

GWG Holdings, Inc.  
Form 424B3  
November 13, 2015

**Filed Pursuant to Rule 424(b)(3)**

**File Nos. 333-197227 and 333-197227-01**

**PROSPECTUS SUPPLEMENT NO. 5**

**to Prospectus dated March 23, 2015**

**Offering Amount \$1,000,000,000**

**GWG HOLDINGS, INC.**

a Delaware corporation

**1,000,000 Units of L Bonds**

The information contained in this prospectus supplement amends and updates the prospectus dated March 23, 2015 (comprising a part of our post-effective amendment to registration statement on Form S-1/A, filed with the SEC on March 13, 2015) (SEC File Nos. 333-197227 and 333-197227-01), as earlier supplemented by prospectus sticker supplement no. 4 dated September 10, 2015 (the “prospectus”). GWG Life, LLC, a Delaware limited liability company and wholly owned subsidiary of GWG Holdings, Inc., is also a registrant under the referenced registration statement solely by virtue of it being a guarantor of the L Bond Units offered hereby (the “L Bonds”). Please keep this prospectus supplement with your prospectus for future reference.

Investing in our L Bonds involves a high degree of risk, including the risk of losing your entire investment. See the “Risk Factors” section of our prospectus for the risks you should carefully consider before buying our L Bonds. The L Bonds are only suitable for persons with substantial financial resources and with no need for liquidity in this investment.

The security provided for the L Bonds includes an unconditional guarantee given by GWG Life, LLC, a subsidiary of the issuer. The value of this unconditional guarantee is based almost entirely on GWG Life's own investment in another subsidiary, the primary assets of which are pledged as collateral for the repayment of amounts borrowed from a senior lender.

Capitalized terms contained in this prospectus supplement have the same meanings as in the prospectus unless otherwise stated herein.

## **RECENT EVENTS**

On November 12, 2015, we filed our Quarterly Report on Form 10-Q for the period ended September 30, 2015. This prospectus supplement has been prepared primarily to set forth certain information contained in that report.

**Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this prospectus supplement is November 12, 2015**

**TABLE OF CONTENTS**

|                                                                                      |           |
|--------------------------------------------------------------------------------------|-----------|
| RISK RELATING TO FORWARD-LOOKING STATEMENTS                                          | Page<br>1 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION | 2         |
| FINANCIAL INFORMATION                                                                | F-1       |

GWG Holdings, Inc.

220 South Sixth Street, Suite 1200

Minneapolis, MN 55402

Tel: (612) 746-1944

Fax: (612) 746-0445

## **RISK RELATING TO FORWARD-LOOKING STATEMENTS**

Certain matters discussed in this supplement are forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Nevertheless, these forward-looking statements are subject to risks, uncertainties and assumptions about our operations and the investments we make, including, among other things, factors discussed in the “Risk Factors” section of the prospectus and the following:

changes in the secondary market for life insurance;

our limited operating history;

the valuation of assets reflected on our financial statements;

the reliability of assumptions underlying our actuarial models;

our reliance on debt financing;

risks relating to the validity and enforceability of the life insurance policies we purchase;

our reliance on information provided and obtained by third parties;

federal, state and FINRA regulatory matters;

competition in the secondary life insurance market;

the relative illiquidity of life insurance policies;

our ability to satisfy our debt obligations if we were to sell our entire portfolio of life insurance policies;

life insurance company credit exposure;

general economic outlook, including prevailing interest rates;

performance of our investments in life insurance policies;

financing requirements;

litigation risks; and

increases in the cost of premiums charged by insurers for the policies we own; and

restrictive covenants contained in our borrowing agreements.

Forward-looking statements can generally be identified by the use of words like “believes,” “could,” “possibly,” “probably,” “anticipates,” “estimates,” “projects,” “expects,” “may,” “will,” “should,” “seek,” “intend,” “plan,” “expect” or “consider,” or these expressions or other variations, or by discussions of strategy that involve risks and uncertainties. All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual transactions, results, performance or achievements to be materially different from any future transactions, results, performance or achievements expressed or implied by such forward-looking statements.

We base these forward-looking statements on current expectations and projections about future events and the information currently available to us. Although we believe that the assumptions for these forward-looking statements are reasonable, any of the assumptions could prove to be inaccurate. Consequently, no representation or warranty can be given that the estimates, opinions, or assumptions made in or referenced by this prospectus will prove to be accurate. Some of the risks, uncertainties and assumptions are identified in the discussion entitled “Risk Factors” in the prospectus. We undertake no obligation to update our forward-looking statements.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Note:* The following discussion and analysis of the financial condition and results of operations of the Company are derived from our Quarterly Report on Form 10-Q for the period ended September 30, 2015, filed with the SEC on November 12, 2015. We have not materially updated this discussion in any way, although it may be presented in a different order than in our Quarterly Report. As indicated in that report, this discussion and analysis is based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. The statements in this discussion and analysis concerning expectations regarding our future performance, liquidity and capital resources, as well as other non-historical statements in this discussion and analysis, are forward-looking statements. See "Risks Relating to Forward-Looking Statements" above. These forward-looking statements are subject to numerous risks and uncertainties. Our actual results could differ materially from those suggested or implied by any forward-looking statements.

You should read the following discussion in conjunction with our condensed consolidated financial statements and related notes beginning at page F-1 of this prospectus supplement, as well as our consolidated financial statements and related notes contained within the prospectus.

### **Overview**

We are engaged in the emerging secondary market for life insurance. We acquire life insurance policy benefits in the secondary market from policy owners desiring to sell their policies at a discount to the face value of the insurance benefit. Once we purchase a policy, we continue paying the policy premiums to ultimately collect the face value of the insurance benefit. We generally seek to hold the individual policies to maturity, in order to ultimately collect the policy's face value upon the insured's mortality. Our strategy is to build a large, profitable portfolio of policies that is diversified in terms of insureds, insurance carriers and the medical conditions of insureds. We believe that diversification among insureds (by age and medical conditions), and insurance carriers will lower our overall risk exposure, and that a larger portfolio of individual policies (diversification in overall number) creates a portfolio of greater value by virtue of improved actuarial stability.

### **Business Update**

GWG's business model provides value-added services to consumers owning life insurance and investors seeking alternative investment opportunities related to the life insurance secondary market. To participate and compete in what we expect to be a growth market, we have spent and intend to continue to spend significant resources: (i) developing

resources, strategies, and capabilities for investors to participate in a large portfolio of life insurance policies; and (ii) developing a robust operational platform, strategy, and systems for originating and purchasing life insurance benefits from consumers owning life insurance policies.

We continue to see increasing interest among investors and financial professionals participating in our \$1.0 billion L Bond offering. The L Bond offers investors the opportunity to obtain a high yielding investment whose performance is not tied to the stock market, commodities, or real estate. We believe these features are growing in popularity due to i) the prospect of general market interest rates being “lower for longer”, ii) increased volatility in traditional financial market (stocks, bonds, real estate, commodities and currencies) and iii) the realization among investors and financial professionals that the life insurance secondary market and related longevity investments are becoming a more main-stream asset class.

We also expect that our recently effective \$100,000,000 Redeemable Preferred Stock offering will appeal to investors and financial professionals for the same reasons enumerated above. We expect to continue growing our financial product distribution as awareness, understanding and interest in our asset class increases.

Our Redeemable Preferred Stock Offering is a key tool in strengthening our balance sheet and improving our capital structure. We believe that a successful offering of our Redeemable Preferred Stock will create a virtuous cycle within our capital structure and business. Our strengthened capital position will increase the equity value that is subordinated to our outstanding debt, which will in turn increase the attractiveness of the L Bond offering to financial advisors and investors seeking a high yielding, non-correlated return. These increased L Bond sale proceeds will allow us to grow our portfolio of life insurance and, ultimately, a large and actuarially diverse portfolio of life insurance policies should allow us to reduce our overall cost of capital and thereby enhance the value of the Company for its preferred and common stockholders.

A key strategic initiative of ours is to improve our origination protocols and practices for purchasing life insurance policy benefits. Historically, we have purchased policies in the secondary market through a network of life insurance agents, life insurance settlement brokers, and life settlement providers who assist policy owners in accessing the secondary market. Since the fourth quarter of 2014, we have been expanding our origination practices by marketing directly to consumers and by developing our unique Appointed Agent Program. We have engaged a strategic partner to assist us in the development of a specialized service center whose focus is sourcing qualified leads and processing life insurance policies directly for our purchase. We also recently began implementing (subject to state approval) the use of streamlined contracts and documents used in the purchase of policies, and have implemented the use of electronic signatures where permitted. In conjunction with these activities, we continue to refine the systems, processes and protocols, including a streamlined underwriting process for small face policies (\$1,000,000 in face value policy benefits or less) in order to efficiently acquire life insurance policies from our direct origination channels. In that regard we have reached several milestones, most notably, the time in which it takes to complete a preliminary underwriting of a prospective insurance policy for pricing and communicating an offer. In the past, the process of obtaining medical records and additional underwriting data sufficient to review and value a life insurance policy typically took six or more weeks. This has been a historically challenging element of the business, both for purchasers such as the Company, financial advisors, and consumers seeking options for their life insurance. Through continued efforts, we have been able to reduce this elapsed time from approximately six weeks to two days for certain life insurance policy purchases. These processes and methodologies continue to utilize life expectancies received from

third-party medical actuarial firms. In addition to obtaining third party life expectancies, we are rapidly working to deploy innovative and sophisticated underwriting techniques for our small face originations by applying advanced medical technologies and socio-economic factors into our underwriting methodology. We expect that these innovations will provide us with a competitive advantage in processing cases and purchasing life insurance policies.



We continue to develop and expand our activities related to recruiting and supporting our Appointed Agent Program with new advanced marketing tools and resources. Our Appointed Agent Program empowers financial professionals to bring the life insurance secondary market's value proposition directly to consumers owning life insurance. Central to the Appointed Agent Program is education, training, and marketing that support and empower financial professionals to offer clients significant value with a program that emphasizes regulatory compliance. Over the last three months, we have deployed new marketing efforts focused specifically on recruiting and expanding the number of financial professionals sourcing life insurance policies directly for us through our Appointed Agent Program. These efforts are being developed with the same strategic partner operating our specialized service center that is assisting us in processing qualified policy holder leads for our direct purchase.

Additionally, we continue to experience growing success in recruiting financial professionals into our Appoint Agent Program who also distribute our investment products. This dual offering enables financial professionals the opportunity to develop expertise in our business model and a specialization for their financial practice. In conjunction with these activities, we have continued to sharpen our service offerings and marketing tools for broker-dealers and financial advisors seeking to market our products and services. We believe these offerings have led to an increasing acceptance by the financial profession of our business model and industry since they address a growing need for post-retirement financial services to seniors owning life insurance.

While these efforts are all still relatively new and ongoing, the initial results and early outcomes from both our Appointed Agent Program and direct-to-consumer initiatives continue to be encouraging and are leading to a further focus on allocating resources to more fully realize the opportunity presented. In the past three months, we continue to experience increasing numbers of life insurance policies that are in our origination pipeline, with a portion of that increase being directly related to our direct origination efforts. All told, these direct origination efforts have accounted for approximately 30% of all new policy purchases during the quarter, up from nil previously, and now making up over 20% of all the life insurance policy benefits in our current origination pipeline as of November 11, 2015. Our origination pipeline includes all the life insurance policies we are currently gathering information, evaluating, bidding on, or in the process of closing a purchase. We expect to continue to work on these systems, including supporting marketing, technology, reporting, processing, and underwriting protocols through the balance of 2015.

We have also expanded our own footprint in the various states and jurisdictions where secondary market life settlement transactions are regulated. Of the 42 jurisdictions that require licensure, our wholly-owned subsidiaries GWG Life and GWG Life USA presently hold 35 licenses and have pending applications in another three jurisdictions.

As for the life insurance secondary market itself, we continue to see positive growth trends, evidenced by continued competition for policy purchases through traditional channels, continued consumer-direct marketing efforts by market participants, and a stable regulatory environment. One recent life insurance market development has been the notification from several life insurance carriers to policy owners of an increase in the cost of insurance (i.e., premiums) on select universal life insurance products. While the impacts of these increases are not yet known, nor is it known whether this trend will continue, the changes in cost of insurance have caused the industry to review its

practices and pricing assumptions in relation to the specific products and insurance carriers involved. At this time, the Company has identified that it has potential exposure to a cost of insurance increase announced by AXA Equitable Life Insurance Company. Nevertheless, the impact, if any, on our consolidated financial results has yet to be quantified.

In the first nine months of 2015, we recognized \$25.9 million of revenue from the receipt of \$29.7 million in policy benefits. In addition, we recognized revenue from the change in fair value of our life insurance policies, net of premiums and carrying costs, of \$7.5 million. In the first nine months of 2015, interest expense, including amortization of the deferred financing costs and preferred stock dividends, was \$23.1 million, and selling, general and administrative expenses were \$13.8 million. Income tax benefit for the first nine months of 2015 was \$0.7 million. Our net income before interest, taxes and amortization was \$19.9 million and our net loss after tax was \$2.6 million for the first nine months of 2015.

In the first nine months of 2014, we recognized \$2.3 million of revenue from the receipt of \$3.3 million in policy benefits. In addition, we recognized revenue from the change in fair value of our life insurance policies, net of premiums and carrying costs, of \$13.8 million. Interest expense, including amortization of the deferred financing costs and preferred stock dividends, was \$19.7 million for the nine months ended September 30, 2014, and selling, general and administrative expenses were \$8.4 million. Income tax benefit for the nine months ended September 30, 2014 was \$4.1 million. Our net income before interest, taxes and amortization was \$7.7 million and our net loss after tax was \$7.9 million for the first nine months of 2014.

To date, we have financed our business principally through the issuance of debt, including our registered public offerings of L Bonds and debt incurred by our subsidiary DLP Funding II under a senior revolving credit facility provided by Autobahn/DZ Bank. See the “Liquidity and Capital Resources” caption below.

## **Critical Accounting Policies**

### *Critical Accounting Estimates*

The preparation of our consolidated financial statements in accordance with the Generally Accepted Accounting Principles (GAAP) requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our judgments, estimates and assumptions on historical experience and on various other factors believed to be reasonable under the circumstances. Actual results could differ materially from these estimates. We evaluate our judgments, estimates and assumptions on a regular basis and make changes accordingly. We believe that the judgments, estimates and assumptions involved in the accounting for the valuation of investments in life insurance policies have the greatest potential impact on our consolidated financial statements and accordingly believe these to be our critical accounting estimates. Below we discuss the critical accounting policies associated with these estimates as well as certain other critical accounting policies.



### ***Ownership of Life Insurance Policies—Fair Value Option***

Our primary business involves the purchasing and financing of life insurance policies. As such, we account for the purchase of life insurance policies in accordance with Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC) 325-30, *Investments in Insurance Contracts*, which requires us to use either the investment method or the fair value method. We have elected to account for these life insurance policies as investments using the fair value method.

We initially record our purchase of life insurance policies at the transaction price, which is the amount paid for the policy, inclusive of all fees and costs associated with the acquisition. The fair value of our investment in the portfolio of insurance policies is evaluated at the end of each reporting period. Changes in the fair value of the portfolio of life insurance policies are based on periodic evaluations and are recorded as changes in fair value of life insurance policies in our consolidated and combined statement of operations. The fair value is determined as the net present value of the life insurance portfolio's future expected cash flows that incorporates current life expectancy estimates and discount rate assumptions.

In addition to reporting our results of operations and financial condition based on the fair value of our life insurance policies as required by GAAP, management also makes calculations based on the weighted average expected internal rate of return of the policies. See "Non-GAAP Financial Measures" below.

### ***Valuation of Insurance Policies***

Unobservable inputs, as discussed below, are a critical component of our estimate for the fair value of our investments in life insurance policies. We currently use a probabilistic method of estimating and valuing the projected cash flows of our portfolio of life insurance policies, which we believe to be the preferred and most prevalent valuation method in the industry. In this regard, the most significant assumptions we make are the life expectancy estimates of the insureds and the discount rate applied to the projected cash flows to be derived from our portfolio.

In determining life expectancy estimates, we generally use actuarial medical reviews from independent medical underwriters. These medical underwriters evaluate the health of the insured by reviewing historical and current medical records. This evaluation is performed to produce an estimate of the insured's mortality—a life expectancy report. In the case of a small face policy (\$1.0 million face value of policy benefits or less), we may use modified life expectancy methodologies that do not use actuarial medical reviews from independent medical underwriters. The life expectancy estimate represents a range of probabilities for the insured's mortality against a group of cohorts with the same age, sex and smoking status. These mortality probabilities represent a mathematical curve known as an actuarial

mortality curve, which is then used to generate a series of expected cash flows from the life insurance policy over the expected lifespan of the insured. A discount rate is used to calculate the net present value of the expected cash flows. The discount rate represents the internal rate of return we expect to earn on investments in a policy or in the portfolio as a whole at the stated fair value. The discount rate used to calculate fair value of our portfolio incorporates the guidance provided by ASC 820, *Fair Value Measurements and Disclosures*. Many of our current underwriting review processes, including our policy of obtaining actuarial medical reviews from independent medical underwriters as described above, are undertaken in satisfaction of obligations under our L Bond debt offerings and revolving credit facility. As a result, we may in the future modify our underwriting review processes if permitted under our borrowing arrangements.

The table below provides the discount rate used to estimate the fair value of the life insurance policies for the period ending:

| September | December |
|-----------|----------|
| 30, 2015  | 31, 2014 |
| 11.07%    | 11.43%   |

The discount rate incorporates current information about discount rates applied by other reporting companies owning portfolios of life insurance policies, discount rates observed in the secondary market, market interest rates, the credit exposure to the insurance company that issued the life insurance policy and management estimate of the risk premium a purchaser would require to receive the future cash flows derived from our portfolio of life insurance policies. The discount rate to arrive at the fair value of our portfolio assumes an orderly and arms-length transaction (i.e., a non-distressed transaction in which neither seller nor buyer is compelled to engage in the transaction).

We engaged a third party, Model Actuarial Pricing Systems (MAPS), to prepare a third-party valuation of our life settlement portfolio. MAPS owns and maintains the portfolio pricing software we use. MAPS processed policy data, future premium data, life expectancy estimate data, and other actuarial information we supply to calculate a net present value for our portfolio using the specified discount rate of 11.07%. MAPS independently calculated the net present value of our portfolio of 343 policies to be \$329.6 million, which is the same fair value estimate we used on the balance sheet as of September 30, 2015, and furnished us with a letter documenting its calculation. A copy of such letter is filed as Exhibit 99.1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2015, filed with the SEC on November 12, 2015.

### ***JOBS Act***

On April 5, 2012, the Jumpstart Our Business Startups Act of 2012, or JOBS Act, was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933 for complying with new or revised accounting standards. This means that an “emerging growth company” can make an election to delay the adoption of certain accounting standards until those standards would apply to private companies. We have elected to delay such adoption of new or revised accounting standards and, as a result, we may not comply with new or revised accounting standards at the same time as other public reporting companies that are not “emerging growth companies.” This exemption will apply for a period of five years following our first sale of common equity securities under an effective registration statement or until we no longer qualify as an “emerging growth company” as defined under the JOBS Act, whichever is earlier.

### ***Deferred Income Taxes***

FASB ASC 740, Income Taxes, requires us to recognize deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is established for any portion of deferred tax assets that is not considered more likely than not to be realized.

We have provided a valuation allowance against the deferred tax asset related to a note receivable because we believe that, when realized for tax purposes, it will result in a capital loss that will not be utilized because we have no expectation of generating a capital gain within the applicable carryforward period. Therefore, we do not believe that it is more likely than not that the deferred tax asset will be realized.

We have also provided a valuation allowance against the deferred tax asset related to a tax basis capital loss generated with respect to its settlement and subsequent disposal of our investment in Athena Structured Funds PLC (see “Notes to Consolidated Financial Statements” Note 10). As we have no expectation of generating capital gains within the applicable carry-forward period, we do not believe that it is more likely than not that the deferred asset will be realized.

A valuation allowance is required to be recognized to reduce deferred tax assets to an amount that is more likely than not to be realized. Realization of deferred tax assets depends upon having sufficient past or future taxable income in periods to which the deductible temporary differences are expected to be recovered or within any applicable carryback or carryforward periods. We believe that it is more likely than not that we will be able to realize all of our deferred tax assets other than that which is expected to result in a capital loss.

*Deferred Financing and Issuance Costs*

Financing costs incurred to obtain financing under the revolving credit facility have been capitalized and are amortized using the straight-line method over the term of the revolving credit facility. The Series I Secured Note obligations are reported net of issuance costs, sales commissions, and other direct expenses, which are amortized using the interest method over the term of each respective borrowing. The L Bonds are reported net of issuance costs, sales commissions, and other direct expenses, which are amortized using the interest method over the term of each respective borrowing. The Series A Preferred Stock is reported net of issuance costs, sales commissions, including the fair value of warrants issued, and other direct expenses, which are amortized using the interest method as interest expense over a three-year redemption period. As of December 31, 2014 these costs have been fully amortized.



## Principal Revenue and Expense Items

We earn revenues from three primary sources as described below.

*Policy Benefits Realized.* We recognize the difference between the death benefits and carrying values of the policy when an insured event has occurred and we determine that settlement and ultimate collection of the death benefits is realizable and reasonably assured. Revenue from a transaction must meet both criteria in order to be recognized. We generally collect the face value of the life insurance policy from the insurance company within 45 days of the insured's mortality.

*Change in Fair Value of Life Insurance Policies.* We have elected to carry our investments in life insurance policies at fair value in accordance with ASC 325-30, *Investments in Life Insurance Contracts*. Accordingly, we value our investments in our portfolio of life insurance policies each reporting period in accordance with the fair value principles discussed herein, which includes the expected payment of premiums for future periods.

*Sale of a Life Insurance Policy or a Portfolio of Life Insurance Policies.* In an event of a sale of a policy, we recognize gain or loss as the difference between the sale price and the carrying value of the policy on the date of the receipt of payment on such sale.

Our main components of expense are summarized below.

*Selling, General and Administrative Expenses.* We recognize and record expenses incurred in the operations of the purchasing and servicing of life insurance policies. These expenses include professional fees, salaries, and sales and marketing expenditures.

*Interest Expense.* We recognize and record interest expenses associated with the costs of financing our life insurance portfolio for the current period. These expenses include interest paid to our senior lender under our revolving credit facility, as well as all interest paid on our L Bonds and other outstanding indebtedness such as our subsidiary secured notes and dividends on convertible, redeemable preferred stock. When we issue long-term indebtedness, we amortize the issuance costs associated with such indebtedness over the outstanding term of the financing, and classify it as interest expense.

## Results of Operations — Three and Nine Months Ended September 30, 2015 Compared to the Same Periods in 2014

The following is our analysis of the results of operations for the periods indicated below. This analysis should be read in conjunction with our consolidated financial statements and related notes.

|                                                                                                                     | Three Months Ended |             | Nine Months Ended |              |
|---------------------------------------------------------------------------------------------------------------------|--------------------|-------------|-------------------|--------------|
|                                                                                                                     | September 30,      |             | September 30,     |              |
|                                                                                                                     | 2015               | 2014        | 2015              | 2014         |
| Revenue recognized from the receipt of policy benefits (1)                                                          | \$277,000          | \$2,070,000 | \$25,909,000      | \$2,301,000  |
| Revenue recognized from the change in fair value of life insurance policies, net of premiums and carrying costs (2) | 7,912,000          | 3,049,000   | 7,538,000         | 13,819,000   |
| Gain on life settlements, net                                                                                       | \$8,189,000        | \$5,118,000 | \$33,447,000      | \$16,120,000 |
| Number of policies matured                                                                                          | 1                  | 4           | 8                 | 7            |
| The change in fair value related to new policies acquired                                                           | \$7,423,000        | \$964,000   | \$12,546,000      | \$7,523,000  |

In the first nine months of 2015, we recognized \$25.9 million of revenue from the receipt of \$29.7 million in policy (1) benefits. In the first nine months of 2014, we recognized \$2.3 million of revenue from the receipt of \$3.3 million in policy benefits.

The change in the discount rate incorporates current information about discount rates applied by other reporting companies owning portfolios of life insurance policies, discount rates observed by us in the life insurance secondary market, market interest rates, the credit exposure to the issuing insurance companies and our estimate of the risk premium a purchaser would require to receive the future cash flows derived from our portfolio of life insurance policies. Because we use the discount rate to arrive at the fair value of our portfolio, the rate we choose necessarily assumes an orderly and arms-length transaction (i.e., a non-distressed transaction in which neither (2) seller nor buyer is compelled to engage in the transaction). The discount rate applied to estimate the fair value of the portfolio of life insurance policies we own was 11.07% as of September 30, 2015, compared to 11.56% as of September 30, 2014. The decrease in discount rate was primarily due to an increase in prices our competitors were purchasing life insurance policies in the secondary market, an increase in the size and diversity of our portfolio that we believe results in a lower risk premium due to an increase in actuarial stability for any potential buyer. The carrying value of policies acquired during each quarterly reporting period are adjusted to their current fair value using the fair value discount rate applied to the entire portfolio as of that reporting date.

|                                        | Three Months Ended |             |           | Nine Months Ended |             |             |
|----------------------------------------|--------------------|-------------|-----------|-------------------|-------------|-------------|
|                                        | September 30,      |             | Increase  | September 30,     |             | Increase    |
|                                        | 2015               | 2014        |           | 2015              | 2014        |             |
| Employee compensation and benefits (1) | \$2,308,000        | \$1,377,000 | \$931,000 | \$6,181,000       | \$3,524,000 | \$2,657,000 |
|                                        | 8,650,000          | 6,797,000   | 1,853,000 | 23,149,000        | 19,731,000  | 3,418,000   |

Interest expense (including  
amortization of deferred  
financing costs and preferred  
stock dividends) (2)

|                                        |              |              |             |              |              |             |
|----------------------------------------|--------------|--------------|-------------|--------------|--------------|-------------|
| Legal and professional expenses<br>(3) | 822,000      | 760,000      | 62,000      | 1,988,000    | 1,628,000    | 360,000     |
| Other expenses (4)                     | 2,232,000    | 1,453,000    | 779,000     | 5,646,000    | 3,278,000    | 2,368,000   |
| Total expenses                         | \$14,012,000 | \$10,387,000 | \$3,625,000 | \$36,964,000 | \$28,161,000 | \$8,803,000 |

(1) We employed more staff and hired additional members to our sales, marketing and information technology teams.

(2) The increase was due to the increase in the average debt outstanding.

(3) Increase is due to increased compliance work and SEC filings related to securities offerings.

Marketing, recruiting and other expenses increased due to the continued development of a direct marketing  
(4) campaign and related service center costs, increased activity related to our public offering of L Bonds and  
continued technology and infrastructure costs.

*Income Tax Expense.* For the three and nine months ended September 30, 2015, we had a loss of \$5,729,000 and \$3,285,000, respectively before income taxes and we recorded income tax benefits of \$2,098,000 and \$665,000, respectively, or 36.6% and 20.2%, respectively. In the same periods of 2014, we had a loss of \$5,258,000 and \$12,018,000 before income taxes and recorded income tax benefit of \$1,858,000 and \$4,130,000, respectively, or 35.3% and 34.4%, respectively. The primary differences between our effective tax rate and the statutory federal rate are the accrual of preferred stock dividend expense, state taxes, and other non-deductible expenses.

The following table provides a reconciliation of our income tax expense at the statutory federal tax rate to our actual income tax expense:

|                                            | Three Months Ended<br>September 30,<br>2015 |         | Nine Months Ended<br>September 30, 2015 |         | Three Months Ended<br>September 30,<br>2014 |         | Nine Months Ended<br>September 30,<br>2014 |         |
|--------------------------------------------|---------------------------------------------|---------|-----------------------------------------|---------|---------------------------------------------|---------|--------------------------------------------|---------|
| Statutory federal income tax               | \$(1,948,000)                               | 34.0%   | \$(1,117,000)                           | 34.0 %  | \$(1,788,000)                               | 34.0%   | \$(4,086,000)                              | 34.0%   |
| State income taxes, net of federal benefit | (334,000 )                                  | 5.8 %   | (105,000 )                              | 3.2 %   | (297,000 )                                  | 5.6 %   | (649,000 )                                 | 5.4 %   |
| Series A preferred stock dividends         | 175,000                                     | (3.1 )% | 526,000                                 | (16.0)% | 216,000                                     | (4.1 )% | 650,000                                    | (5.4 )% |
| Other permanent differences                | 9,000                                       | (0.1 )% | 31,000                                  | (1.0 )% | 11,000                                      | (0.2 )% | (45,000 )                                  | 0.4 %   |
| Total income tax expense                   | \$(2,098,000)                               | 36.6%   | \$665,000                               | 20.2 %  | \$(1,858,000)                               | 35.3%   | \$(4,130,000)                              | 34.4%   |

The most significant temporary differences between GAAP net income and taxable net income are the treatment of interest costs with respect to the acquisition of the life insurance policies and revenue recognition with respect to the mark-to-market of life insurance portfolio.

## Liquidity and Capital Resources

We finance our business through a combination of policy benefit revenues, origination fees, equity offerings, debt offerings, and a credit facility. We have used our debt offerings and credit facility primarily for policy acquisition, policy servicing and portfolio related financing expenditures. We charge an intercompany origination fee in the amount of one to four percent of the face value of a life insurance policy's benefit when we acquire the related life insurance policy. The origination fee we charge is included in the total purchase price we pay for a life insurance policy for purposes of our valuation and expected internal rate of return calculations, but is not netted against the purchase price we pay to a seller of an insurance policy. We generated cash flows \$1.0 million and \$2.0 million from origination fees during the three and nine months ended September 30, 2015, and \$0.2 million and \$1.5 million during the same periods in 2014. Profit from intra-company origination fees for life insurance policies retained by us are eliminated from our consolidated statements of operations. As such, the origination fees collected under our life insurance policy financing arrangements are reflected in our consolidated statements of cash flows as cash flows from financing activities as they are received from borrowings used to finance the acquisition of life insurance policies. Our borrowing agreements allow us to use net proceeds of the L Bonds for policy acquisition, which includes origination fees. If the policy acquisition is not financed, no fees are included in the consolidated cash flows. See "Cash Flows" below for further information. We determine the purchase price of life insurance policies in accordance with ASC 325-30, *Investments in Insurance Contracts*, using the fair value method. Under the fair value method, the initial

investment is recorded at the transaction price. Because the origination fees are paid from a wholly owned subsidiary to the parent company, these fees are not included in the transaction price as reflected in our consolidated financial statements. For further discussion on our accounting policies for life settlements, please refer to note 1 to our consolidated financial statements.

As of September 30, 2015 and December 31, 2014, we had approximately \$84.1 million and \$51.2 million, respectively, in combined available cash and available borrowing base surplus capacity under our revolving credit facility for the purpose of purchasing additional life insurance policies, paying premiums on existing policies, paying portfolio servicing expenses, and paying principal and interest on our outstanding financing obligations.

On October 30, 2015, we began to publicly offer for sale 100,000 shares of Redeemable Preferred Stock under a Form S-1 registration statement declared effective by the SEC.

In January 2015, we began to publicly offer for sale \$1.0 billion in principal amount of our L Bonds under a Form S-1 registration statement declared effective by the SEC. The \$1.0 billion public offering of L Bonds is as a follow-on offering to our \$250.0 million public offering of Renewable Secured Debentures (subsequently renamed L Bonds) that was registered with the SEC and completed January 2015. Through September 30, 2015, the total amount of these L Bonds sold, including renewals, was \$376.8 million. As of September 30, 2015, we had approximately \$247.6 million in principal amount of L Bonds outstanding.

On September 24, 2014, we consummated an initial public offering of our common stock resulting in the sale of 800,000 shares of common stock at \$12.50 per share and net proceeds of approximately \$8.6 million after the deduction of underwriting commissions, discounts and expense reimbursements. We used the net proceeds from the offering to promote and advertise the opportunities for consumers owning life insurance and investors to profit from participating in the secondary market for life insurance policies, to purchase additional life insurance policies in the secondary market, to pay premiums on our life insurance policy assets, to fund our portfolio operations, and for working capital purposes.

In September 2012, we concluded a Series A Preferred Stock offering, having received an aggregate \$24.6 million in subscriptions for our Series A Preferred Stock. These subscriptions consisted of \$14.0 million in conversions of outstanding Series I Secured Notes and \$10.6 million of new investments. We have used the proceeds from the sale of our Series A Preferred Stock to fund our operational expenditures.

In November 2009, we issued our first debt securities through our wholly owned subsidiary GWG Life commenced private placement of Series I Secured Notes to accredited investors only. This offering was closed in November 2011 and was followed-on by our first publicly registered \$250.0 million debt offering of Renewable Secured Debentures (subsequently renamed L Bonds). As of September 30, 2015, we had approximately \$23.9 million in principal amount of Series I Secured Notes outstanding.

The weighted-average interest rate of our outstanding Series I Secured Notes as of September 30, 2015 and December 31, 2014 was 8.47% and 8.37%, respectively, and the weighted-average maturity at those dates was 1.20 and 1.11 years, respectively. The Series I Secured Notes have renewal features. Since we first issued our Series I Secured Notes, we have experienced \$148.3 million in maturities, of which as of September 30, 2015, \$114.5 million has renewed for an additional term. This has provided us with an aggregate renewal rate of approximately 77% for investments in these securities.

The weighted-average interest rate of our outstanding L Bonds as of September 30, 2015 and December 31, 2014 was 7.21% and 7.45%, respectively, and the weighted-average maturity at those dates was 1.96 and 2.01 years, respectively. Our L Bonds have renewal features that provide that investors will remain in their investment with GWG unless they provide us with notice within 30 days of the maturity of their bond. Since we first issued our L Bonds, we have experienced \$129.1 million in maturities, of which as of September 30, 2015, \$80.1 million has renewed for an additional term. This has provided us with an aggregate renewal rate of approximately 62% for investments in these securities. Future contractual maturities of Series I Secured Notes and L Bonds at September 30, 2015 are:

| <b>Years Ending December 31,</b> | <b>Series I<br/>Secured<br/>Notes</b> | <b>L Bonds</b> | <b>Total</b>  |
|----------------------------------|---------------------------------------|----------------|---------------|
| 2015                             | \$1,776,000                           | \$22,691,000   | \$24,467,000  |
| 2016                             | 12,827,000                            | 81,569,000     | 94,396,000    |
| 2017                             | 6,154,000                             | 52,228,000     | 58,382,000    |
| 2018                             | 998,000                               | 46,946,000     | 47,944,000    |
| 2019                             | 347,000                               | 13,642,000     | 13,989,000    |
| Thereafter                       | 1,816,000                             | 30,477,000     | 32,293,000    |
|                                  | \$23,918,000                          | \$247,553,000  | \$271,471,000 |

The L Bonds and Series I Secured Notes are secured by all our assets, and are subordinate to our revolving credit facility with Autobahn/DZ Bank. The L Bonds and Series I Secured Notes are pari passu with respect to a security interest in our assets pursuant to an intercreditor agreement (see notes 6 and 7 to our consolidated financial statements).

We maintain a \$105 million revolving credit facility with Autobahn/DZ Bank through GWG Life's wholly owned subsidiaries DLP II and DLP III. The revolving credit facility is used to pay the premium expenses related to GWG's portfolio of life insurance policies. As of both September 30, 2015 and December 31, 2014, we had approximately \$65.0 million and \$72.2 million, respectively, outstanding under the revolving credit facility and maintained an available borrowing base surplus of \$55.6 million and \$20.6 million, respectively. Effective May 11, 2015, we amended and restated our credit facility to reduce the interest cost and extend the term of the facility to June 2018 (see note 5 to our condensed consolidated financial statements).

We expect to meet our ongoing operational capital needs through a combination of the receipt of policy benefit revenues and proceeds from financing transactions. We expect to meet our policy acquisition, servicing, and financing capital needs from the receipt of policy benefit revenues from our portfolio of life insurance policies, net proceeds from our offerings of L Bonds and Redeemable Preferred Stock, and from borrowings under our revolving credit facility to the extent available. Furthermore, we expect that policy benefit payments will increase as the average age of the insureds increase and mortality events occur at a greater rate over time, a trend which we experienced during periods in 2014-2015 and that we expect will reoccur with greater frequency in the future. As a result of the foregoing, we estimate that our liquidity and capital resources are sufficient for our current and projected financial needs. Nevertheless, if we are unable to continue for any reason to access the credit and capital markets through our offerings of L Bonds or Redeemable Preferred Stock, and we are unable to obtain capital from other sources, we expect that our business would be materially and adversely affected. In addition, our business would be materially and adversely affected if we did not receive the policy benefits we forecast and if holders of our L Bonds or Series I Secured Notes failed to renew with the frequency we have historically experienced. In such a case, we could be forced to sell our investments in life insurance policies to service or satisfy our debt-related obligations and continue to pay policy premiums.

Capital expenditures have historically not been material and we do not anticipate making material capital expenditures in 2015 or beyond.

***Debt Financings Summary***

We had the following outstanding debt balances as of September 30, 2015:

| Issuer/Borrower                                     | Principal     | Weighted |      |
|-----------------------------------------------------|---------------|----------|------|
|                                                     | Amount        | Average  |      |
|                                                     | Outstanding   | Interest | Rate |
| GWG Holdings, Inc. - L Bonds                        | \$247,553,000 | 7.21     | %    |
| GWG Life Settlements, LLC - Series I Secured Notes  | 23,918,000    | 8.47     | %    |
| GWG DLP Funding II, LLC - Revolving credit facility | 65,011,000    | 5.43     | %    |
| Total                                               | \$336,482,000 | 6.96     | %    |

Our total credit facility and other indebtedness balance as of September 30, 2015 and December 31, 2014 was \$336.5 million and \$286.6 million, respectively. At September 30, 2015, the total outstanding face amount under our Series I Secured Notes outstanding was \$23.9 million, less unamortized selling costs of \$0.3 million, resulting in a carrying amount of \$23.6 million. At December 31, 2014, the total outstanding face amount under our Series I Secured Notes outstanding was \$28.0 million, less unamortized selling costs of \$0.4 million, resulting in a carrying amount of \$27.6 million. At September 30, 2015, the total outstanding face amount of L Bonds was \$247.6 million plus \$2.3 million of subscriptions in process, less unamortized selling costs of \$6.8 million resulting in a carrying amount of \$243.1 million. At December 31, 2014, the total outstanding face amount of L Bonds was \$186.4 million plus \$2.3 million of subscriptions in process, less unamortized selling costs of \$5.9 million resulting in a carrying amount of \$182.8 million. At September 30, 2015, the fair value of our investments in life insurance policies of \$329.6 million plus our cash balance of \$28.4 million and our restricted cash balance of \$7.3 million, totaled \$365.3 million, representing an excess of portfolio assets over secured indebtedness of \$28.8 million. At December 31, 2014, the fair value of our investments in life insurance policies of \$282.8 million plus our cash balance of \$30.7 million and our restricted cash balance of \$4.3 million, totaled \$317.8 million, representing an excess of portfolio assets over secured indebtedness of \$31.2 million. At September 30, 2015 our weighted average cost of capital was approximately 6.96%. The L Bonds and Series I Secured Notes are secured by all our assets and are subordinate to our revolving credit facility with Autobahn/DZ Bank. The L Bonds and Series I Secured Notes are pari passu with respect to a security interest in our asset pursuant to an intercreditor agreement.

The following forward-looking table seeks to illustrate the impact of the sale of our portfolio of life insurance assets at various discount rates in order to satisfy our debt obligations as of September 30, 2015. In all cases, the sale of the life insurance assets owned by DLP II and DLP III will be used first to satisfy all amounts owing under the revolving credit facility with Autobahn/ DZ Bank. The net sale proceeds remaining after satisfying all obligations under the revolving credit facility would be applied to L Bonds and Series I Secured Notes on a pari passu basis.



| Portfolio Discount Rate                             | <b>10%</b>    | <b>11%</b>    | <b>12%</b>    | <b>13%</b>    | <b>14%</b>    |
|-----------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Value of portfolio                                  | \$346,250,000 | \$330,610,000 | \$316,182,000 | \$302,844,000 | \$290,486,000 |
| Cash and cash equivalents                           | 35,724,000    | 35,724,000    | 35,724,000    | 35,724,000    | 35,724,000    |
| Total assets                                        | 381,974,000   | 366,334,000   | 351,906,000   | 338,568,000   | 326,210,000   |
| Revolving credit facility<br>Autobahn/DZ Bank       | 65,011,000    | 65,011,000    | 65,011,000    | 65,011,000    | 65,011,000    |
| Net after revolving credit<br>facility              | 316,963,000   | 301,323,000   | 286,895,000   | 273,557,000   | 261,199,000   |
| Series I Secured Notes and<br>L Bonds               | 271,471,000   | 271,471,000   | 271,471,000   | 271,471,000   | 271,471,000   |
| Net after Series I Secured<br>Notes and L Bonds     | 45,492,000    | 29,852,000    | 15,424,000    | 2,086,000     | (10,272,000 ) |
| Impairment to Series I<br>Secured Notes and L Bonds | No impairment | No impairment | No impairment | No impairment | Impairment    |

The table illustrates that our ability to fully satisfy amounts owing under the L Bonds and Series I Secured Notes would likely be impaired upon the sale of all our life insurance assets at a price equivalent to a discount rate of approximately 13.16% or higher. At December 31, 2014 the impairment occurred at discount rate of approximately 14.09% or higher. The discount rates used to calculate the fair value of our portfolio for mark-to-market accounting were 11.07% and 11.43% as of September 30, 2015 and December 31, 2014, respectively.

The table does not include any allowance for transactional fees and expenses associated with a portfolio sale (which expenses and fees could be substantial), and is provided to demonstrate how various discount rates used to value our portfolio could affect our ability to satisfy amounts owing under our debt obligations, in light of our senior secured lender's right to priority payments. You should read the above table in conjunction with the information contained in other sections of this prospectus supplement, including our discussion of discount rates included under the "— Critical Accounting Policies — Valuation of Insurance Policies" caption above. This discussion and analysis is based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. The forward-looking presentation above is subject to numerous risks and uncertainties. Our actual results could differ materially from those suggested or implied by the above table. Please see the caption "Risk Relating to Forward-Looking Statements" above.

***Amended and Restated Credit Facility***

Effective May 11, 2015, GWG Holdings, together with certain of its subsidiaries, entered into a Second Amended and Restated Credit and Security Agreement with Autobahn Funding Company LLC, as the conduit lender, and DZ Bank AG Deutsche Zentral-Genossenschaftsbank, as the committed lender and as the agent on behalf of secured parties under such agreement. The Second Amended and Restated Credit and Security Agreement extends the maturity date of borrowings made by the Company's subsidiaries, DLP II and DLP III, to June 30, 2018. Advances under the credit facility made after May 11, 2015 will bear interest at the commercial paper rate of the lender at the time of the advance plus an applicable margin, which is less than under the previous Credit and Security Agreement executed on January 25, 2013. In addition to the extended term and decreased interest rate and borrowing cost, the Second Amended and Restated Credit and Security Agreement also removes the requirement that the Company maintain a reserve for certain projected expenditures (including anticipated premium payments required to service its life insurance portfolio), thereby allowing for the Company's full use of the credit facility up to its limit of \$105,000,000.

**Cash Flows**

The payment of premiums and servicing costs to maintain life insurance policies represents our most significant requirement for cash disbursement. When a policy is purchased, we are able to calculate the minimum premium payments required to maintain the policy in-force. Over time as the insured age, premium payments will increase; however, the probability of actually needing to pay the premiums decreases since mortality becomes more likely. These scheduled premiums and associated probabilities are factored into our expected internal rate of return and cash-flow modeling described herein. Beyond premiums, we incur policy servicing costs, including annual trustee and tracking costs, and debt servicing costs, including principal and interest payments. Until we receive a stable amount of proceeds from the policy benefits, we intend to pay these costs from our credit facility, when permitted, and through the issuance of debt securities, including the L Bonds.

The amount of payments for anticipated premiums and servicing costs that we will be required to make over the next five years to maintain our current portfolio, assuming no mortalities, is set forth in the table below.

| <b>Years Ending December 31,</b>     | <b>Premiums</b> | <b>Servicing</b> | <b>Premiums and Servicing Fees</b> |
|--------------------------------------|-----------------|------------------|------------------------------------|
| Nine months ending December 31, 2015 | \$7,315,000     | \$412,000        | \$7,727,000                        |
| 2016                                 | 30,433,000      | 412,000          | 30,845,000                         |
| 2017                                 | 33,390,000      | 412,000          | 33,802,000                         |
| 2018                                 | 36,241,000      | 412,000          | 36,653,000                         |
| 2019                                 | 40,520,000      | 412,000          | 40,932,000                         |
| 2020                                 | 45,023,000      | 412,000          | 45,435,000                         |

Edgar Filing: GWG Holdings, Inc. - Form 424B3

\$ 192,922,000 \$ 2,472,000 \$ 195,394,000

For the quarter end dates set forth below, the following table illustrates the total amount of face value of policy benefits owned, and the trailing 12 months of life insurance policy benefits collected and premiums paid on our portfolio. The trailing 12-month benefits/premium coverage ratio indicates the ratio of policy benefits received to premiums paid over the trailing 12-month period from our portfolio of life insurance policies.

| Quarter End Date   | Portfolio<br>Face<br>Amount | 12-Month                          | 12-Month                     | 12-Month                     | Coverage Ratio |
|--------------------|-----------------------------|-----------------------------------|------------------------------|------------------------------|----------------|
|                    |                             | Trailing<br>Benefits<br>Collected | Trailing<br>Premiums<br>Paid | Trailing<br>Benefits/Premium |                |
| March 31, 2012     | \$482,455,000               | \$4,203,000                       | \$14,977,000                 | 28.06                        | %              |
| June 30, 2012      | 489,255,000                 | 8,703,000                         | 15,412,000                   | 56.47                        | %              |
| September 30, 2012 | 515,661,000                 | 7,833,000                         | 15,837,000                   | 49.46                        | %              |
| December 31, 2012  | 572,245,000                 | 7,350,000                         | 16,597,000                   | 44.28                        | %              |
| March 31, 2013     | 639,755,000                 | 11,350,000                        | 18,044,000                   | 62.90                        | %              |
| June 30, 2013      | 650,655,000                 | 13,450,000                        | 19,182,000                   | 70.11                        | %              |
| September 30, 2013 | 705,069,000                 | 18,450,000                        | 20,279,000                   | 90.98                        | %              |
| December 31, 2013  | 740,648,000                 | 16,600,000                        | 21,733,000                   | 76.38                        | %              |
| March 31, 2014     | 771,940,000                 | 12,600,000                        | 21,930,000                   | 57.46                        | %              |
| June 30, 2014      | 784,652,000                 | 6,300,000                         | 22,598,000                   | 27.88                        | %              |
| September 30, 2014 | 787,964,000                 | 4,300,000                         | 23,121,000                   | 18.60                        | %              |
| December 31, 2014  | 779,099,000                 | 18,050,000                        | 23,265,000                   | 77.58                        | %              |
| March 31, 2015     | 754,942,000                 | 46,675,000                        | 23,786,000                   | 196.23                       | %              |
| June 30, 2015      | 806,274,000                 | 47,125,000                        | 24,348,000                   | 193.55                       | %              |
| September 30, 2015 | 878,882,000                 | 44,482,000                        | 25,313,000                   | 175.72                       | %              |

We believe that the portfolio cash flow results set forth above are consistent with our general investment thesis: that the life insurance policy benefits we receive will continue to increase over time in relation to the premiums we are required to pay on the remaining policies in the portfolio. Nevertheless, we expect that our portfolio cash flow results on a period-to-period basis will remain inconsistent until such time as we achieve our goal of acquiring a larger, more diversified portfolio of life insurance policies in order to obtain more normalized actuarial results. As our receipt of life insurance policy benefits increases, we expect to begin servicing and paying down our outstanding indebtedness, or alternatively purchasing additional life insurance policies, from these cash flows.

The life insurance policies owned by DLP II and DLP III are subject to a collateral arrangement with the agent to our revolving credit lender, as described in note 5 to the consolidated financial statements. Under this arrangement, collection and escrow accounts are used to fund purchases and premiums of the insurance policies and to pay interest and other charges under our revolving credit facility. The lender and its agent must authorize all disbursements from these accounts, including any distributions to GWG Life or GWG Holdings. If the facility advance rate exceeds 50%, the distributions are limited to an amount that would result in the borrowers (DLP II, DLP III, GWG Life, and GWG Holdings) realizing an annualized rate of return on the equity funded amount for such assets of not more than 18%, as determined by the agent. After such amount is reached, the credit agreement requires that excess funds be used for repayments of borrowings before any additional distributions may be made. In the future, these arrangements may restrict the cash flows available for payment of principal and interest on our debt obligations.

## **Inflation**

Changes in inflation do not necessarily correlate with changes in interest rates. We presently do not foresee any material impact of inflation on our results of operations in the periods presented in our consolidated financial statements.

## **Off-Balance Sheet Arrangements**

GWG Holdings entered into an office lease with U.S. Bank National Association as the landlord. The original lease was for 11,695 square feet of office space located at 220 South Sixth Street, Minneapolis, Minnesota. The original lease agreement was effective April 22, 2012, amended on December 14, 2014 and expired on August 31, 2015. Effective September 14, 2015, GWG Holdings entered into a second amendment to the lease with U.S. Bank National Association (Second Amendment to Lease). The Second Amendment to Lease increases the office space area to 12,813 square feet and extends the lease expiration date by approximately ten years (see note 14 to our condensed consolidated financial statements).

## **Credit Risk**

We review the credit risk associated with our portfolio of life insurance policies when estimating its fair value. In evaluating the policies' credit risk we consider insurance company solvency, credit risk indicators, economic conditions, ongoing credit evaluations, and company positions. We attempt to manage our credit risk related to life insurance policies typically by purchasing policies issued only from companies with an investment grade credit rating by either Standard & Poor's, Moody's, or A.M. Best Company. As of September 30, 2015, 97.4% of our life insurance policies, by face value benefits, were issued by companies that maintained an investment grade rating (BBB or better) by Standard & Poor's.

## **Interest Rate Risk**

Our credit facility is floating-rate financing. In addition, our ability to offer interest rates that attract capital (including in the offer and sale of L Bonds) is generally impacted by prevailing interest rates. Furthermore, while our other indebtedness provides us with fixed-rate financing, our debt coverage ratio is calculated in relation to our total cost of financing. Therefore, fluctuations in interest rates impact our business by increasing our borrowing costs, and reducing availability under our debt financing arrangements. Furthermore, we calculate our portfolio earnings based upon the spread generated between the return on our life insurance portfolio and the cost of our financing. As a result, increases in interest rates will reduce the earnings we expect to achieve from our investments in life insurance policies.

## **Non-GAAP Financial Measures**

We use non-GAAP financial measures when evaluating our financial results, for planning and forecasting purposes, and for maintaining compliance with covenants contained in our borrowing agreements. Non-GAAP financial measures disclosed by management are provided as additional information to investors in order to provide them with an alternative method for assessing our financial condition and operating results. These non-GAAP financial measures are not in accordance with GAAP and may be different from non-GAAP measures used by other companies, including other companies within our industry. This presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for comparable amounts prepared in accordance with GAAP. See the notes to our consolidated financial statements and our audited financial statements contained herein.

We have elected to carry our investments in life insurance policies at fair value in accordance with ASC 325-30, *Investments in Life Insurance Contracts*. Accordingly, we value our investments in life insurance policies at the conclusion of each reporting period in accordance with GAAP fair value accounting principles. In addition to GAAP, we are required to report non-GAAP financial measures to Autobahn/DZ Bank under certain financial covenants made to that lender under our revolving credit facility. As indicated above, we also use non-GAAP financial reporting to manage and evaluate the financial performance of our business.

GAAP-based fair value requires us to mark-to-market our investments in life insurance policies, which by its nature, is based upon Level 3 measurements that are unobservable. As a result, this accounting treatment imports financial market volatility and subjective inputs into our financial reporting. We believe this type of accounting reporting is at odds with one of the key attractions for purchasing and owning a portfolio life insurance policies: the non-correlated nature of the returns to be derived from such policies. Therefore, in contrast to a GAAP-based fair valuation, we seek to measure the accrual of the actuarial gain occurring within the portfolio of life insurance policies at their expected internal rate of return based on statistical actuarial mortality probabilities for the insureds (using primarily the insured's age, sex and smoking status). The expected internal rate of return tracks actuarial gain occurring within the policies

according to a mortality table as the insureds' age increases. By comparing the actuarial gain accruing within our portfolio of life insurance policies against our costs during the same period, we can estimate, manage and evaluate the overall financial profitability of our business without regard to mark-to-market volatility. We use this information to balance our life insurance policy purchasing and manage our capital structure, including the issuance of debt and utilization of our other sources of capital, and to monitor our compliance with borrowing covenants. We believe that these non-GAAP financial measures provide information that is useful for investors to understand period-over-period operating results separate and apart from fair value items that may, or could, have a disproportionately positive or negative impact on results in any particular period.

Our credit facility requires us to maintain a "positive net income" and "tangible net worth" each of which are calculated on an adjusted non-GAAP basis on the method described above, without regard to GAAP-based fair value measures. In addition, our revolving credit facility requires us to maintain an "excess spread," which is the difference between (i) the weighted average of our expected internal rate of return of our portfolio of life insurance policies and (ii) the weighted average of our credit facility's interest rate. These calculations are made using non-GAAP measures in the method described below, without regard to GAAP-based fair value measures.

In addition, our L Bonds and Series I Secured Notes require us to maintain a "debt coverage ratio" designed to ensure that the expected cash flows from our portfolio of life insurance policies is able to adequately service our total outstanding indebtedness. In addition, our L Bonds requires us to maintain a "subordination ratio" which limits the total amount of indebtedness that can be issued senior in rank to the L Bonds and Series I Secured Notes. These ratios are calculated using non-GAAP measures in the method described below, without regard to GAAP-based fair value measures.

*Adjusted Non-GAAP Net Income.* Our credit facility requires us to maintain a positive net income calculated on an adjusted non-GAAP basis. We calculate the adjusted net income by recognizing the actuarial gain accruing within our life insurance policies at the expected internal rate of return of the policies we own without regard to fair value. We net this actuarial gain against our costs during the same period to calculate our net income on a non-GAAP basis.

|                                          | Three Months Ended |                | Nine Months Ended |                |
|------------------------------------------|--------------------|----------------|-------------------|----------------|
|                                          | September 30,      |                | September 30,     |                |
|                                          | 2015               | 2014           | 2015              | 2014           |
| GAAP net loss                            | \$(3,631,000 )     | \$(3,400,000 ) | \$(2,620,000 )    | \$(7,888,000 ) |
| Unrealized fair value gain (1)           | (14,517,000)       | (8,762,000 )   | (26,651,000)      | (30,973,000)   |
| Adjusted cost basis increase (2)         | 13,345,000         | 10,982,000     | 37,988,000        | 33,156,000     |
| Accrual of unrealized actuarial gain (3) | 9,201,000          | 8,082,000      | 21,417,000        | 23,209,000     |
| Total adjusted non-GAAP net income (4)   | \$4,398,000        | \$6,902,000    | \$30,134,000      | \$17,504,000   |

(1) Reversal of unrealized GAAP fair value gain of life insurance policies for current period.

(2) Adjusted cost basis is increased to include those acquisition and servicing expenses that are not capitalized by GAAP.

(3) Accrual of actuarial gain at the expected internal rate of return based on the investment cost basis for the period.

(4) We must maintain an annual positive consolidated net income, calculated on a non-GAAP basis, to maintain compliance with our revolving credit facility with DZ Bank/Autobahn.

*Adjusted Non-GAAP Tangible Net Worth.* Our revolving credit facility requires us to maintain a tangible net worth in excess of \$45 million calculated on an adjusted non-GAAP basis. We calculate the adjusted tangible net worth by recognizing the actuarial gain accruing within our life insurance policies at the expected internal rate of return of the policies we own without regard to fair value. We net this actuarial gain against our costs during the same period to calculate our tangible net worth on a non-GAAP basis.

|                                                | As of          | As of         |
|------------------------------------------------|----------------|---------------|
|                                                | September 30,  | December 31,  |
|                                                | 2015           | 2014          |
| GAAP net worth (1)                             | \$20,772,000   | \$22,390,000  |
| Less intangible assets (2)                     | (11,239,000 )  | (8,132,000 )  |
| GAAP tangible net worth                        | 9,533,000      | 14,258,000    |
| Unrealized fair value gain (3)                 | (181,323,000 ) | (154,672,000) |
| Adjusted cost basis increase (4)               | 176,190,000    | 147,673,000   |
| Accrual of unrealized actuarial gain (5)       | 101,205,000    | 80,122,000    |
| Total adjusted non-GAAP tangible net worth (6) | \$105,605,000  | \$87,381,000  |



- (1) Also referred to as GAAP book value.
- (2) Unamortized portion of deferred financing costs and pre-paid insurance.
- (3) Reversal of cumulative unrealized GAAP fair value gain or loss of life insurance policies.
- (4) Adjusted cost basis is increased by cumulative acquisition and servicing expenses which are not capitalized under GAAP.
- (5) Accrual of cumulative actuarial gain at expected internal rate of return based on investment cost basis.
- (6) We must maintain a total adjusted non-GAAP tangible net worth of \$45 million to maintain compliance with our revolving credit facility with DZ Bank/Autobahn.

*Excess Spread.* Our revolving credit facility requires us to maintain a 2.00% “excess spread” between our expected internal rate of return of our portfolio of life insurance policies and the credit facility’s interest rate. A presentation of our excess spread and our total excess spread is set forth below. Management uses the “total excess spread” to gauge expected profitability of our investments, and uses the “excess spread” to monitor compliance with our borrowing.

|                                                                             | <b>As of</b>         |   | <b>As of</b>        |   |
|-----------------------------------------------------------------------------|----------------------|---|---------------------|---|
|                                                                             | <b>September 30,</b> |   | <b>December 31,</b> |   |
|                                                                             | <b>2015</b>          |   | <b>2014</b>         |   |
| Expected IRR (1)                                                            | 11.22                | % | 11.78               | % |
| Weighted-average revolving credit facility interest rate (2)                | 5.43                 | % | 6.24                | % |
| Excess spread (3)                                                           | 5.79                 | % | 5.54                | % |
| Total weighted-average interest rate on indebtedness for borrowed money (4) | 6.96                 | % | 7.24                | % |
| Total excess spread (5)                                                     | 4.26                 | % | 4.54                | % |

(1) This represents the weighted-average expected internal rate of return of the life insurance policies as of the measurement date based upon our investment cost basis of the insurance policies and the expected cash flows from the life insurance portfolio. Our investment cost basis is calculated as our cash investment in the life insurance policies, without regard to GAAP-based fair value measurements, and is set forth below:

|                                  | <b>As of</b>              | <b>As of</b>             |
|----------------------------------|---------------------------|--------------------------|
|                                  | <b>September 30, 2015</b> | <b>December 31, 2014</b> |
| Investment Cost Basis            |                           |                          |
| GAAP fair value                  | \$329,562,000             | \$282,883,000            |
| Unrealized fair value gain (A)   | (181,323,000)             | (154,672,000)            |
| Adjusted cost basis increase (B) | 176,190,000               | 147,673,000              |
| Investment cost basis (C)        | \$324,429,000             | \$275,884,000            |

(A) This represents the reversal of cumulative unrealized GAAP fair value gain of life insurance policies.

(B) Adjusted cost basis is increased to include those acquisition and servicing expenses that are not capitalized by GAAP.

(C) This is the full investment cost basis in life insurance policies from which our expected internal rate of return is calculated.

(2) This is the weighted-average revolving credit relating to our revolving credit facility interest rate as of the measurement date.

(3) We must maintain an excess spread of 2.00% relating to our revolving credit facility to maintain compliance under such facility.

(4) Represents the weighted-average interest rate paid on all outstanding indebtedness as of the measurement date, determined as follows:

|                          | <b>As of</b>         | <b>As of</b>        |
|--------------------------|----------------------|---------------------|
|                          | <b>September 30,</b> | <b>December 31,</b> |
|                          | <b>2015</b>          | <b>2014</b>         |
| Outstanding Indebtedness |                      |                     |

Edgar Filing: GWG Holdings, Inc. - Form 424B3

|                           |                |                |
|---------------------------|----------------|----------------|
| Revolving credit facility | \$ 65,011,000  | \$ 72,161,000  |
| Series I Secured Notes    | 23,918,000     | 28,047,000     |
| L Bonds                   | 247,553,000    | 186,377,000    |
| Total                     | \$ 336,482,000 | \$ 286,585,000 |

Interest Rates on Indebtedness

|                                                 |        |        |
|-------------------------------------------------|--------|--------|
| Revolving credit facility                       | 5.43 % | 6.24 % |
| Series I Secured Notes                          | 8.47 % | 8.37 % |
| L Bonds                                         | 7.21 % | 7.45 % |
| Weighted-average interest rates on indebtedness | 6.96 % | 7.24 % |

(5) Calculated as expected IRR (1) minus the weighted-average interest rate on indebtedness for borrowed money (4).

*Debt Coverage Ratio and Subordination Ratio.* Our L Bonds and Series I Secured Notes require us to maintain a “debt coverage ratio” of less than 90%. The “debt coverage ratio” is calculated by dividing the sum of our total indebtedness by the sum of our cash and cash equivalents and the net present value of the life insurance portfolio. The “subordination ratio” for our L Bonds is calculated by dividing the total indebtedness that is senior to L Bonds and Series I Secured Notes by the sum of the Company’s cash and cash equivalents and the net present value of the life insurance portfolio. The “subordination ratio” must be less than 50%. For purposes of both ratio calculations, the net present value of the life insurance portfolio is calculated using a discount rate equal to the weighted average interest rate of all indebtedness.

|                                                               | <b>As of</b>         |   | <b>As of</b>        |   |
|---------------------------------------------------------------|----------------------|---|---------------------|---|
|                                                               | <b>September 30,</b> |   | <b>December 31,</b> |   |
|                                                               | <b>2015</b>          |   | <b>2014</b>         |   |
| Life insurance portfolio policy benefits                      | \$ 878,882,000       |   | \$ 779,099,000      |   |
| Discount rate of future cash flows                            | 6.96                 | % | 7.24                | % |
| Net present value of Life insurance portfolio policy benefits | \$ 402,811,000       |   | \$ 347,786,000      |   |
| Cash and cash equivalents                                     | 35,724,000           |   | 34,959,000          |   |
| Total Coverage                                                | 438,535,000          |   | 382,745,000         |   |
| Revolving credit facility                                     | 65,011,000           |   | 72,161,000          |   |
| Series I Secured Notes                                        | 23,918,000           |   | 28,047,000          |   |
| L Bonds                                                       | 247,553,000          |   | 186,377,000         |   |
| Total Indebtedness                                            | \$ 336,482,000       |   | \$ 286,585,000      |   |
| Debt Coverage Ratio                                           | 76.73                | % | 74.88               | % |
| Subordination Ratio                                           | 14.82                | % | 18.85               | % |

As of September 30, 2015, we were in compliance with both the debt coverage ratio and the subordination ratio as required under our related financing agreements for L Bonds and Series I Secured Notes.

*Non-GAAP Net Asset Value.* The non-GAAP net asset value attempts to measure the economic value of the Company's common equity by netting interest-bearing debt and the redemption/liquidation value of the Company's outstanding Series A Preferred Stock against the value of the Company's portfolio of life insurance (discounted at our weighted-average cost of capital <sup>(1)</sup>) and cash and cash equivalents at the end of the measurement period. Management believes this is a useful way to view the common equity value attributable to the current yield spread in the Company's portfolio of life insurance.

|                                                     | <b>As of</b>         |   | <b>As of</b>        |   |
|-----------------------------------------------------|----------------------|---|---------------------|---|
|                                                     | <b>September 30,</b> |   | <b>December 31,</b> |   |
|                                                     | <b>2015</b>          |   | <b>2014</b>         |   |
| Discount rate of future cash flows                  | 6.96                 | % | 7.24                | % |
| Net present value of life insurance policy benefits | \$ 402,811,000       |   | \$ 347,786,000      |   |
| Cash and cash equivalents                           | \$ 35,724,000        |   | \$ 34,959,000       |   |
| Interest bearing debt                               | \$(336,482,000 )     |   | \$(286,585,000)     |   |
| Preferred stock redemption value                    | \$(22,742,000 )      |   | \$(22,596,000 )     |   |
| Net asset value                                     | \$ 79,311,000        |   | \$ 73,564,000       |   |
| Per share                                           | \$ 13.35             |   | \$ 12.53            |   |
| Shares outstanding (basic)                          | 5,941,790            |   | 5,870,193           |   |

The weighted average cost of capital discount rate used in this calculation is separate and distinct from the discount (1) rate used to determine the GAAP fair value of the portfolio of life insurance policies as described in our most recent form 10-K.

**Our Portfolio**

Our portfolio of life insurance policies, owned by our subsidiaries as of September 30, 2015, is summarized below:

**Life Insurance Portfolio Summary**

|                                               |                        |   |
|-----------------------------------------------|------------------------|---|
| Total portfolio face value of policy benefits | \$878,882,000          |   |
| Average face value per policy                 | \$2,562,000            |   |
| Average face value per insured life           | \$2,808,000            |   |
| Average age of insured (yrs.) *               | 82.6                   |   |
| Average life expectancy estimate (yrs.) *     | 6.60                   |   |
| Total number of policies                      | 343                    |   |
| Number of unique lives                        | 313                    |   |
| Demographics                                  | 70% Males; 30% Females |   |
| Number of smokers                             | 7                      |   |
| Largest policy as % of total portfolio        | 1.14                   | % |
| Average policy as % of total portfolio        | 0.29                   | % |
| Average Annual Premium as % of face value     | 3.41                   | % |

\* Averages presented in the table are weighted averages.

Our portfolio of life insurance policies, owned by our subsidiaries as of September 30, 2015, organized by the insured's current age and the associated policy benefits, is summarized below:

#### Distribution of Policy Benefits by Current Age of Insured

| Min Age | Max Age | Policy Benefits | Weighted Average Life Expectancy (yrs.) | Distribution |   |
|---------|---------|-----------------|-----------------------------------------|--------------|---|
| 90      | 94      | \$66,395,000    | 3.00                                    | 7.56         | % |
| 85      | 89      | 229,163,000     | 4.91                                    | 26.07        | % |
| 80      | 84      | 314,401,000     | 6.71                                    | 35.77        | % |
| 75      | 79      | 189,843,000     | 8.37                                    | 21.60        | % |
| 70      | 74      | 58,057,000      | 9.85                                    | 6.61         | % |
| 66      | 69      | 21,023,000      | 9.86                                    | 2.39         | % |
| Total   |         | \$878,882,000   | 6.60                                    | 100.00       | % |

Our portfolio of life insurance policies, owned by our subsidiaries as of September 30, 2015, organized by the insured's current age and number of policies owned, is summarized below:

#### Distribution of Policies by Current Age of Insured

| Min Age | Max Age | Policies | Weighted Average Life Expectancy (yrs.) | Distribution |   |
|---------|---------|----------|-----------------------------------------|--------------|---|
| 90      | 94      | 27       | 3.00                                    | 7.56         | % |
| 85      | 89      | 99       | 4.91                                    | 26.07        | % |
| 80      | 84      | 113      | 6.71                                    | 35.77        | % |
| 75      | 79      | 63       | 8.37                                    | 21.60        | % |
| 70      | 74      | 29       | 9.85                                    | 6.61         | % |
| 66      | 69      | 12       | 9.86                                    | 2.39         | % |
| Total   |         | 343      | 6.60                                    | 100.00       | % |

Our portfolio of life insurance policies, owned by our subsidiaries as of September 30, 2015, organized by the insured's estimated life expectancy estimates and associated policy benefits, is summarized below:

#### Distribution of Policy Benefits by Current Life Expectancies of Insured

| Min LE (Months) | Max LE (Months) | Policy Benefits | Distribution |   |
|-----------------|-----------------|-----------------|--------------|---|
| 8               | 47              | \$155,430,000   | 17.69        | % |
| 48              | 71              | 232,897,000     | 26.50        | % |
| 72              | 95              | 225,287,000     | 25.63        | % |
| 96              | 119             | 161,284,000     | 18.35        | % |
| 120             | 143             | 57,865,000      | 6.58         | % |
| 144             | 188             | 46,119,000      | 5.25         | % |
| Total           |                 | \$878,882,000   | 100.00       | % |

We track concentrations of pre-existing medical conditions among insured individuals within our portfolio based on information contained in life expectancy reports. We track these medical conditions with ten primary disease categories: (1) cardiovascular, (2) cerebrovascular, (3) dementia, (4) cancer, (5) diabetes, (6) respiratory disease, (7) neurological disorders, (8) other, no disease, or multiple. Our primary disease categories are summary generalizations based on the ICD-9 codes we track on each insured individuals within our portfolio. ICD-9 codes, published by the World Health Organization, are used worldwide for medical diagnoses and treatment systems, as well as morbidity and mortality statistics. Currently, cardiovascular is the only primary disease category within our portfolio that represents a concentration over 10%.

Our portfolio of life insurance policies, owned by our subsidiaries as of September 30, 2015, organized by the primary disease categories of the insured and associated policy benefits, is summarized below:

### **Distribution of Policy Benefits by Primary Disease Category**

| Primary Disease Category | Policy Benefits | Distribution |   |
|--------------------------|-----------------|--------------|---|
| Cancer                   | \$61,000,000    | 6.94         | % |
| Cardiovascular           | 182,091,000     | 20.72        | % |
| Cerebrovascular          | 35,212,000      | 4.01         | % |
| Dementia                 | 65,544,000      | 7.46         | % |
| Diabetes                 | 64,117,000      | 7.29         | % |
| Multiple                 | 205,020,000     | 23.33        | % |
| Neurological Disorders   | 25,774,000      | 2.93         | % |
| No Disease               | 97,641,000      | 11.11        | % |
| Other                    | 101,033,000     | 11.49        | % |
| Respiratory Diseases     | 41,450,000      | 4.72         | % |
| Total Policy Benefits    | \$878,882,000   | 100.00       | % |

The primary disease category represents a general category of impairment. Within the primary disease category, there are a multitude of sub-categorizations defined more specifically by ICD-9 codes. For example, a primary disease category of cardiovascular includes subcategorizations such as atrial fibrillation, heart valve replacement, coronary atherosclerosis, etc. In addition, individuals may have more than one ICD-9 code describing multiple medical conditions within one or more primary disease categories. Where an individual's ICD-9 codes indicate medical conditions in more than one primary disease categories, we categorize the individual as having multiple primary disease categories. We expect to continue to develop and refine our identification and tracking on the insured individuals medical conditions as we manage our portfolio of life insurance policies.

### ***Portfolio Credit Risk Management***

The life insurance assets in which we invest represent obligations of third-party life insurance companies to pay the benefits under the relevant policy. We rely on the payment of policy benefits by life insurance companies as our sole source of revenue collection. Accordingly, the possible insolvency of a life insurance company is a significant risk to our business. To manage this risk, we seek to invest in life insurance assets that are issued by insurance companies with investment-grade ratings from either A.M. Best, Moody's or Standard & Poor's. To further mitigate risk, we seek to have no more than 20% of our aggregate face value of policy benefits in our portfolio issued by any one life insurance company. In addition, to assure diversity and stability in our portfolio, we regularly review the various metrics of our portfolio relating to credit risk. We track industry rating agency reports and industry journals and



articles in order to gain insight into possible financial problems of life insurance companies. Finally, we only invest in those life insurance policies that meet the underwriting standards established in the indenture governing our debt securities, as applicable.

As of September 30, 2015, 91.8% of insurance companies in our portfolio hold an investment-grade rating by Standard & Poor's (BBB- or better), and the face value of policy benefits issued by one life insurance company with in the portfolio was 14.27%. Of the 49 insurance companies that insure the policies we own, ten companies insure approximately 72.57% of total face value of insurance benefits and the remaining 39 insurance companies insure the remaining approximately 27.47% of total face value of insurance benefits. The concentration risk of our ten largest insurance company holdings as of September 30, 2015 is set forth in the table below.

| Rank | Policy Benefits | Percentage of Policy Benefit Amt. | Insurance Company                               | Ins. Co. S&P Rating |
|------|-----------------|-----------------------------------|-------------------------------------------------|---------------------|
| 1    | \$125,380,000   | 14.27                             | % AXA Equitable Life Insurance Company          | A+                  |
| 2    | \$114,055,000   | 12.98                             | % John Hancock Life Insurance Company (U.S.A)   | AA-                 |
| 3    | \$80,822,000    | 9.20                              | % Transamerica Life Insurance Company           | AA-                 |
| 4    | \$62,475,000    | 7.11                              | % Voya Retirement Insurance and Annuity Company | A                   |
| 5    | \$58,769,000    | 6.69                              | % Jefferson-Pilot Life Insurance Company        | AA-                 |
| 6    | \$44,750,000    | 5.09                              | % American General Life Insurance Company       | A+                  |
| 7    | \$43,750,000    | 4.98                              | % Massachusetts Mutual Life Insurance Company   | AA+                 |
| 8    | \$36,046,000    | 4.10                              | % Metropolitan Life Insurance Company           | AA-                 |
| 9    | \$35,932,000    | 4.09                              | % Lincoln National Life Insurance Company       | AA-                 |
| 10   | \$35,500,000    | 4.04                              | % West Coast Life Insurance Company             | AA-                 |

**Life Insurance Portfolio Detail**

(as of September 30, 2015)

|    | <b>Face<br/>Amount</b> | <b>Gender</b> | <b>Age (ALB)</b> | <b>LE (mo.)</b> | <b>Insurance Company</b>                      | <b>S&amp;P<br/>Rating</b> |
|----|------------------------|---------------|------------------|-----------------|-----------------------------------------------|---------------------------|
| 1  | \$ 1,100,000           | Male          | 95               | 29.4            | Voya Retirement Insurance and Annuity Company | A                         |
| 2  | \$ 4,000,000           | Male          | 94               | 35.0            | MetLife Investors USA Insurance Company       | AA-                       |
| 3  | \$ 1,500,000           | Female        | 94               | 32.8            | Aviva Life Insurance Company                  | A-                        |
| 4  | \$ 3,200,000           | Male          | 94               | 27.5            | West Coast Life Insurance Company             | AA-                       |
| 5  | \$ 1,000,000           | Female        | 93               | 38.7            | Transamerica Life Insurance Company           | AA-                       |
| 6  | \$ 264,000             | Female        | 93               | 25.1            | Lincoln Benefit Life Company                  | BBB+                      |
| 7  | \$ 3,500,000           | Male          | 92               | 40.5            | Voya Retirement Insurance and Annuity Company | A                         |
| 8  | \$ 500,000             | Male          | 92               | 13.5            | John Hancock Life Insurance Company (U.S.A)   | AA-                       |
| 9  | \$ 2,000,000           | Female        | 92               | 11.9            | Pruco Life Insurance Company                  | AA-                       |
| 10 | \$ 250,000             | Male          | 92               | 22.5            | Transamerica Life Insurance Company           | AA-                       |
| 11 | \$ 1,682,773           | Female        | 91               | 49.4            | Hartford Life and Annuity Insurance Company   | BBB+                      |
| 12 | \$ 3,000,000           | Male          | 91               | 42.5            | West Coast Life Insurance Company             | AA-                       |
| 13 | \$ 5,000,000           | Female        | 91               | 51.4            | American General Life Insurance Company       | A+                        |
| 14 | \$ 5,000,000           | Female        | 91               | 30.6            | John Hancock Life Insurance Company (U.S.A)   | AA-                       |
| 15 | \$ 300,000             | Female        | 91               | 30.3            | West Coast Life Insurance Company             | AA-                       |
| 16 | \$ 3,845,000           | Female        | 91               | 46.2            | Pacific Life Insurance Company                | A+                        |
| 17 | \$ 5,000,000           | Male          | 90               | 31.8            | John Hancock Life Insurance Company (U.S.A)   | AA-                       |
| 18 | \$ 3,500,000           | Female        | 90               | 55.4            | John Hancock Life Insurance Company (U.S.A)   | AA-                       |
| 19 | \$ 3,100,000           | Female        | 90               | 32.6            | Lincoln Benefit Life Company                  | BBB+                      |
| 20 | \$ 1,500,000           | Female        | 90               | 67.7            | Jefferson-Pilot Life Insurance Company        | AA-                       |
| 21 | \$ 3,000,000           | Female        | 90               | 32.1            | Jefferson-Pilot Life Insurance Company        | AA-                       |
| 22 | \$ 5,000,000           | Female        | 90               | 38.8            | Voya Retirement Insurance and Annuity Company | A                         |
| 23 | \$ 5,000,000           | Female        | 90               | 16.8            | Lincoln National Life Insurance Company       | AA-                       |
| 24 | \$ 1,000,000           | Male          | 90               | 8.1             | Voya Retirement Insurance and Annuity Company | A                         |
| 25 | \$ 1,203,520           | Male          | 90               | 42.7            | Columbus Life Insurance Company               | AA                        |
| 26 | \$ 1,350,000           | Female        | 90               | 34.5            | Jefferson-Pilot Life Insurance Company        | AA-                       |
| 27 | \$ 600,000             | Female        | 90               | 20.2            | Columbus Life Insurance Company               | AA                        |
| 28 | \$ 5,000,000           | Female        | 89               | 49.5            | Massachusetts Mutual Life Insurance Company   | AA+                       |
| 29 | \$ 2,500,000           | Female        | 89               | 46.8            | American General Life Insurance Company       | A+                        |
| 30 | \$ 2,500,000           | Male          | 89               | 55.0            | Pacific Life Insurance Company                | A+                        |
| 31 | \$ 1,000,000           | Female        | 89               | 49.4            | United of Omaha Life Insurance Company        | AA-                       |
| 32 | \$ 1,103,922           | Female        | 89               | 59.4            | Sun Life Assurance Company of Canada (U.S.)   | AA-                       |
| 33 | \$ 1,000,000           | Female        | 89               | 63.5            | Transamerica Life Insurance Company           | AA-                       |
| 34 | \$ 250,000             | Female        | 89               | 63.5            | Transamerica Life Insurance Company           | AA-                       |
| 35 | \$ 2,500,000           | Female        | 89               | 5.8             | AXA Equitable Life Insurance Company          | A+                        |
| 36 | \$ 2,500,000           | Female        | 89               | 5.8             | AXA Equitable Life Insurance Company          | A+                        |
| 37 | \$ 715,000             | Female        | 89               | 59.2            | Jefferson-Pilot Life Insurance Company        | AA-                       |
| 38 | \$ 2,225,000           | Female        | 89               | 83.6            | Transamerica Life Insurance Company           | AA-                       |
| 39 | \$ 3,500,000           | Female        | 89               | 39.3            | Lincoln National Life Insurance Company       | AA-                       |

Edgar Filing: GWG Holdings, Inc. - Form 424B3

|    |            |        |    |      |                                             |     |
|----|------------|--------|----|------|---------------------------------------------|-----|
| 40 | \$ 500,000 | Female | 88 | 65.9 | Sun Life Assurance Company of Canada (U.S.) | AA- |
| 41 | \$ 250,000 | Male   | 88 | 70.4 | Metropolitan Life Insurance Company         | AA- |

20

|    |              |        |    |       |                                               |      |
|----|--------------|--------|----|-------|-----------------------------------------------|------|
| 42 | \$4,000,000  | Female | 88 | 70.0  | Transamerica Life Insurance Company           | AA-  |
| 43 | \$5,000,000  | Male   | 88 | 51.6  | AXA Equitable Life Insurance Company          | A+   |
| 44 | \$1,500,000  | Male   | 88 | 42.3  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 45 | \$1,500,000  | Male   | 88 | 42.3  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 46 | \$1,050,000  | Male   | 88 | 43.5  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 47 | \$1,000,000  | Male   | 88 | 53.6  | AXA Equitable Life Insurance Company          | A+   |
| 48 | \$500,000    | Male   | 88 | 60.1  | Lincoln National Life Insurance Company       | AA-  |
| 49 | \$4,785,380  | Female | 88 | 44.3  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 50 | \$1,803,455  | Female | 88 | 47.6  | Metropolitan Life Insurance Company           | AA-  |
| 51 | \$1,529,270  | Female | 88 | 47.6  | Metropolitan Life Insurance Company           | AA-  |
| 52 | \$800,000    | Male   | 88 | 68.8  | Lincoln National Life Insurance Company       | AA-  |
| 53 | \$5,000,000  | Male   | 88 | 50.4  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 54 | \$3,000,000  | Female | 88 | 80.0  | Massachusetts Mutual Life Insurance Company   | AA+  |
| 55 | \$200,000    | Male   | 88 | 46.9  | Lincoln Benefit Life Company                  | BBB+ |
| 56 | \$4,445,467  | Male   | 88 | 57.0  | Penn Mutual Life Insurance Company            | A+   |
| 57 | \$1,500,000  | Male   | 88 | 44.8  | Union Central Life Insurance Company          | A+   |
| 58 | \$7,500,000  | Male   | 88 | 48.5  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 59 | \$3,600,000  | Female | 88 | 56.0  | AXA Equitable Life Insurance Company          | A+   |
| 60 | \$3,000,000  | Male   | 88 | 42.1  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 61 | \$2,000,000  | Male   | 88 | 45.2  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 62 | \$100,000    | Female | 88 | 54.2  | American General Life Insurance Company       | A+   |
| 63 | \$100,000    | Female | 88 | 54.2  | American General Life Insurance Company       | A+   |
| 64 | \$396,791    | Male   | 88 | 35.2  | Lincoln National Life Insurance Company       | AA-  |
| 65 | \$1,500,000  | Male   | 88 | 105.9 | Transamerica Life Insurance Company           | AA-  |
| 66 | \$3,000,000  | Male   | 88 | 31.4  | American General Life Insurance Company       | A+   |
| 67 | \$1,000,000  | Male   | 87 | 59.5  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 68 | \$2,000,000  | Male   | 87 | 59.5  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 69 | \$5,000,000  | Male   | 87 | 47.7  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 70 | \$5,000,000  | Female | 87 | 33.0  | Transamerica Life Insurance Company           | AA-  |
| 71 | \$3,000,000  | Male   | 87 | 47.7  | Transamerica Life Insurance Company           | AA-  |
| 72 | \$1,200,000  | Male   | 87 | 72.8  | Transamerica Life Insurance Company           | AA-  |
| 73 | \$6,000,000  | Female | 87 | 54.7  | Sun Life Assurance Company of Canada (U.S.)   | AA-  |
| 74 | \$3,000,000  | Male   | 87 | 78.9  | AXA Equitable Life Insurance Company          | A+   |
| 75 | \$1,000,000  | Female | 87 | 34.4  | New York Life Insurance Company               | AA+  |
| 76 | \$10,000,000 | Female | 87 | 70.1  | West Coast Life Insurance Company             | AA-  |
| 77 | \$2,500,000  | Male   | 87 | 46.5  | Transamerica Life Insurance Company           | AA-  |
| 78 | \$1,000,000  | Female | 87 | 48.9  | West Coast Life Insurance Company             | AA-  |
| 79 | \$2,000,000  | Female | 87 | 48.9  | West Coast Life Insurance Company             | AA-  |
| 80 | \$500,000    | Female | 87 | 52.9  | Beneficial Life Insurance Company             | N/A  |
| 81 | \$800,000    | Male   | 87 | 53.6  | National Western Life Insurance Company       | A    |
| 82 | \$5,000,000  | Male   | 87 | 79.0  | Lincoln National Life Insurance Company       | AA-  |
| 83 | \$1,000,000  | Female | 87 | 26.7  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 84 | \$4,513,823  | Female | 87 | 22.5  | Aviva Life Insurance Company                  | A-   |
| 85 | \$2,000,000  | Male   | 87 | 93.9  | Voya Retirement Insurance and Annuity Company | A    |
| 86 | \$2,000,000  | Male   | 87 | 93.9  | Voya Retirement Insurance and Annuity Company | A    |



Edgar Filing: GWG Holdings, Inc. - Form 424B3

|     |             |        |    |       |                                               |      |
|-----|-------------|--------|----|-------|-----------------------------------------------|------|
| 87  | \$2,000,000 | Male   | 87 | 93.9  | Voya Retirement Insurance and Annuity Company | A    |
| 88  | \$2,000,000 | Female | 87 | 74.2  | U.S. Financial Life Insurance Company         | A+   |
| 89  | \$1,365,000 | Female | 86 | 92.8  | Transamerica Life Insurance Company           | AA-  |
| 90  | \$1,000,000 | Female | 86 | 82.6  | Voya Retirement Insurance and Annuity Company | A    |
| 91  | \$200,000   | Female | 86 | 84.3  | Lincoln National Life Insurance Company       | AA-  |
| 92  | \$1,000,000 | Male   | 86 | 38.0  | Massachusetts Mutual Life Insurance Company   | AA+  |
| 93  | \$1,000,000 | Female | 86 | 22.8  | State Farm Life Insurance Company             | AA-  |
| 94  | \$2,000,000 | Male   | 86 | 82.7  | Transamerica Life Insurance Company           | AA-  |
| 95  | \$8,500,000 | Male   | 86 | 79.3  | Massachusetts Mutual Life Insurance Company   | AA+  |
| 96  | \$2,328,547 | Male   | 86 | 42.6  | Metropolitan Life Insurance Company           | AA-  |
| 97  | \$2,000,000 | Male   | 86 | 42.6  | Metropolitan Life Insurance Company           | AA-  |
| 98  | \$1,000,000 | Male   | 86 | 24.6  | Transamerica Life Insurance Company           | AA-  |
| 99  | \$500,000   | Male   | 86 | 79.8  | Metropolitan Life Insurance Company           | AA-  |
| 100 | \$2,000,000 | Male   | 86 | 59.9  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 101 | \$3,000,000 | Female | 86 | 68.9  | Transamerica Life Insurance Company           | AA-  |
| 102 | \$347,211   | Male   | 86 | 40.9  | Prudential Life Insurance Company             | AA-  |
| 103 | \$1,800,000 | Male   | 86 | 51.7  | John Hancock Variable Life Insurance Company  | AA-  |
| 104 | \$2,000,000 | Male   | 86 | 61.7  | AXA Equitable Life Insurance Company          | A+   |
| 105 | \$1,750,000 | Male   | 86 | 61.7  | AXA Equitable Life Insurance Company          | A+   |
| 106 | \$4,000,000 | Male   | 86 | 50.4  | Metropolitan Life Insurance Company           | AA-  |
| 107 | \$2,000,000 | Male   | 86 | 33.0  | Transamerica Life Insurance Company           | AA-  |
| 108 | \$1,425,000 | Male   | 86 | 77.4  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 109 | \$1,500,000 | Male   | 85 | 47.5  | Transamerica Life Insurance Company           | AA-  |
| 110 | \$1,500,000 | Female | 85 | 106.0 | Lincoln Benefit Life Company                  | BBB+ |
| 111 | \$3,750,000 | Male   | 85 | 74.4  | AXA Equitable Life Insurance Company          | A+   |
| 112 | \$1,000,000 | Male   | 85 | 58.4  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 113 | \$2,000,000 | Female | 85 | 82.4  | AXA Equitable Life Insurance Company          | A+   |
| 114 | \$1,000,000 | Male   | 85 | 52.3  | Voya Retirement Insurance and Annuity Company | A    |
| 115 | \$3,000,000 | Female | 85 | 80.8  | Sun Life Assurance Company of Canada (U.S.)   | AA-  |
| 116 | \$829,022   | Female | 85 | 23.0  | Hartford Life and Annuity Insurance Company   | BBB+ |
| 117 | \$1,500,000 | Male   | 85 | 76.8  | AXA Equitable Life Insurance Company          | A+   |
| 118 | \$5,000,000 | Male   | 85 | 86.4  | Voya Retirement Insurance and Annuity Company | A    |
| 119 | \$1,500,000 | Male   | 85 | 47.3  | Voya Retirement Insurance and Annuity Company | A    |
| 120 | \$1,500,000 | Male   | 85 | 47.3  | Voya Retirement Insurance and Annuity Company | A    |
| 121 | \$5,000,000 | Male   | 85 | 71.0  | Voya Retirement Insurance and Annuity Company | A    |
| 122 | \$500,000   | Male   | 85 | 39.9  | Genworth Life Insurance Company               | BBB- |
| 123 | \$1,000,000 | Male   | 85 | 45.2  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 124 | \$4,000,000 | Female | 85 | 48.7  | Voya Retirement Insurance and Annuity Company | A    |
| 125 | \$5,000,000 | Female | 85 | 89.9  | American General Life Insurance Company       | A+   |
| 126 | \$3,500,000 | Female | 85 | 104.5 | Lincoln Benefit Life Company                  | BBB+ |
| 127 | \$5,000,000 | Female | 84 | 97.8  | AXA Equitable Life Insurance Company          | A+   |
| 128 | \$1,000,000 | Female | 84 | 80.5  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 129 | \$6,000,000 | Female | 84 | 107.8 | American General Life Insurance Company       | A+   |
| 130 | \$5,000,000 | Male   | 84 | 63.6  | AXA Equitable Life Insurance Company          | A+   |
| 131 | \$1,433,572 | Male   | 84 | 53.5  | Security Mutual Life Insurance Company of NY  | N/A  |



Edgar Filing: GWG Holdings, Inc. - Form 424B3

|     |              |        |    |       |                                               |      |
|-----|--------------|--------|----|-------|-----------------------------------------------|------|
| 132 | \$2,000,000  | Male   | 84 | 38.4  | National Life Insurance Company               | A    |
| 133 | \$1,000,000  | Female | 84 | 42.7  | Metropolitan Life Insurance Company           | AA-  |
| 134 | \$2,147,816  | Female | 84 | 117.4 | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 135 | \$4,200,000  | Female | 84 | 115.7 | Transamerica Life Insurance Company           | AA-  |
| 136 | \$750,000    | Male   | 84 | 86.6  | West Coast Life Insurance Company             | AA-  |
| 137 | \$4,000,000  | Male   | 84 | 35.1  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 138 | \$1,000,000  | Male   | 84 | 75.8  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 139 | \$2,000,000  | Female | 84 | 95.7  | Lincoln Benefit Life Company                  | BBB+ |
| 140 | \$5,000,000  | Male   | 84 | 72.5  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 141 | \$2,700,000  | Male   | 84 | 59.4  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 142 | \$2,400,000  | Male   | 84 | 35.8  | Genworth Life Insurance Company               | BBB- |
| 143 | \$7,600,000  | Female | 84 | 96.7  | Transamerica Life Insurance Company           | AA-  |
| 144 | \$250,000    | Male   | 84 | 50.6  | Transamerica Life Insurance Company           | AA-  |
| 145 | \$2,500,000  | Female | 84 | 62.7  | American General Life Insurance Company       | A+   |
| 146 | \$2,500,000  | Male   | 84 | 57.2  | AXA Equitable Life Insurance Company          | A+   |
| 147 | \$3,000,000  | Male   | 84 | 57.2  | Lincoln National Life Insurance Company       | AA-  |
| 148 | \$2,000,000  | Male   | 84 | 83.7  | Pacific Life Insurance Company                | A+   |
| 149 | \$3,000,000  | Female | 84 | 41.7  | AXA Equitable Life Insurance Company          | A+   |
| 150 | \$1,703,959  | Male   | 84 | 65.4  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 151 | \$3,000,000  | Male   | 84 | 59.4  | Metropolitan Life Insurance Company           | AA-  |
| 152 | \$500,000    | Male   | 84 | 17.2  | Great Southern Life Insurance Company         | N/A  |
| 153 | \$1,000,000  | Male   | 84 | 55.8  | Hartford Life and Annuity Insurance Company   | BBB+ |
| 154 | \$400,000    | Male   | 84 | 48.3  | Transamerica Life Insurance Company           | AA-  |
| 155 | \$10,000,000 | Female | 84 | 57.3  | American National Insurance Company           | A    |
| 156 | \$500,000    | Male   | 84 | 24.2  | West Coast Life Insurance Company             | AA-  |
| 157 | \$3,500,000  | Female | 83 | 90.2  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 158 | \$500,000    | Male   | 83 | 98.3  | Metropolitan Life Insurance Company           | AA-  |
| 159 | \$1,000,000  | Male   | 83 | 67.2  | Lincoln National Life Insurance Company       | AA-  |
| 160 | \$3,000,000  | Male   | 83 | 39.5  | U.S. Financial Life Insurance Company         | A+   |
| 161 | \$1,900,000  | Male   | 83 | 64.3  | American National Insurance Company           | A    |
| 162 | \$500,000    | Male   | 83 | 44.8  | New York Life Insurance Company               | AA+  |
| 163 | \$500,000    | Male   | 83 | 44.8  | New York Life Insurance Company               | AA+  |
| 164 | \$5,000,000  | Male   | 83 | 71.6  | AXA Equitable Life Insurance Company          | A+   |
| 165 | \$385,000    | Male   | 83 | 72.2  | Metropolitan Life Insurance Company           | AA-  |
| 166 | \$500,000    | Male   | 83 | 72.2  | Metropolitan Life Insurance Company           | AA-  |
| 167 | \$10,000,000 | Male   | 83 | 72.9  | Lincoln National Life Insurance Company       | AA-  |
| 168 | \$250,000    | Male   | 83 | 31.2  | Jackson National Life Insurance Company       | AA   |
| 169 | \$1,500,000  | Male   | 83 | 74.4  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 170 | \$3,500,000  | Female | 83 | 86.1  | AXA Equitable Life Insurance Company          | A+   |
| 171 | \$5,000,000  | Female | 83 | 74.5  | Sun Life Assurance Company of Canada (U.S.)   | AA-  |
| 172 | \$3,000,000  | Female | 83 | 91.4  | MetLife Investors USA Insurance Company       | AA-  |
| 173 | \$750,000    | Male   | 83 | 80.2  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 174 | \$4,500,000  | Male   | 83 | 72.0  | AXA Equitable Life Insurance Company          | A+   |
| 175 | \$1,250,000  | Female | 83 | 59.3  | Columbus Life Insurance Company               | AA   |
| 176 | \$2,275,000  | Male   | 83 | 91.2  | Voya Retirement Insurance and Annuity Company | A    |





Edgar Filing: GWG Holdings, Inc. - Form 424B3

|     |              |        |    |       |                                               |      |
|-----|--------------|--------|----|-------|-----------------------------------------------|------|
| 177 | \$10,000,000 | Male   | 83 | 82.4  | AXA Equitable Life Insurance Company          | A+   |
| 178 | \$2,300,000  | Male   | 83 | 21.0  | American General Life Insurance Company       | A+   |
| 179 | \$3,500,000  | Male   | 83 | 70.7  | AXA Equitable Life Insurance Company          | A+   |
| 180 | \$6,217,200  | Female | 83 | 103.8 | Phoenix Life Insurance Company                | B+   |
| 181 | \$2,500,000  | Female | 83 | 70.3  | Voya Retirement Insurance and Annuity Company | A    |
| 182 | \$5,000,000  | Female | 83 | 55.4  | Massachusetts Mutual Life Insurance Company   | AA+  |
| 183 | \$1,500,000  | Male   | 83 | 24.4  | Pacific Life Insurance Company                | A+   |
| 184 | \$2,000,000  | Female | 83 | 95.4  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 185 | \$5,000,000  | Male   | 83 | 82.2  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 186 | \$3,000,000  | Male   | 82 | 67.2  | Protective Life Insurance Company             | AA-  |
| 187 | \$1,500,000  | Male   | 82 | 67.2  | American General Life Insurance Company       | A+   |
| 188 | \$2,000,000  | Female | 82 | 114.6 | Transamerica Life Insurance Company           | AA-  |
| 189 | \$1,500,000  | Male   | 82 | 56.8  | Pacific Life Insurance Company                | A+   |
| 190 | \$5,000,000  | Male   | 82 | 108.6 | American General Life Insurance Company       | A+   |
| 191 | \$250,000    | Male   | 82 | 147.5 | Voya Retirement Insurance and Annuity Company | A    |
| 192 | \$1,995,000  | Female | 82 | 78.5  | Transamerica Life Insurance Company           | AA-  |
| 193 | \$4,000,000  | Male   | 82 | 55.5  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 194 | \$10,000,000 | Male   | 82 | 79.7  | New York Life Insurance Company               | AA+  |
| 195 | \$5,000,000  | Male   | 82 | 74.3  | Transamerica Life Insurance Company           | AA-  |
| 196 | \$2,000,000  | Male   | 82 | 70.1  | Ohio National Life Assurance Corporation      | AA-  |
| 197 | \$1,000,000  | Male   | 82 | 70.1  | Ohio National Life Assurance Corporation      | AA-  |
| 198 | \$350,000    | Male   | 82 | 35.3  | Reassure America Life Insurance Company       | AA   |
| 199 | \$5,000,000  | Male   | 81 | 91.8  | AXA Equitable Life Insurance Company          | A+   |
| 200 | \$8,000,000  | Male   | 81 | 84.9  | AXA Equitable Life Insurance Company          | A+   |
| 201 | \$550,000    | Male   | 81 | 103.5 | Genworth Life Insurance Company               | BBB- |
| 202 | \$500,000    | Male   | 81 | 64.2  | West Coast Life Insurance Company             | AA-  |
| 203 | \$1,680,000  | Female | 81 | 68.9  | AXA Equitable Life Insurance Company          | A+   |
| 204 | \$1,000,000  | Female | 81 | 96.5  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 205 | \$1,250,000  | Male   | 81 | 100.9 | Metropolitan Life Insurance Company           | AA-  |
| 206 | \$1,000,000  | Male   | 81 | 66.1  | AXA Equitable Life Insurance Company          | A+   |
| 207 | \$1,250,000  | Female | 81 | 74.7  | Principal Life Insurance Company              | A+   |
| 208 | \$1,000,000  | Male   | 81 | 57.2  | AXA Equitable Life Insurance Company          | A+   |
| 209 | \$700,000    | Male   | 81 | 102.3 | Banner Life Insurance Company                 | AA-  |
| 210 | \$3,000,000  | Male   | 81 | 99.1  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 211 | \$2,000,000  | Male   | 81 | 41.0  | Jefferson-Pilot Life Insurance Company        | AA-  |
| 212 | \$10,000,000 | Male   | 81 | 70.2  | Hartford Life and Annuity Insurance Company   | BBB+ |
| 213 | \$1,750,000  | Male   | 81 | 83.4  | AXA Equitable Life Insurance Company          | A+   |
| 214 | \$5,000,000  | Male   | 81 | 73.1  | AXA Equitable Life Insurance Company          | A+   |
| 215 | \$300,000    | Female | 81 | 73.7  | Hartford Life and Annuity Insurance Company   | BBB+ |
| 216 | \$250,000    | Male   | 81 | 80.6  | American General Life Insurance Company       | A+   |
| 217 | \$2,502,000  | Male   | 81 | 151.5 | Transamerica Life Insurance Company           | AA-  |
| 218 | \$10,000,000 | Male   | 81 | 114.0 | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 219 | \$1,210,000  | Male   | 81 | 66.7  | Lincoln National Life Insurance Company       | AA-  |
| 220 | \$3,000,000  | Female | 81 | 106.5 | West Coast Life Insurance Company             | AA-  |
| 221 | \$7,000,000  | Male   | 81 | 87.2  | Genworth Life Insurance Company               | BBB- |



Edgar Filing: GWG Holdings, Inc. - Form 424B3

|     |             |        |    |       |                                                      |      |
|-----|-------------|--------|----|-------|------------------------------------------------------|------|
| 222 | \$3,000,000 | Male   | 80 | 92.5  | Voya Retirement Insurance and Annuity Company        | A    |
| 223 | \$4,000,000 | Male   | 80 | 82.6  | Jefferson-Pilot Life Insurance Company               | AA-  |
| 224 | \$3,000,000 | Male   | 80 | 151.4 | Metropolitan Life Insurance Company                  | AA-  |
| 225 | \$5,000,000 | Male   | 80 | 92.6  | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 226 | \$800,000   | Male   | 80 | 80.7  | North American Company for Life And Health Insurance | A+   |
| 227 | \$2,000,000 | Male   | 80 | 28.9  | Metropolitan Life Insurance Company                  | AA-  |
| 228 | \$6,000,000 | Male   | 80 | 124.6 | AXA Equitable Life Insurance Company                 | A+   |
| 229 | \$320,987   | Female | 80 | 106.6 | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 230 | \$130,000   | Male   | 80 | 52.5  | Genworth Life Insurance Company                      | BBB- |
| 231 | \$1,000,000 | Male   | 80 | 125.7 | Empire General Life Assurance Corporation            | AA-  |
| 232 | \$2,000,000 | Female | 80 | 90.1  | Pacific Life Insurance Company                       | A+   |
| 233 | \$4,300,000 | Female | 80 | 111.6 | American National Insurance Company                  | A    |
| 234 | \$200,000   | Male   | 80 | 68.8  | Kansas City Life Insurance Company                   | N/A  |
| 235 | \$2,000,000 | Female | 80 | 88.8  | Transamerica Life Insurance Company                  | AA-  |
| 236 | \$1,000,000 | Male   | 80 | 58.6  | Pacific Life Insurance Company                       | A+   |
| 237 | \$3,000,000 | Male   | 80 | 112.7 | Principal Life Insurance Company                     | A+   |
| 238 | \$200,000   | Male   | 80 | 47.8  | Prudential Life Insurance Company                    | AA-  |
| 239 | \$500,000   | Male   | 80 | 49.3  | Transamerica Life Insurance Company                  | AA-  |
| 240 | \$3,000,000 | Male   | 79 | 44.3  | Pacific Life Insurance Company                       | A+   |
| 241 | \$3,000,000 | Male   | 79 | 44.3  | Minnesota Life Insurance Company                     | A+   |
| 242 | \$3,000,000 | Male   | 79 | 44.2  | Prudential Life Insurance Company                    | AA-  |
| 243 | \$5,000,000 | Male   | 79 | 100.0 | Pacific Life Insurance Company                       | A+   |
| 244 | \$5,000,000 | Male   | 79 | 100.0 | Pacific Life Insurance Company                       | A+   |
| 245 | \$3,601,500 | Male   | 79 | 96.1  | Transamerica Life Insurance Company                  | AA-  |
| 246 | \$1,000,000 | Male   | 79 | 98.5  | Sun Life Assurance Company of Canada (U.S.)          | AA-  |
| 247 | \$5,000,000 | Male   | 79 | 91.1  | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 248 | \$5,000,000 | Male   | 79 | 131.4 | Principal Life Insurance Company                     | A+   |
| 249 | \$1,009,467 | Male   | 79 | 61.0  | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 250 | \$7,000,000 | Male   | 79 | 88.1  | Lincoln Benefit Life Company                         | BBB+ |
| 251 | \$100,000   | Male   | 79 | 66.1  | North American Company for Life And Health Insurance | A+   |
| 252 | \$5,000,000 | Male   | 79 | 58.8  | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 253 | \$476,574   | Male   | 79 | 74.3  | Transamerica Life Insurance Company                  | AA-  |
| 254 | \$2,250,000 | Male   | 79 | 96.5  | Massachusetts Mutual Life Insurance Company          | AA+  |
| 255 | \$775,000   | Male   | 79 | 126.8 | Lincoln National Life Insurance Company              | AA-  |
| 256 | \$1,000,000 | Female | 79 | 125.9 | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 257 | \$1,000,000 | Male   | 79 | 112.8 | Metropolitan Life Insurance Company                  | AA-  |
| 258 | \$6,000,000 | Male   | 79 | 109.5 | AXA Equitable Life Insurance Company                 | A+   |
| 259 | \$5,000,000 | Female | 79 | 118.9 | Voya Retirement Insurance and Annuity Company        | A    |
| 260 | \$750,000   | Male   | 79 | 71.9  | Lincoln National Life Insurance Company              | AA-  |
| 261 | \$5,000,000 | Male   | 79 | 184.8 | West Coast Life Insurance Company                    | AA-  |
| 262 | \$3,000,000 | Male   | 79 | 97.9  | Principal Life Insurance Company                     | A+   |
| 263 | \$5,000,000 | Male   | 78 | 121.1 | Jefferson-Pilot Life Insurance Company               | AA-  |
| 264 | \$3,000,000 | Male   | 78 | 88.4  | American General Life Insurance Company              | A+   |
| 265 | \$5,000,000 | Male   | 78 | 81.1  | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 266 | \$500,000   | Male   | 78 | 69.4  | John Hancock Life Insurance Company (U.S.A)          | AA-  |



Edgar Filing: GWG Holdings, Inc. - Form 424B3

|     |              |        |    |       |                                               |      |
|-----|--------------|--------|----|-------|-----------------------------------------------|------|
| 267 | \$1,000,000  | Male   | 78 | 117.3 | Metropolitan Life Insurance Company           | AA-  |
| 268 | \$4,000,000  | Male   | 78 | 52.3  | MetLife Investors USA Insurance Company       | AA-  |
| 269 | \$2,500,000  | Male   | 78 | 90.3  | Massachusetts Mutual Life Insurance Company   | AA+  |
| 270 | \$2,500,000  | Male   | 78 | 90.3  | Massachusetts Mutual Life Insurance Company   | AA+  |
| 271 | \$500,000    | Female | 78 | 118.9 | Columbus Life Insurance Company               | AA   |
| 272 | \$1,750,000  | Male   | 78 | 65.4  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 273 | \$5,000,000  | Male   | 78 | 106.5 | Transamerica Life Insurance Company           | AA-  |
| 274 | \$3,750,000  | Male   | 78 | 61.5  | AXA Equitable Life Insurance Company          | A+   |
| 275 | \$2,000,000  | Female | 78 | 59.2  | Transamerica Life Insurance Company           | AA-  |
| 276 | \$2,840,000  | Male   | 77 | 101.6 | Transamerica Life Insurance Company           | AA-  |
| 277 | \$4,000,000  | Male   | 77 | 71.1  | Massachusetts Mutual Life Insurance Company   | AA+  |
| 278 | \$1,000,000  | Female | 77 | 78.3  | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 279 | \$2,000,000  | Male   | 77 | 110.5 | Genworth Life Insurance Company               | BBB- |
| 280 | \$490,620    | Male   | 77 | 90.4  | Ameritas Life Insurance Corporation           | A+   |
| 281 | \$600,000    | Male   | 77 | 87.6  | Protective Life Insurance Company             | AA-  |
| 282 | \$5,000,000  | Male   | 76 | 153.6 | Prudential Life Insurance Company             | AA-  |
| 283 | \$3,000,000  | Male   | 76 | 101.4 | Prudential Life Insurance Company             | AA-  |
| 284 | \$5,000,000  | Male   | 76 | 147.1 | Massachusetts Mutual Life Insurance Company   | AA+  |
| 285 | \$5,000,000  | Male   | 76 | 147.1 | Massachusetts Mutual Life Insurance Company   | AA+  |
| 286 | \$3,000,000  | Male   | 76 | 107.9 | Protective Life Insurance Company             | AA-  |
| 287 | \$2,000,000  | Female | 76 | 123.9 | Aviva Life Insurance Company                  | A-   |
| 288 | \$7,000,000  | Female | 76 | 126.8 | Pacific Life Insurance Company                | A+   |
| 289 | \$850,000    | Male   | 76 | 72.3  | New York Life Insurance Company               | AA+  |
| 290 | \$1,000,000  | Male   | 76 | 87.2  | Pacific Life Insurance Company                | A+   |
| 291 | \$2,000,000  | Male   | 76 | 123.8 | Transamerica Life Insurance Company           | AA-  |
| 292 | \$150,000    | Male   | 76 | 110.1 | Genworth Life Insurance Company               | BBB- |
| 293 | \$5,000,000  | Male   | 76 | 63.2  | West Coast Life Insurance Company             | AA-  |
| 294 | \$250,000    | Male   | 75 | 108.7 | Midland National Life Insurance Company       | A+   |
| 295 | \$3,000,000  | Male   | 75 | 59.4  | Aviva Life Insurance Company                  | A-   |
| 296 | \$200,000    | Male   | 75 | 74.6  | Voya Retirement Insurance and Annuity Company | A    |
| 297 | \$3,000,000  | Male   | 75 | 118.4 | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 298 | \$5,000,000  | Male   | 75 | 118.4 | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 299 | \$8,000,000  | Male   | 75 | 108.1 | Metropolitan Life Insurance Company           | AA-  |
| 300 | \$4,000,000  | Female | 75 | 148.8 | American General Life Insurance Company       | A+   |
| 301 | \$5,000,000  | Male   | 75 | 36.4  | Lincoln Benefit Life Company                  | BBB+ |
| 302 | \$3,000,000  | Female | 75 | 121.0 | General American Life Insurance Company       | AA-  |
| 303 | \$1,000,000  | Male   | 74 | 106.1 | Transamerica Life Insurance Company           | AA-  |
| 304 | \$500,000    | Male   | 74 | 114.0 | United of Omaha Life Insurance Company        | AA-  |
| 305 | \$300,000    | Male   | 74 | 20.1  | Lincoln National Life Insurance Company       | AA-  |
| 306 | \$2,000,000  | Male   | 74 | 104.1 | American General Life Insurance Company       | A+   |
| 307 | \$10,000,000 | Female | 74 | 145.2 | Voya Retirement Insurance and Annuity Company | A    |
| 308 | \$500,000    | Male   | 73 | 41.6  | Midland National Life Insurance Company       | A+   |
| 309 | \$3,000,000  | Male   | 73 | 80.2  | AXA Equitable Life Insurance Company          | A+   |
| 310 | \$2,500,000  | Male   | 73 | 113.7 | John Hancock Life Insurance Company (U.S.A)   | AA-  |
| 311 | \$500,000    | Male   | 73 | 145.4 | Prudential Life Insurance Company             | AA-  |



|     |               |        |    |       |                                                      |      |
|-----|---------------|--------|----|-------|------------------------------------------------------|------|
| 312 | \$500,000     | Male   | 72 | 132.8 | Ameritas Life Insurance Corporation                  | A+   |
| 313 | \$370,000     | Male   | 72 | 132.8 | Ameritas Life Insurance Corporation                  | A+   |
| 314 | \$500,000     | Male   | 72 | 138.8 | Metropolitan Life Insurance Company                  | AA-  |
| 315 | \$2,500,000   | Male   | 72 | 115.0 | American General Life Insurance Company              | A+   |
| 316 | \$300,000     | Male   | 72 | 121.5 | New England Life Insurance Company                   | AA-  |
| 317 | \$1,167,000   | Male   | 72 | 32.3  | Transamerica Life Insurance Company                  | AA-  |
| 318 | \$1,500,000   | Male   | 72 | 118.5 | Metropolitan Life Insurance Company                  | AA-  |
| 319 | \$10,000,000  | Male   | 72 | 128.6 | AXA Equitable Life Insurance Company                 | A+   |
| 320 | \$3,000,000   | Male   | 71 | 82.8  | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 321 | \$2,000,000   | Male   | 71 | 109.2 | New York Life Insurance Company                      | AA+  |
| 322 | \$2,000,000   | Male   | 71 | 109.2 | New York Life Insurance Company                      | AA+  |
| 323 | \$5,000,000   | Male   | 71 | 138.4 | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 324 | \$2,500,000   | Male   | 71 | 124.5 | Lincoln National Life Insurance Company              | AA-  |
| 325 | \$2,500,000   | Male   | 71 | 124.5 | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 326 | \$600,000     | Male   | 71 | 92.6  | AXA Equitable Life Insurance Company                 | A+   |
| 327 | \$420,000     | Male   | 71 | 132.7 | RiverSource Life Insurance Company                   | A+   |
| 328 | \$650,000     | Female | 70 | 81.2  | Voya Retirement Insurance and Annuity Company        | A    |
| 329 | \$1,250,000   | Male   | 70 | 109.5 | West Coast Life Insurance Company                    | AA-  |
| 330 | \$500,000     | Male   | 70 | 100.3 | Transamerica Life Insurance Company                  | AA-  |
| 331 | \$500,000     | Male   | 70 | 100.3 | North American Company for Life And Health Insurance | A+   |
| 332 | \$2,000,000   | Male   | 68 | 121.8 | Transamerica Life Insurance Company                  | AA-  |
| 333 | \$1,000,000   | Male   | 68 | 121.8 | Genworth Life Insurance Company                      | BBB- |
| 334 | \$1,000,000   | Male   | 68 | 68.9  | Protective Life Insurance Company                    | AA-  |
| 335 | \$156,538     | Female | 68 | 114.8 | New York Life Insurance Company                      | AA+  |
| 336 | \$2,000,000   | Male   | 68 | 56.5  | MetLife Investors USA Insurance Company              | AA-  |
| 337 | \$2,000,000   | Male   | 68 | 56.5  | MetLife Investors USA Insurance Company              | AA-  |
| 338 | \$5,616,468   | Male   | 67 | 191.2 | John Hancock Life Insurance Company (U.S.A)          | AA-  |
| 339 | \$3,000,000   | Male   | 66 | 110.0 | Voya Retirement Insurance and Annuity Company        | A    |
| 340 | \$2,000,000   | Male   | 66 | 110.0 | AXA Equitable Life Insurance Company                 | A+   |
| 341 | \$1,000,000   | Male   | 66 | 53.7  | Lincoln National Life Insurance Company              | AA-  |
| 342 | \$1,000,000   | Male   | 66 | 86.7  | Transamerica Life Insurance Company                  | AA-  |
| 343 | \$250,000     | Male   | 66 | 173.6 | Prudential Life Insurance Company                    | AA-  |
|     | \$878,881,882 |        |    |       |                                                      |      |

(1) The insured's age is current as of the measurement date.

The insured's life expectancy estimate, other than for a small face value insurance policy benefit, is the average

(2) of two life expectancy estimates provided by independent third-party medical actuarial underwriting firms actuarially adjusted through the measurement date.



**FINANCIAL INFORMATION**

**GWG HOLDINGS, INC.**

**Table of Contents**

|                                                                                                                             | <b>Page</b> |
|-----------------------------------------------------------------------------------------------------------------------------|-------------|
| Condensed Consolidated Balance Sheets as of September 30, 2015 (unaudited) and December 31, 2014                            | F-1         |
| Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014 (unaudited) | F-2         |
| Condensed Consolidated Statement of Cash Flows for the three and nine months ended September 30, 2015 and 2014 (unaudited)  | F-3         |
| Notes to Condensed Consolidated Financial Statements                                                                        | F-6         |

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

|                                                                                                                                                                                     | September 30,<br>2015<br>(unaudited) | December 31,<br>2014 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b><u>ASSETS</u></b>                                                                                                                                                                |                                      |                      |
| Cash and cash equivalents                                                                                                                                                           | \$28,452,673                         | \$30,662,704         |
| Restricted cash                                                                                                                                                                     | 7,271,560                            | 4,296,053            |
| Policy benefits receivable                                                                                                                                                          | 357,014                              | 1,750,000            |
| Investment in life settlements, at fair value                                                                                                                                       | 329,562,250                          | 282,883,010          |
| Other assets                                                                                                                                                                        | 5,882,723                            | 3,478,762            |
| <b>TOTAL ASSETS</b>                                                                                                                                                                 | <b>\$371,526,220</b>                 | <b>\$323,070,529</b> |
| <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>                                                                                                                                       |                                      |                      |
| <b>LIABILITIES</b>                                                                                                                                                                  |                                      |                      |
| Revolving credit facility                                                                                                                                                           | \$65,011,048                         | \$72,161,048         |
| Series I Secured Notes                                                                                                                                                              | 23,566,913                           | 27,616,578           |
| L Bonds                                                                                                                                                                             | 243,126,585                          | 182,782,884          |
| Interest payable                                                                                                                                                                    | 11,377,385                           | 11,128,519           |
| Accounts payable and accrued expenses                                                                                                                                               | 3,063,995                            | 1,718,009            |
| Deferred taxes, net                                                                                                                                                                 | 4,608,650                            | 5,273,555            |
| <b>TOTAL LIABILITIES</b>                                                                                                                                                            | <b>350,754,576</b>                   | <b>300,680,593</b>   |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                                                                         |                                      |                      |
| <b>CONVERTIBLE PREFERRED STOCK</b>                                                                                                                                                  |                                      |                      |
| (par value \$0.001; shares authorized 40,000,000; shares outstanding 2,756,549 and 2,738,966; liquidation preference of \$20,674,000 and \$20,542,000, respectively)                | 20,623,541                           | 20,527,866           |
| <b>COMMON STOCK</b>                                                                                                                                                                 |                                      |                      |
| Common stock (par value \$0.001; shares authorized 210,000,000; shares issued and outstanding is 5,941,790 and 5,870,193 on September 30, 2015 and December 31, 2014, respectively) | 5,942                                | 5,870                |
| Additional paid-in capital                                                                                                                                                          | 17,163,249                           | 16,257,686           |
| Accumulated deficit                                                                                                                                                                 | (17,021,088 )                        | (14,401,486 )        |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                                                                                                                                                   | <b>20,771,644</b>                    | <b>22,389,936</b>    |
| <b>TOTAL LIABILITIES &amp; EQUITY</b>                                                                                                                                               | <b>\$371,526,220</b>                 | <b>\$323,070,529</b> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.



## GWG HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

|                                                      | Three Months Ended    |                       | Nine Months Ended     |                       |
|------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                      | September 30,         | September 30,         | September 30,         | September 30,         |
|                                                      | 2015                  | 2014                  | 2015                  | 2014                  |
| <b>REVENUE</b>                                       |                       |                       |                       |                       |
| Gain on life settlements, net                        | \$8,189,261           | \$5,118,423           | \$33,446,556          | \$16,119,517          |
| Interest and other income                            | 93,841                | 10,229                | 233,516               | 23,975                |
| <b>TOTAL REVENUE</b>                                 | <b>8,283,102</b>      | <b>5,128,652</b>      | <b>33,680,072</b>     | <b>16,143,492</b>     |
| <b>EXPENSES</b>                                      |                       |                       |                       |                       |
| Employee compensation and benefits                   | 2,308,246             | 1,376,710             | 6,180,886             | 3,524,274             |
| Legal and professional fees                          | 822,077               | 760,130               | 1,988,261             | 1,627,769             |
| Interest expense                                     | 8,650,149             | 6,796,736             | 23,149,030            | 19,731,327            |
| Other expenses                                       | 2,231,341             | 1,453,367             | 5,646,402             | 3,277,850             |
| <b>TOTAL EXPENSES</b>                                | <b>14,011,813</b>     | <b>10,386,943</b>     | <b>36,964,579</b>     | <b>28,161,220</b>     |
| <b>LOSS BEFORE INCOME TAXES</b>                      | <b>(5,728,711 )</b>   | <b>(5,258,291 )</b>   | <b>(3,284,507 )</b>   | <b>(12,017,728 )</b>  |
| <b>INCOME TAX BENEFIT</b>                            | <b>(2,097,633 )</b>   | <b>(1,858,100 )</b>   | <b>(664,905 )</b>     | <b>(4,129,670 )</b>   |
| <b>NET LOSS</b>                                      | <b>\$(3,631,078 )</b> | <b>\$(3,400,191 )</b> | <b>\$(2,619,602 )</b> | <b>\$(7,888,058 )</b> |
| (Income) loss attributable to preferred shareholders | 343,644               | (117,674 )            | 1,041,648             | (344,658 )            |
| <b>LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>      | <b>\$(3,287,434 )</b> | <b>\$(3,517,865 )</b> | <b>\$(1,577,954 )</b> | <b>\$(8,232,716 )</b> |
| <b>NET LOSS PER SHARE</b>                            |                       |                       |                       |                       |
| Basic                                                | \$(0.55 )             | \$(0.76 )             | \$(0.27 )             | \$(1.80 )             |
| Diluted                                              | \$(0.55 )             | \$(0.76 )             | \$(0.27 )             | \$(1.80 )             |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>           |                       |                       |                       |                       |
| Basic                                                | 5,937,320             | 4,633,097             | 5,894,956             | 4,579,920             |
| Diluted                                              | 5,937,320             | 4,633,097             | 5,894,956             | 4,579,920             |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

|                                                                                | Three Months Ended  |                      | Nine Months Ended   |                      |
|--------------------------------------------------------------------------------|---------------------|----------------------|---------------------|----------------------|
|                                                                                | September 30,       | September 30,        | September 30,       | September 30,        |
|                                                                                | 2015                | 2014                 | 2015                | 2014                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |                     |                      |                     |                      |
| Net loss                                                                       | \$(3,631,078 )      | \$(3,400,191 )       | \$(2,619,602 )      | \$(7,888,058 )       |
| Adjustments to reconcile net loss to net cash flows from operating activities: |                     |                      |                     |                      |
| Gain on life settlements                                                       | (14,516,881)        | (8,761,912 )         | (26,651,363)        | (30,973,250 )        |
| Amortization of deferred financing and issuance costs                          | 1,933,776           | 863,217              | 1,891,772           | 2,570,881            |
| Deferred income taxes                                                          | (1,916,686 )        | (1,858,100 )         | (664,905 )          | (4,129,670 )         |
| Convertible, redeemable preferred stock dividends payable                      | 173,993             | 186,182              | 509,225             | 575,513              |
| (Increase) decrease in operating assets:                                       |                     |                      |                     |                      |
| Policy benefits receivable                                                     | 2,142,986           | 300,000              | 1,392,986           | -                    |
| Other assets                                                                   | (417,990 )          | (1,147,221 )         | (774,539 )          | (2,096,140 )         |
| Increase in operating liabilities:                                             |                     |                      |                     |                      |
| Accounts payable and accrued expenses                                          | 2,534,269           | 490,496              | 3,836,715           | 3,658,659            |
| <b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>                             | <b>(13,697,611)</b> | <b>(13,327,529 )</b> | <b>(23,079,711)</b> | <b>(38,282,065 )</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                    |                     |                      |                     |                      |
| Investment in life settlements                                                 | (13,626,842)        | (680,000 )           | (23,850,860)        | (11,559,435 )        |
| Proceeds from settlement of life settlements                                   | 80,000              | 930,625              | 3,822,983           | 999,125              |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>                             | <b>(13,546,842)</b> | <b>250,625</b>       | <b>(20,027,877)</b> | <b>(10,560,310 )</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                    |                     |                      |                     |                      |
| Repayment of revolving credit facility                                         | -                   | -                    | (7,150,000 )        | -                    |
| Payments for redemption of Series I Secured Notes                              | (890,586 )          | (509,004 )           | (4,508,130 )        | (2,047,928 )         |
| Proceeds from issuance of L Bonds                                              | 37,122,127          | 15,281,809           | 87,620,483          | 48,516,296           |
| Payments for redemption and issuance of L Bonds                                | (19,363,047)        | (4,494,383 )         | (32,376,104)        | (13,816,794 )        |
| Proceeds (payments) from restricted cash                                       | 651,630             | 665,699              | (2,975,507 )        | 3,688,236            |
| Issuance of common stock                                                       | -                   | 9,030,000            | 582,000             | 9,030,000            |
| Payments for redemption of preferred stock                                     | (21,187 )           | (445,183 )           | (295,185 )          | (465,239 )           |
| <b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>                         | <b>17,498,937</b>   | <b>19,528,938</b>    | <b>40,897,557</b>   | <b>44,904,571</b>    |
|                                                                                | <b>(9,745,516 )</b> | <b>6,452,034</b>     | <b>(2,210,031 )</b> | <b>(3,937,804 )</b>  |

NET INCREASE (DECREASE) IN CASH AND  
CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS

|                     |              |              |              |              |
|---------------------|--------------|--------------|--------------|--------------|
| BEGINNING OF PERIOD | 38,198,189   | 23,059,955   | 30,662,704   | 33,449,793   |
| END OF PERIOD       | \$28,452,673 | \$29,511,989 | \$28,452,673 | \$29,511,989 |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

(unaudited)

|                                                                          | Three Months Ended |               | Nine Months Ended |               |
|--------------------------------------------------------------------------|--------------------|---------------|-------------------|---------------|
|                                                                          | September 30,      | September 30, | September 30,     | September 30, |
|                                                                          | 2015               | 2014          | 2015              | 2014          |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                 |                    |               |                   |               |
| Interest paid                                                            | \$5,385,000        | \$ 5,095,000  | \$18,529,000      | \$ 12,877,000 |
| Premiums paid                                                            | \$6,603,000        | \$ 5,692,000  | \$19,069,000      | \$ 17,059,000 |
| Stock-based compensation                                                 | \$176,000          | \$ 44,000     | \$208,000         | \$ 116,000    |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>                       |                    |               |                   |               |
| Series I Secured Notes:                                                  |                    |               |                   |               |
| Conversion of accrued interest and commissions payable to principal      | \$61,000           | \$ 47,000     | \$188,000         | \$ 152,000    |
| L Bonds:                                                                 |                    |               |                   |               |
| Conversion of accrued interest and commission payable to principal       | \$491,000          | \$ 133,000    | \$929,000         | \$ 415,000    |
| Convertible, redeemable preferred stock                                  |                    |               |                   |               |
| Conversion to common stock                                               | \$87,000           | \$ 4,957,000  | \$116,000         | \$ 4,957,000  |
| Conversion of dividends payable                                          | \$172,000          | \$ 192,000    | \$507,000         | \$ 573,000    |
| Accretion of convertible, redeemable preferred stock to redemption value | \$-                | \$ 118,000    | \$-               | \$ 345,000    |
| Investment in life settlements included in accounts payable              | \$559,000          | \$ -          | \$559,000         | \$ -          |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

|                                                                                                                  | Preferred<br>Stock<br>Shares | Preferred<br>Stock | Common<br>Shares | Common<br>Stock<br>(par) | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Total<br>Equity |
|------------------------------------------------------------------------------------------------------------------|------------------------------|--------------------|------------------|--------------------------|----------------------------------|------------------------|-----------------|
| Balance, December 31, 2013                                                                                       | -                            | \$-                | 4,562,000        | \$4,562                  | \$2,942,000                      | \$(8,438,577 )         | \$(5,492,015 )  |
| Net loss                                                                                                         | -                            | -                  | -                | -                        | -                                | (5,962,909 )           | (5,962,909 )    |
| Issuance of common stock                                                                                         | -                            | -                  | 800,000          | 800                      | 8,642,990                        | -                      | 8,643,790       |
| Series A Preferred Stock conversion                                                                              | -                            | -                  | 508,193          | 508                      | 4,956,591                        | -                      | 4,957,099       |
| Reclassification of preferred stock from temporary equity to permanent equity due to initial public offering (*) | 2,710,214                    | 20,326,605         | -                | -                        | -                                | -                      | 20,326,605      |
| Issuance of preferred stock                                                                                      | 28,752                       | 201,261            | -                | -                        | -                                | -                      | 201,261         |
| Issuance of stock options                                                                                        | -                            | -                  | -                | -                        | 122,412                          | -                      | 122,412         |
| Extension of warrants                                                                                            | -                            | -                  | -                | -                        | 47,120                           | -                      | 47,120          |
| Accretion of preferred stock to liquidation value                                                                | -                            | -                  | -                | -                        | (453,427 )                       | -                      | (453,427 )      |
| Balance, December 31, 2014                                                                                       | 2,738,966                    | \$20,527,866       | 5,870,193        | \$5,870                  | \$16,257,686                     | \$(14,401,486)         | \$22,389,936    |
| Net income                                                                                                       | -                            | -                  | -                | -                        | -                                | (2,619,602 )           | (2,619,602 )    |
| Issuance of common stock                                                                                         | -                            | -                  | 60,000           | 60                       | 581,940                          | -                      | 582,000         |
| Series A Preferred Stock conversion to common stock                                                              | (15,463 )                    | (115,973 )         | 11,597           | 12                       | 115,961                          | -                      | -               |
| Issuance of preferred stock                                                                                      | 33,046                       | 211,648            | -                | -                        | -                                | -                      | 211,648         |
| Issuance of stock options                                                                                        | -                            | -                  | -                | -                        | 207,662                          | -                      | 207,662         |
| Balance, September 30, 2015                                                                                      | 2,756,549                    | \$20,623,541       | 5,941,790        | \$5,942                  | \$17,163,249                     | \$(17,021,088)         | \$20,771,644    |



Subject to the terms of the Certificate of Designation for Series A Convertible Preferred Stock, the listing of our  
\* common stock on The Nasdaq Capital Market on September 25, 2014 resulted in the termination of a redemption  
right in favor of the holders of such preferred stock. Preferred stock that is not redeemable by a stockholder is treated  
as stockholders' equity as shown in the table above.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

F-5

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**(1) Nature of business and summary of significant accounting policies**

**Nature of business** - GWG Holdings, Inc. (GWG Holdings) and subsidiaries, located in Minneapolis, Minnesota, purchases insurance policies for its own investment portfolio through its wholly owned subsidiaries, GWG Life, LLC (GWG Life) and GWG Life USA, LLC (GWG Life USA), and GWG Life's own subsidiaries, GWG Trust (Trust), GWG DLP Funding II, LLC (DLP II) and its wholly owned subsidiary, GWG DLP Master Trust II (the Trust II), and GWG DLP Funding III, LLC (DLP III). All of these entities are legally organized in Delaware. Unless the context otherwise requires or we specifically so indicate, all references in this prospectus supplement to "we", "us", "our", "our Company", "GWG", or the "Company" refer to these entities collectively. References to particular entities, such as "GWG Holdings" or "GWG Life", are meant to refer only to the particular entity referenced.

**Use of estimates** - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions. The Company bases its estimates and assumptions on current facts, historical experience, and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected. The most significant estimates with regard to these consolidated financial statements relates to (1) the determination of the assumptions used in estimating the fair value of the investment in life insurance policies, and (2) the value of deferred tax assets and liabilities.

**Cash and cash equivalents** - The Company considers cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents with highly rated financial institutions. From time to time, the Company's balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. The Company periodically evaluates the risk of exceeding insured levels and may transfer funds as it deems appropriate. The Company has not experienced any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

**Life settlements** - ASC 325-30, *Investments in Insurance Contracts*, allows a reporting entity the election to account for its investments in life settlements using either the investment method or the fair value method. The election shall

be made on an instrument-by-instrument basis and is irrevocable. Under the investment method, an investor shall recognize the initial investment at the purchase price plus all initial direct costs. Continuing costs (policy premiums and direct external costs, if any) to keep the policy in force shall be capitalized. Under the fair value method, an investor shall recognize the initial investment at the purchase price. In subsequent periods, the investor shall re-measure the investment at fair value in its entirety at each reporting period and shall recognize the change in fair value in current period income net of premiums paid. The Company uses the fair value method to account for all life settlements.

The Company recognizes realized gains (revenue) from life settlement contracts upon one of the two following events:

- 1) Receipt of death notice or verified obituary of insured
- 2) Sale of policy and filing of change of ownership forms and receipt of payment

The Company recognizes the difference between the death benefits and carrying values of the policy when an insured event has occurred and the Company determines that settlement and ultimate collection of the death benefits is realizable and reasonably assured. Revenue from a transaction must meet both criteria in order to be recognized. In an event of a sale of a policy, the Company recognizes gain or loss as the difference between the sale price and the carrying value of the policy on the date of the receipt of payment on such sale.

Deposits and initial direct costs advanced on unsettled policy acquisitions are recorded as other assets until policy ownership has been transferred to the Company. Such deposits and direct cost advances were \$31,000 and \$27,000 at September 30, 2015 and December 31, 2014, respectively.

**Deferred financing and issuance costs** – Costs incurred to obtain financing under the revolving credit facility, as described in note 5, have been capitalized and are amortized using the straight-line method over the term of the revolving credit facility. Amortization of deferred financing costs was \$457,000 and \$89,000 for the three-month periods ended September 30, 2015 and 2014, and \$757,000 and \$268,000 for the nine-month periods ended September 30, 2015 and 2014, respectively. Future amortization is expected to be \$1,096,000 for the next seven months ending April 30, 2016. The Series I Secured Notes, as described in note 6, are reported net of issuance costs, sales commissions and other direct expenses, which are amortized using the interest method over the term of each respective borrowing. The L Bonds, as described in note 7, are reported net of issuance costs, sales commissions and other direct expenses, which are amortized using the interest method over the term of each respective borrowing. The Series A Preferred Stock, as described in note 8, was also reported net of issuance costs, sales commissions, including the fair value of warrants issued, and other direct expenses, which were amortized into additional paid-in-capital over the three-year redemption period. As of December 31, 2014, all of these costs had been fully amortized.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**Earnings (loss) per share** - Basic per share earnings (loss) attributable to non-redeemable interests is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated based on the potential dilutive impact, if any, of the Company's convertible, redeemable preferred stock, and outstanding warrants, and stock options.

**Subsequent events** - Subsequent events are events or transactions that occur after the balance sheet date but before consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the consolidated financial statements are available to be issued. The Company evaluates subsequent events and transactions that occur after the balance sheet date up to the date that the consolidated financial statements are filed for potential recognition or disclosure.

**Recently adopted pronouncements** - On April 7, 2015 the FASB issued Accounting Standards Update (ASU) No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," as part of its simplification initiative. The ASU changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. For public business entities, the guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For entities other than public business entities, the guidance is effective for fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities would apply the new guidance retrospectively to all prior periods (i.e., the balance sheet for each period is adjusted). The impact of the new ASU on the Company's balance sheet would be a reduction of approximately \$3,195,000 to assets and a corresponding reduction to liabilities. There would be no impact on the Company's statements of operations.

**(2) Restrictions on cash**

The Company is required by its lenders to maintain collection and escrow accounts. These accounts are used to fund the acquisition, pay annual premiums of insurance policies, pay interest and other charges under the revolving credit facility, and collect policy benefits. DZ Bank AG, as agent for Autobahn Funding Company, LLC, the lender for the

revolving credit facility as described in note 5, authorizes the disbursements from these accounts. At September 30, 2015 and December 31, 2014, there was a balance of \$7,272,000, and \$4,296,000, respectively, maintained in these restricted cash accounts.

### **(3) Investment in life insurance policies**

The life insurance policies (Level 3 fair value measurements) are valued based on unobservable inputs that are significant to the overall fair value measurement. Changes in the fair value of these instruments are recorded in gain or loss on life insurance policies in the consolidated statements of operations (net of the cash premiums paid on the policies). The fair value is determined on a discounted cash flow basis that incorporates life expectancy assumptions. Life expectancy reports have been obtained from widely accepted life expectancy providers. The discount rate incorporates current information about discount rates applied by other reporting companies owning portfolios of life insurance policies, discount rates observed in the secondary market, market interest rates, the credit exposure to the insurance company that issued the life insurance policy and management's estimate of the risk premium a purchaser would require to receive the future cash flows derived from our portfolio of life insurance policies. As a result of management's analysis, discount rates of 11.07% and 11.43% were applied to the portfolio as of September 30, 2015 and December 31, 2014, respectively.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

A summary of the Company's life insurance policies accounted for under the fair value method and their estimated maturity dates, based on remaining life expectancy is as follows:

| Years Ending December 31, | As of September 30, 2015 |                      |             | As of December 31, 2014 |                      |               |
|---------------------------|--------------------------|----------------------|-------------|-------------------------|----------------------|---------------|
|                           | Number of Contracts      | Estimated Fair Value | Face Value  | Number of Contracts     | Estimated Fair Value | Face Value    |
| 2015                      | -                        | \$-                  | \$-         | 3                       | \$5,063,000          | \$6,000,000   |
| 2016                      | 5                        | 7,399,000            | 8,500,000   | 7                       | 8,144,000            | 11,550,000    |
| 2017                      | 14                       | 14,484,000           | 19,557,000  | 17                      | 21,916,000           | 35,542,000    |
| 2018                      | 26                       | 39,188,000           | 63,114,000  | 30                      | 41,994,000           | 76,206,000    |
| 2019                      | 50                       | 55,126,000           | 109,625,000 | 45                      | 47,303,000           | 106,973,000   |
| 2020                      | 47                       | 52,173,000           | 111,187,000 | 41                      | 43,429,000           | 102,614,000   |
| 2021                      | 51                       | 47,957,000           | 129,006,000 | 36                      | 29,789,000           | 90,921,000    |
| Thereafter                | 150                      | 113,235,000          | 437,893,000 | 112                     | 85,245,000           | 349,293,000   |
| Totals                    | 343                      | 329,562,000          | 878,882,000 | 291                     | \$282,883,000        | \$779,099,000 |

The Company realized policy benefits of \$357,000 and \$3,000,000 during the three-month periods ended September 30, 2015 and 2014, respectively, related to policies with a carrying value of \$80,000 and \$931,000, respectively. The Company recorded realized gains of \$277,000 and \$2,069,000 on such policies. The Company recognized policy benefits of \$29,732,000 and \$3,300,000 during the nine-month periods ended September 30, 2015 and 2014, respectively, related to policies with a carrying value of \$3,823,000 and \$999,000, respectively. The Company recorded realized gains of \$25,909,000 and \$2,301,000, respectively on such policies. Subsequent to September 30, 2015, one policy with insurance benefits of \$1,500,000 has matured.

## Reconciliation of gain on life settlements:

|                                | Three Months Ended |             | Nine Months Ended  |              |
|--------------------------------|--------------------|-------------|--------------------|--------------|
|                                | September 30, 2015 | 2014        | September 30, 2015 | 2014         |
| Change in fair value           | \$14,517,000       | \$8,762,000 | \$26,651,000       | \$30,973,000 |
| Premiums and other annual fees | (6,605,000)        | (5,713,000) | (19,114,000)       | (17,155,000) |
| Policy maturities              | 277,000            | 2,069,000   | 25,909,000         | 2,301,000    |

|                               |             |             |              |              |
|-------------------------------|-------------|-------------|--------------|--------------|
| Gain on life settlements, net | \$8,189,000 | \$5,118,000 | \$33,446,000 | \$16,119,000 |
|-------------------------------|-------------|-------------|--------------|--------------|

The estimated expected premium payments to maintain the above life insurance policies in force through 2020, assuming no policy maturities, are as follows:

| <b>Years Ending December 31,</b>      | <b>Premiums</b> | <b>Servicing</b> | <b>Premiums<br/>and<br/>Servicing<br/>Fees</b> |
|---------------------------------------|-----------------|------------------|------------------------------------------------|
| Three months ending December 31, 2015 | \$7,315,000     | \$412,000        | \$7,727,000                                    |
| 2016                                  | 30,433,000      | 412,000          | 30,845,000                                     |
| 2017                                  | 33,390,000      | 412,000          | 33,802,000                                     |
| 2018                                  | 36,241,000      | 412,000          | 36,653,000                                     |
| 2019                                  | 40,520,000      | 412,000          | 40,932,000                                     |
| 2020                                  | 45,023,000      | 412,000          | 45,435,000                                     |
|                                       | \$192,922,000   | \$2,472,000      | \$195,394,000                                  |

Management anticipates funding the estimated premium payments as noted above with proceeds from the DZ Bank revolving credit facility and through additional debt and equity financing as well as from cash proceeds from maturities of life insurance policies. The proceeds of these capital sources are also intended to be used for the purchase, financing, and maintenance of additional life insurance policies among other things.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**(4) Fair value definition and hierarchy**

ASC 820 establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace including the existence and transparency of transactions between market participants. Assets and liabilities with readily available active quoted prices or for which fair value can be measured from actively quoted prices in an orderly market generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. ASC 820 establishes a three-level valuation hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary by types of assets and liabilities and is affected by a wide variety of factors, including, for example, whether an instrument is established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for assets and liabilities categorized in Level 3.



## Level 3 Valuation Process

The estimated fair value of the Company's life settlements are determined on a quarterly basis by the Company's portfolio management committee, taking into consideration estimated premium payments, life expectancy assumptions, any changes in economic and other relevant conditions, and discount rate assumptions. The discount rate incorporates current information about discount rates applied by other reporting companies owning portfolios of life insurance policies, discount rates observed in the secondary market, market interest rates, the credit exposure to the insurance company that issued the life insurance policy and management's estimate of the risk premium a purchaser would require to receive the future cash flows derived from our portfolio of life insurance policies. These inputs are then used to estimate the discounted cash flows using the MAPS probabilistic portfolio pricing model, which estimates the cash flows using various different probabilities and scenarios. The valuation process includes a review by senior management as of each valuation date. Management also engages a third party expert to independently test the accuracy of the valuations using the inputs provided by management.

Life insurance policies represent financial instruments recorded at fair value on a recurring basis. The following table reconciles the beginning and ending fair value of the Company's Level 3 investments in life insurance policies for the three and nine-month periods ending September 30:

|                                               | Three month ended<br>September 30, |               | Nine Months Ended<br>September 30, |               |
|-----------------------------------------------|------------------------------------|---------------|------------------------------------|---------------|
|                                               | 2015                               | 2014          | 2015                               | 2014          |
| Beginning balance                             | \$301,499,000                      | \$267,896,000 | \$282,883,000                      | \$234,673,000 |
| Purchases                                     | 13,626,000                         | 655,000       | 23,851,000                         | 11,735,000    |
| Maturities (cash in excess of carrying value) | (80,000 )                          | (931,000 )    | (3,823,000 )                       | (999,000 )    |
| Net change in fair value                      | 14,517,000                         | 8,762,000     | 26,651,000                         | 30,973,000    |
| Ending balance (September 30)                 | \$329,562,000                      | \$276,382,000 | \$329,562,000                      | \$276,382,000 |

The fair value of a portfolio of life insurance policies is based on information available to the Company at the reporting date. Fair value is based upon a discounted cash flow model that incorporates life expectancy estimate assumptions. Life expectancy estimates are obtained from independent, third-party, widely accepted life expectancy estimate providers at policy acquisition. These life expectancy values are rolled down monthly through the passage of time by the MAPS actuarial software the Company uses for ongoing valuation of its portfolio of life insurance policies.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

On September 15, 2014, 21st Services announced changes to its mortality tables primarily for insureds age 90 and older, as well as updated adjustment factors designed to better underwrite seniors with multiple impairments. These changes represent small portions of 21st Services' historical underwritings. We expect medical-actuarial underwriting firms to continue improving and refining their underwriting methodology.

The fair value of life insurance policies is estimated using present value calculations of estimated cash flows based on the data specific to each individual life insurance policy. Estimated future policy premium payments are calculated based on the terms of the policy and the premium payment history. The following summarizes the unobservable inputs utilized in estimating the fair value of the portfolio of life insurance policies:

|                                          | <b>As of</b>         | <b>As of</b>        |
|------------------------------------------|----------------------|---------------------|
|                                          | <b>September 30,</b> | <b>December 31,</b> |
|                                          | <b>2015</b>          | <b>2014</b>         |
| Weighted average age of insured, years   | 82.6                 | 82.8                |
| Weighted average life expectancy, months | 79.2                 | 78.4                |
| Average face amount per policy           | \$ 2,562,000         | \$ 2,677,000        |
| Discount rate                            | 11.07                | % 11.43 %           |

These assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The techniques used in estimating the present value of estimated cash flows are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonably vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value. If the life expectancy estimates were increased or decreased by four and eight months on each outstanding policy and the discount rates were increased or decreased by 1% and 2%, while all other variables are held constant, the fair value of the investment in life insurance policies would increase or (decrease) by the amounts summarized below:

|                    | <b>Change in life expectancy estimates</b> |                 |                 |                 |
|--------------------|--------------------------------------------|-----------------|-----------------|-----------------|
|                    | <b>minus</b>                               | <b>minus</b>    | <b>plus</b>     | <b>plus</b>     |
|                    | <b>8 months</b>                            | <b>4 months</b> | <b>4 months</b> | <b>8 months</b> |
| September 30, 2015 | \$44,959,000                               | \$22,384,000    | \$(21,842,000)  | \$(43,190,000)  |

Edgar Filing: GWG Holdings, Inc. - Form 424B3

December 31, 2014 \$40,634,000 \$20,130,000 \$(19,664,000) \$(38,864,000)

Change in discount rate  
 minus 2%      minus 1%      plus 1%      plus 2%

September 30, 2015 \$32,445,000 \$15,551,000 \$(14,348,000) \$(27,614,000)

December 31, 2014 \$28,179,000 \$13,522,000 \$(12,502,000) \$(24,085,000)

Other Fair Value Considerations

Carrying value of receivables, prepaid expenses, accounts payable and accrued expenses approximate fair value due to their short-term maturities and low credit risk. The estimated fair value of the Company's Series I Secured Notes and L Bonds is approximately \$273,507,000 based on a weighted-average market interest rate of 7.06% based on an income approach. The combined face value of these debt instruments is \$271,471,000 as of September 30, 2015. The carrying value of the revolving credit facility reflects interest charged at the commercial paper rate plus an applicable margin. The margin represents our credit risk, and the strength of the portfolio of life insurance policies collateralizing the debt. The overall rate reflects market, and the carrying value of the revolving credit facility approximates fair value. All of the financial instruments are Level 3 fair value measurements.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The Company has issued warrants to purchase common stock in connection with the issuance of its convertible, redeemable preferred stock. Warrants were determined by the Company to be permanent equity. The fair value measurements associated with the warrants, measured at issuance represent level 3 instruments.

As of September 30, 2015:

| Month issued   | Warrants issued | Fair value per share | Risk free rate | Volatility | Term      |
|----------------|-----------------|----------------------|----------------|------------|-----------|
| December 2011  | 68,937          | \$ 0.22              | 0.42 %         | 25.25      | % 5 years |
| March 2012     | 38,130          | \$ 0.52              | 0.38 %         | 36.20      | % 5 years |
| June 2012      | 161,840         | \$ 1.16              | 0.41 %         | 47.36      | % 5 years |
| July 2012      | 144,547         | \$ 1.16              | 0.41 %         | 47.36      | % 5 years |
| September 2012 | 2,500           | \$ 0.72              | 0.31 %         | 40.49      | % 5 years |
| September 2014 | 16,000          | \$ 1.26              | 1.85 %         | 17.03      | % 5 years |
|                | 431,954         |                      |                |            |           |

Volatility is based upon the weekly percentage change in the stock price of selected comparable insurance companies. The percentage change is calculated on the average price of those selected stocks at the weekly close of business for the year preceding the balance sheet date. We compare annual volatility based on this weekly information.

**(5) Credit facilities****Revolving credit facility – Autobahn Funding Company LLC**

On July 15, 2008, DLP II and United Lending entered into a revolving credit facility pursuant to a Credit and Security Agreement (Agreement) with Autobahn Funding Company LLC (Autobahn), providing the Company with a maximum borrowing amount of \$100,000,000. Autobahn is a commercial paper conduit that issues commercial paper to investors in order to provide funding to DLP II. DZ Bank AG Deutsche Zentral-Genossenschaftsbank (DZ Bank)

acts as the agent for Autobahn. The original Agreement was to expire on July 15, 2013. On January 29, 2013, GWG Holdings, together with GWG Life and DLP II, entered into an Amended and Restated Credit and Security Agreement with Autobahn, extending the facility expiration date to December 31, 2014. On May 29, 2014, GWG Holdings, together with GWG Life and DLP II, entered into an Amendment No. 1 to Amended and Restated Credit and Security Agreement with Autobahn and DZ Bank (as committed lender and Agent). The amendment was entered into for the purpose of extending the maturity date for borrowings under the Agreement to December 31, 2016. Effective May 11, 2015, GWG Holdings, together with certain of its subsidiaries, entered into a Second Amended and Restated Credit and Security Agreement with Autobahn and DZ Bank. The Second Amended and Restated Credit and Security Agreement extends the maturity date of borrowings under the credit facility to June 30, 2018. Advances under the credit facility made after May 11, 2015 will bear interest at the commercial paper rate of the lender at the time of the advance plus an applicable margin, which is less than under the previous Credit and Security Agreement executed on January 25, 2013. In addition to the extended term and decreased interest rate and borrowing cost, the Second Amended and Restated Credit and Security Agreement removes the requirement that the Company maintain a reserve for certain projected expenditures (including anticipated premium payments required to service its life insurance portfolio), thereby allowing for the Company's full use of the credit facility up to its limit of \$105,000,000.

In connection with the Second Amended and Restated Credit and Security Agreement, GWG Holdings and its subsidiaries entered into certain other agreements and amendments and restatements of earlier agreements entered into in connection with the original and renewal Credit and Security Agreements. Included among these other agreements was an Amended and Restated Performance Guaranty affirming the performance guaranty that GWG Holdings earlier provided in connection with the original and first Amended and Restated Credit and Security Agreements to DZ Bank AG Deutsche Zentral-Genossenschaftsbank, as agent. The amount outstanding under this facility was \$65,011,000 and \$72,161,000 at September 30, 2015 and December 31, 2014, respectively.

The Agreement requires DLP II to pay, on a monthly basis, interest at the commercial paper rate plus an applicable margin, as defined in the Agreement. The effective rate was 5.43% at September 30, 2015 and 6.24% at December 31, 2014. The Agreement also requires payment of an unused line fee on the unfunded amount under the revolving credit facility. The weighted-average effective interest rate (excluding the unused line fee) was 5.42% and 6.23% for the three months ended September 30, 2015 and 2014, respectively, and 5.81% and 6.22% for the nine months ended September 30, 2015 and 2014, respectively. The note is secured by substantially all of DLP II's and DLP III's assets, which consist primarily of life insurance policies.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The Agreement has certain financial and nonfinancial covenants. The Company was in compliance with these covenants at September 30, 2015 and December 31, 2014. The Agreement generally prohibits the Company from:

changing its corporate name, offices, and jurisdiction of incorporation

changing any deposit accounts or payment instructions to insurers;

changing any operating policies and practices such that it would be reasonably likely to adversely affect the collectability of any asset in any material respect;

merging or consolidating with, or selling all or substantially all of its assets to, any third party;

selling any collateral or creating or permitting to exist any adverse claim upon any collateral;

engaging in any other business or activity than that contemplated by the Agreement;

incurring or guaranteeing any debt for borrowed money;

amending the Company's certificate of incorporation or bylaws, making any loans or advances to, investments in, or paying any dividends to, any person unless both before and after any such loan, advance, investment or dividend there exists no actual event of default, potential event of default or termination event;

removing an independent director on the board of directors except for cause or with the consent of the lender; or

making payment on or issuing any subsidiary secured notes or debentures, or amending any agreements respecting such notes or debentures, if an event of default, potential event of default or termination event exists or would arise from any such action.

In addition, the Company has agreed to maintain (i) a positive consolidated net income on a non-GAAP basis (as defined and calculated under the Agreement) for each complete fiscal year and (ii) a tangible net worth on a non-GAAP basis (again, as defined and calculated under the Agreement) of not less than \$45 million, and (iii) maintain cash and eligible investments at \$15 million or above.

Consolidated tangible net worth and net income as of and for the four quarters ended September 30, 2015, as calculated on non-GAAP basis under the Agreement, were \$105,605,000 and \$41,998,000, respectively.

Advances under the Agreement are subject to a borrowing base formula, which limits the availability of advances on the borrowing base calculation based on attributes of policies pledged to the facility. Over-concentration of policies by insurance carrier, over-concentration of policies by insurance carriers with ratings below a AA- rating, and the premiums and facility fees reserve are the three primary factors with the potential of limiting availability of funds on the facility. Total funds available for additional borrowings under the borrowing base formula criteria at September 30, 2015 and December 31, 2014, were \$55,648,000 and \$20,585,000 respectively.

On July 15, 2008, GWG Holdings delivered a performance guaranty in favor of Autobahn pursuant to which it guaranteed the obligations of GWG Life, in its capacity as the seller and master servicer, under the Credit and Security Agreement and related documents. On January 29, 2014 and in connection with the Amended and Restated Credit and Security Agreement, GWG Holdings delivered a reaffirmation of its performance guaranty. The obligations of GWG Holdings under the performance guaranty and subsequent reaffirmation do not extend to the principal and interest owed by DLP II and DLP III as the borrower under the credit facility.

#### **(6) Series I Secured Notes**

Series I Secured Notes are secured by assets of GWG Life and are subordinate to our revolving credit facility (see note 5). On June 14, 2011, the Company closed the offering to additional investors; however, existing investors may elect to continue advancing amounts outstanding upon maturity subject to the Company's option to repay such notes. Series I Secured Notes have maturity dates ranging from nine months to seven years with fixed interest rates varying from 5.65% to 9.55% depending on the term of the note. Interest is payable monthly, quarterly, annually or at maturity depending on the terms of the note. At September 30, 2015 and December 31, 2014, the weighted-average interest rate of Series I Secured Notes was 8.47% and 8.37%, respectively. The notes are secured by the assets of GWG Life. The principal amount outstanding under these Series I Secured Notes was \$23,918,000 and \$28,047,000 at September 30, 2015 and December 31, 2014, respectively. The difference between the amount outstanding on the Series I Secured Notes and the carrying amount on the consolidated balance sheet is due to netting of unamortized deferred issuance costs. Overall, interest expense includes amortization of deferred financing and issuance costs of \$49,000 and \$260,000 for the three and nine months ended September 30, 2015, respectively, and \$126,000 and \$427,000 for the three and nine months ended September 30, 2014, respectively. Future expected amortization of deferred financing costs is \$351,000 over the next six years.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Future contractual maturities of Series I Secured Notes and future amortization of their deferred financing costs at September 30, 2015 are as follows:

| Years Ending December 31,             | Contractual<br>Maturities | Amortization<br>of Deferred<br>Financing<br>Costs |
|---------------------------------------|---------------------------|---------------------------------------------------|
| Three months ending December 31, 2015 | \$ 1,776,000              | \$ 8,000                                          |
| 2016                                  | 12,827,000                | 103,000                                           |
| 2017                                  | 6,154,000                 | 129,000                                           |
| 2018                                  | 998,000                   | 28,000                                            |
| 2019                                  | 347,000                   | 7,000                                             |
| Thereafter                            | 1,816,000                 | 76,000                                            |
|                                       | \$23,918,000              | \$ 351,000                                        |

**(7)L Bonds (formerly Renewable Secured Debentures)**

In January 2015, we registered a \$1.0 billion debt offering of our L Bonds with the SEC. The \$1.0 billion L Bond offering is a follow-on to our \$250.0 million debt offering of Renewable Secured Debentures (subsequently renamed L Bonds) which was registered with the SEC in January of 2012 and completed in January 2015. The Company is offering L Bonds on a continuous basis and there is no minimum amount that must be sold before the Company can use proceeds from the sale of L Bonds. The L Bonds are secured by the assets of GWG Holdings and GWG Life and are subordinate to our revolving credit facility (see note 5). L Bonds have maturity dates ranging from six months to seven years with fixed interest rates varying from 4.25% to 9.50% depending on the term of the L Bond. Interest is payable monthly, annually or at maturity depending on the terms of the L Bond. The Company plans to use the net proceeds from the offering of the L Bonds primarily to purchase and finance additional life insurance assets, and to service and retire other outstanding debt obligations. Emerson Equity LLC is serving as the managing broker-dealer for the offering, which is being sold through a network of participating dealers and licensed financial advisors and representatives in minimum increments of \$25,000. At September 30, 2015 and December 31, 2014, the weighted-average interest rate of L Bonds was 7.21% and 7.45%, respectively. The amount outstanding under these L Bonds was \$247,553,000 and \$186,377,000 at September 30, 2015 and December 31, 2014, respectively. The difference between the amount outstanding on the L Bonds and the carrying amount on the consolidated balance sheets is due to netting of unamortized deferred issuance costs and cash receipts for new issuances in process. Amortization of deferred issuance costs was \$1,892,000 and \$4,232,000 for the three and nine months ended September 30, 2015, respectively, and \$829,000 and \$2,584,000 for the three and nine months ended September 30, 2014, respectively. Future expected amortization of deferred financing costs as of September 30, 2015 is \$6,795,000



in total over the next seven years.

The use of proceeds from the issuances of L Bonds is limited to the following: (1) payment of commissions on sales of L Bonds, (2) payment of offering expenses, (3) purchase of life insurance policies, (4) payment of premiums on life insurance policies, (5) payment of principal and interest on L Bonds, (6) payment of portfolio operations expenses, and (7) general working capital.

F-13

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Future contractual maturities of L Bonds and future amortization of their deferred financing costs at September 30, 2015 are as follows:

| Years Ending December 31,             | Contractual<br>Maturities | Amortization<br>of Deferred<br>Financing<br>Costs |
|---------------------------------------|---------------------------|---------------------------------------------------|
| Three months ending December 31, 2015 | \$22,691,000              | \$ 47,000                                         |
| 2016                                  | 81,569,000                | 996,000                                           |
| 2017                                  | 52,228,000                | 1,642,000                                         |
| 2018                                  | 46,946,000                | 2,093,000                                         |
| 2019                                  | 13,642,000                | 483,000                                           |
| Thereafter                            | 30,477,000                | 1,534,000                                         |
|                                       | \$247,553,000             | \$ 6,795,000                                      |

The Company entered into an Indenture effective October 19, 2011, as amended, with GWG Holdings as obligor, GWG Life as guarantor, and Bank of Utah as trustee for the benefit of the L Bond holders. The Indenture has certain financial and nonfinancial covenants. The Company was in compliance with these covenants at September 30, 2015 and December 31, 2014.

**(8) Convertible, redeemable preferred stock (Series A Preferred Stock)**

The Company offered 3,333,333 shares of convertible redeemable preferred stock (Series A Preferred Stock) for sale to accredited investors in a private placement on July 31, 2011. The offering of Series A Preferred Stock concluded on September 2, 2012 and resulted in 3,278,000 shares being issued for gross consideration of \$24,582,000. As of September 30, 2015, 349,000 shares have been issued as a result of the payment of \$2,444,000 in dividends in the form of shares of Series A Preferred Stock and 693,000 shares have been converted to 520,000 shares of the Company's common stock. The Series A Preferred Stock was sold at an offering price of \$7.50 per share. Series A Preferred Stock has a preferred yield of 10% per annum, and each share has the right to convert into 0.75 shares of the Company's common stock. Series A preferred stockholders also received three-year warrants to purchase, at an exercise price per share of \$12.50, one share of common stock for every 40 shares of Series A Preferred Stock purchased. The warrants are exercisable immediately. Upon their original issuance, these warrants had a three-year exercise period. Effective August 1, 2014, the Board of Directors authorized the extension of the warrant exercise period for an additional two years.

In the Certificate of Designations for the Series A Preferred Stock dated July 31, 2011, the Company agreed to permit preferred stockholders to sell their shares back to the Company for the stated value of \$7.50 per share, plus accrued dividends.

The Company's obligation to redeem its Series A Preferred Stock terminated upon the Company completing a registration of its common stock with the SEC which occurred on September 24, 2014 (See note 11). As such, the convertible redeemable preferred stock was reclassified from temporary equity to permanent equity. The Company may redeem the Series A preferred shares at a price equal to 110% of their liquidation preference (\$7.50 per share) at any time. As of September 30, 2015, the Company had redeemed an aggregate of 182,000 shares of Series A Preferred Stock. The Series A Preferred Stock shares (i) were convertible, at the election of the Company, into common stock of the Company in the event of either a registered offering of the Company's common stock with the SEC aggregating gross proceeds of at least \$5.0 million and at a price equal to or greater than \$11.00 per share; (ii) remain convertible at the option of each holder; and (iii) are required to be converted upon the consent of stockholders holding at least a majority of the then-outstanding Series A Preferred Stock. In connection with the Company's initial public offering, the Company elected to cause the conversion of 678,000 shares of preferred stock into 508,000 shares of common stock. As of September 30, 2015, the Company had 2,757,000 shares of Series A Preferred Stock outstanding with gross consideration of \$20,624,000 (including cash proceeds, conversion of Series I Secured Notes and accrued interest on Series I, and conversion of preferred dividends payable). The Company incurred Series A Preferred Stock issuance costs of \$2,838,000, which were amortized into additional paid-in-capital over the three-year redemption period. As of December 31, 2014, all of these costs had been fully amortized.

The Company determined that the grant date fair value of the outstanding warrants attached to the Series A Preferred Stock was \$428,000 for warrants outstanding as of September 30, 2015. The Company may redeem outstanding warrants prior to their expiration, at a price of \$0.01 per share upon 30 days written notice to the investors at any time after (i) the Company has completed a registration of its common stock with the SEC and (ii) the volume of weighted-average sale price per share of common stock equals or exceeds \$14.00 per share for ten consecutive trading days ending on the third business day prior to proper notice of such redemption.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Total warrants outstanding as of both September 30, 2015 and December 31, 2014, were 431,954 with a weighted-average remaining life of 1.68 and 2.43 years, respectively. As of September 30, 2015, none of these warrants have been exercised.

Dividends on the Series A Preferred Stock may be paid in either cash or additional shares of Series A Preferred Stock at the election of the holder and approval of the Company. The dividends are reported as an expense and included in the caption interest expense in the consolidated statements of operations. The Company declared and accrued dividends of \$516,000 and \$632,000 during the three months ended September 30, 2015 and 2014, respectively, and \$1,548,000 and \$1,912,000 during the nine months ended September 30, 2015 and 2014, respectively, pursuant to a board resolution declaring the dividend. 25,000 and 27,000 shares of Series A Preferred Stock were issued in lieu of cash dividends in the three-month periods ended September 30, 2015 and 2014, and 72,000 and 82,000 shares of Series A Preferred Stock were issued in lieu of cash dividends in the nine-month periods ended September 30, 2015 and 2014, respectively. The shares issued in lieu of cash dividends were issued at \$7.00 per share. As of September 30, 2015, GWG Holdings has \$516,000 of accrued preferred dividends that were paid or converted to shares of Series A Preferred Stock on October 15, 2015.

**(9) Redeemable Preferred Stock**

The Company is offering 100,000 shares of Redeemable Preferred Stock for sale under a Form S-1 registration statement declared effective by the SEC on November 30, 2015. The per share offering price is \$1,000 with a par value per share of \$.001.

The Redeemable Preferred Stock ranks senior to our common stock, *pari passu* to our Series A Preferred Stock and senior or *pari passu* with all other classes and series of our preferred stock with respect to payment of dividends and rights upon liquidation dissolution or winding up. Redeemable Preferred Stock has a dividend yield of 7% per annum.

Subject to the limitations described below, holders of the Redeemable Preferred Stock will have the option to convert the Redeemable Preferred Stock they purchase from us and hold into common stock at a conversion price equal to the volume-weighted average price of our common stock for the 20 trading days immediately prior to the date of conversion, subject to a minimum conversion price of \$15.00 (as the same may be adjusted). The right of holders to convert their Redeemable Preferred Stock is limited to 15% of the stated value of Redeemable Preferred Stock

originally purchased by such holder from us *and* still held by such holder. For this purpose, shares of Redeemable Preferred Stock issued to holders in satisfaction of our dividend-payment obligations will not count as shares “originally purchased” from us.

Beginning one year from the date of original issuance of any shares of Redeemable Preferred Stock to be redeemed, a holder will have the opportunity to request once per calendar quarter that we redeem up to 25% of such holder’s Redeemable Preferred Stock originally purchased from us (plus any preferred shares issued in satisfaction of dividends thereon) at a redemption price equal to the stated value of such redeemed shares, plus any accrued but unpaid dividends thereon, less the applicable redemption fee (if any). As a percentage of the aggregate redemption price of a holder’s shares to be redeemed, the redemption fee shall be:

8% if the redemption is requested after the first anniversary and before the second anniversary of the original issuance of such shares.

5% if the redemption is requested after the second anniversary and before the third anniversary of the original issuance of such shares.

Beginning three years from the date of original issuance of such shares, no redemption fee shall be subtracted from the redemption price. Subject to certain restrictions and conditions, we will also redeem shares of Redeemable Preferred Stock of a holder who is a natural person (including an individual beneficial holder who holds our preferred shares through a custodian or nominee, such as a broker-dealer) upon his or her death, total disability or bankruptcy, within 60 days of our receipt of a written request from the holder or the holder’s estate at a redemption price equal to the Stated Value, plus accrued and unpaid dividends thereon.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

After one year from the date of original issuance of shares of Redeemable Preferred Stock, we will have the right (but not the obligation) to call and redeem such shares of Redeemable Preferred Stock at 100% of their stated value, plus any accrued but unpaid dividends thereon.

We will not redeem or repurchase any preferred shares if we are restricted by applicable law or our Certificate of Incorporation, as amended, from making such redemption or to the extent any such redemption would cause or constitute a default under any borrowing agreements to which we or any of our subsidiaries are a party or otherwise bound. In addition, we will have no obligation to redeem preferred shares upon a redemption request made by a holder if we do not have sufficient funds available to fund that redemption. We will have discretion under the Certificate of Designation for the Redeemable Preferred Stock to determine whether to fund a redemption request.

**(10) Income taxes**

The Company has a no current income tax liability as of September 30, 2015 and December 31, 2014. The components of current and deferred income tax expense (benefit) for the three and nine months ended September 30, 2015 and income tax benefit for the three month ended September 30, 2014, consisted of the following:

|                            | Three Months Ended |                | Nine Months Ended |                |
|----------------------------|--------------------|----------------|-------------------|----------------|
|                            | September 30,      | September 30,  | September 30,     | September 30,  |
|                            | 2015               | 2014           | 2015              | 2014           |
| Income tax (benefit):      |                    |                |                   |                |
| Current:                   |                    |                |                   |                |
| Federal                    | \$(141,000 )       | \$ -           | \$ -              | \$ -           |
| State                      | \$(40,000 )        | \$ -           | \$ -              | \$ -           |
| Total current tax benefit  | (181,000 )         | -              | -                 | -              |
| Deferred:                  |                    |                |                   |                |
| Federal                    | \$(1,488,000 )     | \$(1,221,000 ) | \$(504,000 )      | \$(3,130,000 ) |
| State                      | \$(429,000 )       | \$(637,000 )   | \$(161,000 )      | \$(1,000,000 ) |
| Total deferred tax benefit | (1,917,000 )       | (1,858,000 )   | (665,000 )        | (4,130,000 )   |
| Total income tax benefit   | (2,098,000 )       | (1,858,000 )   | (665,000 )        | (4,130,000 )   |

The primary differences between the Company's September 30, 2015 effective tax rate and the statutory federal rate are the accrual of nondeductible preferred stock dividend expense of \$516,000, state taxes, and other non-deductible expenses. The most significant temporary differences between GAAP net income and taxable net income are the treatment of interest costs with respect to the acquisition of the life insurance policies and revenue recognition with respect to the mark-to-market of life insurance portfolio.

## **(11) Common Stock**

On September 24, 2014, the Company consummated an initial public offering of its common stock that resulted in the sale of 800,000 shares of common stock at \$12.50 per share. The sale resulted in net proceeds of approximately \$8.6 million after the deduction of underwriting commissions, discounts and expense reimbursements. In connection with this offering, the Company listed its common stock on The NASDAQ Capital Market under the ticker symbol "GWGH" effective September 25, 2014. The Company used the net proceeds from the offering to promote and advertise the opportunities for consumers owning life insurance and investors to profit from participating in the secondary market for life insurance policies, purchase additional life insurance policies in the secondary market, pay premiums on the Company's life insurance policy assets, fund its portfolio operations, and for working capital purposes.

**Stock split** — On June 24, 2014, the Company's Board of Directors and majority stockholders approved a joint resolution to effect an amendment to the Company's Certificate of Incorporation in the state of Delaware whereby the Company shall enact a reverse split of the common stock such that for every two (2) shares of common stock issued and outstanding immediately prior to the effective date shall, automatically and without any action on the part of the respective holders thereof, be combined and converted into one (1) share of common stock. The effective date of the amendment and reverse stock split is June 24, 2014. In lieu of fractional shares, stockholders received cash payments in an amount equal to the fraction to which the stockholder would otherwise be entitled multiplied by the price of the common stock, as determined by the Board of Directors of the Company, but adjusted so as to give effect to the reverse stock split. The par value of the common stock remained at \$0.001 per share.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

On June 23, 2015, GWG issued 60,000 restricted shares of common stock at \$9.70 per share, determined by closing market price, to a vendor as a form of payment for the services the vendor will provide to the Company in the next three years. The cost of the issued shares will be amortized over the next 12 months.

**(12) Stock Incentive Plan**

The Company adopted the GWG Holdings, Inc. 2013 Stock Incentive Plan on March 27, 2013. On April 23, 2015 the Board of Directors approved amendments to the plan that were subsequently approved by a majority of the Company's stockholders at the annual meeting of stockholders on June 1, 2015. The plan is administered by the Compensation Committee of the Board of Directors of the Company. The Company's Chief Executive Officer may, on a discretionary basis and without committee review or approval, grant incentives to new employees of the Company who are not officers of the Company. Incentives under the plan may be granted in one or a combination of the following forms: (a) incentive stock options and non-statutory stock options; (b) stock appreciation rights; (c) stock awards; (d) restricted stock; (e) restricted stock units; and (f) performance shares. Eligible participants include officers and employees of the Company, members of the Board of Directors, and consultants or other independent contractors. 2,000,000 shares are issuable under the plan. No person shall receive grants of stock options and SARs under the plan that exceed, in the aggregate 400,000 shares of common stock in any one year. The term of each stock option shall be determined by the committee but shall not exceed ten years. Vested stock options may be exercised in whole or part by the holder giving notice to the Company. The holder of the option may provide payment for the exercise price or surrender shares equal to the exercise price.

The Company issued stock options for 1,046,551 shares of common stock to employees, officers, and directors of the Company through September 30, 2015. Options for 449,274 shares have vested, and the remaining options will vest over three years. The options were issued with an exercise price between \$8.20 and \$10.18 for those owning more than 10% of the Company's stock and between \$6.73 and \$10.25 for others, which is equal to the estimated market price of the shares on the date of grant valued using Black-Scholes binomial option pricing model. The expected volatility used in the Black-Scholes model valuation of options issued during the year was 17.03% annualized. The annual volatility rate is based on the standard deviation of the average continuously compounded rate of return of five selected comparable companies over the previous 52 weeks. Forfeiture rate of 15% is based on historical Company information and expected future trend. As of September 30, 2015, stock options for 166,499 shares were forfeited and stock options for 28,001 shares were exercised.



In September 2014, we entered into a stock option agreement with a new management employee granting the employee the right to purchase up to 318,000 shares of the Company's common stock at an exercise price of \$12.50. The grant of such rights to purchase the Company's common stock was treated as an inducement grant and was issued outside the 2013 Stock Incentive Plan. The option agreement specifies that, among other things, options to purchase 159,000 common shares will vest ratably on the first, second and third anniversary of the date of the agreement. The remaining 159,000 options will vest quarterly using a formula based upon the closing price of the Company's common stock on the last business day of such quarter. The maximum number of these remaining options that will vest is 53,000 in each successive one-year period beginning on the date of the option agreement. As of September 30, 2015, 53,000 of these options have been forfeited and 53,000 have vested.

Outstanding stock options:

|                                  | <b>Vested</b> | <b>Un-vested</b> | <b>Total</b> |
|----------------------------------|---------------|------------------|--------------|
| Balance as of December 31, 2014  | 314,288       | 685,813          | 1,000,101    |
| Granted during the year          | 61,000        | 239,950          | 300,950      |
| Vested during the year           | 209,903       | (209,903 )       | -            |
| Exercised during the year        | (27,667 )     | -                | (27,667 )    |
| Forfeited during the year        | (55,250 )     | (48,083 )        | (103,333 )   |
| Balance as of September 30, 2015 | 502,274       | 667,777          | 1,170,051    |

F-17

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Compensation expense related to un-vested options not yet recognized is \$499,000. We expect to recognize this compensation expense over the next three years (\$9,000 in 2015, \$239,000 in 2016, \$200,000 in 2017, and 51,000 in 2018). The Company issues new common stock for options exercised.

**(13) Net loss per common share**

The Company began issuing Series A Preferred Stock on September 1, 2011, as described in note 8. The Series A Preferred Stock and vested stock options are anti-dilutive to the net income (loss) per common share calculation for all three and nine-month periods ended September 30, 2015 and 2014. The Company has also issued warrants to purchase common stock in conjunction with the sale of the Series A Preferred Stock. The warrants are anti-dilutive for all described three and nine-month periods of 2015 and 2014 and have not been included in the fully diluted net income (loss) per common share calculation.

**(14) Commitments**

GWG Holdings entered into an office lease with U.S. Bank National Association as the landlord. The original lease was for 11,695 square feet of office space located at 220 South Sixth Street, Minneapolis, Minnesota. The original lease agreement was effective April 22, 2012, amended on December 14, 2014, and expired on August 31, 2015. Effective September 14, 2015, GWG Holdings entered into a Second Amendment to the lease with U.S. Bank National Association (Second Amendment to Lease). The Second Amendment to Lease increases the office space area to 12,813 square feet and extends the lease expiration date by approximately ten years.

The Company is obligated to pay base rent plus common area maintenance and a share of the building operating costs. Rent expenses under this agreement were \$193,000 and \$157,000 during the nine-month periods ended September 30, 2015 and 2014, respectively, and \$71,000 and \$56,000 during the three-month periods ended September 30, 2015 and 2014, respectively.

Minimum lease payments under the Second Amendment to Lease are as follows:

|                                       |             |
|---------------------------------------|-------------|
| Three months ending December 31, 2015 | \$43,000    |
| 2016                                  | 173,000     |
| 2017                                  | 178,000     |
| 2018                                  | 185,000     |
| 2019                                  | 191,000     |
| 2020                                  | 198,000     |
| 2021                                  | 204,000     |
| 2022                                  | 210,000     |
| 2023                                  | 217,000     |
| 2024                                  | 223,000     |
| 2025                                  | 230,000     |
| 2026                                  | 38,000      |
|                                       | \$2,090,000 |

**(15) Contingencies**

Litigation - The Company is not currently subject to any current or ongoing litigation.

Opportunity Finance, LLC, owned by Jon Sabes and Steven Sabes, is subject to litigation clawback claims by the bankruptcy trustee for third-party matters for payments that may be deemed preference payments. Jon Sabes and Steve Sabes have pledged their stock ownership in GWG to holders of Series I Secured Notes and L Bonds. In addition, the Company loaned \$1,000,000 to Opportunity Finance, LLC, and was repaid in full plus interest of \$177,000. This investment amount may also be subject to clawback claims by the bankruptcy court.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**(16) Guarantees of secured debt by GWG Life**

In January 2015, GWG registered a \$1.0 billion debt offering of our L Bonds with the SEC. The \$1.0 billion L Bond offering is a follow-on to our \$250.0 million debt offering of Renewable Secured Debentures (subsequently renamed L Bonds) that was registered with the SEC and completed January 2015 as described in note 7. The L Bonds are secured by the assets of GWG Holdings as described in note 7 and a pledge of all the common stock held by the largest individual shareholders. Obligations under the L Bonds are guaranteed by GWG Life. This guarantee involves the grant of a security interest in all the assets of GWG Life. The payment of principal and interest on the L Bonds is fully and unconditional guaranteed by GWG Life. Substantially all of the Company's life insurance policies are held by DLP II, DLP III and the Trust. The policies held by DLP II, DLP III and the Trust are not collateral for the L Bond obligations as such policies serve as collateral for the revolving credit facility.

The consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because management does not believe that separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of GWG Holdings or GWG Life, the guarantor subsidiary, to obtain funds from its subsidiaries by dividend or loan, except as follows. DLP II and DLP III are borrowers under a credit agreement with Autobahn, as lender, and DZ Bank, as agent, as described in note 5. The significant majority of insurance policies owned by the Company are subject to a collateral arrangement with DZ Bank, as described in notes 2 and 5. Under this arrangement, collection and escrow accounts are used to fund premiums of the insurance policies and to pay interest and other charges under the revolving credit facility. DZ Bank and Autobahn must authorize all disbursements from these accounts, including any distributions to GWG Life. If the facility advance rate exceeds 50%, the distributions are limited to an amount that would result in the borrowers (DLP II, DLP III, GWG Life, and GWG Holdings) realizing an annualized rate of return on the equity funded amount for such assets of not more than 18%, as determined by the agent. After such amount is reached, the credit agreement requires that excess funds be used for repayments of borrowings before any additional distributions may be made.

The following represents consolidating financial information as of September 30, 2015 and December 31, 2014, with respect to the financial position, and for the three and nine months ended September 30, 2015 and 2014 with respect to results of operations and cash flows of GWG Holdings and its subsidiaries. The parent column presents the financial information of GWG Holdings, the primary obligor of the L Bonds. The guarantor subsidiary column presents the financial information of GWG Life, the guarantor subsidiary of the L Bonds, presenting its investment in DLP II, DLP III and Trust under the equity method. The non-guarantor subsidiaries column presents the financial information of all non-guarantor subsidiaries including DLP II, DLP III and Trust.

F-19

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Condensed Consolidating Balance Sheets

| September 30, 2015                                      | Parent               | Guarantor Sub        | Non-Guarantor Sub    | Eliminations           | Consolidated         |
|---------------------------------------------------------|----------------------|----------------------|----------------------|------------------------|----------------------|
| <b><u>ASSETS</u></b>                                    |                      |                      |                      |                        |                      |
| Cash and cash equivalents                               | \$26,354,110         | \$1,948,399          | \$150,164            | \$-                    | \$28,452,673         |
| Restricted cash                                         | -                    | 2,388,800            | 4,882,760            | -                      | 7,271,560            |
| Policy benefits receivable                              | -                    | -                    | 357,014              | -                      | 357,014              |
| Investment in life settlements, at fair value           | -                    | -                    | 329,562,250          | -                      | 329,562,250          |
| Other assets                                            | 2,918,013            | 1,732,640            | 1,232,070            | -                      | 5,882,723            |
| Investment in subsidiaries                              | 249,001,369          | 270,221,539          | -                    | (519,222,908)          | -                    |
| <b>TOTAL ASSETS</b>                                     | <b>\$278,273,492</b> | <b>\$276,291,378</b> | <b>\$336,184,258</b> | <b>\$(519,222,908)</b> | <b>\$371,526,220</b> |
| <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY (DEFICIT)</b> |                      |                      |                      |                        |                      |
| <b>LIABILITIES</b>                                      |                      |                      |                      |                        |                      |
| Revolving credit facility                               | \$-                  | \$-                  | \$65,011,048         | \$-                    | \$65,011,048         |
| Series I Secured Notes                                  | -                    | 23,566,913           | -                    | -                      | 23,566,913           |
| L Bonds                                                 | 243,126,585          | -                    | -                    | -                      | 243,126,585          |
| Interest payable                                        | 7,887,475            | 3,304,752            | 185,158              | -                      | 11,377,385           |
| Accounts payable and other accrued expenses             | 1,879,138            | 568,509              | 616,348              | -                      | 3,063,995            |
| Deferred taxes, net                                     | 4,608,650            | -                    | -                    | -                      | 4,608,650            |
| <b>TOTAL LIABILITIES</b>                                | <b>257,501,848</b>   | <b>27,440,174</b>    | <b>65,812,554</b>    | <b>-</b>               | <b>350,754,576</b>   |
| <b>STOCKHOLDERS' EQUITY</b>                             |                      |                      |                      |                        |                      |
| Member capital                                          | -                    | 248,851,204          | 270,371,704          | (519,222,908)          | -                    |
| Convertible preferred stock                             | 2,623,541            | -                    | -                    | -                      | 20,623,541           |
| Common stock                                            | 5,942                | -                    | -                    | -                      | 5,942                |
| Additional paid-in capital                              | 17,163,249           | -                    | -                    | -                      | 17,163,249           |
| Accumulated deficit                                     | (17,021,088)         | -                    | -                    | -                      | (17,021,088)         |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                       | <b>20,771,644</b>    | <b>248,851,204</b>   | <b>270,371,704</b>   | <b>(519,222,908)</b>   | <b>20,771,644</b>    |

|                                 |               |               |               |                 |               |
|---------------------------------|---------------|---------------|---------------|-----------------|---------------|
| TOTAL LIABILITIES AND<br>EQUITY | \$278,273,492 | \$276,291,378 | \$336,184,258 | \$(519,222,908) | \$371,526,220 |
|---------------------------------|---------------|---------------|---------------|-----------------|---------------|

F-20

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Condensed Consolidating Balance Sheets (continued)

| December 31, 2014                                              | Parent               | Guarantor<br>Subsidiary | Non-Guarantor<br>Subsidiaries | Eliminations           | Consolidated         |
|----------------------------------------------------------------|----------------------|-------------------------|-------------------------------|------------------------|----------------------|
| <b><u>ASSETS</u></b>                                           |                      |                         |                               |                        |                      |
| Cash and cash equivalents                                      | \$30,446,473         | \$216,231               | \$ -                          | \$-                    | \$30,662,704         |
| Restricted cash                                                | -                    | 82,500                  | 4,213,553                     | -                      | 4,296,053            |
| Policy benefits receivable                                     | -                    | -                       | 1,750,000                     | -                      | 1,750,000            |
| Investment in life settlements, at<br>fair value               | -                    | -                       | 282,883,010                   | -                      | 282,883,010          |
| Other assets                                                   | 1,673,728            | 1,777,534               | 27,500                        | -                      | 3,478,762            |
| Investment in subsidiaries                                     | 185,636,417          | 215,124,779             | -                             | (400,761,196)          | -                    |
| <b>TOTAL ASSETS</b>                                            | <b>\$217,756,618</b> | <b>\$217,201,044</b>    | <b>\$288,874,063</b>          | <b>\$(400,761,196)</b> | <b>\$323,070,529</b> |
| <b><u>LIABILITIES &amp; STOCKHOLDERS' EQUITY (DEFICIT)</u></b> |                      |                         |                               |                        |                      |
| <b>LIABILITIES</b>                                             |                      |                         |                               |                        |                      |
| Revolving credit facility                                      | \$-                  | \$-                     | \$72,161,048                  | \$-                    | \$72,161,048         |
| Series I Secured Notes                                         | -                    | 27,616,578              | -                             | -                      | 27,616,578           |
| L Bonds                                                        | 182,782,884          | -                       | -                             | -                      | 182,782,884          |
| Interest payable                                               | 6,598,250            | 3,513,615               | 1,016,654                     | -                      | 11,128,519           |
| Accounts payable and other<br>accrued expenses                 | 711,993              | 434,433                 | 571,583                       | -                      | 1,718,009            |
| Deferred taxes, net                                            | 5,273,555            | -                       | -                             | -                      | 5,273,555            |
| <b>TOTAL LIABILITIES</b>                                       | <b>195,366,682</b>   | <b>31,564,626</b>       | <b>73,749,285</b>             | <b>-</b>               | <b>300,680,593</b>   |
| <b>STOCKHOLDERS' EQUITY</b>                                    |                      |                         |                               |                        |                      |
| Member capital                                                 | -                    | 185,636,418             | 215,124,778                   | (400,761,196)          | -                    |
| Convertible preferred stock                                    | 20,527,866           | -                       | -                             | -                      | 20,527,866           |
| Common stock                                                   | 5,870                | -                       | -                             | -                      | 5,870                |
| Additional paid-in capital                                     | 16,257,686           | -                       | -                             | -                      | 16,257,686           |
| Accumulated deficit                                            | (14,401,486)         | -                       | -                             | -                      | (14,401,486)         |
| <b>TOTAL STOCKHOLDERS'<br/>EQUITY</b>                          | <b>22,389,936</b>    | <b>185,636,418</b>      | <b>215,124,778</b>            | <b>(400,761,196)</b>   | <b>22,389,936</b>    |



|                                            |               |               |               |                 |               |
|--------------------------------------------|---------------|---------------|---------------|-----------------|---------------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$217,756,618 | \$217,201,044 | \$288,874,063 | \$(400,761,196) | \$323,070,529 |
|--------------------------------------------|---------------|---------------|---------------|-----------------|---------------|

F-21

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Condensed Consolidating Statements of Operations

| For the nine months ended September 30, 2015                 | Parent               | Guarantor Subsidiary        | Non-Guarantor Subsidiaries        | Eliminations          | Consolidated         |
|--------------------------------------------------------------|----------------------|-----------------------------|-----------------------------------|-----------------------|----------------------|
| <b>REVENUE</b>                                               |                      |                             |                                   |                       |                      |
| Origination and servicing income                             | \$-                  | \$2,022,774                 | \$-                               | \$(2,022,774)         | \$-                  |
| Gain on life settlements, net                                | -                    | -                           | 33,446,556                        | -                     | 33,446,556           |
| Interest and other income                                    | 38,944               | 61,694                      | 132,878                           | -                     | 233,516              |
| <b>TOTAL REVENUE</b>                                         | <b>38,944</b>        | <b>2,084,468</b>            | <b>33,579,434</b>                 | <b>(2,022,774)</b>    | <b>33,680,072</b>    |
| <b>EXPENSES</b>                                              |                      |                             |                                   |                       |                      |
| Origination and servicing fees                               | -                    | -                           | 2,022,774                         | (2,022,774)           | -                    |
| Employee compensation and benefits                           | 4,671,183            | 1,509,703                   | -                                 | -                     | 6,180,886            |
| Legal and professional fees                                  | 1,427,388            | 560,873                     | -                                 | -                     | 1,988,261            |
| Interest expense                                             | 18,011,890           | 1,984,356                   | 3,152,784                         | -                     | 23,149,030           |
| Other expenses                                               | 3,251,606            | 2,297,063                   | 97,733                            | -                     | 5,646,402            |
| <b>TOTAL EXPENSES</b>                                        | <b>27,362,067</b>    | <b>6,351,995</b>            | <b>5,273,291</b>                  | <b>(2,022,774)</b>    | <b>36,964,579</b>    |
| <b>INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES</b> | <b>(27,323,123)</b>  | <b>(4,267,527)</b>          | <b>28,306,143</b>                 | <b>-</b>              | <b>(3,284,507)</b>   |
| <b>EQUITY IN INCOME OF SUBSIDIARY</b>                        | <b>24,038,616</b>    | <b>28,305,979</b>           | <b>-</b>                          | <b>(52,344,595)</b>   | <b>-</b>             |
| <b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>                 | <b>(3,284,507)</b>   | <b>24,038,452</b>           | <b>28,306,143</b>                 | <b>(52,344,595)</b>   | <b>(3,284,507)</b>   |
| <b>INCOME TAX BENEFIT</b>                                    | <b>(664,905)</b>     | <b>-</b>                    | <b>-</b>                          | <b>-</b>              | <b>(664,905)</b>     |
| <b>NET INCOME (LOSS)</b>                                     | <b>\$(2,619,602)</b> | <b>\$24,038,452</b>         | <b>\$28,306,143</b>               | <b>\$(52,344,595)</b> | <b>\$(2,619,602)</b> |
| <b>For the nine months ended September 30, 2014</b>          | <b>Parent</b>        | <b>Guarantor Subsidiary</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b>  |
| <b>REVENUE</b>                                               |                      |                             |                                   |                       |                      |
| Origination and servicing income                             | \$-                  | \$1,462,376                 | \$-                               | \$(1,462,376)         | \$-                  |

Edgar Filing: GWG Holdings, Inc. - Form 424B3

|                                                                  |                       |                     |                      |                       |                       |
|------------------------------------------------------------------|-----------------------|---------------------|----------------------|-----------------------|-----------------------|
| Gain on life settlements, net                                    | -                     | -                   | 16,119,517           | -                     | 16,119,517            |
| Interest and other income                                        | 17,501                | 229,348             | 5,218                | (228,092 )            | 23,975                |
| <b>TOTAL REVENUE</b>                                             | <b>17,501</b>         | <b>1,691,724</b>    | <b>16,124,735</b>    | <b>(1,690,468 )</b>   | <b>16,143,492</b>     |
| <b>EXPENSES</b>                                                  |                       |                     |                      |                       |                       |
| Origination and servicing fees                                   | -                     | -                   | 1,462,376            | (1,462,376 )          | -                     |
| Employee compensation and benefits                               | 1,992,554             | 1,531,720           | -                    | -                     | 3,524,274             |
| Legal and professional fees                                      | 1,476,213             | 141,470             | 10,086               | -                     | 1,627,769             |
| Interest expense                                                 | 13,371,300            | 2,334,097           | 4,025,930            | -                     | 19,731,327            |
| Other expenses                                                   | 1,937,674             | 1,299,666           | 268,602              | (228,092 )            | 3,277,850             |
| <b>TOTAL EXPENSES</b>                                            | <b>18,777,741</b>     | <b>5,306,953</b>    | <b>5,766,994</b>     | <b>(1,690,468 )</b>   | <b>28,161,220</b>     |
| <b>INCOME (LOSS) BEFORE EQUITY<br/>IN INCOME OF SUBSIDIARIES</b> | <b>(18,760,240)</b>   | <b>(3,615,229 )</b> | <b>10,357,741</b>    | <b>-</b>              | <b>(12,017,728)</b>   |
| <b>EQUITY IN INCOME OF<br/>SUBSIDIARY</b>                        | <b>6,742,512</b>      | <b>10,357,741</b>   | <b>-</b>             | <b>(17,100,253 )</b>  | <b>-</b>              |
| <b>NET INCOME (LOSS) BEFORE<br/>INCOME TAXES</b>                 | <b>(12,017,728)</b>   | <b>6,742,512</b>    | <b>10,357,741</b>    | <b>(17,100,253)</b>   | <b>(12,017,728)</b>   |
| <b>INCOME TAX BENEFIT</b>                                        | <b>(4,129,670 )</b>   | <b>-</b>            | <b>-</b>             | <b>-</b>              | <b>(4,129,670 )</b>   |
| <b>NET INCOME (LOSS)</b>                                         | <b>\$(7,888,058 )</b> | <b>\$6,742,512</b>  | <b>\$ 10,357,741</b> | <b>\$(17,100,253)</b> | <b>\$(7,888,058 )</b> |

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Condensed Consolidating Statements of Operations (continued)

| For the three months ended September 30, 2015                | Parent         | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations   | Consolidated   |
|--------------------------------------------------------------|----------------|----------------------|----------------------------|----------------|----------------|
| <b>REVENUE</b>                                               |                |                      |                            |                |                |
| Origination and servicing income                             | \$-            | \$ 1,004,024         | \$ -                       | \$(1,004,024 ) | \$-            |
| Gain on life settlements, net                                | -              | -                    | 8,189,261                  | -              | 8,189,261      |
| Interest and other income                                    | 13,922         | 54,813               | 25,106                     | -              | 93,841         |
| <b>TOTAL REVENUE</b>                                         | 13,922         | 1,058,837            | 8,214,367                  | (1,004,024 )   | 8,283,102      |
| <b>EXPENSES</b>                                              |                |                      |                            |                |                |
| Origination and servicing fees                               | -              | -                    | 1,004,024                  | (1,004,024 )   | -              |
| Employee compensation and benefits                           | 1,759,589      | 548,657              | -                          | -              | 2,308,246      |
| Legal and professional fees                                  | 598,530        | 223,547              | -                          | -              | 822,077        |
| Interest expense                                             | 6,980,132      | 525,391              | 1,144,626                  | -              | 8,650,149      |
| Other expenses                                               | 1,195,417      | 995,026              | 40,898                     | -              | 2,231,341      |
| <b>TOTAL EXPENSES</b>                                        | 10,533,668     | 2,292,621            | 2,189,548                  | (1,004,024 )   | 14,011,813     |
| <b>INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES</b> | (10,519,746)   | (1,233,784)          | 6,024,819                  | -              | (5,728,711 )   |
| <b>EQUITY IN INCOME OF SUBSIDIARY</b>                        | 4,791,035      | 6,024,762            | -                          | (10,815,797)   | -              |
| <b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>                 | (5,728,711 )   | 4,790,978            | 6,024,819                  | (10,815,797)   | (5,728,711 )   |
| <b>INCOME TAX BENEFIT</b>                                    | (2,097,633 )   | -                    | -                          | -              | (2,097,633 )   |
| <b>NET INCOME (LOSS)</b>                                     | \$(3,631,078 ) | \$ 4,790,978         | \$ 6,024,819               | \$(10,815,797) | \$(3,631,078 ) |

| For the three months ended September 30, 2014 | Parent | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------------|--------|----------------------|----------------------------|--------------|--------------|
|-----------------------------------------------|--------|----------------------|----------------------------|--------------|--------------|

Edgar Filing: GWG Holdings, Inc. - Form 424B3

REVENUE

|                                  |              |                |                  |                  |                  |
|----------------------------------|--------------|----------------|------------------|------------------|------------------|
| Origination and servicing income | \$-          | \$153,470      | \$-              | \$(153,470)      | \$-              |
| Gain on life settlements, net    | -            | -              | 5,118,423        | -                | 5,118,423        |
| Interest and other income        | 4,572        | 59,372         | 5,156            | (58,871)         | 10,229           |
| <b>TOTAL REVENUE</b>             | <b>4,572</b> | <b>212,842</b> | <b>5,123,579</b> | <b>(212,341)</b> | <b>5,128,652</b> |

EXPENSES

|                                    |                  |                  |                  |                  |                   |
|------------------------------------|------------------|------------------|------------------|------------------|-------------------|
| Origination and servicing fees     | -                | -                | 153,470          | (153,470)        | -                 |
| Employee compensation and benefits | 737,475          | 639,235          | -                | -                | 1,376,710         |
| Legal and professional fees        | 734,024          | 16,020           | 10,086           | -                | 760,130           |
| Interest expense                   | 4,679,311        | 761,828          | 1,355,597        | -                | 6,796,736         |
| Other expenses                     | 850,122          | 587,745          | 74,371           | (58,871)         | 1,453,367         |
| <b>TOTAL EXPENSES</b>              | <b>7,000,932</b> | <b>2,004,828</b> | <b>1,593,524</b> | <b>(212,341)</b> | <b>10,386,943</b> |

|                                                              |                    |                    |                  |          |                    |
|--------------------------------------------------------------|--------------------|--------------------|------------------|----------|--------------------|
| <b>INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES</b> | <b>(6,996,360)</b> | <b>(1,791,986)</b> | <b>3,530,055</b> | <b>-</b> | <b>(5,258,291)</b> |
|--------------------------------------------------------------|--------------------|--------------------|------------------|----------|--------------------|

|                                       |                  |                  |          |                    |          |
|---------------------------------------|------------------|------------------|----------|--------------------|----------|
| <b>EQUITY IN INCOME OF SUBSIDIARY</b> | <b>1,738,069</b> | <b>3,530,055</b> | <b>-</b> | <b>(5,268,124)</b> | <b>-</b> |
|---------------------------------------|------------------|------------------|----------|--------------------|----------|

|                                       |                    |                  |                  |                    |                    |
|---------------------------------------|--------------------|------------------|------------------|--------------------|--------------------|
| <b>NET INCOME BEFORE INCOME TAXES</b> | <b>(5,258,291)</b> | <b>1,738,069</b> | <b>3,530,055</b> | <b>(5,268,124)</b> | <b>(5,258,291)</b> |
|---------------------------------------|--------------------|------------------|------------------|--------------------|--------------------|

|                           |                    |          |          |          |                    |
|---------------------------|--------------------|----------|----------|----------|--------------------|
| <b>INCOME TAX BENEFIT</b> | <b>(1,858,100)</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>(1,858,100)</b> |
|---------------------------|--------------------|----------|----------|----------|--------------------|

|                          |                      |                    |                     |                      |                      |
|--------------------------|----------------------|--------------------|---------------------|----------------------|----------------------|
| <b>NET INCOME (LOSS)</b> | <b>\$(3,400,191)</b> | <b>\$1,738,069</b> | <b>\$ 3,530,055</b> | <b>\$(5,268,124)</b> | <b>\$(3,400,191)</b> |
|--------------------------|----------------------|--------------------|---------------------|----------------------|----------------------|

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Condensed Consolidating Statements of Cash Flows

| For the nine months ended September 30, 2015                                     | Parent              | Guarantor Sub       | Non-Guarantor Sub    | Eliminations      | Consolidated        |
|----------------------------------------------------------------------------------|---------------------|---------------------|----------------------|-------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |                     |                     |                      |                   |                     |
| Net income (loss)                                                                | \$(2,619,602 )      | \$24,038,452        | \$28,306,143         | \$(52,344,595)    | \$(2,619,602 )      |
| Adjustments to reconcile net income to net cash flows from operating activities: |                     |                     |                      |                   |                     |
| (Equity) of subsidiaries                                                         | (24,038,617)        | (28,305,978)        | -                    | 52,344,595        | -                   |
| Gain on life settlements                                                         | -                   | -                   | (26,651,363 )        | -                 | (26,651,363)        |
| Amortization of deferred financing and issuance costs                            | 2,832,487           | 260,455             | (1,201,170 )         | -                 | 1,891,772           |
| Deferred income taxes                                                            | (664,905 )          | -                   | -                    | -                 | (664,905 )          |
| Convertible, redeemable preferred dividends payable                              | 509,225             | -                   | -                    | -                 | 509,225             |
| (Increase) decrease in operating assets:                                         |                     |                     |                      |                   |                     |
| Policy benefits receivable                                                       | -                   | -                   | 1,392,986            | -                 | 1,392,986           |
| Other assets                                                                     | (40,145,769)        | (26,745,888)        | -                    | 66,117,118        | (774,539 )          |
| Increase (decrease) in operating liabilities:                                    |                     |                     |                      |                   |                     |
| Accounts payable and accrued expenses                                            | 4,503,624           | 123,222             | (790,131 )           | -                 | 3,836,715           |
| <b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>                               | <b>(30,425,246)</b> | <b>(30,629,737)</b> | <b>1,056,465</b>     | <b>66,117,118</b> | <b>(23,079,711)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |                     |                     |                      |                   |                     |
| Investment in life settlements                                                   | -                   | -                   | (23,850,860 )        | -                 | (23,850,860)        |
| Proceeds from settlement of life settlements                                     | -                   | -                   | 3,822,983            | -                 | 3,822,983           |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>                               | <b>-</b>            | <b>-</b>            | <b>(20,027,877 )</b> | <b>-</b>          | <b>(20,027,877)</b> |

CASH FLOWS FROM FINANCING  
ACTIVITIES

|                                                      |              |              |              |              |              |
|------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Repayment of revolving credit facility               | -            | -            | (7,150,000 ) | -            | (7,150,000 ) |
| Payments for redemption of Series I Secured Notes    | -            | (4,508,130 ) | -            | -            | (4,508,130 ) |
| Proceeds from issuance of L Bonds                    | 87,620,483   | -            | -            | -            | 87,620,483   |
| Payments for redemption and issuance of L Bonds      | (32,376,104) | -            | -            | -            | (32,376,104) |
| Payments from restricted cash                        | -            | (2,306,300 ) | (669,207 )   | -            | (2,975,507 ) |
| Issuance of common stock                             | 582,000      | -            | -            | -            | 582,000      |
| Payments for redemption preferred stock              | (295,185 )   | -            | -            | -            | (295,185 )   |
| Issuance of member capital                           | -            | 39,176,335   | 26,940,783   | (66,117,118) | -            |
| NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES      | 55,531,194   | 32,361,905   | 19,121,576   | (66,117,118) | 40,897,557   |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (4,092,363 ) | 1,732,168    | 150,164      | -            | (2,210,031 ) |
| CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD    | 30,446,473   | 216,231      | -            | -            | 30,662,704   |
| END OF THE PERIOD                                    | \$26,354,110 | \$1,948,399  | \$150,164    | \$-          | \$28,452,673 |

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Consolidating Statements of Cash Flows (continued)

| For the nine months ended September 30, 2014                                            | Parent              | Guarantor Sub       | Non-Guarantor Sub    | Eliminations      | Consolidated        |
|-----------------------------------------------------------------------------------------|---------------------|---------------------|----------------------|-------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                             |                     |                     |                      |                   |                     |
| Net income (loss)                                                                       | \$(7,888,058 )      | \$6,742,512         | \$ 10,357,741        | \$(17,100,253)    | \$(7,888,058 )      |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities: |                     |                     |                      |                   |                     |
| (Equity) of subsidiaries                                                                | (6,742,512 )        | (10,357,741)        | -                    | 17,100,253        | -                   |
| Gain on life settlements                                                                | -                   | -                   | (30,973,250 )        | -                 | (30,973,250)        |
| Amortization of deferred financing and issuance costs                                   | 2,125,269           | 427,187             | 18,425               |                   | 2,570,881           |
| Deferred income taxes                                                                   | (4,129,670 )        | -                   | -                    |                   | (4,129,670 )        |
| Convertible, redeemable preferred stock dividends payable                               | 575,513             | -                   | -                    | -                 | 575,513             |
| (Increase) in operating assets:                                                         |                     |                     |                      |                   |                     |
| Other assets                                                                            | (35,758,660)        | (29,984,534)        | -                    | 63,647,054        | (2,096,140 )        |
| Increase in operating liabilities:                                                      |                     |                     |                      |                   |                     |
| Accounts payable and accrued expenses                                                   | 2,893,814           | 591,534             | 173,311              | -                 | 3,658,659           |
| <b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>                                      | <b>(48,924,304)</b> | <b>(32,851,042)</b> | <b>(20,423,773 )</b> | <b>63,647,054</b> | <b>(38,282,065)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                             |                     |                     |                      |                   |                     |
| Investment in life settlements                                                          | -                   | -                   | (11,559,435 )        | -                 | (11,559,435)        |
| Proceeds from settlement of life settlements                                            | -                   | -                   | 999,125              | -                 | 999,125             |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>                                      | <b>-</b>            | <b>-</b>            | <b>(10,560,310 )</b> | <b>-</b>          | <b>(10,560,310)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                             |                     |                     |                      |                   |                     |
| Payments for redemption of Series I Secured Notes                                       | -                   | (2,047,928 )        | -                    | -                 | (2,047,928 )        |



Edgar Filing: GWG Holdings, Inc. - Form 424B3

|                                                             |                     |                    |                   |                     |                     |
|-------------------------------------------------------------|---------------------|--------------------|-------------------|---------------------|---------------------|
| Proceeds from issuance of L Bonds                           | 48,516,296          | -                  | -                 | -                   | 48,516,296          |
| Payments for redemption and issuance of L Bonds             | (13,816,794)        | -                  | -                 | -                   | (13,816,794)        |
| Proceeds from restricted cash                               | -                   | 1,420,000          | 2,268,236         | -                   | 3,688,236           |
| Proceeds from sale of common stock                          | 9,030,000           | -                  | -                 | -                   | 9,030,000           |
| Payments for redemption preferred stock                     | (465,239 )          | -                  | -                 | -                   | (465,239 )          |
| Issuance of member capital                                  | -                   | 34,931,207         | 28,715,847        | (63,647,054)        | -                   |
| <b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>      | <b>43,264,263</b>   | <b>34,303,279</b>  | <b>30,984,083</b> | <b>(63,647,054)</b> | <b>44,904,571</b>   |
| <br>                                                        |                     |                    |                   |                     |                     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>(5,666,041 )</b> | <b>1,722,237</b>   | <b>-</b>          | <b>-</b>            | <b>(3,937,804 )</b> |
| <br>                                                        |                     |                    |                   |                     |                     |
| <b>CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD</b>    | <b>32,711,636</b>   | <b>738,157</b>     | <b>-</b>          | <b>-</b>            | <b>33,449,793</b>   |
| <br>                                                        |                     |                    |                   |                     |                     |
| <b>END OF THE PERIOD</b>                                    | <b>\$27,051,595</b> | <b>\$2,460,394</b> | <b>\$-</b>        | <b>\$-</b>          | <b>\$29,511,989</b> |

F-25

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Consolidating Statements of Cash Flows (continued)

| For the three months ended September 30, 2015                                  | Parent              | Guarantor Sub       | Non-Guarantor Sub    | Eliminations      | Consolidated        |
|--------------------------------------------------------------------------------|---------------------|---------------------|----------------------|-------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |                     |                     |                      |                   |                     |
| Net income (loss)                                                              | \$(3,631,078 )      | \$4,790,978         | \$6,024,819          | \$(10,815,797)    | \$(3,631,078 )      |
| Adjustments to reconcile net loss to net cash flows from operating activities: |                     |                     |                      |                   |                     |
| (Equity) of subsidiaries                                                       | (4,791,035 )        | (6,024,762 )        | -                    | 10,815,797        | -                   |
| Gain on life settlements                                                       | -                   | -                   | (14,516,881 )        | -                 | (14,516,881)        |
| Amortization of deferred financing and issuance costs                          | 1,103,312           | 49,339              | 781,125              | -                 | 1,933,776           |
| Deferred income taxes                                                          | (1,916,686 )        | -                   | -                    | -                 | (1,916,686 )        |
| Convertible, redeemable preferred stock dividends payable                      | 173,993             | -                   | -                    | -                 | 173,993             |
| (Increase) decrease in operating assets:                                       |                     |                     |                      |                   |                     |
| Policy benefits receivable                                                     | -                   | -                   | 2,142,986            | -                 | 2,142,986           |
| Other assets                                                                   | (22,146,946)        | (15,631,849)        | -                    | 37,360,805        | (417,990 )          |
| Increase (decrease) in operating liabilities:                                  |                     |                     |                      |                   |                     |
| Accounts payable and other accrued expenses                                    | 2,010,129           | (105,418 )          | 629,558              | -                 | 2,534,269           |
| <b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>                             | <b>(29,198,311)</b> | <b>(16,921,712)</b> | <b>(4,938,393 )</b>  | <b>37,360,805</b> | <b>(13,697,611)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                    |                     |                     |                      |                   |                     |
| Investment in life settlements                                                 | -                   | -                   | (13,626,842 )        | -                 | (13,626,842)        |
| Proceeds from settlement of life settlements                                   | -                   | -                   | 80,000               | -                 | 80,000              |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>                             | <b>-</b>            | <b>-</b>            | <b>(13,546,842 )</b> | <b>-</b>          | <b>(13,546,842)</b> |

CASH FLOWS FROM FINANCING  
ACTIVITIES

|                                                             |                     |                    |                   |                     |                     |
|-------------------------------------------------------------|---------------------|--------------------|-------------------|---------------------|---------------------|
| Payments for redemption of Series I Secured Notes           | -                   | (890,586 )         | -                 | -                   | (890,586 )          |
| Proceeds from issuance of L Bonds                           | 37,122,127          | -                  | -                 | -                   | 37,122,127          |
| Payments for redemption and issuance of L Bonds             | (19,363,047)        | -                  | -                 | -                   | (19,363,047)        |
| Proceeds (payments) from restricted cash                    | -                   | (2,203,800 )       | 2,855,430         | -                   | 651,630             |
| Issuance of member capital                                  | -                   | 21,730,944         | 15,629,861        | (37,360,805)        | -                   |
| Payments for redemption preferred stock                     | (21,187 )           | -                  | -                 | -                   | (21,187 )           |
| <b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>      | <b>17,737,893</b>   | <b>18,636,558</b>  | <b>18,485,291</b> | <b>(37,360,805)</b> | <b>17,498,937</b>   |
| <br>                                                        |                     |                    |                   |                     |                     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>(11,460,418)</b> | <b>1,714,846</b>   | <b>56</b>         | <b>-</b>            | <b>(9,363,047 )</b> |
| <br>                                                        |                     |                    |                   |                     |                     |
| <b>CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD</b>    | <b>37,814,528</b>   | <b>233,553</b>     | <b>150,108</b>    | <b>-</b>            | <b>38,198,189</b>   |
| <br>                                                        |                     |                    |                   |                     |                     |
| <b>END OF THE PERIOD</b>                                    | <b>\$26,354,110</b> | <b>\$1,948,399</b> | <b>\$150,164</b>  | <b>\$-</b>          | <b>\$28,452,673</b> |

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Consolidating Statements of Cash Flows (continued)

| <b>For the three months ended<br/>September 30, 2014</b>     | <b>Parent</b>       | <b>Guarantor<br/>Sub</b> | <b>Non-Guarantor<br/>Sub</b> | <b>Eliminations</b> | <b>Consolidated</b>  |
|--------------------------------------------------------------|---------------------|--------------------------|------------------------------|---------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING<br/>ACTIVITIES</b>              |                     |                          |                              |                     |                      |
| Net income (loss)                                            | \$(3,400,191 )      | \$1,738,069              | \$ 3,530,055                 | \$(5,268,124 )      | \$(3,400,191 )       |
| Adjustments to reconcile net loss to<br>cash:                |                     |                          |                              |                     |                      |
| (Equity) of subsidiaries                                     | (1,738,069 )        | (3,530,055)              | -                            | 5,268,124           | -                    |
| Gain on life settlements                                     | -                   | -                        | (8,761,912 )                 | -                   | (8,761,912 )         |
| Amortization of deferred financing<br>and issuance costs     | 397,659             | 126,083                  | 339,475                      | -                   | 863,217              |
| Deferred income taxes                                        | (1,858,100 )        | -                        | -                            | -                   | (1,858,100 )         |
| Convertible, redeemable preferred<br>stock dividends payable | 186,182             | -                        | -                            | -                   | 186,182              |
| (Increase) decrease in operating<br>assets:                  |                     |                          |                              |                     |                      |
| Policy benefits receivable                                   | -                   | -                        | 300,000                      | -                   | 300,000              |
| Other assets                                                 | (9,136,310 )        | (5,329,716)              | -                            | 13,318,805          | (1,147,221 )         |
| Increase (decrease) in operating<br>liabilities:             |                     |                          |                              |                     |                      |
| Accounts payable and accrued<br>expenses                     | 922,271             | 289,132                  | (720,907 )                   | -                   | 490,496              |
| <b>NET CASH FLOWS USED IN<br/>OPERATING ACTIVITIES</b>       | <b>(14,626,558)</b> | <b>(6,706,487)</b>       | <b>(5,313,289 )</b>          | <b>13,318,805</b>   | <b>(13,327,529 )</b> |
| <b>CASH FLOWS FROM INVESTING<br/>ACTIVITIES</b>              |                     |                          |                              |                     |                      |
| Investment in life settlements                               | -                   | -                        | (680,000 )                   | -                   | (680,000 )           |
| Proceeds from settlement of life<br>settlements              | -                   | -                        | 930,625                      | -                   | 930,625              |
| <b>NET CASH FLOWS USED IN<br/>INVESTING ACTIVITIES</b>       | <b>-</b>            | <b>-</b>                 | <b>250,625</b>               | <b>-</b>            | <b>250,628</b>       |

CASH FLOWS FROM FINANCING  
ACTIVITIES

|                                                      |              |             |           |              |              |
|------------------------------------------------------|--------------|-------------|-----------|--------------|--------------|
| Payments for redemption of Series I Secured Notes    | -            | (509,004 )  | -         | -            | (509,004 )   |
| Proceeds from issuance of L Bonds                    | 15,281,809   | -           | -         | -            | 15,281,809   |
| Payments for redemption and issuance of L Bonds      | (4,494,383 ) | -           | -         | -            | (4,494,383 ) |
| Proceeds from restricted cash                        | -            | 565,000     | 100,699   | -            | 665,699      |
| Proceeds from sale of common stock                   | 9,030,000    | -           | -         | -            | 9,030,000    |
| Issuance of member capital                           | -            | 8,356,840   | 4,961,965 | (13,318,805) | -            |
| Payments for redemption preferred stock              | (445,183 )   | -           | -         | -            | (445,183 )   |
| NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES      | 19,372,243   | 8,412,836   | 5,062,664 | (13,318,805) | 19,528,938   |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 4,745,685    | 1,706,349   | -         | -            | 6,452,034    |
| CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD    | 22,305,910   | 754,045     | -         | -            | 23,059,955   |
| END OF THE PERIOD                                    | \$27,051,595 | \$2,460,394 | \$-       | \$-          | \$29,511,989 |

F-27

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**(17) Concentrations**

GWG purchases life insurance policies written by life insurance companies having investment grade ratings by independent rating agencies. As a result there may be certain concentrations of contracts with life insurance companies. The following summarizes the face value of insurance contracts with specific life insurance companies exceeding 10% of the total face value held by the Company.

|                        | September 30,<br>2015 | December 31,<br>2014 |
|------------------------|-----------------------|----------------------|
| Life insurance company | %                     | %                    |
| AXA Equitable          | 14.27                 | 14.55                |
| John Hancock           | 12.98                 | 11.48                |

The following summarizes the number of insurance contracts held in specific states exceeding 10% of the total face value held by the Company:

|                    | September 30,<br>2015 | December 31,<br>2014 |
|--------------------|-----------------------|----------------------|
| State of residence | %                     | %                    |
| California         | 27.11                 | 28.87                |
| Florida            | 18.66                 | 18.56                |

**(18) Subsequent events**

Subsequent to September 30, 2015, the Company has issued approximately an additional \$18.3 million in principal amount of L Bonds.



**\$1,000,000,000**

**GWG HOLDINGS, INC.**

**1,000,000 Units of L Bonds**



**PROSPECTUS SUPPLEMENT**

November 12, 2015