

GWG Holdings, Inc.
Form 10-Q
November 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-36615

GWG HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware **26-2222607**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

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

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As of November 12, 2015, GWG Holdings, Inc. had 5,941,790 shares of common stock outstanding.

GWG HOLDINGS, INC.

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PART I—FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****GWG HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

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

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

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

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

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

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,745,516)	6,452,034	(2,210,031)	(3,937,804)
CASH AND CASH EQUIVALENTS				
BEGINNING OF PERIOD	38,198,189	23,059,955	30,662,704	33,449,793
END OF PERIOD	\$28,452,673	\$29,511,989	\$28,452,673	\$29,511,989

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

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

(unaudited)

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

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

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Preferred Stock	Preferred	Common	Common Stock	Additional
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