



**220 South Sixth Street, Suite 1200**

**Minneapolis, MN 55402**

(Address of principal executive offices, including zip code)

**(612) 746-1944**

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

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

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

As of November 10, 2016, GWG Holdings, Inc. had 5,980,190 shares of common stock outstanding.



GWG HOLDINGS, INC.

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for the Quarter Ended September 30, 2016

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**PART I—FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

	<b>September 30, 2016</b>	December 31, 2015
	(unaudited)	
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 18,773,828	\$ 34,425,105
Restricted cash	15,688,025	2,341,900
Investment in life insurance contracts, at fair value	477,585,100	356,649,715
Secured MCA advances	6,113,831	-
Life insurance contract benefits receivable	6,129,022	-
Other assets	3,131,107	2,461,045
<b>TOTAL ASSETS</b>	<b>\$ 527,420,913</b>	<b>\$ 395,877,765</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Senior Credit Facilities	\$ 63,699,385	\$ 63,279,596
Series I Secured Notes	17,553,307	23,287,704
L Bonds	379,858,737	276,482,796
Accounts payable	2,442,449	1,517,440
Interest payable	13,633,640	12,340,061
Other accrued expenses	645,343	1,060,786
Deferred taxes, net	3,242,586	1,763,968
<b>TOTAL LIABILITIES</b>	<b>\$ 481,075,447</b>	<b>\$ 379,732,351</b>
<b>STOCKHOLDERS' EQUITY</b>		
<b>CONVERTIBLE PREFERRED STOCK</b>		
(par value \$0.001; shares authorized 40,000,000; shares outstanding 2,649,665 and 2,781,735; liquidation preference of \$19,872,000 and \$20,863,000 on September 30, 2016 and December 31, 2015, respectively)	19,772,931	20,784,841
<b>REDEEMABLE PREFERRED STOCK</b>		
	33,176,600	-

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(par value \$0.001; shares authorized 100,000; shares outstanding 33,201; liquidation preference of \$33,176,600 on September 30, 2016)

COMMON STOCK

(par value \$0.001; shares authorized 210,000,000; shares issued and outstanding 5,980,190 and 5,941,790 on September 30, 2016 and December 31, 2015)

Additional paid-in capital	5,980	5,942
Accumulated deficit	15,226,449	17,149,391
TOTAL STOCKHOLDERS' EQUITY	(21,836,494 )	(21,794,760 )
	46,345,466	16,145,414
TOTAL LIABILITIES & EQUITY	\$ 527,420,913	\$ 395,877,765

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, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>REVENUE</b>				
Gain on life insurance contracts, net	\$ 13,509,755	\$ 8,189,261	\$ 51,606,815	\$ 33,446,556
MCA income	286,225	-	654,441	-
Interest and other income	124,998	93,841	341,098	233,516
<b>TOTAL REVENUE</b>	<b>13,920,978</b>	<b>8,283,102</b>	<b>52,602,354</b>	<b>33,680,072</b>
<b>EXPENSES</b>				
Interest expense	11,983,968	8,650,149	32,009,934	23,149,030
Employee compensation and benefits	2,912,463	2,308,246	8,450,168	6,180,886
Legal and professional fees	586,830	822,077	3,097,312	1,988,261
Other expenses	2,863,212	2,231,341	7,608,057	5,646,402
<b>TOTAL EXPENSES</b>	<b>18,346,473</b>	<b>14,011,813</b>	<b>51,165,471</b>	<b>36,964,579</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(4,425,495 )</b>	<b>(5,728,711 )</b>	<b>1,436,883</b>	<b>(3,284,507 )</b>
<b>INCOME TAX EXPENSE (BENEFIT)</b>	<b>(1,428,130 )</b>	<b>(2,097,633 )</b>	<b>1,478,617</b>	<b>(664,905 )</b>
<b>NET LOSS</b>	<b>\$(2,997,365 )</b>	<b>(3,631,078 )</b>	<b>\$(41,734 )</b>	<b>\$(2,619,602 )</b>
Loss attributable to preferred shareholders	421,026	343,644	1,103,896	1,041,648
<b>INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>	<b>\$(2,576,339 )</b>	<b>(3,287,434 )</b>	<b>\$ 1,062,162</b>	<b>\$(1,577,954 )</b>
<b>NET INCOME (LOSS) PER SHARE</b>				
Basic	\$(0.50 )	(0.61 )	\$(0.01 )	\$(0.44 )
Diluted	\$(0.50 )	(0.61 )	\$0.13	\$(0.44 )
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>				
Basic	5,978,322	5,937,320	5,962,938	5,894,956
Diluted	5,978,322	5,937,320	8,092,196	5,894,956

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, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss	\$ (2,997,365 )	\$ (3,631,078 )	\$ (41,734 )	\$ (2,619,602 )
Adjustments to reconcile net loss to net cash flows from operating activities:				
Gain on life insurance contracts	(21,073,226)	(14,516,881 )	(53,846,155 )	(26,651,363 )
Amortization of deferred financing and issuance costs	2,765,743	1,933,776	6,077,905	1,891,772
Deferred income taxes	(1,428,130 )	(1,916,686 )	1,478,617	(664,905 )
Preferred stock dividends payable	333,565	173,993	663,614	509,225
(Increase) decrease in operating assets:				
Life insurance contract benefits receivable	700,000	2,142,986	(6,129,022 )	1,392,986
Other assets	419,836	(417,990 )	(617,630 )	(774,539 )
Increase (decrease) in operating liabilities:				
Due to related party	(80,949 )	-	(182,730 )	-
Accounts payable and other accrued expenses	(3,216,990 )	2,534,269	(2,024,234 )	3,836,715
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(24,577,516)</b>	<b>(13,697,611 )</b>	<b>(54,621,369 )</b>	<b>(23,079,711 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment in life insurance contracts	(25,770,326)	(13,626,842 )	(74,470,362 )	(23,850,860 )
Carrying value of matured life insurance contracts	1,078,889	80,000	7,381,132	3,822,983
Investment in Secured MCA advances	(1,965,896 )	-	(7,613,310 )	-
Proceeds from Secured MCA advances	220,911	-	1,246,703	-
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(26,436,422)</b>	<b>(13,546,842 )</b>	<b>(73,455,837 )</b>	<b>(20,027,877 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net borrowings on (repayments of) Senior Credit Facilities	(10,761,048)	-	6,238,952	(7,150,000 )
Payments for redemption of Series I Secured Notes	(541,275 )	(890,586 )	(6,264,018 )	(4,508,130 )
Proceeds from issuance of L Bonds	64,350,430	37,122,127	135,477,090	87,620,483
Payments for issuance and redemption of L Bonds	(14,373,447)	(19,363,047 )	(37,036,922 )	(32,376,104 )
Proceeds from (increase in) restricted cash	(4,527,232 )	651,630	(13,346,126 )	(2,975,507 )
Issuance of common stock	31,515	-	244,185	582,000
Proceeds from issuance of preferred stock	20,786,332	-	31,287,541	-

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Payments for issuance and redemption of preferred stock	(2,556,859 )	(21,187 )	(4,174,773 )	(295,185 )
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>52,408,416</b>	<b>17,498,937</b>	<b>112,425,929</b>	<b>40,897,557</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,394,478</b>	<b>(9,745,516 )</b>	<b>(15,651,277 )</b>	<b>(2,210,031 )</b>
<b>CASH AND CASH EQUIVALENTS</b>				
<b>BEGINNING OF PERIOD</b>	<b>17,379,350</b>	<b>38,198,189</b>	<b>34,425,105</b>	<b>30,662,704</b>
<b>END OF PERIOD</b>	<b>\$18,773,828</b>	<b>\$28,452,673</b>	<b>\$18,773,828</b>	<b>\$28,452,673</b>

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, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>				
Interest and preferred dividends paid	\$ 11,516,000	\$ 5,385,000	\$ 28,683,000	\$ 18,529,000
Premiums paid	\$ 11,785,000	\$ 6,603,000	\$ 29,225,000	\$ 19,069,000
Stock-based compensation	\$ 162,000	\$ 176,000	\$ 213,000	\$ 208,000
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>				
Series I Secured Notes:				
Conversion of accrued interest and commissions payable to principal	\$ 47,000	\$ 61,000	\$ 234,000	\$ 188,000
L Bonds:				
Conversion of accrued interest and commissions payable to principal	\$ 854,000	\$ 491,000	\$ 1,515,000	\$ 929,000
Issuance of Series A Preferred Stock in lieu of cash dividends	\$ 170,000	\$ 172,000	\$ 509,000	\$ 507,000
Investment in life insurance contracts included in accounts payable	\$ 1,603,000	\$ 559,000	\$ 1,603,000	\$ 559,000

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

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited)

	Preferred Stock Shares	Preferred Stock	Common Shares	Common Stock (par)	Additional Paid-in Capital	Accumulated Deficit	Total Equity
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 loss	-	-	-	-	-	(7,393,274 )	(7,393,274 )
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	58,232	372,948	-	-	-	-	372,948
Issuance of stock options	-	-	-	-	193,804	-	193,804
Balance, December 31, 2015	2,781,735	\$20,784,841	5,941,790	\$5,942	\$17,149,391	\$(21,794,760)	\$16,145,414
Net income	-	-	-	-	-	(41,734 )	(41,734 )
Issuance of common stock	-	-	36,450	36	244,149	-	244,185
Redemption of Series A Preferred Stock	(204,848 )	(1,521,358 )	1,950	2	19,498	-	(1,501,858 )
Issuance of Series A Preferred Stock	72,778	509,448	-	-	-	-	509,448
Issuance of redeemable preferred stock	33,201	33,176,600	-	-	(2,399,219 )	-	30,777,381
Issuance of stock options	-	-	-	-	212,630	-	212,630
Balance, September 30, 2016	2,682,866	\$52,949,531	5,980,190	\$5,980	\$15,226,449	\$(21,836,494)	\$46,345,466

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



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** – Through its wholly owned subsidiaries, GWG Holdings, Inc. owns a portfolio of life insurance contracts. As of the date of this report, our portfolio had an aggregate fair value of \$477.6 million. We earn income from changes in the fair value of our portfolio and through the benefits we receive from the life insurance contracts we own. We are also involved in other lines of business, including a business that collects commissions for facilitating the conversion of term life insurance contracts into universal, or permanent, life insurance, and a business that participates in the merchant cash advance industry by advancing sums to merchants and lending money to businesses that advance sums to merchants. Operating results for the three- and nine-month periods included in this report are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

GWG Holdings, Inc. and all of its subsidiaries are incorporated and organized in Delaware. Unless the context otherwise requires or we specifically so indicate, all references in these footnotes to “we,” “us,” “our,” “our Company,” “GWG” or the “Company” refer to GWG Holdings, Inc. and its subsidiaries collectively and on a consolidated basis. References to the full names of particular entities, such as “GWG Holdings, Inc.” or “GWG Holdings,” are meant to refer only to the particular entity referenced.

**Use of Estimates** – The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenue during the reporting period. The Company regularly evaluates estimates and assumptions, which are based on current facts, historical experience, and various other factors that it believes to be reasonable under the circumstances. The actual results experienced by the Company may differ materially and adversely from the Company’s estimates. The most significant estimates with regard to these consolidated financial statements relate to (1) the determination of the assumptions used in estimating the fair value of our investments in life insurance contracts, and (2) the value of our deferred tax assets and liabilities.

**Cash and Cash Equivalents** – We consider cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. We maintain our cash and cash equivalents with highly rated financial institutions. The balances in our bank accounts may exceed Federal Deposit Insurance Corporation limits. We periodically evaluate the risk of exceeding insured levels and may transfer funds as we deem appropriate.

**Life Insurance Contracts** – ASC 325-30, *Investments in Insurance Contracts* (“ASC 325-30”), permits a reporting entity to account for its investments in life insurance contracts using either the investment method or the fair value method. We elected to use the fair value method to account for our life insurance contracts. Under the fair value method, we recognize our initial investment at the purchase price. At each subsequent reporting period, we re-measure the investment at fair value in its entirety and recognize the change in fair value as revenue in the current period net of premiums paid. We use the term “life insurance contracts” to have the same meaning as “life insurance policies.”

We also recognize realized gain (revenue) from a life insurance contract upon one of the two following events: (1) our receipt of notice or verified mortality of the insured; or (2) our sale of the contract, filing of change-of-ownership forms and receipt of payment. In the case of mortality, the gain (or loss) we recognize is the difference between the contract benefits and the carrying values of the contract once we receive notice or verify the mortality of the insured. In the case of a contract sale, the gain (or loss) we recognize is the difference between the sale price and the carrying value of the contract on the date of our receipt of sale proceeds.

In a case where our acquisition of a contract is not complete as of a reporting date, but we have nonetheless advanced direct costs and deposits for the acquisition, those costs and deposits are recorded as “other assets” on our balance sheet until the acquisition is complete and we secured title to the contract. On September 30, 2016 and December 31, 2015, a total of \$34,000 and \$31,000, respectively, of our “other assets” comprised direct costs and deposits that we advanced for contract acquisitions.

**Other Assets** – GWG acquired the exclusive option to license “DNA Methylation Based Predictor of Mortality” technology from the University of California, Los Angeles (UCLA). The technology was discovered by Dr. Steven Horvath and is featured in the September 2016 edition of *Aging*. In 2013, Dr. Horvath reported that human cells have a mechanism that records biological aging progression based on DNA methylation that is independent from chronological aging progression. In 2016, Dr. Horvath discovered a specific set of DNA methylation-based bio-markers that are highly predictive of all-cause mortality. The discovery was made through a statistical analysis of bio-markers found in DNA samples from over 13,000 individuals whose health had been studied for decades. The implications of Dr. Horvath’s discovery are simple and profound: A biostatistician can review a specific set of identified bio-markers and develop a highly predictive analytical model of an individual’s lifespan. The cost of entering into this exclusive option agreement is listed as “other assets”.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**Deferred Financing and Issuance Costs** – Loans advanced to us under our senior credit facilities, as described in Notes 5 and 6, are reported net of financing costs, which are amortized using the straight-line method over the term of the facility. The Series I Secured Notes and L Bonds, as respectively described in Notes 7 and 8, are reported net of issuance costs, sales commissions and other direct expenses, which are amortized using the interest method over the term of those borrowings. The Series A Preferred Stock, as described in Note 9, is reported net of issuance costs, sales commissions (including the fair value of warrants issued) and other direct expenses, all of which were fully amortized using the interest method as of December 31, 2015. Selling and issuance costs of Redeemable Preferred Stock and MCA Preferred Stock, described in Notes 10 and 11, are netted against additional paid-in-capital.

**Earnings (loss) per Share** – Basic earnings (loss) per share attributable to non-redeemable interests are calculated using the weighted-average number of shares outstanding during the reported period. Diluted earnings (loss) per share are calculated based on the potential dilutive impact of our outstanding Series A Preferred Stock, Redeemable Preferred Stock, warrants and stock options.

**Recently Adopted Pronouncements** – On April 7, 2015, the FASB issued Accounting Standards Update No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”), as part of its simplification initiative. ASU 2015-03 changes the presentation of debt issuance costs by presenting those costs in the balance sheet as a direct deduction from the related debt liability. Amortization of the costs is reported as interest expense. We adopted ASU 2015-03 effective January 1, 2016, as required for public reporting entities.

**Reclassification** – Certain 2015 amounts have been reclassified to conform to ASU 2015-03, and that adoption reduced our assets, together with a corresponding reduction to our liabilities, by approximately \$2,288,000 as of December 31, 2015. There was no impact on our statements of operations in 2015, and these reclassifications had no effect on our reported consolidated net income or loss for prior periods.

**(2) Restrictions on Cash**

Under the terms of our senior credit facilities (discussed in Notes 5 and 6), we are required to maintain collection and escrow accounts that are used to fund the acquisition of contracts, pay annual contract premiums, pay interest and



other charges under the facility, and collect contract benefits. The agent for the lender authorizes the disbursements from these accounts. At September 30, 2016 and December 31, 2015, there was a balance of \$15,688,000, and \$2,342,000, respectively, in these restricted cash accounts.

**(3) Investment in Life Insurance Contracts**

Life insurance contracts are valued based on unobservable inputs that are significant to their overall fair value. Changes in the fair value of these contracts are recorded as gain or loss on life insurance contracts, net of cash premiums paid on those contracts, in our consolidated statements of operations. Fair value is determined on a discounted cash flow basis that incorporates life expectancy assumptions derived from reports obtained from widely accepted life expectancy providers, assumptions relating to cost-of-insurance (premium) rates and other assumptions. The discount rate we apply incorporates current information about discount rate applied by other reporting companies owning portfolios of life insurance contracts, the discount rates observed in the life insurance secondary market, market interest rates, our credit exposure to the insurance companies that issued the life insurance contracts and management's estimate of the risk premium a purchaser would require to receive the future cash flows derived from our portfolio as a whole. As a result of management's analysis, discount rates of 11.07% and 11.09% were applied to our portfolio as of September 30, 2016 and December 31, 2015, respectively.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

We recognized life insurance benefits of \$5,300,000 and \$357,000 during the three months ended September 30, 2016 and 2015, respectively, related to contracts with a carrying value of \$1,078,000 and \$80,000, respectively, and as a result recorded realized gains of \$4,221,000 and \$277,000. We recognized life insurance benefits of \$34,367,000 and \$29,732,000 during the nine months ended September 30, 2016 and 2015, respectively, related to contracts with a carrying value of \$7,381,000 and \$3,823,000, respectively, and as a result recorded realized gains of \$26,986,000 and \$25,909,000.

Reconciliation of gain on life insurance contracts:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Change in fair value	\$21,073,000	\$14,517,000	\$53,846,000	\$26,651,000
Premiums and other fees	(11,784,000)	(6,605,000)	(29,225,000)	(19,114,000)
Contract maturities	4,221,000	277,000	26,986,000	25,909,000
Gain on life insurance contracts, net	\$13,510,000	\$8,189,000	\$51,607,000	\$33,446,000

We currently estimate that premium payments and servicing fees required to maintain our current portfolio of life insurance contracts in force for the next five years, assuming no mortalities, are as follows:

Years Ending December 31,	Premiums	Servicing	Premiums and Servicing Fees
Three months ending December 31, 2016	\$10,449,000	\$188,000	\$10,637,000
2017	43,155,000	750,000	43,905,000
2018	46,847,000	750,000	47,597,000
2019	50,813,000	750,000	51,563,000
2020	56,633,000	750,000	57,383,000
2021	63,222,000	750,000	63,972,000
	\$271,119,000	\$3,938,000	\$275,057,000

Management anticipates funding the premium payments estimated above with proceeds from our senior credit facilities, proceeds from additional debt and equity financing, and proceeds from maturities of life insurance contracts. The proceeds of these capital sources may also be used for the purchase, financing, and maintenance of additional life insurance contracts.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**(4) Fair Value Definition and Hierarchy**

ASC 820, *Fair Value Measurement* (“ASC 820”), establishes a hierarchical 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 and actively 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 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the use of observable inputs whenever available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect assumptions about how market participants price an asset or liability developed based on the best available information. 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 our portfolio of life insurance contracts is determined on a quarterly basis by our portfolio management committee, taking into consideration changes in discount rate assumptions, estimated premium payments and life expectancy estimate assumptions, as well as any changes in economic and other relevant conditions. The discount rate incorporates (i) current information about discount rate applied by other reporting companies owning portfolios of life insurance contracts, (ii) the discount rates observed in the life insurance secondary market, (iii) market interest rates, (iv) our credit exposure to the insurance company that issued the life insurance contract and (v) management's estimate of the risk premium a purchaser would require to receive the future cash flows derived from our portfolio as a whole.

These inputs are then used to estimate the discounted cash flows from the portfolio using the Model Actuarial Pricing System probabilistic portfolio price model, which estimates the cash flows using various mortality probabilities and scenarios. The valuation process includes a review by senior management as of each valuation date. We also engage a third-party expert to independently test the accuracy of the valuations using the inputs we provide on a quarterly basis. See Exhibit 99.1 filed herewith.

The following table reconciles the beginning and ending fair value of our Level 3 investments in our portfolio of life insurance contracts for the periods ended September 30, as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	2016	2015	2016	2015
Beginning balance	\$431,820,000	\$301,499,000	\$356,650,000	\$282,883,000
Purchases	25,770,000	13,626,000	74,470,000	23,851,000
Maturities (carrying value)	(1,078,000 )	(80,000 )	(7,381,000 )	(3,823,000 )
Net change in fair value	21,073,000	14,517,000	53,846,000	26,651,000
Ending balance (September 30)	\$477,585,000	\$329,562,000	\$477,585,000	\$329,562,000

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We periodically update the independent life expectancy estimates on the insured lives in our portfolio, other than insured lives covered under small face amount contracts (i.e., \$1 million in face value benefits or less), on a continuous rotating three-year cycle. Accordingly, we update life expectancies for approximately one-twelfth of our portfolio each quarter.

The following table summarizes the inputs utilized in estimating the fair value of our portfolio of life insurance contracts:

	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>		
Weighted-average age of insured, years	81.8	82.6		
Weighted-average life expectancy, months	81.8	79.3		
Average face amount per contract	\$ 2,035,000	\$ 2,386,000		
Discount rate	11.07	%	11.09	%

These assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. For example, if the life expectancy estimates were increased or decreased by four and eight months on each outstanding contract, and the discount rates were increased or decreased by 1% and 2%, while all other variables were held constant, the fair value of our investment in life insurance contracts would increase or (decrease) as summarized below:

Change in Fair Value of the Investment in Life Insurance Contracts

	Change in life expectancy estimates			
	minus 8 months	minus 4 months	plus 4 months	plus 8 months
September 30, 2016	\$64,713,000	\$32,215,000	\$(31,450,000)	\$(62,258,000)
December 31, 2015	\$48,339,000	\$24,076,000	\$(23,501,000)	\$(46,482,000)

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	Change in discount rate			
	minus 2%	minus 1%	plus 1%	plus 2%
September 30, 2016	\$50,097,000	\$23,990,000	\$(22,096,000)	\$(42,492,000)
December 31, 2015	\$35,024,000	\$16,786,000	\$(15,485,000)	\$(29,803,000)

*Other Fair Value Considerations*

The carrying value of receivables, prepaid expenses, accounts payable and accrued expenses approximate fair value due to their short-term maturities and low credit risk. Using the income-based valuation approach, the estimated fair value of our Series I Secured Notes and L Bonds, having a combined aggregate face value of \$402,416,000 as of September 30, 2016, is approximately \$414,023,000 based on a weighted-average market interest rate of 6.36%. The carrying value of the senior credit facilities reflects interest charged at the commercial paper rate or 12-month LIBOR, as applicable, plus an applicable margin. The margin represents our credit risk, and the strength of the portfolio of life insurance contracts collateralizing the debt. The overall rate reflects market, and the carrying value of the facility approximates fair value.

Our wholly owned subsidiary GWG MCA Capital, Inc. (“GWG MCA”) participates in the merchant cash advance by directly advancing sums to merchants and lending money, on a secured basis, to companies that advance sums to merchants. Each quarter, we review the carrying value of these advances and loans, and determine if an impairment reserve is necessary. At September 30, 2016, one of our secured loans to Nulook Capital LLC was potentially impaired. The secured loan to Nulook Capital LLC had an outstanding balance of \$3,215,000 and a loan loss reserve of \$400,000 at September 30, 2016. We deem fair value to be the estimated collectible value on each loan or advance made from GWG MCA. Where we estimate the collectible amount to be less than the outstanding balance, we record a reserve for the difference.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

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The following table summarizes outstanding warrants as of September 30, 2016:

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				

**(5) Credit Facility – Autobahn Funding Company LLC**

Through our subsidiaries GWG DLP Funding II, LLC (“DLP II”) and GWG DLP Funding III, LLC (“DLP III”), we are party to a \$105 million revolving senior credit facility with Autobahn Funding Company LLC (“Autobahn”), with a maturity date of June 30, 2018. The facility is governed by a Credit and Security Agreement (the “Agreement”), and DZ Bank AG Deutsche Zentral-Genossenschaftsbank (“DZ Bank”) acts as the agent for Autobahn under the Agreement. On September 14, 2016, we paid off the revolving senior credit facility in full with funds received from a new senior secured term loan with LNV Corporation as described in Note 6.

Advances under the facility bear interest at a commercial paper rate of the lender at the time of the advance, or at the lender’s cost of borrowing plus 4.25%. We make interest payments on a monthly basis. The effective rate of interest was 5.42% at September 14, 2016 and 5.58% at December 31, 2015. The weighted-average effective interest rate, after excluding an unused line fee, was 5.46% and 5.42% for the three months ended September 30, 2016 and 2015, respectively, and 5.54% and 5.81% for the nine months ended September 30, 2016 and 2015, respectively.



The amount outstanding under this facility was \$0 and \$65,011,000 at September 30, 2016 and December 31, 2015, respectively. GWG Holdings is a performance guarantor of the various obligations of GWG Life, LLC (“GWG Life”), as servicer, under the Agreement. Obligations under the facility are secured by our pledge of ownership in our life insurance contracts to DZ Bank through an arrangement under which Wells Fargo serves as a securities intermediary.

The Agreement has certain financial (as described below) and non-financial covenants, and we were in compliance with these covenants at September 30, 2016 and December 31, 2015.

We have 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, (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 of \$15 million or above. Consolidated non-GAAP net income and non-GAAP tangible net worth as of and for the four quarters ended September 30, 2016, as calculated under the Agreement, was \$33,877,000 and \$149,361,000, respectively.

Total funds available for additional borrowings under the facility at December 31, 2015, was \$39,989,000. At September 30, 2016, the amount outstanding was \$0 and there were no policies pledged to the facility.

#### **(6) Credit Facility – LNV Corporation**

On September 14, 2016, we entered into a senior secured term loan with LNV Corporation (“LNV”) as lender through our subsidiary GWG DLP Funding IV, LLC (“DLP IV”) as borrower. The facility is governed by a Loan and Security Agreement (the “Loan Agreement”), with CLMG Corp. (“CLMG”) acting as administrative agent on behalf of the lender under the Loan Agreement. The Loan Agreement makes available a total of up to \$172,300,000 in credit with a maturity date of September 14, 2026. Additional quarterly advances are available under the Loan Agreement. Interest will accrue on amounts borrowed under the agreement at an annual interest rate, determined as of each date of borrowing, equal to (A) the greater of 12-month LIBOR or the federal funds rate (as defined in the agreement) plus one-half of one percent per annum, plus (B) 5.75% per annum. Interest payments are made on a quarterly basis.

At September 30, 2016, the amount outstanding under this facility was \$71,250,000 and total funds available for additional borrowing, net of required reserve, was \$76,629,000.

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Obligations under the facility are secured by a security interest in DLP IV's assets, for the benefit of the lenders under the Loan Agreement, through an arrangement under which Wells Fargo serves as security intermediary.

The Loan Agreement requires DLP IV to maintain a reserve account in an amount sufficient to pay 12 months of servicing, administrative and third party expenses identified under the Loan Agreement, and 12 months of debt service as calculated under the Loan Agreement. As of November 10, 2016, the amount set aside in the reserve account is \$27,500,000.

The Agreement has no financial covenants and certain non-financial reporting covenants, and we were in compliance with these covenants at September 30, 2016.

**(7) Series I Secured Notes**

Series I Secured Notes ("Notes") are legal obligations of GWG Life and were privately offered and sold from August 2009 through June 2011. The Notes are secured by the assets of GWG Life and are subordinate to obligations under our senior credit facilities (see Notes 5 and 6). We are party to a Third Amended and Restated Note Issuance and Security Agreement dated November 1, 2011, as amended, under which GWG Life is obligor, GWG Holdings is guarantor, and Lord Securities Corporation serves as trustee of the GWG Life Trust ("Trust"). This agreement contains certain financial and non-financial covenants, and we were in compliance with these covenants at September 30, 2016 and December 31, 2015.

The Notes were sold with original maturity dates ranging from six months to seven years, and with fixed interest rates varying from 5.65% to 9.55% depending on the term of the Note. The Notes have renewal features under which we may elect to permit their renewal, subject to the right of bondholders to elect to receive payment at maturity. Effective September 1, 2016, we no longer anticipate renewing the Notes.

Interest on the Notes is payable monthly, quarterly, annually or at maturity depending on the election of the investor. At September 30, 2016 and December 31, 2015, the weighted-average interest rate of our Notes was 8.63% and

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8.47%, respectively. The principal amount of Notes outstanding was \$17,830,000 and \$23,578,000 at September 30, 2016 and December 31, 2015, respectively. The difference between the amount outstanding on the Notes and the carrying amount on our balance sheet is due to netting of unamortized deferred issuance costs. Overall, interest expense includes amortization of deferred financing and issuance costs of \$82,000 and \$275,000 for the three and nine months ended September 30, 2016 and \$49,000 and \$260,000 for the three and nine months ended September 30, 2015. Future expected amortization of deferred financing costs is \$277,000 in total over the next six years.

Future contractual maturities of Notes payable and future amortization of their deferred financing costs at September 30, 2016 are as follows:

Years Ending December 31,	Contractual Maturities	Amortization of Deferred Financing Costs
Three months ending December 31 ,2016	\$ 1,177,000	\$ 5,000
2017	10,522,000	88,000
2018	2,401,000	49,000
2019	1,023,000	22,000
2020	1,766,000	55,000
Thereafter	941,000	58,000
	\$ 17,830,000	\$ 277,000

GWG HOLDINGS, INC. AND SUBSIDIARIES

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**(8) L Bonds**

Our L Bonds are legal obligations of GWG Holdings. Obligations under the L Bonds are secured by the assets of GWG Holdings and by GWG Life, as a guarantor, and are subordinate to the obligations under our senior credit facilities (see Notes 5 and 6). We began publicly offering and selling L Bonds in January 2012 under the name “Renewable Secured Debentures.” These debt securities were re-named “L Bonds” in January 2015. L Bonds are publicly offered and sold on a continuous basis under a registration statement permitting us to sell up to \$1.0 billion in principal amount of L Bonds. We are party to an indenture governing the L Bonds dated October 19, 2011, as amended (“Indenture”), under which GWG Holdings is obligor, GWG Life is guarantor, and Bank of Utah serves as indenture trustee. The Indenture contains certain financial and non-financial covenants, and we were in compliance with these covenants at September 30, 2016 and December 31, 2015.

Effective September 1, 2016, we discontinued the sales of 6-month and 1-year L Bonds. In addition, effective September 1, 2016, the L Bond interest rates changed to 5.50%, 6.25%, 7.50% and 8.50% for the 2-, 3-, 5- and 7-year L Bonds, respectively. The bonds have renewal features under which we may elect to permit their renewal, subject to the right of bondholders to elect to receive payment at maturity. Interest is payable monthly or annually depending on the election of the investor.

At September 30, 2016 and December 31, 2015, the weighted-average interest rate of our L Bonds was 7.16% and 7.18%, respectively. The principal amount of L Bonds outstanding was \$384,586,000 and \$282,171,000 at September 30, 2016 and December 31, 2015, respectively. The difference between the amount of outstanding L Bonds and the carrying amount on our 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 \$2,073,000 and \$5,362,000 for the three and nine months ended September 30, 2016 and \$1,892,000 and \$4,232,000 for the three and nine months ended September 30, 2015. Future expected amortization of deferred financing costs as of September 30, 2016 is \$11,622,000 in total over the next eight years.

Future contractual maturities of L Bonds, and future amortization of their deferred financing costs, at September 30, 2016 are as follows:

Years Ending December 31,	Contractual Maturities	Amortization of Deferred Financing Costs
Three months ending December 31, 2016	\$23,548,000	\$115,000
2017	112,987,000	1,708,000
2018	101,130,000	3,106,000
2019	78,098,000	3,222,000
2020	19,291,000	784,000
Thereafter	49,532,000	2,687,000
	\$384,586,000	\$11,622,000

### (9) Convertible Preferred Stock

From July 2011 until September 2012, we privately offered shares of Series A Preferred Stock (“Series A”) of GWG Holdings at \$7.50 per share. In the offering, we sold an aggregate of 3,278,000 shares for gross consideration of \$24,582,000. Holders of Series A are entitled to cumulative dividends at the rate of 10% per annum, paid quarterly. Dividends on the Series A are included as interest expense in the statements of operations. Under certain circumstances described in the Certificate of Designation for the Series A, additional Series A shares may be issued in lieu of cash dividends at the rate of \$7.00 per share.

Holders of Series A are entitled to a liquidation preference equal to the stated value of their preferred shares (i.e., \$7.50 per share) plus accrued but unpaid dividends. Holders of Series A may presently convert each share of their Series A into 0.75 shares of our common stock at the rate of \$10.00 per share.

As of September 30, 2016, we issued an aggregate of 447,000 shares of Series A in satisfaction of \$3,129,000 in dividends on the Series A, and an aggregate of 696,000 shares of Series A were converted into 522,000 shares of our common stock. As of September 30, 2016, we had 2,650,000 Series A shares outstanding with respect to which we incurred aggregate issuance costs of \$2,838,000, all of which is included as a component of additional paid-in capital.

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Purchasers of Series A in our offering received warrants to purchase an aggregate of 431,954 shares of our common stock at an exercise price of \$12.50 per share. The grant date fair value of these warrants was \$428,000. As of September 30, 2016 and December 31, 2015, none of these warrants were exercised, and the weighted-average remaining life of these warrants was 0.68 and 1.43 years, respectively.

In September 2012, we completed a public offering of our common stock and, as a result, the Series A was reclassified from temporary equity to permanent equity. We may redeem Series A shares under the Certificate of Designation at a price equal to 110% of their liquidation preference (\$7.50 per share) at any time. As of September 30, 2016, we have redeemed an aggregate of 277,000 shares of Series A.

**(10) Redeemable Preferred Stock**

Beginning November 30, 2015, we began publicly offering up to 100,000 shares of Redeemable Preferred Stock ("RPS") at \$1,000 per share. Holders of RPS are entitled to cumulative dividends at the rate of 7% per annum, paid monthly. Dividends on the RPS are included as interest expense in the statements of operations. Under certain circumstances described in the Certificate of Designation for the RPS, additional shares of RPS may be issued in lieu of cash dividends.

The RPS ranks senior to our common stock and pari passu with our Series A, and entitles its holders to a liquidation preference equal to the stated value per share (i.e., \$1,000) plus accrued but unpaid dividends. Holders of RPS may presently convert their RPS into our 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 and in an aggregate amount limited to 15% of the stated value of RPS originally purchased by such holder from us and still held by such holder.

Holders of RPS may request that we redeem their RPS at a price equal to their liquidation preference at a price equal to their stated value plus accrued but unpaid dividends, less an applicable redemption fee, if any. Nevertheless, the Certificate of Designation for RPS permits us to decline requests for redemption in certain circumstances. Subject to certain restrictions and conditions, we may also redeem shares of RPS without a redemption fee upon a holder's death,

total disability or bankruptcy. In addition, after one year from the date of original issuance, we may, at our option, call and redeem shares of RPS at a price equal to their liquidation preference.

As of September 30, 2016, we had sold 33,201 shares of RPS for aggregate gross consideration of \$33,177,000, and incurred approximately \$2,399,000 of selling costs related to the sale of those shares.

**(11) GWG MCA Capital, Inc - 9% Preferred Stock**

Beginning March 31, 2016, GWG MCA began privately offering up to 2,000,000 shares of GWG MCA 9% Preferred Stock ("MCA Preferred") at \$10.00 per share. Holders of MCA Preferred are entitled to cumulative dividends at a rate of 9% per annum, paid monthly. Dividends on the MCA Preferred are included as interest expense in the statements of operations. As of September 30, 2016, a total of 7,155 shares of MCA Preferred had been sold for aggregate gross consideration of \$72,000 and approximately \$7,000 of selling costs related to the sale of these shares were incurred.

Holders of MCA Preferred were redeemed as of September 30, 2016 at the stated value of their shares plus accrued but unpaid dividends.

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**(12) Income Taxes**

We had a current income tax liability of \$0 as of both September 30, 2016 and December 31, 2015. The components of current and deferred income tax expense for the three and nine months ended September 30, 2016 and 2015, respectively, consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Income tax provision (benefit):				
Current:				
Federal	\$-	\$ (141,000 )	\$-	\$ -
State	\$-	\$ (40,000 )	\$-	\$ -
Total current tax expense (benefit)	-	(181,000 )	-	-
Deferred:				
Federal	\$(1,082,000)	\$(1,488,000 )	\$1,121,000	\$ (504,000 )
State	\$(346,000 )	\$(429,000 )	\$358,000	\$ (161,000 )
Total deferred tax expense (benefit)	(1,428,000)	(1,917,000 )	1,479,000	(665,000 )
Total income tax expense (benefit)	(1,428,000)	(2,098,000 )	1,479,000	(665,000 )

We provided a valuation allowance against the deferred tax asset related to a note receivable, which was charged-off for financial reporting purposes, 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 also provided a valuation allowance against the deferred tax asset related to a tax basis capital loss generated with respect to our settlement and subsequent disposal of an earlier investment in Athena Structured Funds PLC. As we have no expectation of generating capital gains with the applicable carryforward period, we do not believe that it is “more likely than not” that the deferred asset will be realized.



The primary differences between the September 30, 2016 effective tax rate and the statutory federal rate are the accrual of non-deductible preferred stock dividend expense of \$2,153,000, 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 contracts and revenue recognition with respect to the mark-to-market of our life insurance portfolio.

**(13) Common Stock**

In September 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 payment of underwriting commissions, discounts and expense reimbursements. In connection with this offering, we listed our common stock on the Nasdaq Capital Market under the ticker symbol "GWGH."

On June 24, 2015 we issued 60,000 restricted common shares at \$9.70 per share, determined by the closing market price on the date of grant, to a vendor as payment for services to be rendered over three years. The cost of these shares is amortized over a 12-month period. On March 17, 2016, we issued an additional 6,500 restricted common shares at an average price of \$7.16 per share, determined by the closing market price on the date of grant, to this same vendor for additional services provided to us. On April 25, 2016, we issued 25,000 restricted shares of common stock at \$6.25 per share, determined by the closing market price on the date of grant, to a vendor as a form of payment for services the vendor is providing to us, which is expensed in the current period.

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**(14) Stock Incentive Plan**

We adopted our GWG Holdings 2013 Stock Incentive Plan in March 2013. The Compensation Committee of our Board of Directors administers the plan. Incentives under the plan may be granted incentive stock options and non-statutory stock options; stock appreciation rights; stock awards; restricted stock; restricted stock units; and performance shares. Eligible participants include officers and employees of GWG Holdings and its subsidiaries, members of our Board of Directors, and consultants. 2,000,000 common shares are presently issuable under the plan.

Stock Options – Through September 30, 2016, we issued stock options for 1,237,000 shares of common stock to employees, officers, and directors under the plan. Options for 687,000 shares have vested, and the remaining options are scheduled to vest over three years. The options were issued with an exercise price between \$6.35 and \$10.18 for those beneficially owning more than 10% of our common stock, and between \$6.00 and \$10.25 for all others, which is equal to the estimated market price of the shares on the date of grant using Black-Scholes binomial option pricing model. The expected annualized volatility used in the Black-Scholes model valuation of options issued during the period was 25.5%. 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. A forfeiture rate of 15% is based on historical information and expected future trend. As of September 30, 2016, stock options for 415,000 shares were forfeited and stock options for 28,000 shares were exercised.

Outstanding stock options:

	Vested	Un-vested	Total
Balance as of December 31, 2014	314,288	685,813	1,000,101
Granted during the year	79,500	273,700	353,200
Vested during the year	238,999	(238,999 )	-
Exercised during the year	(27,667 )	-	(27,667 )
Forfeited during the year	(121,417)	(150,602 )	(272,019 )
Balance as of December 31, 2015	483,703	569,912	1,053,615
Granted during the year	22,500	239,948	262,448
Vested during the year	187,473	(187,473 )	-
Forfeited during the year	(6,676 )	(72,824 )	(79,500 )
Balance as of September 30, 2016	687,000	549,563	1,236,563

Compensation expense related to un-vested options not yet recognized is \$420,000. We expect to recognize this compensation expense over the next three years (\$14,000 in 2016, \$240,000 in 2017, \$109,000 in 2018, and \$57,000 in 2019).

Stock Appreciation Rights (SARs) - On September 19, 2016 we issued SARs for 145,388 shares of the common stock to employees. The strike price of the SARs was \$8.76, which was equal to the market price of the common stock at the close of business on September 19, 2016. 56,358 of the SARs were vested as of September 30, 2016, on which date the market price of the common stock was \$8.82. A forfeiture rate of 15% was used in calculating our liability for the SARs.

Outstanding Stock Appreciation Rights:

	Vested	Un-vested	Total
Balance as of December 31, 2015	-	-	-
Granted during the year	56,358	89,030	145,388
Vested during the year	56,358	89,030	145,388
Forfeited during the year	-	-	-
Balance as of September 30, 2016	56,358	89,030	145,388

A liability for Stock Appreciation Rights - Compensation Expense was recorded on September 30, 2016 in the amount of \$3,381 and Compensation Expense was charged for the same amount.

**(15) Net Income per Common Share**

We have outstanding Series A, as described in Note 9. The Series A are dilutive to our net income per common share calculation for the nine-month period ended September 30, 2016. They are anti-dilutive for the three-month period ended September 30, 2016 and for both three and nine-month periods ended September 30, 2015. We also issued warrants to purchase common stock in conjunction with the sale of Series A (see Note 9). Both those warrants and our vested stock options are anti-dilutive for both three and nine-month periods ended September 30, 2016 and 2015 and have not been included in the fully diluted net loss per common share calculation. We issued RPS (see Note 10). The RPS is dilutive for the nine-month period ended September 30, 2016 and anti-dilutive for the three-month period ended September 30, 2016.

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**(16) Commitments**

We are party to an office lease with U.S. Bank National Association as the landlord. On September 1, 2015, we entered into an amendment to our original lease that expanded the leased space to 17,687 square feet and extended the term through August 31, 2025. Under the amended lease, we are obligated to pay base rent plus common area maintenance and a share of building operating costs. Rent expenses under these lease arrangements were \$102,000 and \$71,000 for the three months ended September 30, 2016 and 2015, respectively, and \$306,000 and \$193,000 for the nine months ended September 30, 2016 and 2015, respectively.

Minimum lease payments under the amended lease are as follows:

Three months ending December 31, 2016	\$44,000
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
	\$1,918,000

**(17) Contingencies**

Litigation – In the normal course of business, we are involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on our financial position, results of operations or cash flows.

**(18) Guarantee of L Bonds**

We are publicly offering and selling L Bond under a registration statement declared effective by the SEC, as described in Note 8. Our obligations under the L Bonds are secured by substantially all the assets of GWG Holdings, a pledge of all the common stock held individually by our largest stockholders, and by a guarantee and corresponding grant of a security interest in substantially all the assets of GWG Life. As a guarantor, GWG Life has fully and unconditionally guaranteed the payment of principal and interest on the L Bonds. Substantially all of GWG's life insurance contracts are held by wholly owned subsidiaries of GWG Life: DLP III, DLP IV and the Trust. GWG Life's equity ownership in these subsidiaries serves as collateral for the L Bond obligation. The life insurance contracts held by DLP III and DLP IV are not direct collateral for the L Bond obligations but do serve as direct collateral for the senior credit facilities.

The consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantor 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 provided herein. A majority of insurance contracts we own are subject to a collateral arrangement with LNV described in Note 6. Under this arrangement, collection and escrow accounts are used to fund premiums for the insurance contracts and to pay interest and other charges under the senior credit facility.

The following represents consolidating financial information as of September 30, 2016 and December 31, 2015, with respect to the financial position, and for the three and nine months ended September 30, 2016 and 2015, 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 for 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 III, DLP IV and the Trust under the equity method. The non-guarantor subsidiaries column presents the financial information of all non-guarantor subsidiaries, including DLP III, DLP IV and the Trust.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Condensed Consolidating Balance Sheets

September 30, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 13,312,751	\$ 4,372,845	\$ 1,088,232	\$-	\$ 18,773,828
Restricted cash	-	4,438,025	11,250,000	-	15,688,025
Investment in life insurance contracts, at fair value	-	-	477,585,100	-	477,585,100
Secured MCA advances	-	-	6,113,831	-	6,113,831
Life insurance contract benefits receivable	-	-	6,129,022	-	6,129,022
Other assets	4,706,121	1,224,386	54,726	(2,854,126 )	3,131,107
Investment in subsidiaries	422,185,881	429,441,035	-	(851,626,916)	-
<b>TOTAL ASSETS</b>	<b>\$ 440,204,753</b>	<b>\$ 439,476,291</b>	<b>\$ 502,220,911</b>	<b>\$(854,481,042)</b>	<b>\$ 527,420,913</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY (DEFICIT)</b>					
<b>LIABILITIES</b>					
Senior credit facilities	\$-	\$-	\$ 63,699,385	\$-	\$ 63,699,385
Series I Secured Notes	-	17,553,307	-	-	17,553,307
L Bonds	379,858,737	-	-	-	379,858,737
Notes payable to related parties	-	-	2,700,000	(2,700,000 )	-
Accounts payable	699,507	99,705	1,643,237	-	2,442,449
Interest payable	9,798,735	3,588,954	400,077	(154,126 )	13,633,640
Other accrued expenses	259,722	351,896	33,725	-	645,343
Deferred taxes, net	3,242,586	-	-	-	3,242,586
<b>TOTAL LIABILITIES</b>	<b>393,859,287</b>	<b>21,593,862</b>	<b>68,476,424</b>	<b>(2,854,126 )</b>	<b>481,075,447</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>					
Member capital	-	417,882,429	433,744,487	(851,626,916)	-
Convertible preferred stock	19,772,931	-	-	-	19,772,931
Redeemable preferred stock	33,176,600	-	-	-	33,176,600
Common stock	5,980	-	-	-	5,980

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Additional paid-in capital	15,226,449	-	-	-	15,226,449
Accumulated deficit	(21,836,494 )	-	-	-	(21,836,494 )
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	46,345,466	417,882,429	433,744,487	(851,626,916)	46,345,466
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	 \$440,204,753	 \$439,476,291	 \$502,220,911	 \$(854,481,042)	 \$527,420,913

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Condensed Consolidating Balance Sheets (continued)

<b>December 31, 2015</b>	<b>Parent</b>	<b>Guarantor Subsidiary</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b><u>A S S E T S</u></b>					
Cash and cash equivalents	\$32,292,162	\$1,982,722	\$150,221	\$-	\$34,425,105
Restricted cash	-	2,102,257	239,643	-	2,341,900
Investment in life insurance contracts, at fair value	-	-	356,649,715	-	356,649,715
Other assets	1,742,074	688,071	30,900	-	2,461,045
Investment in subsidiaries	269,886,254	291,295,951	-	(561,182,205)	-
<b>TOTAL ASSETS</b>	<b>\$303,920,490</b>	<b>\$296,069,001</b>	<b>\$357,070,479</b>	<b>\$(561,182,205)</b>	<b>\$395,877,765</b>
<b><u>LIABILITIES &amp; STOCKHOLDERS' EQUITY (DEFICIT)</u></b>					
<b>LIABILITIES</b>					
Senior credit facilities	\$-	\$(1,000,000)	\$64,279,596	\$-	\$63,279,596
Series I Secured Notes	-	23,287,704	-	-	23,287,704
L Bonds	276,482,796	-	-	-	276,482,796
Accounts payable	280,988	157,217	1,079,235	-	1,517,440
Interest payable	8,529,959	3,544,626	265,476	-	12,340,061
Other accrued expenses	717,365	343,421	-	-	1,060,786
Deferred taxes, net	1,763,968	-	-	-	1,763,968
<b>TOTAL LIABILITIES</b>	<b>287,775,076</b>	<b>26,332,968</b>	<b>65,624,307</b>	<b>-</b>	<b>379,732,351</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>					
Member capital	-	269,736,033	291,446,172	(561,182,205)	-
Convertible preferred stock	20,784,841	-	-	-	20,784,841
Common stock	5,942	-	-	-	5,942
Additional paid-in capital	17,149,391	-	-	-	17,149,391
Accumulated deficit	(21,794,760)	-	-	-	(21,794,760)
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>16,145,414</b>	<b>269,736,033</b>	<b>291,446,172</b>	<b>(561,182,205)</b>	<b>16,145,414</b>



TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 303,920,490	\$ 296,069,001	\$ 357,070,479	\$(561,182,205)	\$395,877,765
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## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Condensed Consolidating Statements of Operations

For the nine months ended September 30, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>REVENUE</b>					
Origination and servicing income	\$-	\$13,417	\$-	\$(13,417)	\$-
Gain on life insurance contracts, net	-	-	51,606,815	-	51,606,815
MCA income	-	-	654,441	-	654,441
Interest and other income	181,828	31,137	282,259	(154,126)	341,098
<b>TOTAL REVENUE</b>	<b>181,828</b>	<b>44,554</b>	<b>52,543,515</b>	<b>(167,543)</b>	<b>52,602,354</b>
<b>EXPENSES</b>					
Origination and servicing fees	-	-	13,417	(13,417)	-
Interest expense	25,477,320	1,856,909	4,829,831	(154,126)	32,009,934
Employee compensation and benefits	4,894,006	3,151,107	405,055	-	8,450,168
Legal and professional fees	1,642,252	1,308,959	146,101	-	3,097,312
Other expenses	4,241,825	2,197,133	1,169,099	-	7,608,057
<b>TOTAL EXPENSES</b>	<b>36,255,403</b>	<b>8,514,108</b>	<b>6,563,503</b>	<b>(167,543)</b>	<b>51,165,471</b>
<b>INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES</b>	<b>(36,073,575)</b>	<b>(8,469,554)</b>	<b>45,980,012</b>	<b>-</b>	<b>1,436,883</b>
<b>EQUITY IN INCOME OF SUBSIDIARY</b>	<b>37,510,458</b>	<b>46,497,731</b>	<b>-</b>	<b>(84,008,189)</b>	<b>-</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,436,883</b>	<b>38,028,177</b>	<b>45,980,012</b>	<b>(84,008,189)</b>	<b>1,436,883</b>
<b>INCOME TAX EXPENSE</b>	<b>1,478,617</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,478,617</b>
<b>NET INCOME (LOSS)</b>	<b>\$(41,734)</b>	<b>\$38,028,177</b>	<b>\$45,980,012</b>	<b>\$(84,008,189)</b>	<b>\$(41,734)</b>
<b>For the nine months ended September 30, 2015</b>					
<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

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TOTAL REVENUE	38,944	2,084,468	33,579,434	(2,022,774 )	33,680,072
EXPENSES					
Origination and servicing fees	-	-	2,022,774	(2,022,774 )	-
Interest expense	18,011,890	1,984,356	3,152,784	-	23,149,030
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
Other expenses	3,251,606	2,297,063	97,733	-	5,646,402
TOTAL EXPENSES	27,362,067	6,351,995	5,273,291	(2,022,774 )	36,964,579
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(27,323,123)	(4,267,527 )	28,306,143	-	(3,284,507 )
EQUITY IN INCOME OF SUBSIDIARY	24,038,616	28,305,979	-	(52,344,595)	-
NET INCOME (LOSS) BEFORE INCOME TAXES	(3,284,507 )	24,038,452	28,306,143	(52,344,595)	(3,284,507 )
INCOME TAX BENEFIT	(664,905 )	-	-	-	(664,905 )
NET INCOME (LOSS)	\$(2,619,602 )	\$24,038,452	\$ 28,306,143	\$(52,344,595)	\$(2,619,602 )

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Condensed Consolidating Statements of Operations (continued)

<b>For the three months ended</b>			<b>Non-</b>		
<b>September 30, 2016</b>	Parent	Guarantor Subsidiary	<b>Guarantor Subsidiaries</b>	Eliminations	Consolidated
<b>REVENUE</b>					
Gain on life insurance contracts, net	-	-	13,509,755	-	13,509,755
MCA income	-	-	286,225	-	286,225
Interest and other income	75,808	30,126	83,313	(64,249 )	124,998
<b>TOTAL REVENUE</b>	<b>75,808</b>	<b>30,126</b>	<b>13,879,293</b>	<b>(64,249 )</b>	<b>13,920,978</b>
<b>EXPENSES</b>					
Interest expense	9,747,128	554,938	1,746,151	(64,249 )	11,983,968
Employee compensation and benefits	1,718,683	1,038,058	155,722	-	2,912,463
Legal and professional fees	263,917	297,804	25,109	-	586,830
Other expenses	1,464,498	803,106	595,608	-	2,863,212
<b>TOTAL EXPENSES</b>	<b>13,194,226</b>	<b>2,693,906</b>	<b>2,522,590</b>	<b>(64,249 )</b>	<b>18,346,473</b>
<b>INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES</b>	<b>(13,118,418)</b>	<b>(2,663,780)</b>	<b>11,356,703</b>	<b>-</b>	<b>(4,425,495 )</b>
<b>EQUITY IN INCOME OF SUBSIDIARY</b>	<b>8,692,923</b>	<b>11,361,329</b>	<b>-</b>	<b>(20,054,252)</b>	<b>-</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(4,425,495 )</b>	<b>8,697,549</b>	<b>11,356,703</b>	<b>(20,054,252)</b>	<b>(4,425,495 )</b>
<b>INCOME TAX BENEFIT</b>	<b>(1,418,130 )</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,428,130 )</b>
<b>NET INCOME (LOSS)</b>	<b>\$(2,997,365 )</b>	<b>\$8,697,549</b>	<b>\$11,356,703</b>	<b>\$(20,054,252)</b>	<b>\$(2,997,365 )</b>
<b>For the three months ended</b>					
<b>September 30, 2015</b>	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

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TOTAL REVENUE	13,922	1,058,837	8,214,367	(1,004,024 )	8,283,102
EXPENSES					
Origination and servicing fees	-	-	1,004,024	(1,004,024 )	-
Interest expense	6,980,132	525,391	1,144,626	-	8,650,149
Employee compensation and benefits	1,759,589	548,657	-	-	2,308,246
Legal and professional fees	598,530	223,547	-	-	822,077
Other expenses	1,195,417	995,026	40,898	-	2,231,341
TOTAL EXPENSES	10,533,668	2,292,621	2,189,548	(1,004,024 )	14,011,813
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(10,519,746)	(1,233,784)	6,024,819	-	(5,728,711 )
EQUITY IN INCOME OF SUBSIDIARY	4,791,035	6,024,762	-	(10,815,797)	-
NET INCOME (LOSS) BEFORE INCOME TAXES	(5,728,711 )	4,790,978	6,024,819	(10,815,797)	(5,728,711 )
INCOME TAX BENEFIT	(2,097,633 )	-	-	-	(2,097,633 )
NET INCOME (LOSS)	\$(3,631,078 )	\$4,790,978	\$ 6,024,819	\$(10,815,797)	\$(3,631,078 )

## 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, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net income	\$(41,734 )	\$38,028,177	\$45,980,012	\$(84,008,189 )	\$(41,734 )
Adjustments to reconcile net income to net cash flows from operating activities:					
(Equity) of subsidiaries	(37,510,459 )	(46,497,730 )	-	84,008,189	-
Gain on life insurance contracts	-	-	(53,846,155 )	-	(53,846,155 )
Amortization of deferred financing and issuance costs	5,982,802	(1,364,614 )	1,459,717	-	6,077,905
Deferred income taxes	1,478,617	-	-	-	1,478,617
Preferred stock dividends payable	663,614	-	-	-	663,614
(Increase) in operating assets:					
Life insurance contract benefits receivable	-	-	(6,129,022 )	-	(6,129,022 )
Other assets	(114,885,990)	(92,168,163 )	-	206,436,523	(617,630 )
Increase (decrease) in operating liabilities:					
Due to related party	(2,867,225 )	(15,505 )	2,700,000	-	(182,730 )
Accounts payable and accrued expenses	2,396,503	2,889,525	(7,310,262 )	-	(2,024,234 )
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(144,783,872)</b>	<b>(99,128,310 )</b>	<b>(17,145,710 )</b>	<b>206,436,523</b>	<b>(54,621,369 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment in life insurance contracts	-	-	(74,470,362 )	-	(74,470,362 )
Carrying value of matured life insurance contracts	-	-	7,381,132	-	7,381,132
Investment in Secured MCA advances	-	-	(7,613,310 )	-	(7,613,310 )
Proceeds from Secured MCA advances	-	-	1,246,703	-	1,246,703
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>(73,455,837 )</b>	<b>-</b>	<b>(73,455,837 )</b>

**CASH FLOWS FROM  
FINANCING ACTIVITIES**

Net borrowings on Senior Credit Facilities	-	-	6,238,952	-	6,238,952
Payments for redemption of Series I Secured Notes	-	(6,264,018 )	-	-	(6,264,018 )
Proceeds from issuance of L Bonds	135,477,090	-	-	-	135,477,090
Payments for redemption and issuance of L Bonds	(37,036,922 )	-	-	-	(37,036,922 )
Proceeds from (increase in) restricted cash	-	(2,335,768 )	(11,010,358 )	-	(13,346,126 )
Issuance of common stock	244,185	-	-	-	244,185
Proceeds from issuance of preferred stock	31,215,986	-	71,555	-	31,287,541
Payments for issuance and redemption of preferred stock	(4,095,878 )	-	(78,895 )	-	(4,174,773 )
Issuance of member capital	-	110,118,219	96,318,304	(206,436,523)	-
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>125,804,461</b>	<b>101,518,433</b>	<b>91,539,558</b>	<b>(206,436,523)</b>	<b>112,425,929</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(18,979,411 )</b>	<b>2,390,123</b>	<b>938,011</b>	<b>-</b>	<b>(15,651,277 )</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD</b>	<b>32,292,162</b>	<b>1,982,722</b>	<b>150,221</b>	<b>-</b>	<b>34,425,105</b>
<b>END OF THE PERIOD</b>	<b>\$ 13,312,751</b>	<b>\$ 4,372,845</b>	<b>\$ 1,088,232</b>	<b>\$-</b>	<b>\$ 18,773,828</b>

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Consolidating Statements of Cash Flows (continued)

<b>For the nine months ended September 30, 2015</b>	<b>Parent</b>	<b>Guarantor Subsidiary</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<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 )
Carrying value of matured life insurance contracts	-	-	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>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					



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Repayment of senior credit facilities	-	-	(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)	-
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>55,531,194</b>	<b>32,361,905</b>	<b>19,121,576</b>	<b>(66,117,118)</b>	<b>40,897,557</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(4,092,363 )</b>	<b>1,732,168</b>	<b>150,164</b>	<b>-</b>	<b>(2,210,031 )</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD</b>	<b>30,446,473</b>	<b>216,231</b>	<b>-</b>	<b>-</b>	<b>30,662,704</b>
<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 September 30, 2016</b>	<b>Parent</b>	<b>Guarantor Subsidiary</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net income	\$(2,997,365 )	\$8,697,549	\$ 11,356,703	\$(20,054,252 )	\$(2,997,365 )
Adjustments to reconcile net loss to net cash flows from operating activities:					
(Equity) of subsidiaries	(8,692,924 )	(11,361,328)	-	20,054,252	-
Gain on life insurance contracts	-	-	(21,073,226 )	-	(21,073,226 )
Amortization of deferred financing and issuance costs	2,072,879	81,849	611,015	-	2,765,743
Deferred income taxes	(1,428,130 )	-	-	-	(1,428,130 )
Preferred stock dividends payable	333,565	-	-	-	333,565
(Increase) in operating assets:					
Life insurance contract benefits receivable	-	-	700,000	-	700,000
Other assets	(54,428,152)	(54,272,589)	-	109,120,577	419,836
Increase (decrease) in operating liabilities:					
Due to related party	(64,249 )	(16,700 )	-	-	(80,949 )
Accounts payable and other accrued expenses	155,980	2,172,227	(5,545,197 )	-	(3,216,990 )
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(65,048,396)</b>	<b>(54,698,992)</b>	<b>(13,950,705 )</b>	<b>109,120,577</b>	<b>(24,577,516 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment in life insurance contracts	-	-	(25,770,326 )	-	(25,770,326 )
Carrying value of matured life insurance contracts	-	-	1,078,889	-	1,078,889
Investment in Secured MCA advances	-	-	(1,965,896 )	-	(1,965,896 )
Proceeds from Secured MCA advances	-	-	220,911	-	220,911
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>(26,436,422 )</b>	<b>-</b>	<b>(26,436,422 )</b>

**CASH FLOWS FROM  
FINANCING ACTIVITIES**

Net repayment of Senior Credit Facilities	-	-	(10,761,048 )		(10,761,048 )
Payments for redemption of Series I Secured Notes	-	(541,275 )	-	-	(541,275 )
Proceeds from issuance of L Bonds	64,350,430	-	-	-	64,350,430
Payments for redemption and issuance of L Bonds	(14,373,447)	-	-	-	(14,373,447 )
Proceeds from (increase in) restricted cash	-	486,283	(5,013,515 )	-	(4,527,232 )
Issuance of member capital	-	52,304,345	56,816,232	(109,120,577)	-
Issuance of common stock	31,515	-	-	-	31,515
Proceeds from issuance of preferred stock	20,786,332	-	-	-	20,786,332
Payments for issuance and redemption of preferred stock	(2,485,304 )	-	(71,555 )	-	(2,556,859 )
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>68,309,526</b>	<b>52,249,353</b>	<b>40,970,114</b>	<b>(109,120,577)</b>	<b>52,408,416</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,261,130</b>	<b>(2,449,639 )</b>	<b>582,987</b>	<b>-</b>	<b>1,394,478</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD</b>	<b>10,051,621</b>	<b>6,822,484</b>	<b>505,245</b>	<b>-</b>	<b>17,379,350</b>
<b>END OF THE PERIOD</b>	<b>\$13,312,751</b>	<b>\$4,372,845</b>	<b>\$ 1,088,232</b>	<b>\$-</b>	<b>\$ 18,773,828</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 September 30, 2015</b>	<b>Parent</b>	<b>Guarantor Sub</b>	<b>Non-Guarantor Sub</b>	<b>Eliminations</b>	<b>Consolidated</b>
<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 )
Carrying value of matured life insurance contracts	-	-	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>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Payments for redemption of Series I Secured Notes	-	(890,586 )	-	-	(890,586 )

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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>
<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>(9,745,516 )</b>
<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>
<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)

**(19) Concentrations**

We purchase life insurance contracts written by life insurance companies having investment grade ratings by independent rating agencies. As a result, there may be concentrations of contracts with certain 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 us.

Life insurance company	September 30, 2016		December 31, 2015	
AXA Equitable	14.3	%	14.0	%
John Hancock	13.0	%	12.7	%
Lincoln National	11.5	%	*	
Transamerica	10.1	%	*	

\* percentage does not exceed 10% of the total face value.

The following summarizes the number of insurance contracts insuring the lives of persons living in specific states exceeding 10% of the total face value held by us:

State of Residence	September 30, 2016		December 31, 2015	
California	21.1	%	25.2	%
Florida	19.0	%	20.0	%

**(20) Subsequent events**

Subsequent to September 30, 2016, two policies covering two individual matured. The life insurance contract benefits of these policies were \$3,240,000 and we recorded realized gains of \$2,539,000 on these policies.

Subsequent to September 30, 2016, we have issued approximately \$6,911,000 in additional principal amount of L Bonds, and 7,350 shares of RPS for gross consideration of approximately \$7,350,000.

On October 28, 2016, DLP IV completed the closing of the second of two initial advances contemplated under a Loan and Security Agreement with LNV. At this closing, a total of \$92,900,000 in loan proceeds were obtained by DLP IV, of which approximately \$16,250,000 was used to fund a reserve account required under the Loan and Security Agreement.

## **ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 2. OF OPERATIONS.**

You should read the following discussion in conjunction with the consolidated financial statements and accompanying notes and the information contained in other sections of this 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.

### ***Risk Relating to Forward-Looking Statements***

This report contains forward-looking statements that reflect our current expectations and projections about future events. Actual results could differ materially from those described in these forward-looking statements.

The words “believe,” “could,” “possibly,” “probably,” “anticipate,” “estimate,” “project,” “expect,” “may,” “will,” “should,” “plan” or “consider,” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from such statements.

Such factors include, but are not limited to:

- 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 contracts we purchase;
- our reliance on information provided and obtained by third parties;
- federal, state and FINRA regulatory matters;
- competition in the secondary market of life insurance;
- the relative illiquidity of life insurance contracts;
- our ability to satisfy our debt obligations if we were to sell our entire portfolio of life insurance contracts;
- life insurance company credit exposure;
- cost-of-insurance (premium) increases on our life insurance contracts;
- general economic outlook, including prevailing interest rates;
- performance of our investments in life insurance contracts;
- financing requirements;
- risks associated with our recent entry into the merchant cash advance business;
- litigation risks; and



restrictive covenants contained in borrowing agreements.

We caution you that the foregoing list of factors is not exhaustive. Forward-looking statements are only estimates and predictions, or statements of current intent. Actual results, outcomes or actions that we ultimately undertake, could differ materially from those anticipated in the forward-looking statements due to risks, uncertainties or actual events differing from the assumptions underlying these statements.

### ***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.

## Overview

GWG Holdings, Inc. is a financial services company participating in the life insurance secondary market. We create opportunities for consumers owning life insurance to obtain significant value for their contracts as compared to the traditional options offered by insurance companies. We also create opportunities for investors to participate in the life insurance alternative investment asset class, not correlated to traditional financial markets. In so doing, we enable investors to take advantage of financial opportunities dominated by banks prior to the 2008 credit crisis.

We seek to build a profitable and large portfolio of life insurance assets that are well diversified in terms of insurance companies and insureds. We believe that diversification is a key risk mitigation strategy to provide consistent cash flows and reliable investment returns from our portfolio. To grow our portfolio and achieve diversification, we offer investors the opportunity to participate in the yield potentially generated by our portfolio of life insurance assets through a variety of financings and securities offerings. We believe we are well positioned to continue providing investors with yield participation opportunities from the life insurance alternative asset class.

## 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 valuing our investments in life insurance contracts 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 Contracts—Fair Value Option*

We account for the purchase of life insurance contracts in accordance with 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 all of our life insurance contracts using the fair value method.

The fair value of our life insurance contracts is determined as the net present value of the life insurance portfolio's future expected cash flows (contract benefits received and required premium payments) that incorporates current life expectancy estimates and discount rate assumptions.

We initially record our purchase of life insurance contracts at the transaction price, which is the amount paid for the contract, inclusive of all external fees and costs associated with the acquisition. The fair value of our investment in our portfolio of insurance contracts is evaluated at the end of each subsequent reporting period. Changes in the fair value of our portfolio are based on periodic evaluations and are recorded in our consolidated and combined statement of operations as changes in fair value of life insurance contracts.

#### ***Fair Value Components – Medical Underwriting***

Unobservable inputs, as discussed below, are a critical component of our estimate for the fair value of our investments in life insurance contracts. We currently use a probabilistic method of estimating and valuing the projected cash flows of our portfolio, 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 expected future cash flows to be derived from our portfolio.

The Society of Actuaries recently finalized the 2015 Valuation Basic Table (“2015 VBT”). The 2015 VBT is based on a much larger dataset of insured lives, face amount of contracts and more current information compared to the dataset underlying the 2008 Valuation Basic Table. The new 2015 VBT dataset includes 266 million contracts compared to the 2008 VBT dataset of 75 million. The experience data in the 2015 VBT dataset includes 2.55 million claims on contracts from 51 insurance carriers. Life expectancies implied by the 2015 VBT are generally longer for male and female nonsmokers between the ages of 65 and 80, while smokers and insureds of both genders over the age of 85 have significantly lower life expectancies. We adopted the 2015 VBT in our valuation process in June 2016.

In September 2015, Equitable Life Insurance Company (“AXA”) announced pending cost-of-insurance rate increases for certain universal life contracts which were effected on March 1, 2016. We identified 14 affected contracts in our portfolio. In April 2016, we received updated contract illustrations from AXA and calculated the change in the fair value of our portfolio resulting from the increased premiums to be a reduction of \$2,395,000. This reduction was reflected in our balance sheet as of March 31, 2016. Our review of AXA’s cost-of-insurance rate increases is complete as of September 30, 2016.

We are aware of additional pending cost of insurance increases affecting approximately 1.1% of our portfolio by face amount of benefits. We will adjust our premium schedules and resultant valuation when we have received the required information from the related carriers.

***Fair Value Components – Required Premium Payments***

We must pay the premiums on the life insurance contracts within our portfolio in order to collect the contract benefit. The same probabilistic model and methodologies used to generate expected cash inflows from the life insurance contract benefits over the expected life of the insured are used to estimate cash outflows due to required premium payments. Premiums paid are offset against revenue in the applicable reporting period.

***Fair Value Components – Discount Rate***

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 contract 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*.

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

September 30, 2016	December 31, 2015
11.07%	11.09%

The change in the discount rate incorporates current information about discount rates applied by other reporting companies owning portfolios of life insurance contracts, discount rates observed by us in the life insurance secondary market, market interest rates, 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 contracts. 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 seller nor buyer is compelled to engage in the transaction). The carrying value of contracts 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.

We engaged Model Actuarial Pricing Systems (“MAPS”), to prepare a calculation of our life insurance portfolio. MAPS owns and maintains the portfolio pricing software we use. MAPS processed contract data, future premium data, life expectancy estimate data, and other actuarial information 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 625 contracts to be \$477.6 million and furnished us with a letter documenting its calculation. A copy of such letter is filed as Exhibit 99.1 to this report.

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

Under ASC 740, *Income Taxes*, deferred tax assets and liabilities are recognized 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 deferred tax assets that are not considered 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. After assessing the realization of the net deferred tax assets, we believe that it is “more likely than not” that we will be able to realize all of our deferred tax assets other than those which are expected to result in a capital loss.

### ***Deferred Financing and Issuance Costs***

Financing costs incurred under the senior credit facilities were capitalized and are amortized using the straight-line method over the term of the senior credit facilities. 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, as described in Note 9, was reported net of issuance costs, sales commissions, including the fair value of warrants issued, and other direct expenses, which were amortized using the interest method as interest expense over a three-year redemption period. As of December 31, 2015, these costs have been fully amortized. Selling and issuance costs of RPS and MCA Preferred Stock, described in Notes 10 and 11, are netted against additional paid-in-capital.

### **Principal Revenue and Expense Items**

We earn revenues from the following three primary sources.

*Life Insurance Contract Benefits Realized.* We recognize the difference between the face value of the contract benefits and carrying value when an insured's mortality event occurs. We generally collect the face value of the life insurance contract benefit from the insurance company within 45 days of recognizing the revenue.

*Change in Fair Value of Life Insurance Contracts.* We value our portfolio investments for each reporting period in accordance with the fair value principles discussed herein, which includes the expected payment of premiums for future periods as shown in our consolidated financial statements net premium costs.

*Sale of a Life Insurance Contract.* In the event of a sale of a contract, we recognize gain or loss as the difference between the sale price and the carrying value of the contract 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 our business operations, including operations related to the purchasing and servicing of life insurance contracts. These expenses include salaries and benefits, sales, marketing, occupancy and other expenditures.

*Interest and Dividends.* 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 senior credit facilities, interest paid on our L Bonds and other outstanding indebtedness such as our Series I Secured Notes, and dividends on our Series A and our RPS. When we issue debt, 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, 2016 Compared to the Same Periods in 2015

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.

### Revenue.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue recognized from the receipt of contract benefits	\$4,221,000	\$277,000	\$26,986,000	\$25,909,000
Revenue (expense) recognized from the change in fair value of life insurance contracts, net of premiums and carrying costs (1)	9,289,000	7,912,000	24,621,000	7,538,000
Gain on life insurance contracts, net	\$13,510,000	\$8,189,000	\$51,607,000	\$33,447,000
Number of contracts matured	4	1	16	8
The change in fair value related to new contracts acquired	\$11,668,000	\$7,423,000	\$29,509,000	\$12,546,000

(1) The discount rate applied to estimate the fair value of the portfolio of life insurance contracts we own was 11.07% as of both September 30, 2016 and September 30, 2015. The carrying value of contracts acquired during each quarterly reporting period is adjusted to current fair value using the fair value discount rate applied to the entire portfolio as of that reporting date (see Note 4 to our condensed consolidated financial statements).

### Expenses.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase (Decrease)	2016	2015	Increase
Employee compensation and benefits (1)	\$2,912,000	\$2,308,000	\$604,000	\$8,450,000	\$6,181,000	\$2,269,000
Interest expense (including amortization of deferred financing costs and preferred stock dividends) (2)	11,984,000	8,650,000	3,334,000	32,010,000	23,149,000	8,861,000
	587,000	822,000	(235,000 )	3,097,000	1,988,000	1,109,000



Legal and professional expenses (3)

Other expenses (4)	2,863,000	2,232,000	631,000	7,608,000	5,646,000	1,962,000
Total expenses	\$18,346,000	\$14,012,000	\$4,334,000	\$51,165,000	\$36,964,000	\$14,201,000

- (1) We hired additional members to our sales, marketing, legal and information technology teams. At the end of 2015 we employed approximately 50 employees, and at September 30, 2016 we employed approximately 67 employees.
- (2) The increase in the current period was due to the increase in our average debt outstanding.
- (3) Increase is due to SEC filings and other costs related to securities offerings and on-going compliance.
- (4) Increase is due to increased public relations, sales and marketing costs associated with growing and servicing our network of independent financial advisors.

*Income Tax Expense.*

The following table reconciles our income tax expense at the statutory federal tax rate to our actual income tax expense:

	<b>Three Months Ended</b>		<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>	
	<b>September 30,</b>		<b>2015</b>		<b>2016</b>		<b>2015</b>	
	<b>2016</b>							
Statutory federal income tax (benefit)	\$(1,561,000)	34.0%	\$(1,948,000)	34.0%	\$489,000	34.0%	\$1,117,000	34.0%
State income taxes (benefit), net of federal benefit	(227,000)	4.9%	(334,000)	5.8%	240,000	16.7%	(105,000)	3.2%
Series A preferred stock dividends	354,000	(7.7)%	175,000	(3.1)%	732,000	51.0%	526,000	16.0%
Other permanent differences	15,000	(0.3)%	9,000	(0.1)%	18,000	1.3%	31,000	1.0%
Total income tax expense (benefit)	\$(1,419,000)	30.9%	\$(2,098,000)	36.6%	\$1,479,000	102.9%	\$665,000	20.2%

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 contracts and revenue recognition with respect to the fair value of life insurance portfolio.

The primary permanent difference between our effective tax rate and the statutory federal rate are the accrual of preferred stock dividend expense, state income taxes, and other non-deductible expenses. The dividends charged to interest expense were \$1.0 million and \$0.5 million during the three months ended September 30, 2016 and 2015, respectively, and \$2.2 million and \$1.5 million during the nine months ended September 30, 2016 and 2015, respectively.

**Liquidity and Capital Resources**

We finance our business through a combination of life insurance contract benefit receipts, origination fees, equity offerings, debt offerings, and our senior credit facilities. We have used our debt offerings and our senior credit facilities primarily for contract acquisition, contract servicing, and portfolio-related financing expenditures including paying principal and interest.

As of September 30, 2016 and December 31, 2015, we had approximately \$117.2 million and \$74.4 million, respectively, in combined available cash, cash equivalents, policy benefits receivable, if any, and available borrowing base surplus capacity, if any, under our senior credit facilities for the purpose of purchasing additional life insurance contracts, paying premiums on existing contracts, paying portfolio servicing expenses, and paying principal and interest on our outstanding financing obligations.

### *Debt Financings Summary*

We had the following outstanding debt balances as of September 30, 2016 and December 31, 2015:

Issuer/Borrower	As of September 30, 2016			As of December 31, 2015		
	<b>Principal Amount</b>	<b>Weighted Average</b>		<b>Principal Amount</b>	<b>Weighted Average</b>	
	<b>Outstanding</b>	<b>Interest Rate</b>		<b>Outstanding</b>	<b>Interest Rate</b>	
GWG Holdings, Inc. – L Bonds	\$384,586,000	7.16	%	\$282,171,000	7.18	%
GWG Life, LLC – Series I Secured Notes	17,830,000	8.63	%	23,578,000	8.47	%
Credit Facility – Autobahn Funding Company LLC (See Note 5 to our consolidated financial statements)	-	-		65,011,000	5.58	%
Credit Facility – LNV Corporation (See Note 6 to our consolidated financial statements)	71,250,000	6.45	%	-	-	
<b>Total</b>	<b>\$473,666,000</b>	<b>7.10</b>	<b>%</b>	<b>\$370,760,000</b>	<b>6.98</b>	<b>%</b>

Our total senior credit facilities and other indebtedness balance as of September 30, 2016 and December 31, 2015 was \$473.7 million and \$370.8 million, respectively. At September 30, 2016, the total outstanding face amount of our Series I Secured Notes outstanding was \$17.8 million, less unamortized selling costs of \$0.3 million, resulting in a carrying amount of \$17.5 million. At December 31, 2015, the total outstanding face amount of our Series I Secured Notes outstanding was \$23.6 million, less unamortized selling costs of \$0.3 million, resulting in a carrying amount of \$23.3 million. At September 30, 2016, the total outstanding face amount of L Bonds was \$384.6 million plus \$6.9 million of subscriptions in process, less unamortized selling costs of \$11.6 million resulting in a carrying amount of \$379.9 million. At December 31, 2015, the total outstanding face amount of L Bonds was \$282.2 million plus \$3.0 million of subscriptions in process, less unamortized selling costs of \$8.2 million resulting in a carrying amount of \$277.0 million.

The weighted-average interest rate of our outstanding Series I Secured Notes as of September 30, 2016 and December 31, 2015 was 8.63% and 8.47%, respectively, and the weighted-average maturity at those dates was 1.31 and 1.06 years, respectively. The Series I Secured Notes have renewal features. Since we first issued our Series I Secured Notes, we experienced \$165.1 million in maturities, of which \$125.0 million renewed for an additional term as of September 30, 2016. This provided us with an aggregate renewal rate of approximately 76% for investments in these securities. Effective September 1, 2016, we no longer renew the Series I Secured Notes.

The weighted-average interest rate of our outstanding L Bonds as of September 30, 2016 and December 31, 2015 was 7.16% and 7.18%, respectively, and the weighted-average maturity at those dates was 2.10 and 2.02 years, respectively. Our L Bonds have renewal features. As of September 30, 2016, \$252.4 million in aggregate principal amount of our L Bonds had matured since issuance, of which \$168.3 million renewed for an additional term. The aggregate renewal rate is approximately 67% for investments in these securities.

Future contractual maturities of Series I Secured Notes and L Bonds at December 31, 2016 are:

Years Ending December 31,	Series I Secured Notes	L Bonds	Total
2016	\$1,177,000	\$23,548,000	\$24,725,000
2017	10,522,000	112,987,000	123,509,000
2018	2,401,000	101,130,000	103,531,000
2019	1,023,000	78,098,000	79,121,000
2020	1,766,000	19,291,000	21,057,000
Thereafter	941,000	49,532,000	50,473,000
	\$17,830,000	\$384,586,000	\$402,416,000

The L Bonds and Series I Secured Notes are secured by all of our assets, and are subordinate to our senior credit facilities. 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 7 and 8 to our consolidated financial statements).

We maintain a \$105 million revolving senior credit facility with Autobahn/DZ Bank through DLP III. The revolving senior credit facility is used to pay the premium expenses related to our portfolio of life insurance contracts. As of September 30, 2016 and December 31, 2015, we had approximately \$0 million and \$65.0 million, respectively, outstanding under the revolving senior credit facility, and maintained an available borrowing base surplus of \$76.6 million and \$40.0 million, respectively.

On September 14, 2016, we entered into a \$172 million senior secured term loan with LNV Corp. through GWG Funding DLP IV. We intend to use the proceeds from this facility primarily to grow and maintain our portfolio of life insurance contracts, for liquidity and for general corporate purposes. As of September 30, 2016 we had approximately \$71.2 million outstanding under the senior credit facility.

Capital expenditures have historically not been material and we do not anticipate making material capital expenditures in 2016 or beyond.

### ***Corporate Financing History***

In November 2009, our wholly owned subsidiary GWG Life offered Series I Secured Notes in a private placement to accredited investors only. This offering was closed in November 2011. As of September 30, 2016 and December 31, 2015, we had approximately \$17.8 million and \$23.6 million, respectively, in principal amount of Series I Secured Notes outstanding.

In September 2011, we concluded a private placement offering of Series A, having received an aggregate \$24.6 million in subscriptions for our Series A. These subscriptions consisted of \$14.0 million in conversions of outstanding Series I Secured Notes and \$10.6 million of new investments. As of September 30, 2016 and December 31, 2015, respectively, we had approximately \$19.8 million and \$20.8 million stated value of Series A outstanding.

In January 2012, we began publicly offering up to \$250.0 million in debt securities (initially named “Renewable Secured Debentures” and subsequently renamed “L Bonds”) that was completed in January 2015.

In September 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.

In January 2015, we began publicly offering up to \$1.0 billion of L Bonds as a follow-on offering to our earlier \$250.0 million public debt offering. Through September 30, 2016, the total amount of these L Bonds sold, including renewals, was \$637.1 million. As of September 30, 2016 and December 31, 2015, respectively, we had approximately \$384.6 million and \$282.2 million, respectively, in principal amount of L Bonds outstanding.

In October 2015, we began publicly offering up to 100,000 shares of our RPS at a per-share price of \$1,000. As of September 30, 2016 we had issued approximately \$33.2 million stated value of RPS.

### ***Portfolio Assets and Secured Indebtedness***

At September 30, 2016, the fair value of our investments in life insurance contracts of \$477.6 million plus our cash balance of \$18.8 million, our restricted cash balance of \$15.7 million and our life insurance contract benefits receivable of \$6.1 million, totaled \$518.2 million, representing an excess of portfolio assets over secured indebtedness of \$44.5 million. At December 31, 2015, the fair value of our investments in life insurance contracts of \$356.6 million plus our cash balance of \$34.4 million and our restricted cash balance of \$2.3 million, totaled \$393.3 million, representing an excess of portfolio assets over secured indebtedness of \$22.5 million. The L Bonds and Series I Secured Notes are secured by all of our assets and are subordinate to our senior credit facilities. 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.

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, 2016. In all cases, the sale of the life insurance assets owned by DLP III and DLP IV will be used first to satisfy all amounts owing under the respective senior credit facilities. The net sale proceeds remaining after satisfying all obligations under the senior credit facilities would be applied to L Bonds and Series I Secured Notes on a pari passu basis.

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Portfolio Discount Rate	10%	11%	12%	13%	14%
Value of portfolio	\$503,331,000	\$479,200,000	\$456,979,000	\$436,470,000	\$417,501,000
Cash, cash equivalents and life insurance contract benefits receivable	40,591,000	40,591,000	40,591,000	40,591,000	40,591,000
Total assets	543,922,000	519,791,000	497,570,000	477,061,000	458,092,000
Revolving senior credit facility	71,250,000	71,250,000	71,250,000	71,250,000	71,250,000
Net after revolving senior credit facility	472,672,000	448,541,000	426,320,000	405,811,000	386,842,000
Series I Secured Notes and L Bonds	402,416,000	402,416,000	402,416,000	402,416,000	402,416,000
Net after Series I Secured Notes and L Bonds	70,256,000	46,125,000	23,904,000	3,395,000	(15,574,000 )
Impairment to Series I 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 of our life insurance assets at a price equivalent to a discount rate of approximately 13.18% or higher. At December 31, 2015, the impairment occurred at a discount rate of approximately 12.58% or higher. The discount rates used to calculate the fair value of our portfolio were 11.07% and 11.09% as of September 30, 2016 and December 31, 2015, 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 report, including our discussion of discount rates included under the "Critical Accounting Policies — Fair Value Components – Discount Rate" caption above. This discussion and analysis is based on the beliefs of our management, as well as significant assumptions made by, and information currently available to, our management.

## Cash Flows

The payment of premiums and servicing costs to maintain life insurance contracts represents our most significant requirement for cash disbursement. When a contract is purchased, we are able to calculate the minimum premium payments required to maintain the contract in-force. As the insured ages, premium payments increase (see Note 3 to our consolidated financial statements). Nevertheless, the probability of actually needing to pay the premiums decreases as the probability of mortality increases. These scheduled premiums and associated probabilities are factored into our expected internal rate of return and cash-flow modeling. Beyond premiums, we incur contract servicing costs, including annual trustee, tracking costs, and debt servicing costs, including principal and interest payments, all of which are excluded from our internal rate of return calculations. Until we receive a stable amount of proceeds from the contract benefits, we intend to pay these costs from our senior credit facilities, when permitted, and through the issuance of debt securities, including the L Bonds, and equity securities including our RPS.

The amount of payments for anticipated premiums and servicing costs (excluding debt 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.

Years Ending December 31,	Premiums	Servicing	Premiums and Servicing Fees
Three months ending December 31, 2016	\$ 10,449,000	\$ 188,000	\$ 10,637,000
2017	43,155,000	750,000	43,905,000
2018	46,847,000	750,000	47,597,000
2019	50,813,000	750,000	51,563,000
2020	56,633,000	750,000	57,383,000
2021	63,222,000	750,000	63,972,000
	\$ 271,119,000	\$ 3,938,000	\$ 275,057,000

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

Quarter End Date	Portfolio	12-Month	12-Month	12-Month
	Face Amount	Trailing	Trailing	Trailing
		Benefits	Premiums	Benefits/
		Collected	Paid	Premium



**Coverage  
Ratio**

December 31, 2013	740,648,000	16,600,000	21,733,000	76.4	%
March 31, 2014	771,940,000	12,600,000	21,930,000	57.5	%
June 30, 2014	784,652,000	6,300,000	22,598,000	27.9	%
September 30, 2014	787,964,000	4,300,000	23,121,000	18.6	%
December 31, 2014	779,099,000	18,050,000	23,265,000	77.6	%
March 31, 2015	754,942,000	46,675,000	23,786,000	196.2	%
June 30, 2015	806,274,000	47,125,000	24,348,000	193.6	%
September 30, 2015	878,882,000	44,482,000	25,313,000	175.7	%
December 31, 2015	944,844,000	31,232,000	26,650,000	117.2	%
March 31, 2016	1,027,821,000	21,845,000	28,771,000	75.9	%
June 30, 2016	1,154,798,000	30,924,000	31,891,000	97.0	%
September 30, 2016	1,272,078,000	35,867,000	37,055,000	96.8	%

We believe that the portfolio cash flow results set forth above are consistent with our general investment thesis: that the life insurance contract 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 contracts. As our receipt of life insurance contract benefits increases, we expect to increasingly use these cash flows to begin paying down our outstanding indebtedness and purchase additional life insurance contracts.

## **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 is party to an office lease with U.S. Bank National Association as the landlord. Effective September 1, 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 17,687 square feet and extends the lease expiration date by approximately ten years (see Note 16 to our consolidated financial statements).

## **Credit Risk**

We review the credit risk associated with our portfolio of life insurance contracts when estimating its fair value. In evaluating the contracts' 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 contracts by generally purchasing life insurance contracts issued only from companies with an investment-grade credit rating by Standard & Poor's, Moody's, or A.M. Best Company. See "Portfolio Credit Risk Management" below.

## **Interest Rate Risk**

Our senior credit facilities are floating-rate financing. In addition, our ability to offer interest rates that attract capital (including in our continuous offering 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, rising interest rates could materially 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 contracts.

## Non-GAAP Financial Measures

Non-GAAP financial measures disclosed by management are provided as additional information to investors in order to provide 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. Please see our financial statements and related notes contained herein.

We use non-GAAP financial measures for maintaining compliance with covenants contained in our borrowing agreements and for planning and forecasting purposes. The application of current GAAP standards during a period of significant growth in our business, in which period we are building a large and actuarially diverse portfolio of life insurance, results in current period operating performance that may not be reflective of our long-term earnings potential. Management believes that our non-GAAP financial measures permit investors to better focus on this long-term earnings performance without regard to the volatility in GAAP financial results that can occur during this phase of growth.

Therefore, in contrast to a GAAP fair valuation (mark-to-market), we seek to measure the accrual of the actuarial gain occurring within the portfolio of life insurance contracts at our expected internal rate of return based on statistical mortality probabilities for the insureds (using primarily the insured's age, sex, health and smoking status). The expected internal rate of return tracks actuarial gain occurring within the contracts according to a mortality table as the insureds' age increases. By comparing the actuarial gain accruing within our portfolio of life insurance contracts against our adjusted 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 contract 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 could have a disproportionately positive or negative impact on GAAP results in any particular period.

Our senior credit facility with Autobahn/DZ Bank requires us to maintain a “positive net income” and “tangible net worth,” each of which are calculated on an adjusted non-GAAP basis using the method described above, without regard to GAAP-based fair value measures. In addition, our revolving senior credit facility with Autobahn/DZ Bank 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 contracts and (ii) the weighted average of our senior 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, the Indenture governing our L Bonds and the note issuance and security agreement governing our 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 contracts is able to adequately service our total outstanding indebtedness. This ratio is calculated using non-GAAP measures in the method described below, again without regard to GAAP-based fair value measures.

*Adjusted Non-GAAP Net Income.* Our senior credit facility with Autobahn/DZ Bank 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 contracts at the expected internal rate of return of the contracts we own without regard to fair value. We net this actuarial gain against our adjusted costs during the same period to calculate our net income on a non-GAAP basis.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	2016	2015	2016	2015
GAAP net income (loss)	\$(2,997,000 )	\$(3,631,000 )	\$(42,000 )	\$(2,620,000 )
Unrealized fair value gain (1)	(21,073,000)	(14,517,000)	(53,846,000)	(26,651,000)
Adjusted cost basis increase (2)	19,948,000	13,345,000	51,689,000	37,988,000
Accrual of unrealized actuarial gain (3)	11,769,000	9,201,000	29,339,000	21,417,000
Total adjusted non-GAAP net income (4)	\$7,647,000	\$4,398,000	\$27,140,000	\$30,134,000

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

(2) Adjusted cost basis is increased to include interest, premiums and servicing fees which are not capitalized under GAAP (non-GAAP cost basis).

(3) Accrual of actuarial gain at expected internal rate of return based on the non-GAAP 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 Autobahn/DZ Bank.

*Adjusted Non-GAAP Tangible Net Worth.* Our revolving senior credit facility with Autobahn/DZ Bank 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 contracts at the

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expected internal rate of return of the contracts we own without regard to fair value. We net this actuarial gain against our adjusted costs during the same period to calculate our tangible net worth on a non-GAAP basis.

	As of September 31, 2016	As of December 31, 2015
GAAP net worth	\$46,345,000	\$16,145,000
Less intangible assets (1)	(20,320,000 )	(11,562,000 )
GAAP tangible net worth	26,025,000	4,583,000
Unrealized fair value gain (2)	(247,889,000 )	(194,043,000 )
Adjusted cost basis increase (3)	230,532,000	190,645,000
Accrual of unrealized actuarial gain (4)		