee may be required to be performed or taken, the Indenture Trustee, the Servicer

or the Noteholder Majority, by an instrument in writing signed by it or them, may appoint, at the reasonable expense of the Issuer (as an Indenture Trustee Expense) and the Servicer, one or more individuals or corporations to act as separate trustee or separate trustees or co-trustee, acting jointly with the Indenture Trustee, of all or any part of the Trust Estate, to the full extent that local law makes it necessary for such separate trustee or separate trustees or co-trustee acting jointly with the Indenture Trustee to act. Notwithstanding the appointment of any separate or co-trustee, the Indenture Trustee shall remain obligated and liable for the obligations of the Indenture Trustee under this Indenture. The Indenture Trustee shall promptly send notice of any such appointment to the Rating Agencies.

(b) The Indenture Trustee and, at the request of the Indenture Trustee, the Issuer, shall execute, acknowledge and deliver all such instruments as may be required by the legal requirements of any jurisdiction or by any such separate trustee or separate trustees or co- trustee for the purpose of more fully confirming such title, rights, or duties to such separate trustee or separate trustees or co-trustee. Upon the acceptance in writing of such appointment by any such separate trustee or separate trustees or co-trustee, it, he, she or they shall be vested with such title to the Trust Estate or any part thereof, and with such rights, powers, duties and obligations as shall be specified in the instrument of appointment, and such rights, powers, duties and obligations shall be conferred or imposed upon and exercised or performed by the Indenture Trustee, or the Indenture Trustee and such separate trustee or separate trustees or co-trustees jointly with the Indenture Trustee subject to all the terms of this Indenture, except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Indenture Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations shall be exercised and performed by such separate trustee or separate trustees or co- trustee, as the case may be. Any separate trustee or separate trustees or co-trustee may, at any time by an instrument in writing, constitute the Indenture Trustee its attorney-in-fact and agent with full power and authority to do all acts and things and to exercise all discretion on its behalf and in its name. In any case, if any such separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, the title to the Trust Estate and all assets, property, rights, power duties and obligations and duties of such separate trustee or co-trustee shall, so far as permitted by law, vest in and be exercised by the Indenture Trustee, without the appointment of a successor to such separate trustee or co-trustee unless and until a successor is appointed.

(c) All provisions of this Indenture which are for the benefit of the Indenture Trustee shall extend to and apply to each separate trustee or co- trustee appointed pursuant to the foregoing provisions of this Section 6.11.

(d) Every additional trustee and separate trustee hereunder shall, to the extent permitted by law, be appointed and act and the Indenture Trustee shall act, subject to the following provisions and conditions: (i) all powers, duties and obligations and rights conferred upon the Indenture Trustee in respect of the receipt, custody, investment and payment of monies shall be exercised solely by the Indenture Trustee; (ii) all other rights, powers, duties and obligations conferred or imposed upon the Indenture Trustee shall be conferred or imposed and exercised or performed by the Indenture Trustee and such additional trustee or trustees and separate trustee or trustees jointly except to the extent that under any law of any jurisdiction in which any particular

act or acts are to be performed, the Indenture Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to property in any such jurisdiction) shall be exercised and performed by such additional trustee or trustees or separate trustee or trustees; (iii) no power hereby given to, or exercisable by, any such additional trustee or separate trustee shall be exercised hereunder by such trustee except jointly with, or with the consent of, the Indenture Trustee; and (iv) no trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder.

If at any time, the Indenture Trustee shall deem it no longer necessary or prudent in order to conform to such law, the Indenture Trustee shall execute and deliver all instruments and agreements necessary or proper to remove any additional trustee or separate trustee.

(e) Any request, approval or consent in writing by the Indenture Trustee to any additional trustee or separate trustee shall be sufficient warrant to such additional trustee or separate trustee, as the case may be, to take such action as may be so requested, approved or consented to.

(f) Notwithstanding any other provision of this Section 6.11, the powers of any additional trustee or separate trustee shall not exceed those of the Indenture Trustee hereunder.

Section 6.12 Note Registrar Rights. So long as the Indenture Trustee is the Note Registrar, the Note Registrar shall be entitled to the rights, benefits and immunities of the Indenture Trustee as set forth in this Article VI to the same extent and as fully as though named in place of the Indenture Trustee.

Section 6.13 Authorization. The Indenture Trustee is hereby authorized to enter into and perform each of the Transaction Documents and the Depository Agreement.

ARTICLE VII
COVENANTS

Section 7.01 Payment of Principal and Interest. The Issuer shall cause the due and punctual payment of the principal of and interest on the Notes in accordance with the terms of the Notes and this Indenture.

Section 7.02 Maintenance of Office or Agency; Chief Executive Office. The Issuer shall maintain an office or agency in the State of Delaware at the Corporate Trust Office of the Owner Trustee, where notices and demands to or upon the Issuer in respect of the Notes and this Indenture may be served.

Section 7.03 Money for Payments to Noteholders to be Held in Trust.

(a) All payments of amounts due and payable with respect to any Notes that are to be made from amounts withdrawn from the Trust Accounts pursuant to Section 3.03 hereof shall be made on behalf of the Issuer by the Indenture Trustee, and no amounts so withdrawn from the Collection Account for payments of Notes shall be paid over to the Issuer under any circumstances except as provided in this Section 7.03 or in Section 3.03 hereof.

(b) In making payments hereunder, the Indenture Trustee will hold all sums held by it for the payment of amounts due with respect to the Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided.

(c) Except as required by applicable law, any money held by the Indenture Trustee in trust for the payment of any amount due with respect to any Note and remaining unclaimed for three years after such amount has become due and payable to the Noteholder shall be discharged from such trust and, subject to applicable escheat laws, and so long as no Event of Default has occurred and is continuing, paid to the Issuer upon request; otherwise, such amounts shall be redeposited in the Collection Account as Available Funds, and such Noteholder shall thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof (but only to the extent of the amounts so paid to the Issuer), and all liability of the Indenture Trustee with respect to such trust money (other than with respect to funds redeposited into the Collection Account as described above) shall thereupon cease.

Section 7.04 Existence.

(a) The Issuer will keep in full effect its existence, rights and franchises as a statutory trust under the laws of the State of Delaware, and will obtain and preserve its qualification to do business as a foreign statutory trust in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of this Indenture, the Notes or any of the Texas Tax Lien Assets.

(b) The Issuer shall at all times observe and comply in all material respects with (i) all laws applicable to it, (ii) all requirements of law in the declaration and payment of distributions, (iii) all requisite and appropriate formalities (including without limitation all appropriate authorizations required by the Trust Agreement) in the management of its business and affairs and the conduct of the transactions contemplated hereby, and (iv) the provisions of the Trust Agreement.

Section 7.05 Protection of Trust Estate; Further Assurances. The Issuer will from time to time execute and deliver all such supplements and amendments hereto and all such financing statements, continuation statements, instruments of further assurance, and other instruments, and will take such other action as may be necessary or advisable to:

(i) grant more effectively the assets comprising all or any portion of the Trust Estate;

(ii) maintain or preserve the lien of this Indenture or carry out more effectively the purposes hereof; and

(iii) preserve and defend title to the Texas Tax Lien Assets (including the right to receive all payments due or to become due thereunder), the interests in the Properties, or other property included in the Trust Estate and preserve and defend the rights of the Indenture

Trustee in the Trust Estate (including the right to receive all payments due or to become due thereunder) against the claims of all Persons and parties other than as permitted hereunder.

The Issuer hereby irrevocably designates the Indenture Trustee and the Servicer, severally, its agents and attorneys-in-fact to execute any financing statement or continuation statement or other document required pursuant to this Section 7.05; provided, however, that such designation shall not be deemed to create a duty in the Indenture Trustee to monitor the compliance of the Issuer with the foregoing covenants, and provided, further, that the duty of the Indenture Trustee to execute any instrument required pursuant to this Section 7.05 shall arise only if a Responsible Officer of the Indenture Trustee has actual knowledge of any failure of the Issuer to comply with the provisions of this Section 7.05. Such financing statements may describe the Trust Estate in the same manner as described herein or may contain an indication or description of collateral that describes such property in any other manner as any of them may determine, in its sole discretion, is necessary, advisable or prudent to ensure the perfection of the security interest in the Trust Estate granted to the Indenture Trustee herein, including, without limitation, describing such property as "all assets" or "all personal property, whether now owned or hereafter acquired."

Section 7.06 Additional Covenants.

(a) The Issuer shall not:

(i) sell, transfer, exchange or otherwise dispose of any portion of the Trust Estate other than in accordance with this Indenture or, with respect to REO Properties owned by subsidiaries of the Issuer, the Servicing Agreement;

(ii) make any deduction from the principal of, or interest on, any of the Notes by reason of the payment of any taxes levied or assessed upon any portion of the Trust Estate;

(iii) engage in any business or activity other than in connection with, or relating to, the issuance of Notes pursuant hereto, or the carrying out of the activities specifically permitted by its organizational documents, as in effect on the Closing Date;

(iv) incur, assume or guaranty any indebtedness of any Person, except for the Notes;

(v) dissolve or liquidate in whole or in part;

(vi) merge or consolidate with any person other than an Affiliate of the Issuer; any such merger or consolidation with such Affiliate to be subject to the following conditions: (A) the surviving or resulting entity is organized under the laws of the United States or any state thereof and the appropriate organizational documents of such entity contains the same restrictions as are contained in the Issuer's organizational documents; (B) the surviving or resulting entity (if other than the Issuer) expressly assumes by a supplemental indenture all of the Issuer's obligations under the Transaction Documents, (C) immediately after consummation of the merger or consolidation no Event of Default exists hereunder, (D) the Issuer has delivered to the Indenture Trustee an Officer's Certificate and an Opinion of

Counsel, each stating that such merger or consolidation and such supplemental indenture, if any, comply with this paragraph and that all conditions precedent provided for herein relating to such transaction have been complied with, and (E) notice of such merger or consolidation has been provided to each Rating Agency then rating the Notes; or

(vii) (A) permit the validity or effectiveness of this Indenture or any Grant hereby to be impaired, or permit the lien of this Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations under this Indenture, except as may be expressly permitted hereby, (B) permit any lien, charge, security interest, mortgage or other encumbrance to be created on or to extend to or otherwise arise upon or burden the Trust Estate or any part thereof or any interest therein or the proceeds thereof other than the lien of this Indenture, or (C) permit the lien of this Indenture not to constitute a valid first priority security interest in the Trust Estate; or

(viii) take any other action or fail to take any actions which may cause the Issuer to be taxable as (A) an association pursuant to Section 7701 of the Code and the corresponding regulations, (B) a publicly traded partnership taxable as a corporation pursuant to Section 7704 of the Code and the corresponding regulations or (C) a taxable mortgage pool taxable as a corporation for U.S. federal income tax purposes.

Section 7.07 Taxes. The Issuer shall pay all taxes when due and payable or levied against its assets, properties or income, including any property that is part of the Trust Estate, except to the extent the Issuer is contesting the same in good faith and has set aside adequate reserves in accordance with generally accepted accounting principles for the payment thereof.

Section 7.08 Treatment of Note as Debt for Tax Purposes. The Issuer shall treat the Notes as indebtedness for all federal, state and local income and franchise tax purposes.

Section 7.09 Collections.

(a) The Issuer shall instruct or cause all Property Owners to be instructed to send all scheduled payments of principal or interest under the Texas Tax Lien Documents directly to the Lockbox Account,

(b) The Issuer shall hold any collections or other proceeds of the Trust Estate received directly by it in trust for the benefit of the Indenture Trustee and the Noteholders and deposit such collections into the Collection Account promptly, but in no event later than two Business Days following the Issuer's receipt thereof.

Section 7.10 Segregation of Collections. The Issuer (or its agent) shall with respect to the Lockbox Account prevent the deposit into such account of any funds other than collections in respect of the Texas Tax Lien Assets; provided that, the covenant in this paragraph shall not be breached to the extent that funds not constituting collections in respect of the Texas Tax Lien Assets are inadvertently deposited into such Lockbox Account and are promptly segregated and remitted to the owner thereof.

Section 7.11 Further Instruments and Acts. Upon request of the Indenture Trustee, the Issuer shall execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

Section 7.12 Investment Company Act. In accordance with the requirements of Rule 3a-7 adopted pursuant to the Investment Company Act of 1940, as amended, the Issuer shall not, and shall cause the Servicer on behalf of the Issuer to not, acquire or dispose of any portion of the Trust Estate unless such acquisition or disposition (i) is completed in accordance with the terms of the Transaction Documents, (ii) does not result in a downgrade of the ratings of the Notes listed on the cover of the Confidential Offering Memorandum and (iii) is not completed for the primary purpose of recognizing gains or decreasing losses resulting from market value changes in the assets acquired or transferred.

ARTICLE VIII

SUPPLEMENTAL INDENTURES

Section 8.01 Supplemental Indentures without Consent of Noteholders.

(a) The Issuer, by an Issuer Order, and the Indenture Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, without the consent of any Noteholder, for any of the following purposes:

(i) to correct or amplify the description of any property at any time subject to the lien of this Indenture, or to better assure, convey and confirm unto the Indenture Trustee any property subject or required to be subjected to the lien of this Indenture; provided such action pursuant to this clause (i) shall not materially adversely affect the interests of the Noteholders in any respect;

(ii) to evidence and provide for the acceptance of appointment hereunder by a successor Indenture Trustee with respect to the Notes and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Indenture Trustee, pursuant to the requirements of Section 6.09 and Section 6.11 hereof; or

(iii) to cure any ambiguity, to correct or supplement any provision herein, to conform this Indenture to the offering circular related to the Notes, or to make any other provisions with respect to matters or questions arising under this Indenture; provided that such action pursuant to this clause (iii) shall not materially adversely affect the interests of the Holders of Notes.

(b) The Indenture Trustee shall deliver, at least five Business Days prior to the effectiveness thereof, to each Noteholder and the Rating Agencies a copy of any supplemental indenture entered into pursuant to this Section 8.01 hereof.

(c) In entering into a supplemental indenture, the Indenture Trustee may expressly rely on any Opinion of Counsel requested by the Indenture Trustee in connection with any such supplemental indenture as the basis therefor. In determining whether or not an amendment materially adversely affects the interests of the Holders of the Notes, such Opinion of Counsel may conclusively rely on (i) satisfaction of the Rating Agency Condition, or (ii) an Officer's Certificate of the Issuer or the Servicer confirming that provisions of such supplemental indenture do not materially adversely affect the interests of the Holders of the Notes.

Section 8.02 Supplemental Indentures with Consent of Noteholders.

(a) With the consent of the Noteholder Majority and by Act of said Noteholders delivered to the Issuer and the Indenture Trustee, the Issuer, by an Issuer Order, and the Indenture Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Noteholders under this Indenture; provided that, no supplemental indenture shall, without the consent of the Noteholder of each Outstanding Note affected thereby:

(i) change the Stated Maturity Date of any Note or the amount of principal payments or interest payments due or to become due on any Payment Date with respect to any Note, or change the priority of payment thereof as set forth herein, or reduce the principal amount thereof or the Note Rate thereon, or change the place of payment where, or the coin or currency in which, any Note or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity Date thereof;

(ii) reduce the required percentage of the Outstanding Note Balance that must be represented by voting on whether to enter into any supplemental indenture or to waive compliance with certain provisions of this Indenture or Events of Default and their consequences;

(iii) modify any of the provisions of this Section 8.02 or Section 5.13 hereof except to increase any percentage of Noteholders required for any modification or waiver or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holders of each Outstanding Note affected thereby;

(iv) modify or alter the provisions of the proviso to the definition of the term "Outstanding"; or

(v) permit the creation of any lien ranking prior to or on a parity with the lien of this Indenture with respect to any part of the Trust Estate or terminate (except as provided for herein) the lien of this Indenture on any property at any time subject hereto or deprive any Noteholder of the security afforded by the lien of this Indenture.

(b) The Indenture Trustee shall promptly deliver to each Noteholder and the Rating Agencies a copy of any supplemental indenture entered into pursuant to Section 8.02(a) hereof.

Section 8.03 Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture (a) pursuant to Section 8.01 hereof or (b) pursuant to Section 8.02 hereof without the consent of each holder of the Notes to the execution of the same, or the modifications thereby of the trusts created by this Indenture, the Indenture Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Indenture Trustee may, but shall not be obligated to, enter into any supplemental indenture which affects the Indenture Trustee's own rights, duties, obligations, or immunities under this Indenture or otherwise.

Section 8.04 Amendments to the Indenture/Supplemental Indentures with Consent of Owner Trustee. Any amendment hereto or supplemental indenture which affects the rights, duties or indemnities of the Owner Trustee shall require the Owner Trustee's written consent thereto.

Section 8.05 Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Notes theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 8.06 Reference in Notes to Supplemental Indentures. Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Indenture Trustee, bear a notation in form approved by the Indenture Trustee as to any matter provided for in such supplemental indenture. New Notes so modified as to conform, in the opinion of the Indenture Trustee and the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Indenture Trustee in exchange for Outstanding Notes.

ARTICLE IX

REDEMPTION OF NOTES

Section 9.01 Optional Redemption; Election to Redeem. On any Payment Date when the Outstanding Note Balance is less than 15% of the Initial Note Balance, the Issuer will have the option to redeem all, but not less than all of the Notes and thereby cause the early repayment of the Notes on any date on or after the Redemption Date. The date fixed for such redemption in the notices provided under Section 9.02 and Section 9.03 herein, is referred to herein as the "**Redemption Date**".

Section 9.02 Notice to Indenture Trustee. The Issuer shall give written notice of its intention to redeem the Notes to the Indenture Trustee at least 40 days prior to the Redemption Date set forth therein (unless a shorter period shall be satisfactory to the Indenture Trustee).

Section 9.03 Notice of Redemption by the Issuer. Notices of redemption shall be given by first class mail, postage prepaid, mailed not less than 30 days prior to the Redemption Date, to each Noteholder, at its address in the Note Register, and to the Rating Agencies. All notices of redemption shall state (a) the Redemption Date, (b) the Redemption Price, (c) that on the Redemption Date, the Redemption Price will become due and payable upon each Note, and that interest thereon shall cease to accrue if payment is made on the Redemption Date, and (d) the office of the Indenture Trustee or other place where the Notes are to be surrendered for payment of the Redemption Price. Failure to give notice of redemption, or any defect therein, to any Noteholder shall not impair or affect the validity of the redemption of any other Note.

Section 9.04 Deposit of Redemption Price. On or before the Business Day immediately preceding the Redemption Date, the Issuer shall deposit with the Indenture Trustee an amount equal to the Redemption Price (less any portion of such payment to be made from monies in the Collection Account).

Section 9.05 Notes Payable on Redemption Date. Notice of redemption having been given as provided in Section 9.03 hereof and deposit of the Redemption Price with the Indenture Trustee having been done as provided in Section 9.04 hereof, the Notes shall on the Redemption Date, become due and payable in an amount equal to the Redemption Price and on such Redemption Date such Notes shall cease to bear interest. The Noteholders shall be paid the Redemption Price by the Indenture Trustee on behalf of the Issuer upon presentment and surrender of their Notes as provided in the notices of redemption. If the Issuer shall have failed to deposit the Redemption Price with the Indenture Trustee, the principal and interest with respect to the Notes shall, until paid, bear interest at the Note Rate. The failure to deposit the Redemption Price shall not constitute an Event of Default hereunder.

ARTICLE X
SATISFACTION AND DISCHARGE

Section 10.01 Satisfaction and Discharge of Indenture.

(a) This Indenture shall cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Notes herein expressly provided for), and the Indenture Trustee, on demand of and at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when:

(i) either:

(A) all Notes theretofore authenticated and delivered to Noteholders (other than (1) Notes which have been destroyed, lost or stolen and which have been paid as provided in Section 2.05 hereof and (2) Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust, as provided in Section 7.03(c) hereof) have been delivered to the Indenture Trustee for cancellation upon payment and discharge of the entire indebtedness on such Notes; or

(B) the final installments of principal on all such Notes not theretofore delivered to the Indenture Trustee for cancellation (1) have become due and payable, or (2) will become due and payable at their Stated Maturity Date, as applicable within one year, and the Issuer has irrevocably deposited or caused to be deposited with the Indenture Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Notes to the date of such deposit (in the case of Notes which have become due and payable) or to the Stated Maturity Date upon the delivery of such Notes to the Indenture Trustee for cancellation; or

(C) in the event of an Optional Redemption pursuant to Article IX, the Issuer has irrevocably deposited or caused to be deposited with the Indenture Trustee as trust funds in trust for the purpose of early repayment of the Notes, an amount sufficient to pay and discharge the entire indebtedness on such Notes upon the delivery of such Notes to the Indenture Trustee for cancellation;

(ii) the Issuer and the Servicer have paid or caused to be paid all other sums payable hereunder by the Issuer and the Servicer to the Indenture Trustee for the benefit of the Noteholders and the Indenture Trustee, including proceeds of the Texas Tax Lien Assets pursuant to Section 3.03 hereof;

(iii) the funds held in trust by the Indenture Trustee pursuant to Sections 10.01(a)(i) and (ii) hereof for the purpose of paying and discharging the entire indebtedness on the Notes have been applied to such purpose and the rights of all of the Noteholders to receive payments from the Issuer have terminated;

(iv) following the completion of the actions provided in Sections 10.01(a)(i), (ii) and (iii) hereof, the Indenture Trustee has delivered to the Issuer all cash, securities and other property held by it as part of the Trust Estate; and

(v) the Issuer has delivered to the Indenture Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

(b) Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Issuer to the Indenture Trustee under Section 6.06 hereof and, if money shall have been deposited with the Indenture Trustee pursuant to Section 10.01(a)(i) hereof, the obligations of the Indenture Trustee under Section 10.02 hereof and Section 7.03(c) hereof shall survive.

Section 10.02 Application of Trust Money. Subject to the provisions of Section 7.03(c) hereof, all money deposited with the Indenture Trustee pursuant to Sections 10.01 and 7.03 hereof shall be held in trust and applied by it, in accordance with the provisions of the Notes and this Indenture, to the payment to the Persons entitled thereto, of the principal and interest for whose payment such money has been deposited with the Indenture Trustee.

Section 10.03 Trust Termination Date. The Trust Estate created by this Indenture shall be deemed to have terminated on the date that the Indenture Trustee executes and delivers to the Issuer and the Owner Trustee an instrument acknowledging satisfaction and discharge of this Indenture.

ARTICLE XI

REPRESENTATIONS AND WARRANTIES

Section 11.01 Representations and Warranties of the Issuer. The Issuer represents and warrants to the Indenture Trustee and the Noteholders, as of the Closing Date, as follows:

(a) The Issuer is a Delaware statutory trust duly created and validly existing under the laws governing its creation. The Issuer has taken all necessary action to authorize the execution, delivery and performance of this Indenture by it and has the power and authority to execute, deliver and perform this Indenture and all the transactions contemplated thereby, including, but not limited to, the power and authority to Grant the Texas Tax Liens and the other property granted to the Indenture Trustee hereunder in accordance herewith;

(b) Assuming the due authorization, execution and delivery of this Indenture by each other party thereto, this Indenture and all of the obligations of the Issuer thereunder are the legal, valid and binding obligations of the Issuer, enforceable in accordance with the terms hereof, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium or other laws relating to or affecting the rights of creditors generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

(c) The execution and delivery of this Indenture and the performance of its obligations thereunder by the Issuer will not conflict with any provision of any law or regulation to which the Issuer is subject, or conflict with, result in a breach of or constitute a default under any of the terms, conditions or provisions of this Indenture, any other Transaction Document or any other agreement or instrument to which the Issuer is a party or by which it is bound, or any order or decree applicable to the Issuer, in each case in any material respect, or result in the creation or imposition of any lien on any of the Issuer's assets or property (other than pursuant to the Indenture). No consent, approval, authorization or order of any court or governmental agency or body which has not been obtained is required for the execution, delivery and performance by the Issuer of this Indenture;

(d) There is no action, suit or proceeding pending or, to the knowledge of the Issuer, overtly threatened against the Issuer in any court or by or before any other governmental agency or instrumentality which, if adversely determined, would materially adversely affect the transactions contemplated by this Indenture and the other Transaction Documents;

(e) This Indenture creates a valid and continuing security interest in the Trust Estate in favor of the Indenture Trustee, which security interest or lien is prior to all other liens created by the Issuer;

(f) (i) Other than the security interest granted by the Issuer to the Indenture Trustee hereunder, the Issuer has not pledged, assigned, sold, granted a security interest in, or otherwise conveyed any portion of the Trust Estate. The Issuer has not authorized the filing of, nor is the Issuer aware of, any financing statement against the Seller, the Depositor or the Issuer that includes a description of collateral covering any portion of the Trust Estate other than (i) the financing statements prepared in connection herewith and the other Transaction Documents or (ii) financing statements that have been terminated; and

(g) The Issuer is not aware of any judgment or tax lien filings against the Depositor or the Issuer.

Section 11.02 Representations and Warranties of the Indenture Trustee. The Indenture Trustee hereby represents and warrants as of the Closing Date, the following:

(a) The Indenture Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the United States.

(b) The execution and delivery of this Indenture and the other Transaction Documents to which the Indenture Trustee is a party, and the performance and compliance with the terms of this Indenture and the other Transaction Documents to which the Indenture Trustee is a party by the Indenture Trustee, will not violate the Indenture Trustee's organizational documents or constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, or result in a breach of, any material agreement or other material instrument to which it is a party or by which it is bound.

(c) Except to the extent that the laws of certain jurisdictions in which any part of the Trust Estate may be located require that a co-trustee or separate trustee be appointed to act with respect to such property as contemplated herein, the Indenture Trustee has the full power and authority to carry on its business as now being conducted and to enter into and consummate all transactions contemplated by this Indenture and the other Transaction Documents, has duly authorized the execution, delivery and performance of this Indenture and the other Transaction Documents to which it is a party, and has duly executed and delivered this Indenture and the other Transaction Documents to which it is a party.

(d) This Indenture, assuming due authorization, execution and delivery by the other parties hereto, constitutes a valid and binding obligation of the Indenture Trustee, enforceable against the Indenture Trustee in accordance with the terms hereof, subject to (i) applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights generally and the rights of creditors of banks, and (ii) general principles of equity, regardless of whether such enforcement is considered in a proceeding in equity or at law.

(e) The Indenture Trustee is not in violation of, and its execution and delivery of this Indenture and the other Transaction Documents to which either is a party and its performance and compliance with the terms of this Indenture and the other Transaction Documents to which it is a party will not constitute a violation of, any law, any order or decree of any court or arbiter, or

any order, regulation or demand of any federal, state or local governmental or regulatory authority, which violation, in the Indenture Trustee's good faith and reasonable judgment, is likely to affect materially and adversely the ability of the Indenture Trustee to perform its obligations under any Transaction Document to which it is a party.

(f) No litigation is pending or, to the best of the Indenture Trustee's knowledge, threatened against the Indenture Trustee that, if determined adversely to the Indenture Trustee, would prohibit the Indenture Trustee from entering into any Transaction Document to which it is a party or, in the Indenture Trustee's good faith and reasonable judgment, is likely to materially and adversely affect the ability of the Indenture Trustee to perform its obligations under any Transaction Document to which it is a party.

(g) Any consent, approval, authorization or order of any court or governmental agency or body required for the execution, delivery and performance by the Indenture Trustee of or compliance by the Indenture Trustee with the Transaction Documents to which it is a party or the consummation of the transactions contemplated by the Transaction Documents has been obtained and is effective.

ARTICLE XII

MISCELLANEOUS

Section 12.01 Officer's Certificate and Opinion of Counsel as to Conditions Precedent. Upon any request or application by the Issuer to the Indenture Trustee to take any action under this Indenture, the Issuer shall furnish to the Indenture Trustee:

(a) an Officer's Certificate (which shall include the statements set forth in Section 12.02 hereof) stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(b) an Opinion of Counsel (which shall include the statements set forth in Section 12.02 hereof) stating that, in the opinion of such counsel, any such conditions precedent have been complied with.

Section 12.02 Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(a) a statement that the Person making such certificate or opinion has read such covenant or condition;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of such Person, he or she has made such examination or investigation as is necessary to enable him/her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

Section 12.03 Notices. (a) All communications, instructions, directions and notices to the parties thereto shall be (i) in writing (which may be by facsimile transmission or electronically), (ii) effective when received and (iii) if not via facsimile transmission or in electronic form, delivered or mailed first class mail, postage prepaid to it at the following address:

If to the Issuer:

PFS Tax Lien Trust 2014-1
c/o Wilmington Trust, National Association
1100 North Market Street
Wilmington, Delaware 19890
Attention: Assistant Vice President
Facsimile Number: (302) 636-5137
Telephone Number: (302) 636-4140

If to the Indenture Trustee:

Citibank, N.A.
388 Greenwich Street, 14th Floor
New York, New York 10013
Attention: Agency & Trust – PFS Tax Lien 2014-1
Facsimile Number: (212) 816-5527
Telephone Number: (713) 693- 6677

If to the Rating Agencies:

Standard & Poor's Ratings Services,
a Standard & Poor's Financial Services LLC business
55 Water Street, 41st Floor
New York, New York 10041-0003
Attention: ABS Surveillance
Email Address: servicer_reports@standardpoors.com

Kroll Bond Rating Agency
845 Third Avenue, Fourth Floor
New York, New York
Attention: ABS Surveillance
Email: abssurveillance@krollbondratings.com

or at such other address as the party may designate by notice to the other parties hereto, which shall be effective when received.

(b) All communications and notices pursuant hereto to a Noteholder shall be in writing and delivered or mailed by first class mail, postage prepaid or by overnight courier at the address shown in the Note Register. Any notice shall be deemed to have been duly given to the Note Owners sent to Clearstream and Euroclear and shall be deemed to be given on the date on which it was so sent. Any notice to the Holders of Definitive Notes shall be validly given if sent to the address indicated for such Holder in the Note Register. The Indenture Trustee agrees to deliver, make available on its website described in Section 3.04 above or mail to each Noteholder upon receipt, all notices and reports that the Indenture Trustee may receive hereunder and under any Transaction Documents.

Section 12.04 No Proceedings. The Noteholders and the Indenture Trustee each hereby agrees that it will not, directly or indirectly institute, or cause to be instituted, against the Issuer or the Trust Estate any proceeding of the type referred to in Section 5.01(f) hereof so long as there shall not have elapsed one year plus one day since the Stated Maturity Date.

Section 12.05 Limitation of Liability. It is expressly understood and agreed by the parties hereto that (a) this Indenture is executed and delivered by Wilmington Trust, National Association, not individually or personally but solely as Owner Trustee of the Issuer, in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust, National Association but is made and intended for the purpose of binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust, National Association, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall Wilmington Trust, National Association be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Indenture or any other related document. Notwithstanding the foregoing, Wilmington Trust, National Association shall not be relieved of any of its duties and obligations under the Trust Agreement.

Section 12.06 Entire Agreement. This Indenture contains the entire agreement and understanding among the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter hereof. The express terms hereof control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms hereof.

Section 12.07 Severability of Provisions. If any one or more of the covenants, agreements, provisions or terms of this Indenture shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Indenture and shall in no way affect the validity

or enforceability of the other provisions of this Indenture or of the Notes or the rights of the Holders thereof.

Section 12.08 Indulgences; No Waivers. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Indenture shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the day and year first above written.

PFS TAX LIEN TRUST 2014-1,
as Issuer

By: WILMINGTON TRUST, NATIONAL ASSOCIATION, not in its individual capacity,
but solely as Owner Trustee

By: /s/ Dorri Costello
Name: Dorri Costello
Title: Assistant Vice President

CITIBANK, N.A.,
as Indenture Trustee

By: /s/ Jacqueline Suarez
Name: Jacqueline Suarez
Title: Vice President

EXHIBIT A

FORM OF NOTES

A - 1

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), ANY STATE SECURITIES LAWS IN THE UNITED STATES OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, UNITED STATES PERSONS, EXCEPT AS PERMITTED BY THIS LEGEND. THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND EXCEPT (A) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT IS A "QUALIFIED PURCHASER" WITHIN THE MEANING OF SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "1940 ACT") THAT IT REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, WHOM IT HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, PROVIDED THAT SUCH PURCHASER DELIVERS ALL DOCUMENTS AND CERTIFICATIONS AS THE ISSUER OR THE TRUSTEE MAY REASONABLY REQUIRE; (B) TO A PERSON THAT IS A QUALIFIED PURCHASER THAT IS A QUALIFIED NON-U.S. PERSON OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT; OR (C) TO THE ISSUER OR THE DEPOSITOR, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. IN ADDITION, THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN A TRANSACTION THAT DOES NOT CAUSE THE ISSUER OR THE COLLATERAL TO BE REQUIRED TO REGISTER UNDER THE 1940 ACT. FURTHER, THE NOTES MAY NOT BE SOLD OR TRANSFERRED UNLESS SUCH SALE OR TRANSFER WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE.

EACH TRANSFEREE OF A NOTE WILL BE DEEMED TO REPRESENT AT TIME OF TRANSFER THAT SUCH TRANSFEREE IS EITHER (A) A QUALIFIED INSTITUTIONAL BUYER OR (B) A NON-U.S. PERSON AS DEFINED IN REGULATION S AND (I) THAT IT IS A QUALIFIED PURCHASER, (II) THAT IT IS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE NOTES, UNLESS ALL OF ITS BENEFICIAL OWNERS ARE QUALIFIED PURCHASERS, (III) THAT IT IS NOT A DEALER DESCRIBED IN PARAGRAPH (a)(1)(ii) OF RULE 144A UNLESS SUCH TRANSFEREE OWNS AND INVESTS ON A DISCRETIONARY BASIS AT LEAST U.S. $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF SUCH DEALER, (IV) THAT IT IS NOT A PLAN REFERRED TO

IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH PLAN, UNLESS INVESTMENT DECISIONS ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN, (V) THAT IT IS NOT A CORPORATION, PARTNERSHIP, COMMON TRUST FUND, SPECIAL TRUST, PENSION FUND OR RETIREMENT PLAN IN WHICH THE SHAREHOLDERS, EQUITY OWNERS, PARTNERS, BENEFICIARIES, BENEFICIAL OWNERS OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, (VI) IF FORMED ON OR BEFORE APRIL 30, 1996, THAT IT IS NOT AN INVESTMENT COMPANY THAT RELIES ON THE EXCLUSION FROM THE DEFINITION OF "INVESTMENT COMPANY" PROVIDED BY SECTION 3(c)(1) or 3(c)(7) OF THE 1940 ACT (OR A FOREIGN INVESTMENT COMPANY UNDER SECTION 7(d) THEREOF RELYING ON SECTION 3(c)(7) WITH RESPECT TO THOSE OF ITS HOLDERS THAT ARE U.S. PERSONS), UNLESS, WITH RESPECT TO ITS TREATMENT AS A QUALIFIED PURCHASER, IT HAS, IN THE MANNER REQUIRED BY SECTION 2(a)(51)(C) OF THE 1940 ACT AND THE RULES AND REGULATIONS THEREUNDER, RECEIVED THE CONSENT OF ITS BENEFICIAL OWNERS THAT ACQUIRED THEIR INTERESTS ON OR BEFORE APRIL 30, 1996, (VII) THAT IT AND EACH ACCOUNT FOR WHICH IT IS PURCHASING IS PURCHASING NOTES IN AT LEAST THE MINIMUM DENOMINATION AND (VIII) THAT IT WILL PROVIDE WRITTEN NOTICE OF THE FOREGOING AND ANY OTHER APPLICABLE TRANSFER RESTRICTION TO SUBSEQUENT TRANSFEREES.

ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT AND WILL BE NULL AND VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE INITIAL PURCHASER OR SUBSEQUENT TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE INDENTURE TRUSTEE OR ANY INTERMEDIARY.

THE ISSUER MAY REQUIRE ANY HOLDER OF THIS NOTE THAT IS A "U.S. PERSON" AS DEFINED IN REGULATION S OR A HOLDER WHO WAS SOLD THIS NOTE IN THE UNITED STATES WHO IN EITHER CASE IS DETERMINED NOT TO HAVE BEEN BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER AT THE TIME OF ACQUISITION OF THIS NOTE TO SELL THIS NOTE TO A PERSON THAT IS (I) BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, OR (II) A QUALIFIED PURCHASER THAT IS NOT A "U.S. PERSON" AS DEFINED IN REGULATION S IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S.

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF THE DEPOSITORY TRUST COMPANY ("DTC"), A NEW YORK CORPORATION, 55 WATER STREET, NEW YORK, NEW YORK 10004, OR A NOMINEE THEREOF. THIS NOTE MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS NOTE IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE. UNLESS THIS NOTE IS

PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF DTC TO THE ISSUER OR THE NOTE REGISTRAR, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC, AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL BECAUSE THE REGISTERED OWNER, CEDE & CO., HAS AN INTEREST HEREIN. THIS NOTE (AND INTERESTS THEREIN) ARE ALSO SUBJECT TO THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERENCED BELOW. THE PRINCIPAL AMOUNT OUTSTANDING OF THIS NOTE WILL NOT EXCEED THE PRINCIPAL AMOUNT SHOWN ON THE FACE HEREOF. ACCORDINGLY, THE OUTSTANDING PRINCIPAL AMOUNT OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF.

PFS TAX LIEN TRUST 2014-1
TEXAS TAX LIEN COLLATERALIZED NOTES, SERIES 2014-1

RULE 144A GLOBAL NOTE

Note Rate: 1.44%
Initial Payment Date: June 16, 2014
Stated Maturity: May 15, 2029
Initial Note Balance: $[ ]
Note No: 1
CUSIP No: 69340F AA8
ISIN No: US69340FAA84

FOR VALUE RECEIVED, PFS Tax Lien Trust 2014-1, a Delaware statutory trust (the "**Issuer**") hereby promises to pay to Cede & Co. (the "**Holder**") or its assigns, the principal sum of [_____] Dollars ($[_____]) in lawful money of the United States of America and in immediately available funds, on the dates and in the principal amounts provided in the Indenture, dated as of May 6, 2014 (the "**Indenture**"), between the Issuer and Citibank, N.A., as indenture trustee (the "**Indenture Trustee**"), and to pay on each Payment Date interest (computed on the basis of a 360-day year of twelve 30-day months) at the applicable Note Rate on the Outstanding Note Balance of this Texas Tax Lien Collateralized Note, Series 2014-1 (this "**Series 2014-1 Note**") until paid in full. The Outstanding Note Balance of this Series 2014-1 Note shall be due and payable on the Stated Maturity Date. The term "Issuer" as used in this Note includes any successor to the Issuer permitted under the Indenture. Capitalized terms used but not defined herein shall have the meanings given them in the "Standard Definitions" attached as Annex A to the Indenture.

By its holding of this Series 2014-1 Note, the Holder shall be deemed to accept the terms of the Indenture and agree to be bound thereby.

Unless the certificate of authentication hereon has been executed by the Indenture Trustee referred to herein by manual signature, this Series 2014-1 Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

This Series 2014-1 Note is one of a duly authorized issue of notes of the Issuer designated as its "Series 2014-1 Note" and issued under the Indenture.

This Series 2014-1 Note is secured by the pledge to the Indenture Trustee under the Indenture of the Trust Estate and recourse is limited to the extent set forth in the Indenture. The amounts owed under this Series 2014-1 Note shall not include any recourse to the Indenture Trustee or any affiliates thereof.

If certain Events of Default under the Indenture have been declared or occur, the Outstanding Note Balance of the Series 2014-1 Notes, together with any accrued and unpaid interest thereon, may be declared immediately due and payable or payments of principal may be accelerated

in the manner and with the effect provided in the Indenture. Notice of such declaration will be given in writing to Holders of the Series 2014-1 Notes, as their names and addresses appear in the Note Register, as provided in the Indenture. Subject to the terms of the Indenture, upon payment of such principal amount together with all accrued interest, the obligations of the Issuer with respect to the payment of principal and interest on this Series 2014-1 Note shall terminate.

The Indenture permits the Issuer and the Indenture Trustee in certain circumstances to amend the Indenture without the consent of the Holders. The Indenture also permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of the Holders of the Series 2014-1 Notes under the Indenture at any time by the Issuer and the Indenture Trustee with the consent of such Holders of the percentages specified in the Indenture at the time of Notes Outstanding. The Indenture also contains provisions permitting such Holders of specified percentages of Notes Outstanding on behalf of all Holders, to waive compliance by the Issuer with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Series 2014-1 Note shall be conclusive and binding upon such Holder and upon all future Holders of this Series 2014-1 Note issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Series 2014-1 Note.

Each Series 2014-1 Note may be issued only in registered form and only in minimum denominations of at least $100,000 and integral multiples of $1,000 in excess thereof; provided that the foregoing shall not restrict or prevent the transfer in accordance with Section 2.04 of the Indenture of any Series 2014-1 Note having a remaining Outstanding Note Balance of other than an integral multiple of $1,000, or the issuance of a single Series 2014-1 Note with a denomination less than $100,000. The Holder of this Series 2014-1 Note is deemed to acknowledge that the Series 2014-1 Note may be purchased and transferred only in minimum denominations of $100,000 and integral multiples of $1,000 in excess thereof and that this Series 2014-1 Note (or any beneficial interests herein) may not be transferred in an amount less than such authorized denominations or which would result in the Holder of this Series 2014-1 Note having a beneficial interest below such authorized denominations.

The Issuer, the Indenture Trustee and any agent of the Issuer or the Indenture Trustee may treat the Person in whose name this Series 2014-1 Note is registered (i) on any Record Date, for purposes of making payments, and (ii) on any other date for any other purpose, as the owner hereof, whether or not this Series 2014-1 Note may be overdue, and neither the Issuer, the Indenture Trustee nor any such agent shall be affected by notice to the contrary.

No transfer of this Series 2014-1 Note or any interest herein may be made unless that transfer is made in accordance with the provisions of Section 2.04 of the Indenture. For so long as this Series 2014-1 Note is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC, transfers of interests in this Series 2014-1 Note shall be made through the book-entry facilities of DTC.

The Indenture and this Series 2014-1 Note shall be deemed to be contracts made under the laws of the State of New York and shall for all purposes be governed by, and construed in accordance with, the laws of the State of New York.

Section 12.05 of the Indenture is incorporated herein by reference.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be duly executed by the manual signature of its duly Authorized Officer.

Dated:

PFS TAX LIEN TRUST 2014-1

By: WILMINGTON TRUST, NATIONAL ASSOCIATION, not in its individual capacity but solely as Owner Trustee

By: _
Name:
Title:

INDENTURE TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Series 2014-1 Notes referred to in the within mentioned Indenture.

Dated:

CITIBANK, N.A., as Indenture Trustee

By: _
Name:
Title:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), ANY STATE SECURITIES LAWS IN THE UNITED STATES OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, UNITED STATES PERSONS, EXCEPT AS PERMITTED BY THIS LEGEND. THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND EXCEPT (A) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT IS A "QUALIFIED PURCHASER" WITHIN THE MEANING OF SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "1940 ACT") THAT IT REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, WHOM IT HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, PROVIDED THAT SUCH PURCHASER DELIVERS ALL DOCUMENTS AND CERTIFICATIONS AS THE ISSUER OR THE TRUSTEE MAY REASONABLY REQUIRE; (B) TO A PERSON THAT IS A QUALIFIED PURCHASER THAT IS A QUALIFIED NON-U.S. PERSON OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT; OR (C) TO THE ISSUER OR THE DEPOSITOR, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. IN ADDITION, THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN A TRANSACTION THAT DOES NOT CAUSE THE ISSUER OR THE COLLATERAL TO BE REQUIRED TO REGISTER UNDER THE 1940 ACT. FURTHER, THE NOTES MAY NOT BE SOLD OR TRANSFERRED UNLESS SUCH SALE OR TRANSFER WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE.

EACH TRANSFEREE OF A NOTE WILL BE DEEMED TO REPRESENT AT TIME OF TRANSFER THAT SUCH TRANSFEREE IS EITHER (A) A QUALIFIED INSTITUTIONAL BUYER OR (B) A NON-U.S. PERSON AS DEFINED IN REGULATION S AND (I) THAT IT IS A QUALIFIED PURCHASER, (II) THAT IT IS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE NOTES, UNLESS ALL OF ITS BENEFICIAL OWNERS ARE QUALIFIED PURCHASERS, (III) THAT IT IS NOT A DEALER DESCRIBED IN PARAGRAPH (a)(1)(ii) OF RULE 144A UNLESS SUCH TRANSFEREE OWNS AND INVESTS ON A DISCRETIONARY BASIS AT LEAST U.S. $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF SUCH DEALER, (IV) THAT IT IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH PLAN,

UNLESS INVESTMENT DECISIONS ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN, (V) THAT IT IS NOT A CORPORATION, PARTNERSHIP, COMMON TRUST FUND, SPECIAL TRUST, PENSION FUND OR RETIREMENT PLAN IN WHICH THE SHAREHOLDERS, EQUITY OWNERS, PARTNERS, BENEFICIARIES, BENEFICIAL OWNERS OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, (VI) IF FORMED ON OR BEFORE APRIL 30, 1996, THAT IT IS NOT AN INVESTMENT COMPANY THAT RELIES ON THE EXCLUSION FROM THE DEFINITION OF "INVESTMENT COMPANY" PROVIDED BY SECTION 3(c)(1) or 3(c)(7) OF THE 1940 ACT (OR A FOREIGN INVESTMENT COMPANY UNDER SECTION 7(d) THEREOF RELYING ON SECTION 3(c)(7) WITH RESPECT TO THOSE OF ITS HOLDERS THAT ARE U.S. PERSONS), UNLESS, WITH RESPECT TO ITS TREATMENT AS A QUALIFIED PURCHASER, IT HAS, IN THE MANNER REQUIRED BY SECTION 2(a)(51)(C) OF THE 1940 ACT AND THE RULES AND REGULATIONS THEREUNDER, RECEIVED THE CONSENT OF ITS BENEFICIAL OWNERS THAT ACQUIRED THEIR INTERESTS ON OR BEFORE APRIL 30, 1996, (VII) THAT IT AND EACH ACCOUNT FOR WHICH IT IS PURCHASING IS PURCHASING NOTES IN AT LEAST THE MINIMUM DENOMINATION AND (VIII) THAT IT WILL PROVIDE WRITTEN NOTICE OF THE FOREGOING AND ANY OTHER APPLICABLE TRANSFER RESTRICTION TO SUBSEQUENT TRANSFEREES.

ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT AND WILL BE NULL AND VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE INITIAL PURCHASER OR SUBSEQUENT TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE INDENTURE TRUSTEE OR ANY INTERMEDIARY.

[THE ISSUER MAY REQUIRE ANY HOLDER OF THIS NOTE THAT IS A "U.S. PERSON" AS DEFINED IN REGULATION S, THAT IS NOT A QUALIFIED PURCHASER OR THAT WAS SOLD THIS NOTE IN THE UNITED STATES, AT EACH CASE AT THE TIME OF ACQUISITION OF THIS NOTE, TO SELL THIS NOTE TO A PERSON THAT IS (I) BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, OR (II) A QUALIFIED PURCHASER THAT IS NOT A "U.S. PERSON" AS DEFINED IN REGULATION S IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S.]**[INCLUDE FOR REGULATION S TEMPORARY GLOBAL NOTE]**

[UNTIL 40 DAYS AFTER THE INITIAL PURCHASERS NOTIFY THE ISSUER THAT THE RESALE OF THE NOTES HAS BEEN COMPLETED (THE "RESTRICTED PERIOD") IN CONNECTION WITH THE OFFERING OF THE NOTES IN THE UNITED STATES FROM OUTSIDE OF THE UNITED STATES, THE SALE, PLEDGE OR TRANSFER OF THIS NOTE IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS NOTE, ACKNOWLEDGES THAT SUCH HOLDER IS A QUALIFIED PURCHASER, AND THAT THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREES FOR THE BENEFIT OF THE ISSUER THAT THIS NOTE MAY BE TRANSFERRED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY TO A QUALIFIED PURCHASER AND IN COMPLIANCE WITH THE

SECURITIES ACT AND OTHER APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES, AND PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD, ONLY (I) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (II) PURSUANT TO AND IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT.][**INCLUDE FOR REGULATION S TEMPORARY GLOBAL NOTE]**

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF THE DEPOSITORY TRUST COMPANY ("DTC"), A NEW YORK CORPORATION, 55 WATER STREET, NEW YORK, NEW YORK 10004, OR A NOMINEE THEREOF. THIS NOTE MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS NOTE IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE. UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF DTC TO THE ISSUER OR THE NOTE REGISTRAR, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC, AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL BECAUSE THE REGISTERED OWNER, CEDE & CO., HAS AN INTEREST HEREIN. THIS NOTE (AND INTERESTS THEREIN) ARE ALSO SUBJECT TO THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERENCED BELOW. THE PRINCIPAL AMOUNT OUTSTANDING OF THIS NOTE WILL NOT EXCEED THE PRINCIPAL AMOUNT SHOWN ON THE FACE HEREOF. ACCORDINGLY, THE OUTSTANDING PRINCIPAL AMOUNT OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF.

PFS TAX LIEN TRUST 2014-1
TEXAS TAX LIEN COLLATERALIZED NOTES, SERIES 2014-1

[TEMPORARY] REGULATION S GLOBAL NOTE

Note Rate: 1.44%
Initial Payment Date: June 16,, 2014
Stated Maturity: May 15, 2029
Initial Note Balance: $[_____]
Note No: 1
CUSIP No: U7170F AA0
ISIN No: USU7170FAA04

FOR VALUE RECEIVED, PFS Tax Lien Trust 2014-1, a Delaware statutory trust (the "**Issuer**") hereby promises to pay to Cede & Co. (the "**Holder**") or its assigns, the principal sum of [_____] Dollars ($[_____]) in lawful money of the United States of America and in immediately available funds, on the dates and in the principal amounts provided in the Indenture, dated as of May 6, 2014 (the "**Indenture**"), between the Issuer and Citibank, N.A., as indenture trustee (the "**Indenture Trustee**"), and to pay on each Payment Date interest (computed on the basis of a 360-day year of twelve 30-day months) at the applicable Note Rate on the Outstanding Note Balance of this Texas Tax Lien Collateralized Note, Series 2014-1 (this "**Series 2014-1 Note**") until paid in full. The Outstanding Note Balance of this Series 2014-1 Note shall be due and payable on the Stated Maturity Date. The term "Issuer" as used in this Note includes any successor to the Issuer permitted under the Indenture. Capitalized terms used but not defined herein shall have the meanings given them in the "Standard Definitions" attached as Annex A to the Indenture.

By its holding of this Series 2014-1 Note, the Holder shall be deemed to accept the terms of the Indenture and agree to be bound thereby.

Unless the certificate of authentication hereon has been executed by the Indenture Trustee referred to herein by manual signature, this Series 2014-1 Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

This Series 2014-1 Note is one of a duly authorized issue of notes of the Issuer designated as its "Series 2014-1 Note" and issued under the Indenture.

This Series 2014-1 Note is secured by the pledge to the Indenture Trustee under the Indenture of the Trust Estate and recourse is limited to the extent set forth in the Indenture. The amounts owed under this Series 2014-1 Note shall not include any recourse to the Indenture Trustee or any affiliates thereof.

If certain Events of Default under the Indenture have been declared or occur, the Outstanding Note Balance of the Series 2014-1 Notes, together with any accrued and unpaid interest thereon, may be declared immediately due and payable or payments of principal may be accelerated in the manner and with the effect provided in the Indenture. Notice of such declaration will be given in writing to Holders of the Series 2014-1 Notes, as their names and addresses appear in the

Note Register, as provided in the Indenture. Subject to the terms of the Indenture, upon payment of such principal amount together with all accrued interest, the obligations of the Issuer with respect to the payment of principal and interest on this Series 2014-1 Note shall terminate.

The Indenture permits the Issuer and the Indenture Trustee in certain circumstances to amend the Indenture without the consent of the Holders. The Indenture also permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of the Holders of the Series 2014-1 Notes under the Indenture at any time by the Issuer and the Indenture Trustee with the consent of such Holders of the percentages specified in the Indenture at the time of Notes Outstanding. The Indenture also contains provisions permitting such Holders of specified percentages of Notes Outstanding on behalf of all Holders, to waive compliance by the Issuer with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Series 2014-1 Note shall be conclusive and binding upon such Holder and upon all future Holders of this Series 2014-1 Note issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Series 2014-1 Note.

Each Series 2014-1 Note may be issued only in registered form and only in minimum denominations of at least $100,000 and integral multiples of $1,000 in excess thereof; provided that the foregoing shall not restrict or prevent the transfer in accordance with Section 2.04 of the Indenture of any Series 2014-1 Note having a remaining Outstanding Note Balance of other than an integral multiple of $1,000, or the issuance of a single Series 2014-1 Note with a denomination less than $100,000. The Holder of this Series 2014-1 Note is deemed to acknowledge that the Series 2014-1 Note may be purchased and transferred only in minimum denominations of $100,000 and integral multiples of $1,000 in excess thereof and that this Series 2014-1 Note (or any beneficial interests herein) may not be transferred in an amount less than such authorized denominations or which would result in the Holder of this Series 2014-1 Note having a beneficial interest below such authorized denominations.

The Issuer, the Indenture Trustee and any agent of the Issuer or the Indenture Trustee may treat the Person in whose name this Series 2014-1 Note is registered (i) on any Record Date, for purposes of making payments, and (ii) on any other date for any other purpose, as the owner hereof, whether or not this Series 2014-1 Note may be overdue, and neither the Issuer, the Indenture Trustee nor any such agent shall be affected by notice to the contrary.

No transfer of this Series 2014-1 Note or any interest herein may be made unless that transfer is made in accordance with the provisions of Section 2.04 of the Indenture. For so long as this Series 2014-1 Note is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC, transfers of interests in this Series 2014-1 Note shall be made through the book-entry facilities of DTC.

[On or after the 40th day after the later of the Closing Date and the commencement of the offering of the Notes, interests in this Temporary Regulation S Global Note may be exchanged (free of charge) for interests in a permanent Regulation S Global Note.] [**Include for Temporary Regulation S Global Note]**

The Indenture and this Series 2014-1 Note shall be deemed to be contracts made under the laws of the State of New York and shall for all purposes be governed by, and construed in accordance with, the laws of the State of New York.

Section 12.05 of the Indenture is incorporated herein by reference.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be duly executed by the manual signature of its duly Authorized Officer.

Dated:

PFS TAX LIEN TRUST 2014-1

By: WILMINGTON TRUST, NATIONAL ASSOCIATION, not in its individual capacity but solely as Owner Trustee

By: _
Name:
Title:

INDENTURE TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Series 2014-1 Notes referred to in the within mentioned Indenture.

Dated:

CITIBANK, N.A., as Indenture Trustee

By: _
Name:
Title:

EXHIBIT B

FORM OF INVESTOR REPRESENTATION LETTER

PFS TAX LIEN TRUST 2014-1
Texas Tax Lien Collateralized Notes, Series 2014-1

PFS Tax Lien Trust 2014-1
c/o Wilmington Trust, National Association, as Owner Trustee
Rodney Square North
1100 North Market Street
Wilmington, DE 19890
Attention; Assistant Vice President

Citibank, N.A., as Indenture Trustee
480 Washington Boulevard, 30th Floor
Jersey City, New Jersey 07310
Attention: Agency & Trust – PFS Tax Lien 2014-1

Ladies and Gentlemen:

_____ (the "**Investor**") hereby represents and warrants to you in connection with its purchase of $_____ in principal amount of the above-captioned notes (the "**Notes**") as follows:

(1) Reference is made to the Offering Memorandum, dated April 29, 2014 (the "**Memorandum**"), related to the Notes. By accepting the Memorandum, the Investor acknowledges its express oral agreement with the Issuer and the Initial Purchasers to maintain in confidence the Memorandum and the information contained therein which may include information that constitutes material non-public information and understands that the Issuer and the Initial Purchasers have caused the Memorandum to be delivered to the Investor in reliance upon its agreement to maintain such confidentiality.

(2) The Investor represents that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion, for investment purposes only and not with a view to or for sale in connection with any distribution thereof in any manner that would violate the Securities Act or any applicable state securities laws, and that it or the holder of such account either (A) (X) (i) is a "qualified institutional buyer" within the meaning of Rule 144A (a "**Qualified Institutional Buyer**"), (ii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A, (iii) is acquiring such Notes for its own account or for the account of a Qualified Institutional Buyer, and neither it nor any such account is a dealer described in paragraph (a)(1)(ii) of Rule 144A, unless it, or such account, as applicable, owns and invests, on a discretionary basis, at least $25,000,000 in securities of issuers that are not affiliated Persons of the dealer; and (iv) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in

paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan, and (Y) is a qualified purchaser within the meaning of Section 2(A)(51) of the Investment Company Act (a "**Qualified Purchaser**") or (B) (X) is a foreign purchaser (a "**Qualified Non-U.S. Person**") that was outside the United States at the time the buy order for such Notes was originated (or a foreign purchaser that is a dealer or other professional fiduciary in the United States acting on a discretionary basis for foreign beneficial owners (other than an estate or trust)) and was not purchasing for the account or benefit of a U.S. Person and (Y) is a Qualified Purchaser, and in either case is not formed for the purpose of investing in the Notes, unless all of its beneficial owners are Qualified Purchasers.

(3) The Investor represents that (A) it is not a corporation, partnership, common trust fund, special trust, pension fund or retirement plan in which the shareholders, equity owners, partners, beneficiaries, beneficial owners or participants, as applicable, may designate the particular investments to be made, (B) that if formed on or before April 30, 1996, it is not an investment company that relies on the exclusion from the definition of "investment company" provided by 3(c)(1) or 3(c)(7) of the 1940 Act (or a foreign investment company under Section 7(d) thereof, relying on Section 3(c)(7) with respect to those of its holders that are U.S. persons), unless, with respect to its treatment as a qualified purchaser, it has, in the manner required by Section 2(a)(51)(c) of the 1940 Act and the rules and regulations thereunder, received the consent of its beneficial owners that acquired their interests on or before April 30, 1996, and (c) that it and each account for which it is purchasing is purchasing notes in at least the minimum denomination.

(4) The Investor understands that the Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act. The Investor understands that the Notes have not been and will not be registered under the Securities Act or any applicable securities laws of any state of the United States and may not be offered, sold, pledged or otherwise transferred except (X) (i) to a Person that is a Qualified Purchaser that it reasonably believes is a Qualified Institutional Buyer purchasing for its own account or the account of a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A, (ii) to a Person that is a Qualified Purchaser that is a Qualified Non-U.S. Person in compliance with Rule 903 or 904 under the Securities Act; (iii) to the Issuer or the Depositor, or (iv) only with respect to transfers of Notes held by Noteholders in certificated form, in a transaction otherwise exempt from the registration requirements of the Securities Act and the applicable securities laws of any state of the United States and any other jurisdiction, and in accordance with the Indenture and any applicable securities laws of any state of the United States and any other relevant jurisdiction, in which case the Indenture Trustee will require that both the prospective transferor and the prospective transferee to certify to the Indenture Trustee and the Issuer in writing the facts surrounding such transfer, which certification will be substantially in the form set forth in the Indenture and, if requested by the Issuer or the Indenture Trustee, accompanied by an opinion of counsel (which will be at the expense of the parties submitting such certification), and (Y) in accordance with any applicable securities laws of any state of the United States or any other applicable jurisdiction, and that the Notes will bear a legend to the foregoing effect.

(5) The Investor agrees that it will give each subsequent investor to which it transfers any Notes notice of any restrictions on transfer of the Notes. It further agrees that it will not sell or otherwise transfer any of the Notes except in compliance with the provisions hereof and of the Indenture. It has not and will not, nor has it or will it authorize any person to, take any action that would constitute a "distribution" of the Notes under the Securities Act or any state securities law, or that would require registration or qualification pursuant thereto.

(6) The Investor understands that any subsequent transfer of the Notes or any interest therein is subject to certain restrictions and conditions set forth in the Indenture and the Investor agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes or any interest therein except in compliance with, such restrictions and conditions and the Securities Act.

(7) The Investor and each transferee of the Notes by its acquisition of the Notes, shall be deemed to have represented and agreed that either (i) it is not acquiring the Notes for or on behalf of or with the assets of, and will not transfer the Notes to, any employee benefit plan as defined in Section 3(3) of ERISA that is subject to Title I of ERISA or any other "plan" as defined in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code or any entity whose underlying assets include plan assets by reason of an employee benefit plan's or plan's investment in such entity, or any plan that is subject to any similar provison of federal, state or local law ("**Similar Law**") or (ii) the acquisition, holding or disposition of the Notes will not cause or result in a transaction described in Section 406 of ERISA or Section 4975(c)(1) of the Code for which a statutory, regulatory or administrative exemption is unavailable or be a violation of Similar Law. An investor and transferee described in the preceding clauses is further deemed to represent and agree that it is not sponsored (within the meaning of Section 3(16)(B) of ERISA) by the Issuer, the Depositor, the Seller, the Servicer, the Indenture Trustee, the Owner Trustee or the Initial Purchasers, or by any affiliate of any such person.

(8) The Notes will bear a legend to the following effect, unless the Issuer determines otherwise consistent with applicable law:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), ANY STATE SECURITIES LAWS IN THE UNITED STATES OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, UNITED STATES PERSONS, EXCEPT AS PERMITTED BY THIS LEGEND. THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND EXCEPT (A) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT IS A "QUALIFIED

PURCHASER" WITHIN THE MEANING OF SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "1940 ACT") THAT IT REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, WHOM IT HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, PROVIDED THAT SUCH PURCHASER DELIVERS ALL DOCUMENTS AND CERTIFICATIONS AS THE ISSUER OR THE TRUSTEE MAY REASONABLY REQUIRE; (B) TO A PERSON THAT IS A QUALIFIED PURCHASER THAT IS A QUALIFIED NON-U.S. PERSON OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT; OR (C) TO THE ISSUER OR THE DEPOSITOR, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. IN ADDITION, THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN A TRANSACTION THAT DOES NOT CAUSE THE ISSUER OR THE COLLATERAL TO BE REQUIRED TO REGISTER UNDER THE 1940 ACT. FURTHER, THE NOTES MAY NOT BE SOLD OR TRANSFERRED UNLESS SUCH SALE OR TRANSFER WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE.

EACH TRANSFEREE OF A NOTE WILL BE DEEMED TO REPRESENT AT TIME OF TRANSFER THAT SUCH TRANSFEREE IS EITHER (A) A QUALIFIED INSTITUTIONAL BUYER OR (B) A NON-U.S. PERSON AS DEFINED IN REGULATION S AND (I) THAT IT IS A QUALIFIED PURCHASER, (II) THAT IT IS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE NOTES, UNLESS ALL OF ITS BENEFICIAL OWNERS ARE QUALIFIED PURCHASERS, (III) THAT IT IS NOT A DEALER DESCRIBED IN PARAGRAPH (a)(1)(ii) OF RULE 144A UNLESS SUCH TRANSFEREE OWNS AND INVESTS ON A DISCRETIONARY BASIS AT LEAST U.S. $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF SUCH DEALER, (IV) THAT IT IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH PLAN, UNLESS INVESTMENT DECISIONS ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN, (V) THAT IT IS NOT A CORPORATION, PARTNERSHIP, COMMON TRUST FUND, SPECIAL TRUST, PENSION FUND OR RETIREMENT PLAN IN WHICH THE SHAREHOLDERS, EQUITY OWNERS, PARTNERS, BENEFICIARIES, BENEFICIAL OWNERS OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR

INVESTMENTS TO BE MADE, (VI) IF FORMED ON OR BEFORE APRIL 30, 1996, THAT IT IS NOT AN INVESTMENT COMPANY THAT RELIES ON THE EXCLUSION FROM THE DEFINITION OF "INVESTMENT COMPANY" PROVIDED BY SECTION 3(c)(1) or 3(c)(7) OF THE 1940 ACT (OR A FOREIGN INVESTMENT COMPANY UNDER SECTION 7(d) THEREOF RELYING ON SECTION 3(c)(7) WITH RESPECT TO THOSE OF ITS HOLDERS THAT ARE U.S. PERSONS), UNLESS, WITH RESPECT TO ITS TREATMENT AS A QUALIFIED PURCHASER, IT HAS, IN THE MANNER REQUIRED BY SECTION 2(a)(51)(C) OF THE 1940 ACT AND THE RULES AND REGULATIONS THEREUNDER, RECEIVED THE CONSENT OF ITS BENEFICIAL OWNERS THAT ACQUIRED THEIR INTERESTS ON OR BEFORE APRIL 30, 1996, (VII) THAT IT AND EACH ACCOUNT FOR WHICH IT IS PURCHASING IS PURCHASING NOTES IN AT LEAST THE MINIMUM DENOMINATION AND (VIII) THAT IT WILL PROVIDE WRITTEN NOTICE OF THE FOREGOING AND ANY OTHER APPLICABLE TRANSFER RESTRICTION TO SUBSEQUENT TRANSFEREES.

ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT AND WILL BE NULL AND VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE INITIAL PURCHASER OR SUBSEQUENT TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE INDENTURE TRUSTEE OR ANY INTERMEDIARY.

The certificates evidencing the Notes that are Rule 144A Global Notes will also bear legends substantially to the following effect unless the Issuer determines otherwise in compliance with applicable law:

THE ISSUER MAY REQUIRE ANY HOLDER OF THIS NOTE THAT IS A "U.S. PERSON" AS DEFINED IN REGULATION S OR A HOLDER WHO WAS SOLD THIS NOTE IN THE UNITED STATES WHO IN EITHER CASE IS DETERMINED NOT TO HAVE BEEN BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER AT THE TIME OF ACQUISITION OF THIS NOTE TO SELL THIS NOTE TO A PERSON THAT IS (I) BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, OR (II) A QUALIFIED PURCHASER THAT IS NOT A "U.S. PERSON" AS DEFINED IN REGULATION S IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S.

The certificates evidencing the Notes that are Regulation S Temporary Global Notes will also bear legends substantially to the following effect unless the Issuer otherwise determine otherwise in compliance with applicable law:

THE ISSUER MAY REQUIRE ANY HOLDER OF THIS NOTE THAT IS A "U.S. PERSON" AS DEFINED IN REGULATION S, THAT IS NOT A QUALIFIED PURCHASER OR THAT WAS SOLD THIS NOTE IN THE UNITED STATES, AT EACH CASE AT THE TIME OF ACQUISITION OF THIS NOTE, TO SELL THIS NOTE TO A PERSON THAT IS (I) BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, OR (II) A QUALIFIED PURCHASER THAT IS NOT A "U.S. PERSON" AS DEFINED IN REGULATION S IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S.

UNTIL 40 DAYS AFTER THE INITIAL PURCHASERS NOTIFY THE ISSUER THAT THE RESALE OF THE NOTES HAS BEEN COMPLETED (THE "RESTRICTED PERIOD") IN CONNECTION WITH THE OFFERING OF THE NOTES IN THE UNITED STATES FROM OUTSIDE OF THE UNITED STATES, THE SALE, PLEDGE OR TRANSFER OF THIS NOTE IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS NOTE, ACKNOWLEDGES THAT SUCH HOLDER IS A QUALIFIED PURCHASER, AND THAT THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREES FOR THE BENEFIT OF THE ISSUER THAT THIS NOTE MAY BE TRANSFERRED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY TO A QUALIFIED PURCHASER AND IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES, AND PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD, ONLY (I) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (II) PURSUANT TO AND IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT.

Each Global Note will bear a legend substantially to the following effect unless the Issuer otherwise determines otherwise in compliance with applicable law:

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF THE DEPOSITORY TRUST COMPANY ("DTC"), A NEW YORK CORPORATION, 55 WATER STREET, NEW YORK, NEW YORK 10004, OR A NOMINEE THEREOF. THIS NOTE MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS NOTE IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE. UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF DTC TO THE ISSUER OR THE NOTE REGISTRAR,

AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC, AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL BECAUSE THE REGISTERED OWNER, CEDE & CO., HAS AN INTEREST HEREIN. THIS NOTE (AND INTERESTS THEREIN) ARE ALSO SUBJECT TO THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERENCED BELOW. THE PRINCIPAL AMOUNT OUTSTANDING OF THIS NOTE WILL NOT EXCEED THE PRINCIPAL AMOUNT SHOWN ON THE FACE HEREOF. ACCORDINGLY, THE OUTSTANDING PRINCIPAL AMOUNT OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF.

The representations and warranties contained herein shall be binding upon the heirs, executors, administrators and other successors of the undersigned. If there is more than one signatory hereto, the obligations, representations, warranties and agreements of the undersigned are made jointly and severally.

Executed at _____, _____, this ___ day of _____, 20__.

_____
Purchaser's Signature

_____
Purchaser's Name and Title (Print)

_____
Address of Purchaser

_____
Purchaser's Taxpayer Identification or
Social Security Number

EXHIBIT C

FORM OF TRANSFER CERTIFICATE FOR EXCHANGE OR TRANSFER FROM RULE 144A GLOBAL NOTE TO REGULATION S GLOBAL NOTE DURING RESTRICTED PERIOD

Citibank, N.A., as Indenture Trustee
480 Washington Boulevard, 30th Floor
Jersey City, New Jersey 07310
Attention: Agency & Trust – PFS Tax Lien 2014-1

Re: PFS Tax Lien Trust 2014-1; Transfer of Series 2014-1 Note

Ladies and Gentlemen:

Reference is hereby made to the Indenture, dated as of May 6, 2014 (the "**Indenture**"), between PFS Tax Lien Trust 2014-1 (the "**Issuer**") and Citibank, N.A., as indenture trustee (the "**Indenture Trustee**"). Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to US $[__] aggregate Outstanding Note Balance of Notes (the "**Notes**") which are held in the form of the Rule 144A Global Note (CUSIP No 69340F AA8) with the Depository in the name of [insert name of transferor] (the "**Transferor**"). The Transferor has requested a transfer of such beneficial interest for a like amount of beneficial interest in the Regulation S Global Note (CUSIP No. U7170F AA0) to be held with [Euroclear] [Clearstream]* (Common Code No. _____) through the Depository.

In connection with such request and in respect of such Notes, the Transferor does hereby certify that such transfer has been effected in accordance with the transfer restrictions set forth in the Indenture and the Notes and pursuant to and in accordance with Regulation S under the Securities Act of 1933, as amended (the "**Securities Act**"), and accordingly the Transferor does hereby certify that:

(1) the offer of the Notes was not made to a person in the United States,

(2) [at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States] [(the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was pre-arranged with a buyer in the United States],**

(3) the transferee is not a U.S. Person within the meaning of Rule 902(k) of Regulation S nor a Person acting for the account or benefit of a U.S. Person,

(4) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S, as applicable,

(5) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act, and

(6) upon completion of the transaction, the beneficial interest being transferred as described above will be held with the Depository through [Euroclear] [Clearstream].***

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer and the Indenture Trustee.

[Insert Name of Transferor]

By: _
Name:
Title:

Dated:

EXHIBIT D

FORM OF TRANSFER CERTIFICATE FOR EXCHANGE OR TRANSFER FROM RULE 144A GLOBAL NOTE TO REGULATION S GLOBAL NOTE AFTER RESTRICTED PERIOD

Citibank, N.A., as Indenture Trustee
480 Washington Boulevard, 30th Floor
Jersey City, New Jersey 07310
Attention: Agency & Trust – PFS Tax Lien 2014-1

Re: PFS Tax Lien Trust 2014-1; Transfer of Series 2014-1 Note

Ladies and Gentlemen:

Reference is hereby made to the Indenture, dated as of May 6, 2014 (the "**Indenture**"), between PFS Tax Lien Trust 2014-1 (the "**Issuer**") and Citibank, N.A., as indenture trustee (the "**Indenture Trustee**"). Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to US $[__] aggregate Outstanding Note Balance of Notes (the "**Notes**") which are held in the form of the Rule 144A Global Note (CUSIP No. 69340F AA8) with the Depository in the name of [insert name of transferor] (the "**Transferor**"). The Transferor has requested a transfer of such beneficial interest for a like amount of beneficial interest in the Regulation S Global Note (CUSIP No. U7170F AA0) to be held with [Euroclear] [Clearstream]* (Common Code No. _____) through the Depository.

In connection with such request, and in respect of such Notes, the Transferor does hereby certify that such transfer has been effected in accordance with the transfer restrictions set forth in the Indenture and the Notes and,

(i) with respect to transfers made in reliance on Regulation S under the Securities Act of 1933, as amended (the "**Securities Act**"), the Transferor does hereby certify that:

(1) the offer of the Notes was not made to a person in the United States;

(2) [at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States] [the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was pre-arranged with a buyer in the United States];**

(3) the transferee is not a U.S. Person within the meaning of Rule 902(k) of Regulation S nor a Person acting for the account or benefit of a U.S. Person;

(4) no directed selling efforts have been made in contravention of the requirements of Rule 903(a) or Rule 904(a) of Regulation S, as applicable; and

(5) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act; or

(ii) with respect to transfers made in reliance on Rule 144 under the Securities Act, the Transferor does hereby certify that the Notes that are being transferred are not "restricted securities" as defined in Rule 144 under the Securities Act.

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer and the Indenture Trustee.

[Insert Name of Transferor]

By: _
Name:
Title:

Dated:

EXHIBIT E

[RESERVED]

EXHIBIT F

FORM OF TRANSFER CERTIFICATE FOR REGULATION S GLOBAL CERTIFICATE DURING RESTRICTED PERIOD

Citibank, N.A., as Indenture Trustee
480 Washington Boulevard, 30th Floor
Jersey City, New Jersey 07310
Attention: Agency & Trust – PFS Tax Lien 2014-1

Re: PFS Tax Lien Trust 2014-1; Transfer of Series 2014-1 Note

Ladies and Gentlemen:

This certificate is delivered pursuant to Section 2.04 of the Indenture, dated as of May 6, 2014 (the "**Indenture**"), PFS Tax Lien Trust 2014-1 (the "**Issuer**") and Citibank, N.A., as indenture trustee (the "**Indenture Trustee**") in connection with the transfer by _____ of a beneficial interest of $_____ Outstanding Note Balance in a Regulation S Global Note during the Restricted Period to the undersigned (the "**Transferee**"). The Transferee desires to beneficially own such transferred interest in the form of the Regulation S Global Certificate. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

In connection with such transfer, the Transferee does hereby certify that it is not a "U.S. Person" (within the meaning of Rule 902(k) of Regulation S under the Securities Act of 1933, as amended), nor a Person acting for the account or benefit of a U.S. Person. This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer and the Indenture Trustee.

[Insert Name of Transferor]

By: _
Name:
Title:

Dated:

EXHIBIT G

FORM OF SUBSEQUENT TEXAS TAX LIEN NOTICE

[Date]

Citibank, N.A., as Indenture Trustee
388 Greenwich Street, 14th Floor
New York, New York 10013
Attention: Agency & Trust – PFS Tax Lien 2014-1

Ladies and Gentlemen:

Pursuant to and in accordance with Section 4.07 of that certain Indenture dated as of May 6, 2014 (the "**Indenture**"), between PFS Tax Lien Trust 2014-1, as issuer (the "**Issuer**"), and Citibank, N.A., as indenture trustee, the undersigned, as Servicer, hereby notifies you as follows (capitalized terms not otherwise defined herein shall have the meaning assigned such terms in the Standard Definitions attached as Annex A to the Indenture):

(a) the number and aggregate Redemptive Value of Subsequent Texas Tax Liens to be originated by the Seller and transferred to the Issuer on [insert date of Transfer Date] is [__] and [$____] respectively; and

(b) the aggregate amount to be withdrawn by you from the Subsequent Texas Tax Lien Account and transferred to the Seller to pay for such Subsequent Texas Tax Liens is [$_____].

The undersigned hereby requests that you remit such aggregate amount as follows:

[___]
Receiving Bank:
ABA#:
Beneficiary:
Account #
Reference:

Very truly yours,

PROPEL FINANCIAL SERVICES, LLC, as Servicer

By:_____
Name:
Title:

EXHIBIT H

FORM OF PAYMENT DATE REPORT

Payment Date:

Determination Date: Begin End

Record Date: Interest Accrual Period:

Collection Period:

Payment Summary:

Class	Note Interest Rate	Original Balance	Beginning Balance	Principal Paid	Interest Paid	Total Paid	Ending Balance
A							
Totals:							

Amounts Per 1,000:

Class	Cusip	Beginning Balance	Principal Paid	Interest Paid	Ending Balance
A					

Interest Detail:

Class	Note Interest Rate	Beginning Carryforward Interest	Interest Accrued @ PT Rate	Total Interest Paid	Ending Carryforward Interest
A					

ANNEX A

STANDARD DEFINITIONS

"Act" shall have the meaning specified in Section 1.04 of the Indenture.

"Acceleration Event" shall have the meaning specified in Section 5.06(a) of the Indenture.

"Accounts" shall mean the Collection Account, the Expense Reserve Account, the Working Capital Reserve Account and the Subsequent Texas Tax Lien Account.

"Accrued Interest" shall mean, with respect to the Notes, an amount equal to (i) interest accrued at the Note Rate (calculated as of the day immediately preceding such Payment Date) during the related Interest Accrual Period on the Outstanding Note Balance as of the close of business on the first day of such Interest Accrual Period, plus (ii) the amount of accrued interest remaining unpaid on the Notes from prior Payment Dates, with interest thereon at the Note Rate.

"Advance" shall mean the payment by the Servicer of its own funds to pay any Lien Administration Expense or any other amounts with respect to the Texas Tax Liens or REO properties that the Servicer determines will be recoverable (together with interest at the Advance Rate) from collections on the related Texas Tax Lien or REO Property.

"Advance Rate" shall mean as of any date of determination, the prime rate as published in the Wall Street journal.

"Adverse Claim" shall mean any claim of ownership or any lien, security interest, title retention, trust or other charge or encumbrance, or other type of preferential arrangement having the effect or purpose of creating a lien or security interest, other than the interests created under the Indenture in favor of the Indenture Trustee and the Noteholders.

"Affiliate" shall mean any Person: (a) which directly or indirectly controls, or is controlled by, or is under common control with such Person; (b) which directly or indirectly beneficially owns or holds five percent (5%) or more of the voting stock of such Person; or (c) for which five percent (5%) or more of the voting stock of which is directly or indirectly beneficially owned or held by such Person. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Applicable Law" shall mean, as to any Person or any matter, any law (statutory or common), treaty, rule or regulation or determination of any arbitrator or of any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing, in each case applicable

to or binding upon such Person (or any of its property) or such matter, or to which such Person (or any of its property) or such matter is subject, including, without limitation, any laws relating to consumers and consumer protection, usury, truth-in-lending disclosure, equal credit opportunities and ERISA.

"Applicable Procedures" shall have the meaning specified in Section 2.04(d)(i) of the Indenture.

"Assumption Date" shall have the meaning specified in Section 3.01(g) of the Servicing Agreement.

"Authorized Officer" shall mean, with respect to any corporation, limited liability company or partnership, the Chairman of the Board, the President, any Vice President, the Secretary, the Treasurer, any Assistant Secretary, any Assistant Treasurer, Managing Member and each other officer of such corporation or limited liability company or the general partner of such partnership customarily performing functions similar to those performed by any of the above designated officers, and with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge and familiarity with the particular subject or such officer specifically authorized in resolutions of the Board of Directors of such corporation or managing member of such limited liability company to sign agreements, instruments or other documents in connection with the Indenture on behalf of such corporation, limited liability company or partnership, as the case may be. With respect to the Issuer, Authorized Officer shall mean any Authorized Officer of the Depositor or the Owner Trustee.

"Available Funds" shall mean for any Payment Date, the sum of (I)(a) Collections received during the related Collection Period and (b) any investment income on amounts on deposit in the Accounts during such Collection Period; (II) all amounts on deposit in the Expense Reserve Account in excess of the Required Interest Reserve Amount and in the Subsequent Texas Tax Lien Account; (III) all funds on deposit in the Working Capital Reserve Account in excess of the Working Capital Reserve Required Amount on such Payment Date; (IV) any other proceeds from assets of the Issuer received during such Collection Period, including, but not limited to, any proceeds from the sale of any Texas Tax Lien Assets; and (V) with respect to the Stated Maturity Date only, all amounts on deposit in the Accounts; *provided* that Collections in respect of an REO Property in an amount equal to any Advances (together with accrued interest at the Advance Rate) that were made after the related Texas Tax Lien became such REO Property will not constitute Available Funds.

"Back-up Servicer" shall mean MTAG Services, LLC, a Virginia limited liability company and its permitted successors and assigns.

"Back-up Servicing Fee" shall mean a per annum fee of $100,000 payable to the Back-up Servicer in monthly installments on each Payment Date. The Back-up Servicing Fee for the first Payment Date will be pro-rated to reflect the number of days from the Closing Date to the first Payment Date.

"Bankruptcy Code" shall mean the federal Bankruptcy Code, as amended (Title 11 of the United States Code).

"Benefit Plan" shall mean an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA or any other "plan" as defined in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code or any entity whose underlying assets include plan assets by reason of an employee benefit plan's or plan's investment in such entity or any plan that is subject to any substantially similar provision of federal, state or local law ("Similar Law").

"Business Day" shall mean any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the State of New York and the States in which the Servicer and the Indenture Trustee are located are required or authorized by law or executive order to be closed.

"Capital Account" shall have the meaning specified in Section 2.10(b) of the Trust Agreement.

"Cede & Co." shall mean the initial registered holder of the Notes, acting as nominee of DTC.

"Certificate of Trust" shall mean the Certificate of Trust filed with the Secretary of State for the State of Delaware on December 5, 2013 in order to form the Issuer, as the same may be amended, supplemented or otherwise modified in accordance with the terms thereof.

"Clearstream" shall mean Clearstream Banking, société anonyme, a limited liability company organized under the laws of Luxembourg.

"Closing Date" shall mean May 6, 2014.

"Co-Trustee" shall have the meaning specified in Section 9.5 of the Trust Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time and any successor statute, together with the rules and regulations thereunder.

"Collateral" means all Texas Tax Lien Assets owned by the Issuer, the Issuer's interest in any subsidiaries which own REO Properties, all funds received in respect of any Optional Redemption, all funds on deposit in accounts owned or held in the name of the Issuer or the Indenture Trustee on behalf of the Issuer (including the Accounts, with each such Account being held at the Indenture Trustee), and any and all proceeds thereof (including REO Proceeds).

"Collection Account" shall mean the account established and maintained by the Indenture Trustee pursuant to Section 3.02(a) of the Indenture.

"Collection Period" shall mean, with respect to any Determination Date other than the initial Determination Date, the preceding calendar month and with respect to the initial Determination Date, is the period commencing on the Initial Cut-Off Date and ending on the last day of the calendar month immediately preceding the initial Determination Date.

"Collections" shall mean, for any Collection Period, the amount actually collected by the Issuer or the Servicer during such Collection Period with respect to the Texas Tax Lien Assets,

whether as redemption proceeds, Property Owner payments, deposits of any Defective Texas Tax Lien Deposit Amounts or any Substitution Shortfall Amounts, liquidation proceeds (net of related expenses, to the extent not previously funded as Lien Administration Expenses through the Working Capital Reserve Account or as Advances), REO Proceeds, proceeds received by the Issuer from foreclosure sales (including in respect of any applicable Foreclosure Purchase Price), indemnity payments or otherwise.

"Condemnation Proceeds" shall mean proceeds received by the Servicer from the condemnation of any REO Property.

"Confidential Offering Memorandum" shall mean that certain Confidential Offering Memorandum, dated April 29, 2014, relating to the Notes and the Transaction Documents.

"Continued Errors" shall have the meaning specified in Section 3.01(g) of the Servicing Agreement.

"Controlling Entity" shall have the meaning specified in Section 2.11(l) of the Trust Agreement.

"Corporate Trust Office" shall mean (i) the office of the Indenture Trustee, which office is at the address set forth in Section 12.03 of the Indenture, or (ii) the office of the Owner Trustee, which is at the address set forth in Section 2.2 of the Trust Agreement, as applicable.

"Cut-Off Date" shall mean the Initial Cut-Off Date or any Subsequent Cut-Off Date, as applicable.

"Default" shall mean an event which, but for the passage of time, would constitute an Event of Default under the Indenture.

"Defaulted Texas Tax Lien" shall mean a Texas Tax Lien upon the earliest to occur of (i) any payment or part thereof being delinquent for more than ninety (90) days, or (ii) the Servicer's reasonable determination that such Texas Tax Lien is defaulted, which determination shall be made in accordance with the Servicing Standard.

"Defective Texas Tax Lien" shall have the meaning specified in Section 4.04(a) of the Indenture.

"Defective Texas Tax Lien Deposit Amount" shall mean, with respect to a Defective Texas Tax Lien, an amount equal to the then current Redemptive Value thereof, reduced by any proceeds realized from the liquidation of such Defective Texas Tax Lien that have been paid to the Issuer.

"Definitive Note" shall have the meaning specified in Section 2.02 of the Indenture.

"Depositor" shall mean Propel Funding Texas 2, LLC, a Delaware limited liability company.

"Depository" shall mean an organization registered as a "clearing agency" pursuant to Section 17A of the Securities Exchange Act of 1934, as amended. The initial Depository shall be DTC.

"Depository Agreement" shall mean the letter of representations, between the Issuer, the Indenture Trustee and the Depository.

"Depository Participant" shall mean a broker, dealer, bank, other financial institution or other Person for whom from time to time a Depository effects book-entry transfers and pledges securities deposited with the Depository.

"Determination Date" shall mean, with respect to any Payment Date, the date that is three (3) Business Days prior to such Payment Date.

"DTC" means The Depository Trust Company.

"Eligible Bank Account" shall mean a segregated account, which may be an account maintained with the Indenture Trustee, which is either (a) maintained with a depository institution or trust company whose long-term unsecured debt obligations are rated at least "A" by S&P and whose short-term unsecured obligations are rated at least "A-1" by S&P or (b) a trust account or similar account maintained at the corporate trust department of the Indenture Trustee.

"Eligible Investments" shall mean one or more of the following obligations or securities that mature no later than the Business Day immediately preceding each Payment Date:

(1) direct obligations of, and obligations fully guaranteed as to timely payment of principal and interest by, the United States of America.

(2) demand deposits, time deposits or certificates of deposit of any depository institution or trust company (including U.S. subsidiaries of foreign depositories) incorporated under the laws of the United States of America or any state thereof and subject to supervision and examination by federal or state banking or depository institution authorities, in each case, having at the time of the Issuer's investment or contractual commitment to invest in such demand deposits, time deposits or certificates of deposit, a credit rating from S&P in its highest investment category;

(3) commercial paper having, at the time of the Issuer's investment or contractual commitment to invest in such commercial paper, a rating from S&P in its highest investment category;

(4) Investments in money market funds having, at the time of the Issuer's investment or contractual commitment to invest in such money market funds, a rating from S&P in its highest investment category or otherwise approved in writing by each Rating Agency;

(5) bankers' acceptances issued by any depository institution or trust company referred to in clause (2) above; and

(6) any other investment consisting of a financial asset that by its terms converts to cash within a finite period of time, if the Rating Agency Condition is satisfied with respect to such investment.

"Eligible Texas Tax Lien" shall mean a Texas Tax Lien that has the following characteristics as of the related Transfer Date: (i) the Redemptive Value with respect to such Texas Tax Lien (or the aggregate thereof with respect to more than one such Texas Tax Lien) is no greater than the Redemptive Value with respect to such Defective Texas Tax Lien (or the aggregate thereof with respect to more than one such Defective Texas Tax Lien); (ii) the Property related to such Texas Tax Lien or Texas Tax Liens is located in the State of Texas and of like property tax class as the Property related to the Defective Texas Tax Lien or Defective Texas Tax Liens; (iii) the Lien-to-Value Ratio with respect to such Texas Tax Lien (or the weighted average thereof with respect to more than one such Texas Tax Lien) is not greater than the Lien-to-Value Ratio of such Defective Texas Tax Lien (or the weighted average thereof with respect to more than one such Defective Texas Tax Lien); (iv) the remaining term of such Texas Tax Lien (or the weighted average thereof with respect to more than one such Texas Tax Lien) is equal to or less than the remaining term of the Defective Texas Tax Lien (or the weighted average thereof with respect to more than one such Defective Texas Tax Lien); (v) the Texas Tax Lien Interest Rate with respect to such Texas Tax Lien (or the weighted average thereof with respect to more than one such Texas Tax Lien) is equal to or greater than the Texas Tax Lien Interest Rate with respect to such Defective Texas Tax Lien (or the weighted average thereof with respect to more than one such Defective Texas Tax Lien), and (vi) such Texas Tax Lien or Texas Tax Liens is in conformity with all Eligibility Representations.

"Eligibility Representations" shall mean the following representations with respect to the Texas Tax Lien Assets transferred by the Depositor to the Issuer on such Transfer Date (which Eligibility Representations will be the same representations and warranties made to it by the Seller on such Transfer Date with respect to such Texas Tax Lien Assets pursuant to the Purchase Agreement):

(1) No payment due with respect to any Texas Tax Lien is more than 360 days delinquent;

(2) The appraiser's estimate of the aggregate fair market value of each related Property (as listed in the appraisal district records of the county in which each such Property is located as of a date not to exceed thirty (30) days prior to the date of the origination of such Texas Tax Lien or Subsequent Texas Tax Lien, as applicable) is no less than $25,000;

(3) Each Property relating to such Texas Tax Lien is located in the State of Texas;

(4) No more than 5% of the currently outstanding Texas Tax Liens (based on their aggregate Redemptive Value as of such Transfer Date) transferred to the Issuer have been adjusted or modified judicially;

(5) To the knowledge of the Depositor, without inquiry, other than with respect to any litigation disclosed on a schedule to the Transfer Agreement challenging the amount, enforceability or the validity of such Texas Tax Lien, no litigation, right of rescission, setoff, counterclaim or defense has been asserted with respect to such Texas Tax Lien;

(6) Such Texas Tax Lien (A) arose by operation of and consistent with the Texas Statutes and is a legal, valid, binding and enforceable lien on each related Property and an enforceable obligation of the related Property Owner to pay the Redemptive Value thereof, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium or other laws relating to or affecting the rights of creditors generally, and by general principles of equity (regardless of whether such enforcement is considered in a proceeding at equity or at law) and (B) was acquired by the Seller or its affiliate in accordance with the Texas Statutes;

(7) The information about such Texas Tax Lien provided by the Depositor to the Issuer in writing on or before date of the sale and/or contribution of such Texas Tax Lien to the Issuer is correct in all material respects as of the date such writing is provided by the Depositor to the Issuer, or if such writing specifies another date, as of such other date;

(8) Upon transfer to the Issuer, the Issuer is the sole owner and holder of such Texas Tax Lien Assets; and such ownership interest has been fully perfected under all applicable law.

(9) The Depositor sold and/or contributed such Texas Tax Lien Assets free and clear of any and all liens, pledges, charges, security interests or any other statutory impediments to transfer encumbering such Texas Tax Lien Assets, except for liens that will be discharged by the application of the proceeds of the sale thereof;

(10) The sale and/or contribution of such Texas Tax Lien Assets by the Depositor did not contravene or conflict with any laws, rules or regulations or any contractual or other restriction, limitation or encumbrance applicable to the Depositor;

(11) Amounts included in such Texas Tax Lien represent a special priority lien on each underlying Property, inferior only to (i) a claim for any survivor’s allowance, funeral expenses, or expenses of the last illness of a decedent made against the estate of a decedent as provided by law; (ii) a recorded restrictive covenant that runs with the land and was recorded before January 1 of the year the related tax lien arose; and (iii) any valid easement of record recorded before January 1 of the year the related tax lien arose;

(12) Such Texas Tax Lien Assets are not subject to a foreign government’s diplomatic immunity from enforcement or bilateral treaty with the United States of America;

(13) No Texas Tax Lien Document relating to such Texas Tax Lien or any other instrument that constitutes or evidences such Texas Tax Lien has any marks or notations indicating that it has been pledged, assigned or otherwise conveyed to any Person other than the Depositor, the Issuer or the Indenture Trustee (on behalf of the Noteholders), unless such Person's interest in such Texas Tax Lien has been assigned directly or indirectly to the Issuer or the Indenture Trustee;

(14) With respect only to the Initial Texas Tax Liens as of the Closing Date, the Indenture Trustee has received evidence that the related (i) Texas Tax Lien Certificate, (ii) Tax Lien Contract (including any modified Tax Lien Contract in the case of a Subsequent Texas Tax Lien) and (iii) document(s) evidencing the assignment of the related Texas Tax Lien Assets to the Issuer, in each case, have been recorded with the related recording office. With respect to any Substitute Texas Tax Lien or Subsequent Texas Tax Lien, within three (3) days of the related Transfer Date the Depositor will submit (or cause to be submitted) to the related recording office for recording, and within 90 days of the related Transfer Date, the Indenture Trustee has received evidence of recording, the related (i) Texas Tax Lien Certificate, (ii) Tax Lien Contract (including any modified Tax Lien Contract in the case of a Subsequent Texas Tax Lien) and (iii) document(s) evidencing the assignment of the related Texas Tax Lien Assets to the Issuer;

(15) Each Payment Agreement has been delivered to the Indenture Trustee in either original, photocopy or electronic form (which may be satisfied by providing electronic access to the Servicer's files);

(16) The Transaction Documents create a valid and continuing security interest (as defined in the applicable UCC) in such Texas Tax Lien Assets in favor of the Indenture Trustee (on behalf of the Noteholders), which security interest is prior to all other Liens and adverse claims, and is enforceable as such against creditors of the Issuer;

(17) The Depositor will file or will cause the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect the assignments of such Texas Tax Lien Assets to the Issuer and the Indenture Trustee's security interest (on behalf of the Noteholders) in such Texas Tax Lien Assets granted pursuant to the Transaction Documents, and all financing statements referred to in this paragraph contain a statement that: "A purchase of or security interest in any collateral described in this financing statement will violate the rights of the Indenture Trustee (on behalf of the Noteholders);"

(18) To the Depositor's knowledge, the Issuer has not authorized the filing of, and is not aware of any financing statements against it, that include a description of collateral covering such Texas Tax Lien Assets, other than any financing statement relating to the security interest granted to the Indenture Trustee (on behalf of the Noteholders) under the Transaction Documents or that has been terminated;

(19) The Depositor has not authorized the filing of, and is not aware of any financing statements against it, that include a description of collateral covering such Texas Tax Lien Assets, other than any financing statement relating to the security interest granted to the Issuer under the Transfer Agreement or that has been terminated;

(20) Such Texas Tax Lien is payable in United States Dollars;

(21) All Collections with respect to such Texas Tax Lien Assets are required to be paid by the related Property Owner directly into the Lockbox Account;

(22) At the time of acquisition thereof by the Depositor, such Texas Tax Lien Assets satisfied in all material respects all applicable requirements of the Seller's acquisition criteria (or, with respect to Texas Tax Lien Assets directly or indirectly acquired by the Seller from an Originator, in accordance with the requirements of the related purchase contract), and since the date of such purchase such Texas Tax Lien Assets have been serviced in accordance with the Servicer's collection policies in all material respects and such Texas Tax Lien Assets are not, or were not at such time required to be, charged-off pursuant to such policies;

(23) The Property Owner relating to such Texas Tax Lien is not the United States, any State, any political subdivision of a State, any agency or instrumentality of the United States or any State or political subdivision thereof or any entity exercising executive, legislative, judicial, regulatory or administrative functions of government, unless due to foreclosure on a Property by a United States government-sponsored enterprise or the United States Department of Housing and Urban Development;

(24) The Depositor has full right and authority to sell and/or contribute such Texas Tax Lien Assets to the Issuer; and

(25) To the Depositor's knowledge, no Property Owner has filed for bankruptcy and no Texas Tax Lien has been discharged as a result of a bankruptcy proceeding.

On the related Transfer Date, the Depositor will also be required to make the following representations and warranties to the Issuer with respect to each Subsequent Texas Tax Lien:

(26) The Lien-to-Value Ratio for such Subsequent Texas Tax Lien (for the avoidance of doubt, as calculated on a consolidated basis with respect to each initial Texas Tax Lien related thereto) is no greater than 50%;

(27) the Redemptive Value for such Subsequent Texas Tax Lien (for the avoidance of doubt, as calculated on a consolidated basis with respect to each initial Texas Tax Lien related thereto) is no less than $750;

(28) the remaining term under the Payment Agreement related to such Subsequent Texas Tax Lien is no greater than ten years and in any event not in excess of the Stated

Maturity Date. Notwithstanding the foregoing, Subsequent Texas Tax Liens with remaining terms in excess of ten years but no greater than twenty years will be permitted provided that the aggregate Redemptive Value of such Subsequent Texas Tax Liens as of the related Transfer Date does not exceed $4,245,302 (3.0% of the aggregate Redemptive Value of the Texas Tax Liens as of the Initial Cut-Off Date); and

(29) the Texas Tax Lien Interest Rate for such Subsequent Texas Tax Lien is no less than 8.99% per annum.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and the regulations promulgated and the rulings issued thereunder.

"Errors" shall have the meaning specified in Section 3.01(g) of the Servicing Agreement.

"Euroclear" shall mean Euroclear Bank S.A./N.V., as operator of The Euroclear System, or its successor in such capacity.

"Event of Default" shall have the meaning specified in Section 5.01 of the Indenture.

"Expenses" shall have the meaning specified in Section 7.2 of the Trust Agreement.

"Expense Reserve Account" shall mean the account established and maintained by the Indenture Trustee pursuant to Section 3.02(b) of the Indenture.

"Expense Reserve Required Amount" shall have the meaning specified in Section 3.02(b) of the Indenture.

"Foreclosure Property Purchase Agreement" shall mean that certain Foreclosure Property Purchase Agreement dated as of May 6, 2014 between Propel and the Issuer.

"Foreclosure Purchase Price" shall mean with respect to any Property or Properties purchased on a foreclosure sale date, a price equal to the Redemptive Value of the related Texas Tax Lien(s) immediately prior to foreclosure plus all unreimbursed Advances and accrued interest thereon at the Advance Rate, plus unreimbursed expenses incurred by the Servicer and the Issuer (without duplication) in connection with the sale of such Property or Properties.

"GAAP" shall mean generally accepted accounting principles as promulgated by the Financial Accounting Standards Board, consistently applied, as in effect from time to time.

"Global Note" shall have the meaning specified in Section 2.02 of the Indenture.

"Governmental Authority" shall mean any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Grant" shall mean to grant, bargain, convey, assign, transfer, mortgage, pledge, create and grant a security interest in and right of set-off against, deposit, set over and confirm.

"Holder" or "Noteholder" shall mean a holder of any Note.

"Indemnification Cap" shall mean, with respect to all indemnity payments and other expenses and fees due and owing with respect to each of the Owner Trustee, the Indenture Trustee, the Back-up Servicer and the Servicer pursuant to clauses (1), (2)(C) and (2)(D) of the Priority of Payments, prior to the occurrence of an Event of Default, collectively, an aggregate annual maximum amount of $500,000. After the occurrence of an Event of Default that is continuing and the Indenture Trustee has initiated proceedings or actions in furtherance of the liquidation of the Collateral, the Indemnification Cap will continue to apply to indemnity payments owed to the Back-up Servicer and the Servicer but will not apply to indemnity payments owed to the Indenture Trustee or the Owner Trustee.

"Indemnified Amounts" shall have the meaning specified in Section 7.1 of the Purchase Agreement.

"Indemnified Parties" shall have the meaning specified in Section 7.2 of the Trust Agreement.

"Indenture" shall mean the Indenture, dated as of May 6, 2014, between the Issuer, and the Indenture Trustee, as such agreement may from time to time be amended, supplemented or otherwise modified in accordance with its terms.

"Indenture Trustee" shall mean Citibank, N.A. or any successor thereof, acting not in its individual capacity, but solely as indenture trustee under the Indenture.

"Indenture Trustee Expenses" shall mean reasonable out-of-pocket expenses of the Indenture Trustee incurred in connection with performance of the Indenture Trustee's obligations and duties under the Indenture.

"Indenture Trustee Fee" shall mean a per annum fee of $12,500 payable to the Indenture Trustee in monthly installments on each Payment Date. The Indenture Trustee Fee for the first Payment Date will be pro-rated to reflect the number of days from the Closing Date to the first Payment Date.

"Initial Cut-Off Date" shall mean the close of business on February 28, 2014.

"Initial Note Balance" shall mean with respect to the Notes $134,000,000.

"Initial Purchasers" shall mean Citigroup Global Markets, Inc. and Wells Fargo Securities, LLC.

"Initial Texas Tax Liens" shall mean the Texas Tax Liens listed on the Texas Tax Liens Schedule as sold by the Depositor to the Issuer and simultaneously pledged by the Issuer to the Indenture Trustee on the Closing Date.

"Instrument of Release" means a release of lien prepared by the Servicer upon the redemption in full of any Texas Tax Lien.

"Insurance Proceeds" shall mean proceeds received by the Servicer from the payment of any insurance claims on any REO Property that are not used towards the repair or restoration of such property.

"Intended Tax Characterization" shall have the meaning specified in Section 4.02(b) of the Indenture.

"Interest Accrual Period" shall mean, with respect to any Payment Date, the period beginning on the prior Payment Date and ending on the day prior to such Payment Date, except that the first Interest Accrual Period will begin on the Closing Date and continue through June 15, 2014.

"IRS" shall have the meaning specified in Section2.10(b) of the Trust Agreement.

"Issuer" shall mean PFS Tax Lien Trust 2014-1, a Delaware statutory trust.

"Issuer Order" shall mean a written order or request delivered to the Indenture Trustee and signed in the name of the Issuer by an Authorized Officer.

"KBRA" shall mean Kroll Bond Rating Agency.

"Lien" shall mean any mortgage, pledge, hypothecation, assignment for security, security interest, claim, participation, encumbrance, levy, lien or charge.

"Lien Administration Expenses" shall mean all expenses (exclusive of overhead expenses) determined by the Servicer to be necessary or desirable in connection with performing its duties under the Servicing Agreement, the pursuit of any Collections or the foreclosure of, or other realization upon, the Texas Tax Lien Assets, the operation and maintenance of REO Properties, and the protection of the interests and enforcement of the rights of the Issuer and the Indenture Trustee in any matter relating to their duties under the Servicing Agreement.

"Lien-to-Value Ratio" shall mean, with respect to any Texas Tax Lien as of any date of determination, a fraction, expressed as a percentage, (i) the numerator of which is the sum of (a) the Redemptive Value in respect of such Texas Tax Lien, (b) the Redemptive Value in respect of any other Texas Tax Lien (including, for the avoidance of doubt, Subsequent Texas Tax Liens) owned by the Issuer relating thereto, and (c) the redemptive amount at the time of origination of any Tax Lien not owned by the Issuer that relates to a Property or Properties subject to such Texas Tax Lien, and (ii) the denominator of which is the value of such Property or Properties as listed in the appraisal district records of the county in which such Property or Properties are located as of a date not to exceed thirty (30) days prior to the most recent origination date of any Texas Tax Lien (including Subsequent Texas Tax Liens) relating to such Property or Properties.

"Liquidation" shall mean with respect to any Defaulted Texas Tax Lien, the sale or compulsory disposition of the related Property, following foreclosure, other enforcement action or

the taking of a deed-in-lieu of foreclosure, to a Person other than the Servicer or the Issuer and the delivery of a bill of sale or the recording of a deed of conveyance with respect thereto, as applicable.

"Liquidation Expenses" shall mean, with respect to a Defaulted Texas Tax Lien, the out-of-pocket expenses (exclusive of overhead expenses) incurred by the Servicer in connection with the performance of its obligations under the Servicing Agreement, including (i) any foreclosure and other repossession expenses incurred with respect to such Texas Tax Lien, and (ii) any other fees and expenses reasonably applied or allocated in the ordinary course of business with respect to the Liquidation of such Defaulted Texas Tax Lien; provided, however, that in each case, any fees, expenses and commissions must be commercially reasonable and incurred in accordance with the Servicing Standard.

"Liquidation Proceeds" shall mean, with respect to the Liquidation of any Defaulted Texas Tax Lien, the amounts actually received by the Servicer in connection with such Liquidation.

"Lockbox Account" shall mean that certain deposit account (Account No. 1453624381) maintained by the Depositor with the Bank of America, N.A. and subject to the Lockbox Account Control Agreement.

"Lockbox Account Control Agreement" shall mean that certain Deposit Account Control Agreement dated as of May 6, 2014, among the Issuer, the Indenture Trustee, the Depositor and the Lockbox Bank.

"Lockbox Bank" shall mean Bank of America, N.A.

"Material Adverse Effect" shall mean a material adverse effect on the ability of the Seller, the Depositor or the Issuer, as applicable, to perform their respective obligations under the Transaction Documents.

"Misdirected Deposits" shall mean such payments that have been deposited into the Lockbox Account or into the Collection Account in error, including payments in respect of Texas Tax Liens that have been repurchased or replaced in accordance with the provisions of any Transaction Document.

"Monthly Servicer Report" shall have the meaning specified in Section 1.09 of the Servicing Agreement.

"Nonrecoverable Advance" shall mean any Advance made by the Servicer in respect of a Texas Tax Lien or REO Property that in the good faith judgment of the Servicer and consistent with its policies and procedures will not ultimately generate Collections in an amount greater than such Advance (together with any interest accrued thereon).

"Noteholder" shall have the meaning set forth in the definition of Holder herein.

"Noteholder Majority" shall mean Noteholders holding at least 50.1% of the Notes Outstanding.

"Note Owner" shall mean, with respect to a Global Note, the Person who is the beneficial owner of such Global Note, as reflected on the books of the Depository or on the books of a Person maintaining an account with such Depository (directly or as an indirect participant, in accordance with the rules of such Depository).

"Note Purchase Agreement" shall mean that note purchase agreement, dated April 29, 2014, between the Propel Parties and the Initial Purchasers.

"Note Rate" shall mean an annual rate equal to 1.44%.

"Note Register" shall have the meaning specified in Section 2.04(a) of the Indenture.

"Note Registrar" shall have the meaning specified in Section 2.04(a) of the Indenture.

"Notes" shall mean the Issuer's 1.44% Texas Tax Lien Collateralized Notes, Series 2014-1

"Obligor" shall mean a Person obligated to make payments under a Payment Agreement related to a Texas Tax Lien.

"Officer's Certificate" shall mean a certificate executed by a Responsible Officer of the related party.

"Opinion of Counsel" shall mean a written opinion of counsel, in each case reasonably acceptable to the addressees thereof.

"Optional Redemption" shall mean on any Payment Date when the aggregate Outstanding Note Balance is less than 15% of the aggregate Outstanding Note Balance as of the Closing Date, the exercise by (i) the Issuer of its option to redeem all of the Notes, or (ii) the Depositor of its option to purchase all (but not less than all) of the remaining Texas Tax Lien Assets and thereby cause the Issuer to effect early redemption of all of the Notes.

"Original Trust Agreement" shall have the meaning specified in the preamble to the Trust Agreement.

"Outstanding" shall mean, with respect to the Notes, as of any date of determination, all Notes theretofore authenticated and delivered under the Indenture except:

(a) Notes theretofore canceled by the Indenture Trustee or delivered to the Indenture Trustee for cancellation;

(b) Notes, or portions thereof, for whose payment money in the necessary amount has been theretofore irrevocably deposited with the Indenture Trustee in trust for the holders of such Notes for the payment of principal pursuant to the Indenture; and

(c) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented

that any such Notes are held by a Person in whose hands the Note is a valid obligation; provided, however, that in determining whether the holders of the requisite percentage of the Outstanding Note Balance have given any request, demand, authorization, direction, notice, consent, or waiver hereunder, Notes owned by the Issuer or any Affiliate of the Issuer or any entity consolidated in Propel's consolidated financial statements shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Notes that a Responsible Officer of the Indenture Trustee actually has notice are so owned shall be so disregarded.

"Outstanding Note Balance" shall mean as of any date of determination, the Initial Note Balance of the Notes less the sum of all principal payments actually distributed in respect of the Notes as of such date, provided, however, to the extent that for purposes of consents, approvals, voting or other similar act of the Noteholders under any of the Transaction Documents, "Outstanding Note Balance" shall exclude Notes which are held by the Issuer or any Affiliate of the Issuer or any entity consolidated in Propel's consolidated financial statements.

"Owner" shall mean the Depositor, or any subsequent owner of the beneficial interest in the Issuer.

"Owner Trustee" shall mean Wilmington Trust, National Association or any successor thereof, acting not in its individual capacity but solely as trustee under the Trust Agreement.

"Owner Trustee Fee" shall mean a per annum fee of $4,000 payable to the Owner Trustee in monthly installments on each Payment Date. The Owner Trustee Fee for the first Payment Date will be pro-rated to reflect the number of days from the Closing Date to the first Payment Date.

"Partner" shall have the meaning specified in Section 2.10(b) of the Trust Agreement.

"Payment Agreement" shall mean a property tax payment agreement between the related Property Owner and either (i) Propel (or an affiliate thereof) or (ii) a third party who assigned such Payment Agreement to Propel (or an affiliate thereof).

"Payment Date" shall mean the 15th day of each calendar month, or, if such date is not a Business Day, then the next succeeding Business Day, commencing in June, 2014.

"Payment Date Report" shall have the meaning specified in Section 3.04 of the Indenture.

"Person" shall mean an individual, general partnership, limited partnership, limited liability partnership, corporation, business trust, joint stock company, limited liability company, trust, unincorporated association, joint venture, Governmental Authority, or other entity of whatever nature.

"Predecessor Servicer Work Product" shall have the meaning specified in Section 3.01(g) of the Servicing Agreement.

"Prepayment Penalties" shall mean fees and/or penalties received with respect to a payment made with respect to a Texas Tax Lien prior to its scheduled payment date.

"Priority of Payments" shall have the meaning specified in Section 3.03(a) of the Indenture.

"Processing Charges" shall mean any amounts received with respect to a Texas Tax Lien in respect of processing fees, non-sufficient fees or late fees.

"Propel" shall mean Propel Financial Services, LLC, a Texas limited liability company.

"Propel Parties" shall mean the Issuer, the Depositor and Propel.

"Property" shall mean the parcel of real estate subject to a Tax Lien.

"Property Owner" shall mean the owner of a Property.

"Property Owner's Affidavit" shall mean a sworn document authorizing transfer of tax lien executed by the related Property Owner.

"Purchase Agreement" shall mean the agreement, dated as of May 6, 2014, between the Seller and the Depositor pursuant to which the Seller sells the Texas Tax Liens to the Depositor.

"Purchase Price" shall have the meaning specified in Section 2.3 of the Purchase Agreement.

"Qualified Institutional Buyer" shall have the meaning set forth in Rule 144A under the Securities Act.

"Qualified Purchaser" shall have the meaning set forth in the Investment Company Act of 1940, as amended.

"Rating Agencies" shall mean S&P and KBRA, or their permitted successors and assigns.

"Rating Agency Condition" shall mean, with respect to any action taken or to be taken under the Transaction Documents, that each Rating Agency shall have notified the Issuer and the Indenture Trustee in writing that such action will not result in a reduction, downgrade, suspension or withdrawal of the rating then assigned the Notes by such Rating Agency.

"Record Date" shall mean, with respect to any Payment Date, (i) for Notes in book-entry form, the close of business on the Business Day immediately preceding such Payment Date

and (ii) for Definitive Notes, the close of business on the last Business Day of the month immediately preceding the month in which such Payment Date occurs.

"Redemption Date" shall have the meaning specified in Section 9.01 of the Indenture.

"Redemption Price" shall mean, with respect to the exercise of the Optional Redemption, the sum of (i) the aggregate Outstanding Note Balance plus all unpaid Accrued Interest thereon through the redemption date and (ii) all amounts due and owing to the Servicer, the Owner Trustee, the Indenture Trustee, and the Back-up Servicer.

"Redemptive Value" shall mean with respect to any Texas Tax Lien as of any date, either (x) the sum of (i) the outstanding principal balance of the Texas Tax Lien as set forth in the related Payment Agreement and any Subsequent Texas Tax Lien owned by the Issuer relating thereto, (ii) all accrued interest thereon and (iii) all outstanding Lien Administration Expenses with respect thereto (to the extent such Lien Administration Expenses can be imposed consistent with the Texas Statutes) and, without duplication, any outstanding special assessments, penalties, costs and fees imposed under the Texas Statutes or (y) in the case of a Texas Tax Lien that has been the subject of a judicial modification in a bankruptcy proceeding, the amount fixed by the applicable bankruptcy court.

"Regulation S" shall mean Rules 901 through 905 of the Securities Act.

"Regulation S Global Note" shall have the meaning specified in Section 2.02 of the Indenture.

"Regulation S Temporary Global Note" shall have the meaning specified in Section 2.02 of the Indenture.

"Regulation S Permanent Global Note" shall have the meaning specified in Section 2.02 of the Indenture.

"Related Rights" shall have the meaning specified in Section 2.1(a) of the Purchase Agreement.

"Relevant UCC" shall mean the Uniform Commercial Code as in effect in the applicable jurisdiction.

"REO Proceeds" shall mean, with respect to an REO Property, all proceeds received from the management or sale thereof (including but not limited to operating income, Condemnation Proceeds and Insurance Proceeds).

"REO Properties" will consist of any and all Properties, legal title to which has been acquired by or on behalf of the Issuer after the related Cut-Off Date through foreclosure on the Texas Tax Liens or otherwise.

"REO Purchase Price" shall mean with respect to any REO Property will equal (i) the Redemptive Value of the related Texas Tax Lien immediately prior to foreclosure plus (ii) all

unreimbursed Advances and accrued interest thereon, plus expenses incurred by the Servicer and the Issuer (without duplication) in accordance with the Servicer's collection policies in connection with the safekeeping, maintenance, and sale of such REO Property minus (iii) any income received by the Issuer from such REO Property.

"Reporting Date" means with respect to each Monthly Servicer Report, the day that is two (2) Business Days prior to each Payment Date.

"Repurchase Price" shall have the meaning specified in Section 2.3(b) of the Purchase Agreement.

"Responsible Officer" shall mean (a) when used with respect to the Indenture Trustee or to the Owner Trustee, as applicable, any officer assigned to its Corporate Trust Division (or any successor thereto), including any Managing Director, Vice President, Assistant Vice President, Secretary, Assistant Secretary, Assistant Treasurer, any trust officer or any other officer of the Indenture Trustee or the Owner Trustee, as applicable, customarily performing functions similar to those performed by any of the above designated officers, in each case having direct responsibility for the administration of this Indenture and the other Transaction Documents to which the Indenture Trustee or the Owner Trustee, as applicable, is a party and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject, (b) when used with respect to the Servicer, any officer responsible for the administration or management of the Servicer's servicing department, and (c) with respect to any other Person, the Chairman of the Board, the President, a Vice President, the Treasurer, the Secretary, an Assistant Secretary, or the manager of such Person.

"Required Interest Reserve Amount" shall mean $100,000.

"Restricted Period" shall mean the 40-day period prescribed by Regulation S commencing on the later of (a) the date upon which Notes are first offered to Persons other than the Initial Purchasers and any other distributor (as such term is defined in Regulation S) of the Notes, and (b) the Closing Date.

"Rule 144A Global Note" shall have the meaning specified in the Section 2.02 of the Indenture.

"S&P" shall mean Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Secured Parties" shall mean the Noteholders and the Indenture Trustee.

"Seller" shall mean Propel.

"Servicer" initially shall mean Propel and its permitted successors and assigns or such other successor servicer as provided in the Indenture.

"Servicer Event of Default" shall have the meaning specified in Section 1.08(a) of the Servicing Agreement.

"Servicer Representative" shall mean the Servicer's internal auditors, chief financial officer, treasurer or designee of the chief financial officer or treasurer.

"Servicing Agreement" shall mean the Servicing Agreement dated as of May 6, 2014, among the Issuer, the Servicer, the Back-Up Servicer and the Indenture Trustee.

"Servicing Fee" shall mean for any Payment Date, the product of one-twelfth of 1.25% and the Redemptive Value of the Texas Tax Liens as of the beginning of the related Collection Period, subject to an annual minimum of $1,800,000. The Servicing Fee for the first Payment Date will be pro-rated to reflect the number of days from the Closing Date to the first Payment Date.

"Servicing Officer" shall mean those officers of the Servicer involved in, or responsible for, the administration and servicing of the Texas Tax Liens, as identified on the list of Servicing Officers furnished by the Servicer to the Indenture Trustee and the Noteholders from time to time.

"Servicing Policies" means the policies and practices of the Servicer then in effect. The Servicing Policies of the initial Servicer in effect on the Closing Date is attached as Exhibit A to the Servicing Agreement.

"Servicing Standard" shall have the meaning specified in Section 1.04 of the Servicing Agreement.

"Servicing Transition" means the transition of the servicing of the Texas Tax Lien Assets from the initial Servicer to the Back-Up Servicer in the event of the Servicer's termination or resignation.

"Similar Law" shall have the meaning specified in the definition of Benefit Plan above.

"Solvent" shall mean with respect to any Person that as of the date of determination both (A)(i) the then fair saleable value of the property of such Person is (y) greater than the total amount of liabilities (including contingent liabilities) of such Person, and (z) not less than the amount that will be required to pay the probable liabilities on such Person's then existing debts as they become absolute and matured considering all financing alternatives and potential asset sales reasonably available to such Person; (ii) such Person's capital is not unreasonably small in relation to its business or any contemplated or undertaken transaction; and (iii) such Person does not intend to incur, or believe (nor should it reasonably believe) that it will incur debts beyond its ability to pay such debts as they become due; and (B) such person is "solvent" within the meaning given that term and similar terms under applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Stated Maturity Date" shall mean the Payment Date occurring in May, 2029.

"Statutory Trust Statute" shall have the meaning specified in Section 2.5 of the Trust Agreement.

"Subsequent Cut-Off Date" with respect to a Subsequent Texas Tax Lien or a Substitute Texas Tax Lien shall mean the date of execution of the related Payment Agreement; provided that such date is on or prior to the related Transfer Date.

"Subsequent Texas Tax Liens" shall mean Texas Tax Liens arising subsequent to an initial Texas Tax Lien and securing unpaid real property taxes, assessments and other charges with respect to a Property subject to such initial Texas Tax Lien and evidenced by a new Tax Lien Certificate. Subsequent Texas Tax Liens may be (i) acquired as a new Texas Tax Lien pursuant to new Texas Tax Lien Documents or (ii) added to a pre-existing Texas Tax Lien pursuant to amendments or other modifications to the related Texas Tax Lien Documents, or (iii) acquired pursuant to a Tax Lien Certificate issued pursuant to Section 33.445 of the Texas Tax Code.

"Subsequent Texas Tax Lien Account" shall mean the account established and maintained by the Indenture Trustee pursuant to Section 3.02(c) of the Indenture.

"Subsequent Texas Tax Lien Account Maximum Amount" shall mean with respect to each Payment Date the lesser of (i) 10% of the aggregate Redemptive Value of the Texas Tax Liens as of the end of the preceding calendar month, and (ii) $42,453,024 less the aggregate Redemptive Amount of Subsequent Texas Tax Liens previously transferred to the Issuer by the Depositor and not repurchased by the Depositor in accordance with the provisions of the Transfer Agreement.

"Subsequent Texas Tax Lien Criteria" shall mean

1. the Lien-to-Value Ratio for such Subsequent Texas Tax Lien (for the avoidance of doubt, as calculated on a consolidated basis with respect to each initial Texas Tax Lien related thereto) is no greater than 50%;

2. the Redemptive Value for such Subsequent Texas Tax Lien (for the avoidance of doubt, as calculated on a consolidated basis with respect to each initial Texas Tax Lien related thereto) is no less than $750;

3. the remaining term under the Payment Agreement related to such Subsequent Texas Tax Lien is no greater than ten years and in any event not in excess of the Stated Maturity Date. Notwithstanding the foregoing, Subsequent Texas Tax Liens with remaining terms in excess of ten years but no greater than twenty years will be permitted provided that the aggregate Redemptive Value of such Subsequent Texas Tax Liens as of the related Transfer Date does not exceed $4,245,302 (3.0% of the aggregate Redemptive Value of the Texas Tax Liens as of the Initial Cut-Off Date); and

4. the Texas Tax Lien Interest Rate for such Subsequent Texas Tax Lien is no less than 8.99% per annum.

"Subsequent Texas Tax Lien Notice" shall have the meaning specified in Section 4.07(a) of the Indenture.

"Substitute Texas Tax Lien" shall mean a Texas tax lien substituted by the Depositor for a Defective Texas Tax Lien in accordance with the provisions of the Transfer Agreement.

"Substitution Shortfall Amount" shall mean with respect to a substitution pursuant to Section 2.4(b) of the Purchase Agreement or Section 2.4(b) of the Transfer Agreement and, in each case, in accordance with Section 4.04(a) of the Indenture, an amount equal to the excess, if any, of (a) the Redemptive Value of the Texas Tax Lien being replaced as of the related Transfer Date, over (b) the Redemptive Value of the applicable Substitute Texas Tax Lien as of the related Transfer Date. If on any Transfer Date, one or more Substitute Texas Tax Liens are substituted for one or more Texas Tax Liens, the Substitution Shortfall Amount shall be determined as provided in the preceding sentence on an aggregate basis.

"Successor Servicer" shall mean the Back-Up Servicer and its permitted successors and assigns, upon succeeding to the responsibilities and obligations of the Servicer in accordance with the provisions of the Servicing Agreement.

"Taxing Unit" with respect to a Texas Tax Lien, the related local government taxing entity.

"Tax Lien" shall mean the special priority lien arising pursuant to Article VIII, Section 15, Texas Constitution on a Property or Properties.

"Tax Lien Contract" shall mean the contract with respect to the payment of the related Tax Lien entered into between the related Property Owner and either (i) Propel (or an affiliate thereof) or (ii) a third party who assigned such Payment Agreement to Propel (or an affiliate thereof)

"Texas Statutes" shall mean Chapter 32 of the Texas Tax Code, Chapter 351 of the Texas Finance Code and Chapter 89 of the Texas Administrative Code and any amendments thereto.

"Texas Tax Lien" shall mean the Tax Liens sold by the Seller to the Depositor and by the Depositor to the Issuer pursuant to the Purchase Agreement and the Transfer Agreement, respectively, on the Closing Date and thereafter, any Subsequent Texas Tax Liens and Substitute Texas Tax Liens transferred to the Issuer pursuant to the Purchase Agreement and the Transfer Agreement, together with the related Texas Tax Lien Documents and all related assets.

"Texas Tax Lien Assets" shall mean, collectively, the Texas Tax Liens, the Texas Tax Lien Documents, any related REO Properties and all related assets.

"Texas Tax Lien Certificate" shall mean a certified statement of transfer of tax lien executed by the tax collector for the related Taxing Unit.

"Texas Tax Lien Documents" shall mean with respect to a Texas Tax Lien, collectively the related Property Owner's Affidavit, Texas Tax Lien Certificate, Payment Agreement, Tax Lien Contract and any related assignments of any of the foregoing.

"Texas Tax Lien Document Files" shall have the meaning specified in Section 2.01 of the Servicing Agreement.

"Texas Tax Lien Interest Rate" means, with respect to any Texas Tax Lien, the per annum interest rate established for such Texas Tax Lien in the related Payment Agreement.

"Texas Tax Liens Schedule" shall mean with respect to any one or more Texas Tax Liens to be sold and conveyed by the Seller to the Depositor or by the Depositor to the Issuer on any date, the schedule (which may be in the form of a computer file) of such Texas Tax Liens, which shall be substantially in the form of Schedule I to the Purchase Agreement or Schedule I to the Transfer Agreement, as applicable.

"Transaction Documents" shall mean the Indenture, the Purchase Agreement, the Transfer Agreement, the Trust Agreement, the Servicing Agreement, the Note Purchase Agreement, the Lockbox Account Control Agreement, the Foreclosure Property Purchase Agreement and all other agreements, documents or instruments delivered in connection with the transactions contemplated thereby.

"Transfer Agreement" shall mean the agreement, dated as of May 6, 2014 between the Depositor and the Issuer pursuant to which the Depositor transfers the Texas Tax Liens to the Issuer.

"Transfer Date" shall mean, with respect to an Initial Texas Tax Lien, the Closing Date and with respect to any Subsequent Texas Tax Lien or Substitute Texas Tax Lien, the date upon which such Texas Tax Lien is conveyed to the Issuer.

"Transition Expenses" shall mean any reasonable documented costs and expenses (other than general overhead expenses) incurred by the Back-Up Servicer or the Indenture Trustee should it become the Successor Servicer as a direct consequence of the termination or resignation of the initial Servicer and the transition of the duties and obligations of the initial Servicer to the Successor Servicer.

"Trust" shall have the meaning specified in Section 2.1 of the Trust Agreement.

"Trust Accounts" shall mean collectively, the Collection Account, the Expense Reserve Account, the Working Capital Reserve Account and the Subsequent Texas Tax Lien Account.

"Trust Agreement" shall mean that certain amended and restated trust agreement, dated as of May 6, 2014, between the Depositor and the Owner Trustee.

"Trust Estate" shall have the meaning specified in the Granting Clause of the Indenture.

"UCC" shall mean the Uniform Commercial Code as from time to time in effect in the applicable jurisdiction or jurisdictions.

"Working Capital Reserve Account" shall mean the account established and maintained by the Indenture Trustee pursuant to Section 3.02(d) of the Indenture.

"Working Capital Reserve Required Amount" shall mean $150,000.

ENCORE CAPITAL GROUP, INC.
RESTRICTED STOCK GRANT NOTICE
(2013 INCENTIVE COMPENSATION PLAN)

Encore Capital Group, Inc. (the ***"Company"***), pursuant to its 2013 Incentive Compensation Plan (the ***"Plan"***), hereby awards to Participant a Restricted Stock Award for the number of shares of the Company's stock set forth below (the ***"Award"***). The Award is subject to all of the terms and conditions as set forth herein and in the Plan and the Restricted Stock Agreement, both of which are attached hereto and incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan or the Restricted Stock Agreement. In the event of any conflict between the terms in the Award and the Plan, the terms of the Plan shall control.

Participant:	Paul Grinberg
Date of Grant:	March 7, 2014
Vesting Commencement Date:	See Vesting Schedule below
Number of Shares Subject to Award:	22,591
Consideration:	Participant's Services
Vesting Schedule:	100% of the shares will Vest on December 31, 2016 In addition, the Vesting of the shares may accelerate in the sole discretion of the Committee and upon certain events described in the Restricted Stock Agreement. Notwithstanding the foregoing, Vesting shall terminate upon the Participant's termination of Continuous Service.

Additional Terms/Acknowledgements: Participant acknowledges receipt of, and understands and agrees to, this Restricted Stock Grant Notice, the Restricted Stock Agreement and the Plan. Participant further acknowledges that as of the Date of Grant, this Restricted Stock Grant Notice, the Restricted Stock Agreement and the Plan set forth the entire understanding between Participant and the Company regarding the Award and supersede all prior oral and written agreements on that subject.

Participant further agrees that the Company may deliver by e-mail all documents relating to the Plan or this Award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). Participant also agrees that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify Participant by e-mail.

ENCORE CAPITAL GROUP, INC.:	**PARTICIPANT:**
By: /s/ Kenneth A. Vecchione	/s/ Paul Grinberg Paul Grinberg
Kenneth A. Vecchione	
Title: Chief Executive Officer	

ATTACHMENTS: Restricted Stock Agreement

ATTACHMENT I

ENCORE CAPITAL GROUP, INC.
2013 INCENTIVE COMPENSATION PLAN

RESTRICTED STOCK AGREEMENT – EXECUTIVE

Pursuant to the Restricted Stock Grant Notice ("***Grant Notice***") and this Restricted Stock Agreement and in consideration of your services, Encore Capital Group, Inc. (the "***Company***") has awarded you a restricted stock award (the "***Award***") under its 2013 Incentive Compensation Plan (the "***Plan***") for the number of shares of the Company's Stock as indicated in the Grant Notice. Your Award is granted to you effective as of the Date of Grant set forth in the Grant Notice for this Award. Defined terms not explicitly defined in this Restricted Stock Agreement shall have the same meanings given to them in the Plan. In the event of any conflict between the terms in this Restricted Stock Agreement and the Plan, the terms of the Plan shall control.

In consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto do hereby agree that the details of your Award are as follows:

1. VESTING.

(a) In General. Subject to the limitations contained herein, your Award will Vest in accordance with the Vesting schedule provided in the Grant Notice, provided that Vesting will cease upon the termination of your Continuous Service. For purposes of this Award, ***"Continuous Service"*** means that your service with the Company or an Affiliate, whether as an employee, director or consultant, is not interrupted or terminated. A change in the capacity in which you render service to the Company or an Affiliate as an employee, consultant or director or a change in the entity for which you render such service, provided that there is no interruption or termination of your service with the Company or an Affiliate, shall not terminate your Continuous Service. For example, a change in status from an employee of the Company to a consultant to an Affiliate or to a director shall not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or its compensation committee or any officer designated by the Board or its compensation committee, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of Vesting to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to you, or as otherwise required by law. For purposes of this Restricted Stock Agreement, "Affiliate" means: (i) any Subsidiary; and (ii) any other entity in which the Company has an equity interest or significant business relationship and which has been designated as an "Affiliate" by the Committee for purposes of the Plan.

(b) Vesting Acceleration. Notwithstanding the foregoing, in the event (i) of the termination of your Continuous Service to the Company as a result of your death or Disability, or (ii) your employment is terminated without Cause (as defined below) or you resign your employment for Good Reason (as defined below) prior to December 31, 2016, the Award shall be deemed to be fully (100%) Vested and eligible for settlement as of immediately prior to your death or Disability or as of your termination of employment.

For purposes of this Restricted Stock Agreement, "Cause" and "Good Reason" are both defined as such terms are defined in your severance protection letter agreement with the Company dated March 11, 2009, as amended on January 9, 2013 and further amended on February 24, 2014.

2. NUMBER OF SHARES. The number of shares subject to your Award may be adjusted from time to time for capitalization adjustments, as provided in the Plan.

3. SECURITIES LAW COMPLIANCE. You may not be issued any shares under your Award unless the shares are either: (i) then registered under the Securities Act of 1933, as amended; or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act of 1933, as amended. Your Award also must comply with other applicable laws and regulations governing the Award, and you will not receive such shares if the Company determines that such receipt would not be in material compliance with such laws and regulations.

4. LIMITATIONS ON TRANSFER. Your Award is not transferable, except by will or by the laws of descent and distribution. In addition to any other limitation on transfer created by applicable securities laws, you agree not to assign, hypothecate, donate, encumber or otherwise dispose of any interest in any of the shares of Stock subject to the Award until the shares are Vested in accordance with this Restricted Stock Agreement. After the shares have Vested, you are free to assign, hypothecate, donate, encumber or otherwise dispose of any interest in such shares provided that any such actions are in compliance with the provisions herein and applicable securities laws.

5. DIVIDENDS. You shall be entitled to receive payments equal to any cash dividends and other distributions paid with respect to the shares covered by your Award, provided that such distributions shall be converted into additional shares covered by the Award. If such distributions are paid in cash, you shall be credited with additional shares covered by the Award in an amount equal to (i) the amount of the dividends or other distributions paid on that number of shares equal to the aggregate number of shares covered by the Award as of that date divided by (ii) the Fair Market Value of a share as of such date. The additional shares credited shall be subject to the same Vesting and forfeiture restrictions as the shares covered by the Award with respect to which they relate.

6. RESTRICTIVE LEGENDS. The shares issued under your Award shall be endorsed with appropriate legends determined by the Company.

7. AWARD NOT A SERVICE CONTRACT.

(a) Your Continuous Service with the Company or an Affiliate is not for any specified term and may be terminated by you or by the Company or an Affiliate at any time, for any reason, with or without cause and with or without notice. Nothing in this Restricted Stock Agreement (including, but not limited to, the Vesting of your Award pursuant to the schedule set forth in the Grant Notice), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Restricted Stock Agreement or the Plan shall: (i) confer upon you any right to continue in the employ of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; (iii) confer any right or benefit under this Restricted Stock Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Restricted Stock Agreement or Plan; or (iv) deprive the Company of the right to terminate you at will and without regard to any future Vesting opportunity that you may have.

(b) By accepting this Award, you acknowledge and agree that the right to continue Vesting in the Award pursuant to the schedule set forth in the Grant Notice is earned only by continuing as an employee, director or consultant at the will of the Company (not through the act of being hired, being granted this Award or any other award or benefit) and that the Company has the right to reorganize, sell, spin-out or otherwise restructure one or more of its businesses or Affiliates at any time or from time to time, as it deems appropriate (a "reorganization"). You further acknowledge and agree that such a reorganization could result in the termination of your Continuous Service, or the termination of Affiliate status of your employer and the loss of benefits available to you under this Restricted Stock Agreement, including but not limited to, the termination of the right to continue Vesting in the Award. You further acknowledge and agree that this Restricted Stock Agreement, the Plan, the transactions contemplated hereunder and the Vesting schedule set forth herein or any covenant of good faith and fair dealing that may be found implicit in any of them do not constitute an express or implied promise of continued engagement as an employee or consultant for the term of this Restricted Stock Agreement, for any period, or at all, and shall not interfere in any way with your right or the Company's right to terminate your Continuous Service at any time, with or without cause and with or without notice.

8. WITHHOLDING OBLIGATIONS.

(a) On or before Vesting of the shares pursuant to your Award, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and/or any other amounts payable to you, provided that any such withholding will not be in excess of the minimum statutory withholding requirement, and otherwise agree to make adequate provision for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with your Award. If permissible under applicable law, the Company may, in its sole discretion: (i) sell or arrange for the sale, on your behalf, of shares acquired by you to meet

the withholding obligation and/or (ii) withhold in shares, provided that only the amount of shares necessary to satisfy the minimum withholding amount are withheld. The Company also reserves the right to require that you assume liability for any tax- and/or social insurance-related charges that may otherwise be due by the Company or an Affiliate with respect to the Award, if the Company determines in its sole discretion that such charges may legally be transferred to you. To the extent that liability for any such charges is transferred to you, such charges will be subject to the applicable withholding methods set forth in this Section 8.

(b) Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to remove the restrictive legends from the shares of Stock subject to your Award.

9. NOTICES. Any notices provided for in your Award or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

10. MISCELLANEOUS.

(a) The rights and obligations of the Company under your Award shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) For purposes of your personal tax planning, you may make an election under Section 83(b) of the Code within 30 days of the date of grant; however, this election by you will be in your sole discretion. We strongly advise you to consult with your personal legal, tax and financial advisors before you make such an election.

(c) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(d) You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award, and fully understand all provisions of your Award.

11. GOVERNING PLAN DOCUMENT. Your Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your Award and those of the Plan, the provisions of the Plan shall control.

12. SEVERABILITY. If all or any part of this Restricted Stock Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such

unlawfulness or invalidity shall not invalidate any portion of this Restricted Stock Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Restricted Stock Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

13. EFFECT ON OTHER EMPLOYEE BENEFIT PLANS. The value of the Award subject to this Restricted Stock Agreement shall not be included as compensation, earnings, salaries, or other similar terms used when calculating the Employee's benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

14. AMENDMENT. This Restricted Stock Agreement may not be modified, amended or terminated except by an instrument in writing, signed by you and by a duly authorized representative of the Company. Notwithstanding the foregoing, this Restricted Stock Agreement may be amended solely by the Board by a writing which specifically states that it is amending this Restricted Stock Agreement, so long as a copy of such amendment is delivered to you, and provided that no such amendment adversely affecting your rights hereunder may be made without your written consent. Without limiting the foregoing, the Board reserves the right to change, by written notice to you, the provisions of this Restricted Stock Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of the Award which is then subject to restrictions as provided herein.

ENCORE CAPITAL GROUP, INC.
RESTRICTED STOCK GRANT NOTICE
(2005 STOCK INCENTIVE PLAN, AS AMENDED)

Encore Capital Group, Inc. (the ***"Company"***), pursuant to its 2005 Stock Incentive Plan, as amended (the ***"Plan"***), hereby awards to Participant a Restricted Stock Award for the number of shares of the Company's stock set forth below (the ***"Award"***). The Award is subject to all of the terms and conditions as set forth herein and in the Plan and the Restricted Stock Agreement, both of which are attached hereto and incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan or the Restricted Stock Agreement. In the event of any conflict between the terms in the Award and the Plan, the terms of the Plan shall control.

Participant:	Kenneth A. Vecchione
Date of Grant:	April 15, 2013
Vesting Commencement Date:	See Vesting Schedule below
Number of Shares Subject to Award:	100,000
Consideration:	Participant's Services
Vesting Schedule:	20,000 shares will vest on April 8, 2014; 20,000 shares will vest on April 8, 2015; 20,000 shares will vest on April 8, 2016; 20,000 shares will vest on April 8, 2017; and 20,000 shares will vest on April 8, 2018. In addition, the vesting of the shares may accelerate in the sole discretion of the Committee and upon certain events described in the Restricted Stock Agreement. Notwithstanding the foregoing, vesting shall terminate upon the Participant's termination of Continuous Service.

Additional Terms/Acknowledgements: Participant acknowledges receipt of, and understands and agrees to, this Restricted Stock Grant Notice, the Restricted Stock Agreement and the Plan. Participant further acknowledges that as of the Date of Grant, this Restricted Stock Grant Notice, the Restricted Stock Agreement and the Plan set forth the entire understanding between Participant and the Company regarding the Award and supersede all prior oral and written agreements on that subject.

Participant further agrees that the Company may deliver by e-mail all documents relating to the Plan or this Award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). Participant also agrees that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify Participant by e-mail.

ENCORE CAPITAL GROUP, INC.:	**PARTICIPANT:**
/s/ George Lund	/s/ Kenneth A. Vecchione
	Kenneth A. Vecchione
George Lund	
Title: Executive Chairman	Date: April 15, 2013
Date: April 15, 2013	

ATTACHMENTS: Restricted Stock Agreement

ATTACHMENT I

ENCORE CAPITAL GROUP, INC.
2005 STOCK INCENTIVE PLAN, AS AMENDED

RESTRICTED STOCK AGREEMENT

Pursuant to the Restricted Stock Grant Notice ("***Grant Notice***") and this Restricted Stock Agreement and in consideration of your services, Encore Capital Group, Inc. (the "***Company***") has awarded you a restricted stock award (the "***Award***") under its 2005 Stock Incentive Plan, as amended (the "***Plan***") for the number of shares of the Company's Stock as indicated in the Grant Notice. Your Award is granted to you effective as of the Date of Grant set forth in the Grant Notice for this Award. Defined terms not explicitly defined in this Restricted Stock Agreement shall have the same meanings given to them in the Plan. In the event of any conflict between the terms in this Restricted Stock Agreement and the Plan, the terms of the Plan shall control.

In consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto do hereby agree that the details of your Award are as follows:

1. VESTING.

(a) In General. Subject to the limitations contained herein, your Award will vest in accordance with the vesting schedule provided in the Grant Notice, provided that vesting will cease upon the termination of your Continuous Service. For purposes of this Award, ***"Continuous Service"*** means that your service with the Company or an Affiliate, whether as an employee, director or consultant, is not interrupted or terminated. A change in the capacity in which you render service to the Company or an Affiliate as an employee, consultant or director or a change in the entity for which you render such service, provided that there is no interruption or termination of your service with the Company or an Affiliate, shall not terminate your Continuous Service. For example, a change in status from an employee of the Company to a consultant to an Affiliate or to a director shall not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or its compensation committee or any officer designated by the Board or its compensation committee, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to you, or as otherwise required by law.

Notwithstanding the foregoing, in the event (i) of the termination of your Continuous Service to the Company as a result of your death or Disability, or (ii) your employment is terminated without Cause (as defined below) or you resign your employment for Good Reason (as defined below), the Award shall be deemed to be fully (100%) vested and

eligible for settlement as of immediately prior to your death or Disability or as of your termination of employment. The consummation of a Change of Control transaction in itself shall not be deemed a termination of employment entitling you to vesting acceleration hereunder even if such event results your being employed by a different entity.

For purposes of this Restricted Stock Agreement, "Cause" and "Good Reason" are both defined as such terms are defined in your letter agreement with the Company dated April 8, 2013.

2. NUMBER OF SHARES. The number of shares subject to your Award may be adjusted from time to time for capitalization adjustments, as provided in the Plan.

3. SECURITIES LAW COMPLIANCE. You may not be issued any shares under your Award unless the shares are either: (i) then registered under the Securities Act; or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act. Your Award also must comply with other applicable laws and regulations governing the Award, and you will not receive such shares if the Company determines that such receipt would not be in material compliance with such laws and regulations.

4. LIMITATIONS ON TRANSFER. Your Award is not transferable, except by will or by the laws of descent and distribution. In addition to any other limitation on transfer created by applicable securities laws, you agree not to assign, hypothecate, donate, encumber or otherwise dispose of any interest in any of the shares of Stock subject to the Award until the shares are vested in accordance with this Restricted Stock Agreement. After the shares have vested, you are free to assign, hypothecate, donate, encumber or otherwise dispose of any interest in such shares provided that any such actions are in compliance with the provisions herein and applicable securities laws.

5. DIVIDENDS. You shall be entitled to receive payments equal to any cash dividends and other distributions paid with respect to the shares covered by your Award, provided that such distributions shall be converted into additional shares covered by the Award. If such distributions are paid in cash, you shall be credited with additional shares covered by the Award in an amount equal to (i) the amount of the dividends or other distributions paid on that number of shares equal to the aggregate number of shares covered by the Award as of that date divided by (ii) the Fair Market Value of a share as of such date. The additional shares credited shall be subject to the same vesting and forfeiture restrictions as the shares covered by the Award with respect to which they relate.

6. RESTRICTIVE LEGENDS. The shares issued under your Award shall be endorsed with appropriate legends determined by the Company.

7. AWARD NOT A SERVICE CONTRACT.

(a) Your Continuous Service with the Company or an Affiliate is not for any specified term and may be terminated by you or by the Company or an Affiliate at any time, for any reason, with or without cause and with or without notice. Nothing in this Restricted Stock

Agreement (including, but not limited to, the vesting of your Award pursuant to the schedule set forth in the Grant Notice), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Restricted Stock Agreement or the Plan shall: (i) confer upon you any right to continue in the employ of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; (iii) confer any right or benefit under this Restricted Stock Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Restricted Stock Agreement or Plan; or (iv) deprive the Company of the right to terminate you at will and without regard to any future vesting opportunity that you may have.

(b) By accepting this Award, you acknowledge and agree that the right to continue vesting in the Award pursuant to the schedule set forth in the Grant Notice is earned only by continuing as an employee, director or consultant at the will of the Company (not through the act of being hired, being granted this Award or any other award or benefit) and that the Company has the right to reorganize, sell, spin-out or otherwise restructure one or more of its businesses or Affiliates at any time or from time to time, as it deems appropriate (a "reorganization"). You further acknowledge and agree that such a reorganization could result in the termination of your Continuous Service, or the termination of Affiliate status of your employer and the loss of benefits available to you under this Restricted Stock Agreement, including but not limited to, the termination of the right to continue vesting in the Award. You further acknowledge and agree that this Restricted Stock Agreement, the Plan, the transactions contemplated hereunder and the vesting schedule set forth herein or any covenant of good faith and fair dealing that may be found implicit in any of them do not constitute an express or implied promise of continued engagement as an employee or consultant for the term of this Restricted Stock Agreement, for any period, or at all, and shall not interfere in any way with your right or the Company's right to terminate your Continuous Service at any time, with or without cause and with or without notice.

8. WITHHOLDING OBLIGATIONS.

(a) On or before vesting of the shares pursuant to your Award, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and/or any other amounts payable to you, provided that any such withholding will not be in excess of the minimum statutory withholding requirement, and otherwise agree to make adequate provision for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with your Award. If permissible under applicable law, the Company may, in its sole discretion: (i) sell or arrange for the sale, on your behalf, of shares acquired by you to meet the withholding obligation and/or (ii) withhold in shares, provided that only the amount of shares necessary to satisfy the minimum withholding amount are withheld. The Company also reserves the right to require that you assume liability for any tax- and/or social insurance-related charges that may otherwise be due by the Company or an Affiliate with respect to the Award, if the Company determines in its sole discretion that such charges may legally be transferred to you. To the extent that liability for any

such charges is transferred to you, such charges will be subject to the applicable withholding methods set forth in this Section 8.

(b) Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to remove the restrictive legends from the shares of Stock subject to your Award.

9. NOTICES. Any notices provided for in your Award or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

10. MISCELLANEOUS.

(a) The rights and obligations of the Company under your Award shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) For purposes of your personal tax planning, you may make an election under Section 83(b) of the Code within 30 days of the date of grant; however, this election by you will be in your sole discretion. We strongly advise you to consult with your personal legal, tax and financial advisors before you make such an election.

(c) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(d) You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award, and fully understand all provisions of your Award.

11. GOVERNING PLAN DOCUMENT. Your Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your Award and those of the Plan, the provisions of the Plan shall control.

12. SEVERABILITY. If all or any part of this Restricted Stock Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Restricted Stock Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Restricted Stock Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

13. EFFECT ON OTHER EMPLOYEE BENEFIT PLANS. The value of the Award subject to this Restricted Stock Agreement shall not be included as compensation, earnings, salaries, or other similar terms used when calculating the Employee's benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

14. AMENDMENT. This Restricted Stock Agreement may not be modified, amended or terminated except by an instrument in writing, signed by you and by a duly authorized representative of the Company. Notwithstanding the foregoing, this Restricted Stock Agreement may be amended solely by the Board by a writing which specifically states that it is amending this Restricted Stock Agreement, so long as a copy of such amendment is delivered to you, and provided that no such amendment adversely affecting your rights hereunder may be made without your written consent. Without limiting the foregoing, the Board reserves the right to change, by written notice to you, the provisions of this Restricted Stock Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of the Award which is then subject to restrictions as provided herein.

ENCORE CAPITAL GROUP, INC.
RESTRICTED STOCK GRANT NOTICE
(2005 STOCK INCENTIVE PLAN, AS AMENDED)

Encore Capital Group, Inc. (the ***"Company"***), pursuant to its 2005 Stock Incentive Plan, as amended (the ***"Plan"***), hereby awards to Participant a Restricted Stock Award for the number of shares of the Company's stock set forth below (the ***"Award"***). The Award is subject to all of the terms and conditions as set forth herein and in the Plan and the Restricted Stock Agreement, both of which are attached hereto and incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan or the Restricted Stock Agreement. In the event of any conflict between the terms in the Award and the Plan, the terms of the Plan shall control.

Participant:	Kenneth A. Vecchione
Date of Grant:	April 15, 2013
Vesting Commencement Date:	See Vesting Schedule below
Number of Shares Subject to Award:	23,571
Consideration:	Participant's Services
Vesting Schedule:	33-13% shares will vest on April 8, 2014; 33-1/3% shares will vest on April 8, 2015; and 33-13% shares will vest on April 8, 2016. In addition, the vesting of the shares may accelerate in the sole discretion of the Committee and upon certain events described in the Restricted Stock Agreement. Notwithstanding the foregoing, vesting shall terminate upon the Participant's termination of Continuous Service.

Additional Terms/Acknowledgements: Participant acknowledges receipt of, and understands and agrees to, this Restricted Stock Grant Notice, the Restricted Stock Agreement and the Plan. Participant further acknowledges that as of the Date of Grant, this Restricted Stock Grant Notice, the Restricted Stock Agreement and the Plan set forth the entire understanding between Participant and the Company regarding the Award and supersede all prior oral and written agreements on that subject.

Participant further agrees that the Company may deliver by e-mail all documents relating to the Plan or this Award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). Participant also agrees that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify Participant by e-mail.

ENCORE CAPITAL GROUP, INC.:	**PARTICIPANT:**
/s/ George Lund	/s/ Kenneth A. Vecchione
	Kenneth A. Vecchione
George Lund	
Title: Executive Chairman	Date: April 15, 2013
Date: April 15, 2013	

ATTACHMENTS: Restricted Stock Agreement

ATTACHMENT I
ENCORE CAPITAL GROUP, INC.
2005 STOCK INCENTIVE PLAN, AS AMENDED

RESTRICTED STOCK AGREEMENT

Pursuant to the Restricted Stock Grant Notice ("***Grant Notice***") and this Restricted Stock Agreement and in consideration of your services, Encore Capital Group, Inc. (the "***Company***") has awarded you a restricted stock award (the "***Award***") under its 2005 Stock Incentive Plan, as amended (the "***Plan***") for the number of shares of the Company's Stock as indicated in the Grant Notice. Your Award is granted to you effective as of the Date of Grant set forth in the Grant Notice for this Award. Defined terms not explicitly defined in this Restricted Stock Agreement shall have the same meanings given to them in the Plan. In the event of any conflict between the terms in this Restricted Stock Agreement and the Plan, the terms of the Plan shall control.

In consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto do hereby agree that the details of your Award are as follows:

1. VESTING.

(a) In General. Subject to the limitations contained herein, your Award will vest in accordance with the vesting schedule provided in the Grant Notice, provided that vesting will cease upon the termination of your Continuous Service. For purposes of this Award, ***"Continuous Service"*** means that your service with the Company or an Affiliate, whether as an employee, director or consultant, is not interrupted or terminated. A change in the capacity in which you render service to the Company or an Affiliate as an employee, consultant or director or a change in the entity for which you render such service, provided that there is no interruption or termination of your service with the Company or an Affiliate, shall not terminate your Continuous Service. For example, a change in status from an employee of the Company to a consultant to an Affiliate or to a director shall not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or its compensation committee or any officer designated by the Board or its compensation committee, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to you, or as otherwise required by law.

(b) Vesting Acceleration. Notwithstanding the foregoing, in the event (i) of the termination of your Continuous Service to the Company as a result of your death or Disability, or (ii) your employment is terminated without Cause (as defined below) or you resign your employment for Good Reason (as defined below), the Award shall be deemed to be fully (100%) vested and eligible for settlement as of immediately prior to your death or Disability or as of your termination of employment. The consummation of a Change of Control transaction in itself shall not be deemed a termination of employment entitling you to vesting acceleration hereunder even if such event results your being employed by a different entity.

For purposes of this Restricted Stock Agreement, "Cause" and "Good Reason" are both defined as such terms are defined in your letter agreement with the Company dated April 8, 2013.

2. NUMBER OF SHARES. The number of shares subject to your Award may be adjusted from time to time for capitalization adjustments, as provided in the Plan.

3. SECURITIES LAW COMPLIANCE. You may not be issued any shares under your Award unless the shares are either: (i) then registered under the Securities Act; or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act. Your Award also must comply with other applicable laws and regulations governing the Award, and you will not receive such shares if the Company determines that such receipt would not be in material compliance with such laws and regulations.

4. LIMITATIONS ON TRANSFER. Your Award is not transferable, except by will or by the laws of descent and distribution. In addition to any other limitation on transfer created by applicable securities laws, you agree not to assign, hypothecate, donate, encumber or otherwise dispose of any interest in any of the shares of Stock subject to the Award until the shares are vested in accordance with this Restricted Stock Agreement. After the shares have vested, you are free to assign, hypothecate, donate, encumber or otherwise dispose of any interest in such shares provided that any such actions are in compliance with the provisions herein and applicable securities laws.

5. DIVIDENDS. You shall be entitled to receive payments equal to any cash dividends and other distributions paid with respect to the shares covered by your Award, provided that such distributions shall be converted into additional shares covered by the Award. If such distributions are paid in cash, you shall be credited with additional shares covered by the Award in an amount equal to (i) the amount of the dividends or other distributions paid on that number of shares equal to the aggregate number of shares covered by the Award as of that date divided by (ii) the Fair Market Value of a share as of such date. The additional shares credited shall be subject to the same vesting and forfeiture restrictions as the shares covered by the Award with respect to which they relate.

6. RESTRICTIVE LEGENDS. The shares issued under your Award shall be endorsed with appropriate legends determined by the Company.

7. AWARD NOT A SERVICE CONTRACT.

(a) Your Continuous Service with the Company or an Affiliate is not for any specified term and may be terminated by you or by the Company or an Affiliate at any time, for any reason, with or without cause and with or without notice. Nothing in this Restricted Stock Agreement (including, but not limited to, the vesting of your Award pursuant to the schedule set forth in the Grant Notice), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Restricted Stock Agreement or the Plan shall: (i) confer upon you any right to continue in the employ of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; (iii) confer any right or benefit under this Restricted Stock Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Restricted Stock Agreement or Plan; or (iv) deprive the Company of the right to terminate you at will and without regard to any future vesting opportunity that you may have.

(b) By accepting this Award, you acknowledge and agree that the right to continue vesting in the Award pursuant to the schedule set forth in the Grant Notice is earned only by continuing as an employee, director or consultant at the will of the Company

(not through the act of being hired, being granted this Award or any other award or benefit) and that the Company has the right to reorganize, sell, spin-out or otherwise restructure one or more of its businesses or Affiliates at any time or from time to time, as it deems appropriate (a "reorganization"). You further acknowledge and agree that such a reorganization could result in the termination of your Continuous Service, or the termination of Affiliate status of your employer and the loss of benefits available to you under this Restricted Stock Agreement, including but not limited to, the termination of the right to continue vesting in the Award. You further acknowledge and agree that this Restricted Stock Agreement, the Plan, the transactions contemplated hereunder and the vesting schedule set forth herein or any covenant of good faith and fair dealing that may be found implicit in any of them do not constitute an express or implied promise of continued engagement as an employee or consultant for the term of this Restricted Stock Agreement, for any period, or at all, and shall not interfere in any way with your right or the Company's right to terminate your Continuous Service at any time, with or without cause and with or without notice.

8. WITHHOLDING OBLIGATIONS.

(a) On or before vesting of the shares pursuant to your Award, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and/or any other amounts payable to you, provided that any such withholding will not be in excess of the minimum statutory withholding requirement, and otherwise agree to make adequate provision for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with your Award. If permissible under applicable law, the Company may, in its sole discretion: (i) sell or arrange for the sale, on your behalf, of shares acquired by you to meet the withholding obligation and/or (ii) withhold in shares, provided that only the amount of shares necessary to satisfy the minimum withholding amount are withheld. The Company also reserves the right to require that you assume liability for any tax- and/or social insurance-related charges that may otherwise be due by the Company or an Affiliate with respect to the Award, if the Company determines in its sole discretion that such charges may legally be transferred to you. To the extent that liability for any such charges is transferred to you, such charges will be subject to the applicable withholding methods set forth in this Section 8.

(b) Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to remove the restrictive legends from the shares of Stock subject to your Award.

9. NOTICES. Any notices provided for in your Award or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

10. MISCELLANEOUS.

(a) The rights and obligations of the Company under your Award shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) For purposes of your personal tax planning, you may make an election under Section 83(b) of the Code within 30 days of the date of grant; however, this election by you will be in your sole discretion. We strongly advise you to consult with your personal legal, tax and financial advisors before you make such an election.

(c) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(d) You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award, and fully understand all provisions of your Award.

11. GOVERNING PLAN DOCUMENT. Your Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your Award and those of the Plan, the provisions of the Plan shall control.

12. SEVERABILITY. If all or any part of this Restricted Stock Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Restricted Stock Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Restricted Stock Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

13. EFFECT ON OTHER EMPLOYEE BENEFIT PLANS. The value of the Award subject to this Restricted Stock Agreement shall not be included as compensation, earnings, salaries, or other similar terms used when calculating the Employee's benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

14. AMENDMENT. This Restricted Stock Agreement may not be modified, amended or terminated except by an instrument in writing, signed by you and by a duly authorized representative of the Company. Notwithstanding the foregoing, this Restricted Stock

Agreement may be amended solely by the Board by a writing which specifically states that it is amending this Restricted Stock Agreement, so long as a copy of such amendment is delivered to you, and provided that no such amendment adversely affecting your rights hereunder may be made without your written consent. Without limiting the foregoing, the Board reserves the right to change, by written notice to you, the provisions of this Restricted Stock Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of the Award which is then subject to restrictions as provided herein.

Exhibit 10.12

ENCORE CAPITAL GROUP, INC.
PERFORMANCE STOCK GRANT NOTICE
(2005 STOCK INCENTIVE PLAN, AS AMENDED)

Encore Capital Group, Inc. (the ***"Company"***), pursuant to its 2005 Stock Incentive Plan, as amended (the ***"Plan"***), hereby awards to Participant a Performance Stock Award for the number of shares of the Company's stock set forth below (the ***"Award"***). The Award is subject to all of the terms and conditions as set forth herein and in the Plan and the Performance Stock Agreement, both of which are attached hereto and incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan or the Performance Stock Agreement. In the event of any conflict between the terms in the Award and the Plan, the terms of the Plan shall control.

Participant:	Kenneth A. Vecchione
Date of Grant:	June 4, 2013
Vesting Commencement Date:	See Vesting Schedule below
Number of Shares Subject to Award:	Minimum 13,587 Target 27,175 Maximum 54,350
Consideration:	Participant's Services
Vesting Schedule:	4,529 shares will vest if the sum of FY 2013 3Q and 4Q EPS equals $1.67 9,058 shares will vest if the sum of FY 2013 3Q and 4Q EPS equal$1.70 18,116 shares will vest if the sum of FY 2013 3Q and 4Q EPS equals $1.79 If the sum of FY 2013 3Q and 4Q EPS is between $1.67 and $1.70, then the number of shares between 4,529 and 9,058 that will vest will be determined by linear interpolation. If the sum of FY 2013 3Q and 4Q EPS is between $1.70 and $1.79, then the number of shares between 9,058 and 18,116 that will vest will be determined by linear interpolation. 4,529 shares will vest if FY 2014 EPS equals $3.68 9,058 shares will vest if FY 2014 EPS equals $3.81 18,117 shares will vest if FY 2014 EPS equals $4.30 If FY 2014 EPS is between $3.68 and $3.81, then the number of shares between 4,529 and 9,058 that will vest will be determined by linear interpolation. If FY 2014 EPS is between $3.81 and $4.30, then the number of shares between 9,058 and 18,117 that will vest will be determined by linear interpolation. 4,529 shares will vest if FY 2015 EPS equals $3.97 9,059 shares will vest if FY 2015 EPS equals $4.26 18,117 shares will vest if FY 2015 EPS equals $5.17 If FY 2015 EPS is between $3.97 and $4.26, then the number of shares between 4,529 and 9,059 that will vest will be determined by linear interpolation. If FY 2015 EPS is between $4.26 and $5.17, then the number of shares between 9,059 and 18,117 that will vest will be determined by linear interpolation.

In addition, if the sum of FY 2013 3Q and 4Q EPS, FY 2014 EPS and FY 2015 EPS equals $9.32, then 13,587 shares will vest (less any shares already vested). If the sum of FY 2013 3Q and 4Q EPS, FY 2014 EPS and FY 2015 EPS equals $9.77, then 27,175 shares will vest (less any shares already vested). If the sum of FY 2013 3Q and 4Q EPS, FY 2014 EPS and FY 2015 EPS equals $11.26, then 54,350 shares will vest (including already vested portions of the Award). If the sum of FY 2013 3Q and 4Q EPS, FY 2014 EPS and FY 2015 EPS is between $9.32 and $9.77, then the number of shares that will vest will be determined by linear interpolation (less any already vested shares). If the sum of FY 2013 3Q and 4Q EPS, FY 2014 EPS and FY 2015 EPS is between $9.77 and $11.26, then the number of shares that will vest will be determined by linear interpolation (less any already vested shares).

Within 15 days of the release of the Company's audited financial statements for the applicable fiscal year, the Committee will certify in writing whether the EPS goal for such fiscal year has been met and determine the number of shares, if any, that will vest based on the EPS achieved for such fiscal year. If the shares have not already been distributed to the Participant, the Company shall distribute such shares to the Participant within 10 days of the Committee's written certification.

In addition, the vesting of the shares may accelerate in the sole discretion of the Committee and upon certain events described in the Performance Stock Agreement. Notwithstanding the foregoing, vesting shall terminate upon the Participant's termination of Continuous Service.

Additional Terms/Acknowledgements: Participant acknowledges receipt of, and understands and agrees to, this Performance Stock Grant Notice, the Performance Stock Agreement and the Plan. Participant further acknowledges that as of the Date of Grant, this Performance Stock Grant Notice, the Performance Stock Agreement and the Plan set forth the entire understanding between Participant and the Company regarding the Award and supersede all prior oral and written agreements on that subject.

Participant further agrees that the Company may deliver by e-mail all documents relating to the Plan or this Award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). Participant also agrees that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify Participant by e-mail.

ENCORE CAPITAL GROUP, INC.:	**PARTICIPANT:**
/s/ George Lund	/s/ Kenneth A. Vecchione
	Kenneth A. Vecchione
George Lund	
Title: Executive Chairman	Date: June 4, 2013
Date: June 4, 2013	

ATTACHMENTS: Performance Stock Agreement

ATTACHMENT I

ENCORE CAPITAL GROUP, INC.
2005 STOCK INCENTIVE PLAN, AS AMENDED

PERFORMANCE STOCK AGREEMENT

Pursuant to the Performance Stock Grant Notice ("***Grant Notice***") and this Performance Stock Agreement and in consideration of your services, Encore Capital Group, Inc. (the "***Company***") has awarded you a performance stock award (the "***Award***") under its 2005 Stock Incentive Plan, as amended (the "***Plan***") for the number of shares of the Company's Stock as indicated in the Grant Notice. Your Award is granted to you effective as of the Date of Grant set forth in the Grant Notice for this Award. Defined terms not explicitly defined in this Performance Stock Agreement shall have the same meanings given to them in the Plan. In the event of any conflict between the terms in this Performance Stock Agreement and the Plan, the terms of the Plan shall control.

In consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto do hereby agree that the details of your Award are as follows:

1. VESTING.

(a) In General. Subject to the limitations contained herein, your Award will vest in accordance with the vesting schedule provided in the Grant Notice, provided that vesting will cease upon the termination of your Continuous Service. For purposes of this Award, ***"Continuous Service"*** means that your service with the Company or an Affiliate, whether as an employee, director or consultant, is not interrupted or terminated. A change in the capacity in which you render service to the Company or an Affiliate as an employee, consultant or director or a change in the entity for which you render such service, provided that there is no interruption or termination of your service with the Company or an Affiliate, shall not terminate your Continuous Service. For example, a change in status from an employee of the Company to a consultant to an Affiliate or to a director shall not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or its compensation committee or any officer designated by the Board or its compensation committee, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to you, or as otherwise required by law.

Notwithstanding the foregoing, in the event (i) of the termination of your Continuous Service to the Company as a result of your death or Disability, or (ii) your employment is terminated without Cause (as defined below) or you resign your employment for Good Reason (as defined below), the Award shall be deemed to be fully (100%) vested and eligible for settlement as

of immediately prior to your death or Disability or as of your termination of employment. The consummation of a Change of Control transaction in itself shall not be deemed a termination of employment entitling you to vesting acceleration hereunder even if such event results your being employed by a different entity.

For purposes of this Performance Stock Agreement, "Cause" and "Good Reason" are both defined as such terms are defined in your letter agreement with the Company dated April 8, 2013.

2. NUMBER OF SHARES. The number of shares subject to your Award will be determined by the achievement of the performance goals set forth in the Grant Notice. In addition, the number of shares subject to your Award may be adjusted from time to time for capitalization adjustments, as provided in the Plan.

3. SECURITIES LAW COMPLIANCE. You may not be issued any shares under your Award unless the shares are either: (i) then registered under the Securities Act; or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act. Your Award also must comply with other applicable laws and regulations governing the Award, and you will not receive such shares if the Company determines that such receipt would not be in material compliance with such laws and regulations.

4. LIMITATIONS ON TRANSFER. Your Award is not transferable, except by will or by the laws of descent and distribution. In addition to any other limitation on transfer created by applicable securities laws, you agree not to assign, hypothecate, donate, encumber or otherwise dispose of any interest in any of the shares of Stock subject to the Award until the shares are vested in accordance with this Performance Stock Agreement. After the shares have vested, you are free to assign, hypothecate, donate, encumber or otherwise dispose of any interest in such shares provided that any such actions are in compliance with the provisions herein and applicable securities laws.

5. DIVIDENDS. You shall be entitled to receive payments equal to any cash dividends and other distributions paid with respect to the shares covered by your Award, provided that such distributions shall be converted into additional shares covered by the Award. If such distributions are paid in cash, you shall be credited with additional shares covered by the Award in an amount equal to (i) the amount of the dividends or other distributions paid on that number of shares equal to the aggregate number of shares covered by the Award as of that date divided by (ii) the Fair Market Value of a share as of such date. The additional shares credited shall be subject to the same vesting and forfeiture restrictions as the shares covered by the Award with respect to which they relate.

6. RESTRICTIVE LEGENDS. The shares issued under your Award shall be endorsed with appropriate legends determined by the Company.

7. AWARD NOT A SERVICE CONTRACT.

(a) Your Continuous Service with the Company or an Affiliate is not for any specified term and may be terminated by you or by the Company or an Affiliate at any time, for any reason, with or without cause and with or without notice. Nothing in this Performance Stock

Agreement (including, but not limited to, the vesting of your Award pursuant to the schedule set forth in the Grant Notice), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Performance Stock Agreement or the Plan shall: (i) confer upon you any right to continue in the employ of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; (iii) confer any right or benefit under this Performance Stock Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Performance Stock Agreement or Plan; or (iv) deprive the Company of the right to terminate you at will and without regard to any future vesting opportunity that you may have.

(b) By accepting this Award, you acknowledge and agree that the right to continue vesting in the Award pursuant to the schedule set forth in the Grant Notice is earned only by continuing as an employee, director or consultant at the will of the Company (not through the act of being hired, being granted this Award or any other award or benefit) and that the Company has the right to reorganize, sell, spin-out or otherwise restructure one or more of its businesses or Affiliates at any time or from time to time, as it deems appropriate (a "reorganization"). You further acknowledge and agree that such a reorganization could result in the termination of your Continuous Service, or the termination of Affiliate status of your employer and the loss of benefits available to you under this Performance Stock Agreement, including but not limited to, the termination of the right to continue vesting in the Award. You further acknowledge and agree that this Performance Stock Agreement, the Plan, the transactions contemplated hereunder and the vesting schedule set forth herein or any covenant of good faith and fair dealing that may be found implicit in any of them do not constitute an express or implied promise of continued engagement as an employee or consultant for the term of this Performance Stock Agreement, for any period, or at all, and shall not interfere in any way with your right or the Company's right to terminate your Continuous Service at any time, with or without cause and with or without notice.

8. WITHHOLDING OBLIGATIONS.

(a) On or before vesting of the shares pursuant to your Award, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and/or any other amounts payable to you, provided that any such withholding will not be in excess of the minimum statutory withholding requirement, and otherwise agree to make adequate provision for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with your Award. If permissible under applicable law, the Company may, in its sole discretion: (i) sell or arrange for the sale, on your behalf, of shares acquired by you to meet the withholding obligation and/or (ii) withhold in shares, provided that only the amount of shares necessary to satisfy the minimum withholding amount are withheld. The Company also reserves the right to require that you assume liability for any tax- and/or social insurance-related charges that may otherwise be due by the Company or an Affiliate with respect to the Award, if the Company determines in its sole discretion that such charges may legally be transferred to you. To the extent that liability for any such charges is transferred to you, such charges will be subject to the applicable withholding methods set forth in this Section 8.

(b) Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to remove the restrictive legends from the shares of Stock subject to your Award.

9. NOTICES. Any notices provided for in your Award or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

10. MISCELLANEOUS.

(a) The rights and obligations of the Company under your Award shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) For purposes of your personal tax planning, you may make an election under Section 83(b) of the Code within 30 days of the date of grant; however, this election by you will be in your sole discretion. We strongly advise you to consult with your personal legal, tax and financial advisors before you make such an election.

(c) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(d) You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award, and fully understand all provisions of your Award.

(e) The Committee may, to the extent permitted under Section 162(m) of the Code , adjust performance goals to omit the effects of extraordinary items, gain or loss on the disposal of a business segment, unusual or infrequently occurring events and transactions and cumulative effects of changes in accounting principles, including, but not limited to, asset write-downs, litigation or claim judgments or settlements, changes in tax laws or other laws or provisions affecting reported results, any reorganization and restructuring programs, acquisitions or divestitures, and foreign exchange gains and losses.

11. GOVERNING PLAN DOCUMENT. Your Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your Award and those of the Plan, the provisions of the Plan shall control.

12. SEVERABILITY. If all or any part of this Performance Stock Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Performance Stock Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Performance Stock Agreement

(or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

13. EFFECT ON OTHER EMPLOYEE BENEFIT PLANS. The value of the Award subject to this Performance Stock Agreement shall not be included as compensation, earnings, salaries, or other similar terms used when calculating the Employee's benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

14. AMENDMENT. This Performance Stock Agreement may not be modified, amended or terminated except by an instrument in writing, signed by you and by a duly authorized representative of the Company. Notwithstanding the foregoing, this Performance Stock Agreement may be amended solely by the Board by a writing which specifically states that it is amending this Performance Stock Agreement, so long as a copy of such amendment is delivered to you, and provided that no such amendment adversely affecting your rights hereunder may be made without your written consent. Without limiting the foregoing, the Board reserves the right to change, by written notice to you, the provisions of this Performance Stock Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of the Award which is then subject to restrictions as provided herein.

AMENDMENT NO. 1 TO
TAX LIEN LOAN AND SECURITY AGREEMENT

THIS AMENDMENT NO. 1 TO TAX LIEN LOAN AND SECURITY AGREEMENT (the "*Amendment*"), dated as of May 6, 2014 is entered into by and among PFS FINANCIAL 1, LLC, as a borrower ("*PFS1*"), PFS FINANCIAL 2, LLC, on behalf of itself and each of its Series, as a borrower ("*PFS2*"), PFS FINANCE HOLDINGS, LLC, as the borrower representative (the "*Borrower Representative*"), and WELLS FARGO BANK, N.A., a national banking association ("*Buyer*"). Capitalized terms used and not otherwise defined herein are used as defined in the Loan Agreement (as defined below).

WHEREAS, the parties hereto are parties to that certain Tax Lien Loan and Security Agreement, dated as of May 15, 2013, as supplemented by the Joinder Agreement, dated as of May 24, 2013 (and as further amended, supplemented, restated or otherwise modified to the date hereof the "*Loan Agreement*"), by and among PFS 1, PFS2, the other borrowers party thereto from time to time (collectively with PFS1 and PFS2, the "*Borrowers*"), the Borrower Representative and Buyer;

WHEREAS, the parties hereto desire to amend the Loan Agreement in certain respects as provided herein;

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

SECTION 1.Amendments. Effective as of the Effective Date (as defined below), the Loan Agreement is hereby amended as follows:

1.1 The definition of "Applicable Margin" in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Applicable Margin: As of any date of termination with respect to any Tax Lien, a per annum rate equal to (i) if the Property related to such Tax Lien is located in the State of Texas, 2.50% or (ii) if the Property related to such Tax Lien is located in any other Eligible Jurisdiction, 3.25%."

1.2 The definition of "Commitment Amount" in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Commitment Amount: As of any date of determination, (a) occurring during the period from July 1, 2014 to and including September 30, 2014, $190,000,000 or (b) occurring at any other time, $150,000,000, in each case, as such amount may be modified in connection with any assignment made in accordance with Section 9.1."

1.3 The definition of "Commitment Termination Date" in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Commitment Termination Date: The earliest to occur of (i) May 15, 2017, (ii) the Exit Date and (iii) the Termination Date."

1.4 The definition of "Maturity Date" in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Maturity Date: May 10, 2019."

1.5 The definition of "Excess Concentration Amount" in Section 1.1 of the Loan Agreement is hereby amended by (i) deleting the word "and" at the end of clause (c) of such definition, (ii) deleting the "." at the end of clause (d) of such definition and replacing it with ";" and (iii) inserting the following as a new clauses (e), (f) and (g) of such definition:

"(e) the amount by which the product of (i) the aggregate Principal Balances for all Eligible Tax Liens where the related Property is located in the State of Nevada or the State of Texas times (ii) the applicable Advance Rates, exceeds $80,000,000;

(f) the amount by which the product of (i) the aggregate Principal Balances for all Eligible Tax Liens related to Properties that are vacant land, times (ii) the applicable Advance Rates, exceeds 5.00% of the product of (x) the aggregate Principal Balance for all Eligible Tax Liens times (y) the applicable Advance Rates (calculated after giving effect to any requested Loan); and

(g) the amount by which the product of (i) the aggregate Principal Balances for all Eligible Tax Liens related to Properties located in the State of Texas with Market Values greater than $25,000 but less than $50,000, times (ii) the applicable Advance Rates, exceeds 5.00% of the product of (x) the aggregate Principal Balance for all Eligible Tax Liens times (y) the applicable Advance Rates (calculated after giving effect to any requested Loan)."

1.6 The definition of "Property Type" in Section 1.1 of the Loan is hereby amended and restated in its entirety as follows:

"Property Type: With respect to any Tax Lien, the related Property's type, as listed on the related Tax Lien File. Each Property's type may be either industrial, multifamily, residential, single-family, office, retail, hotel, mixed-use, warehouse, or other."

1.7 The definition of "Single Family Home" in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Single Family Home: Any improvement to any Property that is a single-family residential dwelling, including residential condominiums, townhouses and other residential structures with less than (i) if such Property is located in an Eligible Jurisdiction that allows Permitted Premiums, two (2) units or (ii) if such Property is located in an Eligible Jurisdiction that does not allow Permitted Premiums, ten (10) units.

1.8 Section 1.1 of the Loan Agreement is hereby amended by deleting the definition of "Texas Tax Asset" in its entirety.

1.9 Section 1.1 of the Loan Agreement is hereby amended by inserting the following definitions in alphabetical order:

Amendment Fee: As defined in the Fee Letter.

Extension Fee: As defined in the Fee Letter

Taxpayer Led Transfer Asset: An advance of funds on behalf of a Property Owner to a Municipality in connection with the transfer of a local government tax lien on a Property located in a Taxpayer Led Transfer Jurisdiction that is secured by the transferred statutory tax lien and may be further secured by a contractual security interest pursuant to a contract between the Borrower and the related Property Owner (in each case, as provided for by the Applicable Statute).

Taxpayer Led Transfer Jurisdiction: The States of Texas and Nevada, and such other jurisdictions from time to time approved in writing by the Lender in its sole discretion.

Texas Net Collections: With respect to any Interest Period, the remainder as determined by Lender of:

(i) the sum of all Collections received during such Interest Period with respect to Texas Tax Liens, minus

(ii) the amount of Interest due with respect to such Interest Period for the Note Balance attributed to all Texas Tax Liens, minus

(iii) an amount equal to the product of (x) the Texas Percentage for such Interest Period times (y) the aggregate amount payable under clauses *first* through *fourth* of Section 2.7(a) for such Interest Period; provided, that if such remainder is negative for any Interest Period, the Texas Net Collections for such Interest Period shall be zero.

Texas Percentage: With respect to any Interest Period, the fraction expressed as a percentage of:

(i) the remainder of (x) the sum of all Collections received during such Interest Period with respect to Texas Tax Liens, minus (y) the amount of Interest due with respect to such Interested Period for the Note Balance attributed all Texas Tax Liens; provided, that if such remainder is negative for any Interest Period, the remainder under this clause (i) for such Interest Period shall be zero, over

(ii) the remainder of (1) the sum of all Collections received during such Interest Period, minus (2) the amount of Interest due with respect to such Interest Period, as determined by Lender.

Texas Tax Lien: Any Eligible Tax Liens where the related Property is located in the State of Texas.

1.10 The Loan Agreement is hereby amended by deleting each reference to "Texas Tax Asset" in the Loan Agreement and replacing it with "Taxpayer Led Transfer Asset".

1.11 Section 2.3 of the Loan Agreement is hereby amended and restated in its entirety as follows (solely for convenience, modified language is italicized):

"**Section 2.3 Extension of Commitment *and Maturity Date*.**

(a) So long as no Event of Default has occurred, the Borrower Representative, on behalf of the Borrowers, may request in a writing sent to the Lender no more than ninety (90) nor fewer than sixty (60) days prior to the Commitment Termination Date that the Lender extend the Commitment Termination Date for an additional period to a date specified in such request, which request will be granted or denied by the Lender in its discretion. Not later than thirty (30) days following receipt by the Lender of any such request, the Lender shall notify the Borrower Representative of its willingness or refusal to so extend the Commitment Termination Date. If the Lender shall have agreed to extend the Commitment Termination Date and no Event of Default shall have occurred and be continuing prior to the then-applicable Commitment Termination Date, the Commitment Termination Date shall be extended to the date specified in such request. Any failure by the Lender to notify the Borrower Representative of the Lender's agreement to extend the Commitment Termination Date shall be deemed to be a rejection by the Lender of the Borrowers' request to so extend the Commitment Termination Date.

(b) So long as no Event of Default has occurred, the Borrower Representative, on behalf of the Borrowers, may request in a writing sent to the Lender no more than ninety (90) nor fewer than sixty (60) days prior to the Maturity Date that the Lender extend the Maturity Date for an additional one (1) year period. If the Borrower Representative delivers such notice in accordance with the preceding sentence, so long as no Event of Default shall have occurred and be continuing prior to the then-applicable Maturity Date and upon payment of the Extension Fee by the Borrowers to the Lender, the Maturity Date shall be extended to the date that is 365 days after the then-applicable Maturity Date."

1.12 Section 2.6 of the Loan Agreement is hereby amended by inserting the following as new clause (g) thereof:

"(g) If on any date the Note Balance exceeds the then-applicable Commitment Amount (including, without limitation, due to any change in the Commitment Amount pursuant to the definition thereof), the Borrowers shall pay to the Lender,

within two (2) Business Days, the amount necessary to reduce the Note Balance so that it is equal to, or less than, the then-applicable Commitment Amount."

1.13 Section 2.7(a) of the Loan Agreement is hereby amended by (i) renumbering clauses *fifth* through *seventh* thereof as clauses *sixth* through *eighth* respectively, and (ii) inserting the following as new clause *fifth* thereof:

(v) *fifth*, to the Borrowers, to the extent of remaining funds, an amount equal to the product of (i) the Texas Net Collections for such Interest Period and (ii) one (1) minus the applicable Advance Rate (expressed as a decimal) for Texas Tax Liens;

1.14 Schedule A of the Loan Agreement is hereby amended as follows:

(a) Clause 30 of Schedule A is hereby deleted in its entirety as replaced with "[Reserved]".

(b) Clause 31 of Schedule A is hereby amended and restated in its entirety as follows:

"31. The Market Value of the Property related to such Tax Lien (with respect to Property located in Texas, such Property may include multiple parcels) is not less than (i) if the Property related to such Tax Lien is located in an Eligible Jurisdiction other than the State of Texas, $50,000 or (ii) if the Property related to such Tax Lien is located in the State of Texas, $25,000."

(c) Cause 33 of Schedule A is hereby amended and restated in its entirety as follows:

"33. The Property related to such Tax Lien is not submerged land, and is not subject to subsurface or mineral rights, and such property does not contain any railroads, dairies or feed lots or cemeteries."

(d) Clause 36 of Schedule A is hereby amended and restated in its entirety as follows:

"36. If the Property related to such Tax Lien is located in an Eligible Jurisdiction other than the State of Connecticut, the State of Nevada or the State of Texas, the time elapsed from date of issuance of such Tax Lien on the related Property is no longer than the lesser of (i) the relevant statutory redemption period (as such period may have been extended pursuant to the Applicable Statute) plus twelve (12) months and (ii) the period from the date of issuance of such Tax Lien on the related Property and the date that is 90 days before the issuance of an OST or the setting of a date for foreclosure sale."

(e) Schedule A hereby amended by inserting the following as a new Clause 41 thereof:

"41. If the Property related to such Tax Lien is located in the State of Connecticut, the State of Nevada or the State of Texas, (i) the maturity date of the payment plan related to such Tax Lien has not occurred and (ii) the expiration date of such Tax Lien is greater than five (5) years from any date of determination."

(f) Schedule A hereby amended by inserting the following as a new Clause 42 thereof:

"42. If such Tax Lien is a Taxpayer Led Transfer Asset, all amounts secured by such Tax Lien were authorized pursuant to the Applicable Statutes and the instruments securing such amounts have been validly assigned or transferred to the related Borrower in accordance with the Applicable Statutes."

1.15 Schedule B of the Loan Agreement is hereby deleted in its entirety and replaced with Schedule B attached hereto.

1.16 Schedule C of the Loan Agreement is hereby deleted in its entirety and replaced with Schedule C attached hereto.

1.17 Schedule D of the Loan Agreement is hereby deleted in its entirety and replaced with Schedule D attached hereto.

SECTION 2. This Amendment shall become effective as of the date (the "*Effective Date*") on which each of the following conditions precedent shall have been satisfied:

2.1 Amendment. Lender shall have received counterparts of this Amendment, executed and delivered by a duly authorized officer of each party hereto.

2.2 Amended and Restated Fee Letter. Lender shall have received counterparts of the Amended and Restate Fee Letter, dated as of the date hereof, executed and delivered by a duly authorized officer of each party hereto.

2.3 Amendment Fee. Lender shall have received the Amendment Fee from the Borrowers.

2.4 Other Information. Seller shall have taken such other action, including delivery of approvals, consents, opinions, documents and instruments, as Buyer may reasonably request.

SECTION 3. Miscellaneous.

3.1 References in Loan Agreement. Upon the effectiveness of this Amendment, each reference in the Loan Agreement to "this Agreement", "hereunder", "hereof", "herein", or words of like import shall mean and be a reference to the Loan Agreement as amended hereby, and each reference to the Loan Agreement in any other Transaction Document or any other document, instrument or agreement, executed and/or delivered in connection with any Transaction Document shall mean and be a reference to the Loan Agreement as amended hereby.

3.2 Effect on Loan Agreement. Except as specifically amended hereby, the Loan Agreement shall remain in full force and effect. This Amendment shall not constitute a novation of the Loan Agreement, but shall constitute an amendment thereof.

3.3 No Waiver. The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of any Person under the Loan Agreement or any other document, instrument or agreement executed in connection therewith, nor constitute a waiver of any provision contained therein.

3.4 Successors and Assigns. This Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

3.5 Counterparts. This Amendment may be executed in any number of counterparts, and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument but all of which together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page by facsimile or other electronic means shall be effective as delivery of a manually executed counterpart of this Amendment.

3.6 Headings. The descriptive headings of the various sections of this Amendment are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

3.7 Amendments. This Amendment may not be amended or otherwise modified except as provided in the Loan Agreement.

3.8 **GOVERNING LAW. THIS AMENDMENT AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO OR IN CONNECTION WITH THIS AMENDMENT, THE RELATIONSHIP OF THE PARTIES, AND/OR THE INTERPRETATION AND ENFORCEMENT OF THE RIGHTS AND DUTIES OF THE PARTIES WILL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ANY CONFLICTS OF LAW PRINCIPLES OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW.**

[Remainder of page left intentionally blank]

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

PFS FINANCIAL 1, LLC, as a Borrower

By: **PFS Finance Holdings, LLC**, its sole member

By: /s/ Paul Grinberg
Name: Paul Grinberg
Title: Treasurer

PFS FINANCIAL 2, LLC, on behalf of itself and each of its Series, as a Borrower

By: **PFS Finance Holdings, LLC**, its sole member

By: /s/ Paul Grinberg
Name: Paul Grinberg
Title: Treasurer

PFS FINANCE HOLDINGS, LLC, as the Borrower Representative and on behalf of the Borrowers from time to time party to the Loan Agreement

By: /s/ Paul Grinberg
Name: Paul Grinberg
Title: Treasurer

[Signatures continue]

WELLS FARGO BANK, N.A.,
as Lender

By: /s/ John Rhee
Name: John Rhee
Title: Director

[End of signatures]

SCHEDULE B

ELIGIBLE JURISDICTIONS

1. Alabama
2. Arizona
3. California
4. Connecticut
5. Florida
6. Georgia
7. Illinois
8. Indiana
9. Kentucky
10. Nevada
11. New Jersey
12. New York
13. Ohio
14. Pennsylvania
15. South Carolina
16. Tennessee

17. Texas

SCHEDULE C

APPLICABLE STATUTES

Tax Liens (General)

Jurisdiction	Statutes
Alabama	Ala. Code §§ 40-10-180 - 198
Arizona	Ariz. Rev. Stat. §§ 42-11101 - 19160
California	Cal. Rev. & Tax. Code § 4501-4531
Connecticut	Conn. Gen. Stat. §§ 12-122-12-195h
Florida	Fla. Stat. §§ 197.102 - 602
Georgia	Ga. Code Ann.§ 48-3, 48-4
Illinois	Ill. Code R. 6-1.1-24
Indiana	Ind. Code §§ 6-1.1-1 - 1-45.5-9
Kentucky	Ky. Rev. Stat. §§ 11-134-.01 - .990
Nevada	Nev. Rev. Stat. §§ 361-7303, et seq.
New Jersey	N.J. Rev. Stat. § 54:5-1- 137
New York**	N.Y. Real Prop. Tax Law §§ 100 - 2016
Ohio	Ohio Rev. Code Ann. §§ 5721.16
Pennsylvania	72 PA Code § 5860.101
South Carolina	S.C. Code Ann. § 12-49-10 - 12-49-1290
Tennessee	Tenn. Code Ann. §§ 67-5-2501
Texas	Texas Tax Code § 32.06, et seq.

** New York Law only allows sales of tax liens to entities other than the New York Municipal Bond Bank Agency (the "*bond bank*") for those counties, cities or towns that are not subject to the provisions of N.Y. Real Prop. Tax Law § 1104, which allows the sale of tax liens to entities other than the bond bank by counties, cities or towns having pre-existing tax lien collection laws as of January 1, 1993, or which adopted such a collection law by July 1, 1994, which allowed those counties, cities or towns to sell tax liens as a means of collection.

SCHEDULE D

ADVANCE RATES

Jurisdiction	Advance Rate
Alabama	[***]
Arizona	[***]
California	[***]
Connecticut	[***]
Florida	[***]
Georgia	[***]*
Illinois	[***]
Indiana	[***]

Kentucky	[***]
Nevada	[***]
New Jersey	[***]
New York	[***]*
Ohio	[***]*
Pennsylvania	[***]*
South Carolina	[***]
Tennessee (The Metropolitan Government of Nashville and Davidson County)	[***]
Tennessee (The Metropolitan Government of Nashville and Davidson County)	[***]
Texas	[***]

* [***]

[***] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Certain information in this Exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions. Omissions are designated as [***].

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Kenneth A. Vecchione, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Encore Capital Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons fulfilling the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /S/ KENNETH A. VECCHIONE

Kenneth A. Vecchione
President and Chief Executive Officer

Date: May 8, 2014

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Paul Grinberg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Encore Capital Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons fulfilling the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /S/ PAUL GRINBERG

Paul Grinberg
Executive Vice President, Chief Financial Officer and Treasurer

Date: May 8, 2014

Exhibit 32.1

ENCORE CAPITAL GROUP, INC.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Encore Capital Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

/s/ KENNETH A. VECCHIONE

Kenneth A. Vecchione

President and Chief Executive Officer

May 8, 2014

/s/ PAUL GRINBERG

Paul Grinberg

Executive Vice President,
Chief Financial Officer and Treasurer

May 8, 2014

This certification accompanies the above described Report and is being furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall be not be deemed filed as part of the Report.