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\$

1,000,000

M

72

46

John Hancock Life Insurance Company (U.S.A.)

AA-

723

\$

5,000,000

M

72

104

John Hancock Life Insurance Company (U.S.A.)

AA-

724

\$

5,000,000

M

72

104

John Hancock Life Insurance Company (U.S.A.)

AA-

725

\$

202,700

M

72

107

Farmers New World Life Insurance Company

N/A

44

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	Face Amount	Gender	Age (ALB) ⁽¹⁾	LE (mo.) ⁽²⁾	Insurance Company	S&P Rating
726	\$ 5,000,000	M	72	141	Metropolitan Life Insurance Company	AA-
727	\$ 385,741	M	71	90	Security Life of Denver Insurance Company	A
728	\$ 250,000	F	71	111	Ohio National Life Assurance Corporation	A+
729	\$ 57,500	M	71	84	Lincoln National Life Insurance Company	AA-
730	\$ 650,000	M	71	125	Protective Life Insurance Company	AA-
731	\$ 1,000,000	M	71	159	Protective Life Insurance Company	AA-
732	\$ 2,000,000	M	71	161	John Hancock Life Insurance Company (U.S.A.)	AA-
733	\$ 1,000,000	M	71	146	Transamerica Life Insurance Company	AA-
734	\$ 400,000	M	71	150	Lincoln National Life Insurance Company	AA-
735	\$ 100,000	M	71	91	Massachusetts Mutual Life Insurance Company	AA+
736	\$ 5,000,000	M	71	123	John Hancock Life Insurance Company (U.S.A.)	AA-
737	\$ 4,000,000	M	71	123	AXA Equitable Life Insurance Company	A+
738	\$ 92,000	F	71	188	Protective Life Insurance Company	AA-
739	\$ 2,000,000	M	71	149	Hartford Life and Annuity Insurance Company	BBB+
740	\$ 1,000,000	M	71	87	Protective Life Insurance Company	AA-
741	\$ 800,000	M	71	109	National Life Insurance Company	A+
742	\$ 175,000	F	71	101	Lincoln National Life Insurance Company	AA-
743	\$ 1,500,000	M	71	63	Lincoln National Life Insurance Company	AA-
744	\$ 500,000	M	71	151	Protective Life Insurance Company	AA-
745	\$ 250,000	M	71	173	Lincoln National Life Insurance Company	AA-
746	\$ 1,500,000	M	71	96	Midland National Life Insurance Company	A+
747	\$ 500,000	M	71	101	Lincoln Benefit Life Company	BBB+
748	\$ 700,000	M	71	107	Massachusetts Mutual Life Insurance Company	AA+
749	\$ 500,000	M	71	150	Lincoln National Life Insurance Company	AA-
750	\$ 750,000	M	71	140	USAA Life Insurance Company	AA+
751	\$ 3,000,000	M	70	144	Guardian Life Insurance Company of America	AA+
752	\$ 750,000	M	70	124	North American Company for Life And Health Insurance	A+
753	\$ 100,000	F	70	154	North American Company for Life and Health Insurance	A+
754	\$ 300,000	M	70	98	Farmers New World Life Insurance Company	N/A
755	\$ 1,532,043	M	70	142	John Hancock Life Insurance Company (U.S.A.)	AA-
756	\$ 1,000,000	M	70	176	AXA Equitable Life Insurance Company	A+
757	\$ 1,200,000	M	70	116	Massachusetts Mutual Life Insurance Company	AA+
758	\$ 2,500,000	M	70	150	Pruco Life Insurance Company	AA-
759	\$ 2,500,000	M	70	150	Pruco Life Insurance Company	AA-
760	\$ 1,000,000	M	70	78	AXA Equitable Life Insurance Company	A+
761	\$ 4,000,000	M	70	123	MetLife Insurance Company USA	A+
762	\$ 500,000	M	70	36	Voya Retirement Insurance and Annuity Company	A
763	\$ 1,000,000	M	70	78	Protective Life Insurance Company	AA-
764	\$ 200,000	M	70	169	Protective Life Insurance Company	AA-
765	\$ 2,000,000	M	70	104	Transamerica Life Insurance Company	AA-
766	\$ 1,000,000	M	70	104	Genworth Life Insurance Company	BB-
767	\$ 250,000	F	70	147	Protective Life Insurance Company	AA-
768	\$ 13,250,000	M	70	196	TIAA-CREF Life Insurance Company	AA+
769	\$ 1,000,000	M	70	152	Accordia Life and Annuity Company	A-
770	\$ 500,000	M	70	110	Lincoln National Life Insurance Company	AA-
771	\$ 1,000,000	M	70	54	Protective Life Insurance Company	AA-

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772	\$	1,000,000	M	70	121	Transamerica Life Insurance Company	AA-
773	\$	1,000,000	M	70	121	Protective Life Insurance Company	AA-
774	\$	156,538	F	70	98	New York Life Insurance Company	AA+

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	Face Amount	Gender	Age (ALB) ⁽¹⁾	LE (mo.) ⁽²⁾	Insurance Company	S&P Rating
775	\$ 2,000,000	M	70	72	Metropolitan Life Insurance Company	AA-
776	\$ 2,000,000	M	70	72	Metropolitan Life Insurance Company	AA-
777	\$ 1,000,000	M	70	142	John Hancock Life Insurance Company (U.S.A.)	AA-
778	\$ 400,000	F	70	131	AXA Equitable Life Insurance Company	A+
779	\$ 500,000	M	70	139	United of Omaha Life Insurance Company	AA-
780	\$ 1,000,000	M	70	139	Lincoln Benefit Life Company	BBB+
781	\$ 300,000	M	70	84	Protective Life Insurance Company	AA-
782	\$ 1,000,000	M	69	37	AXA Equitable Life Insurance Company	A+
783	\$ 250,000	M	69	139	State Farm Life Insurance Company	AA
784	\$ 200,000	M	69	139	State Farm Life Insurance Company	AA
785	\$ 1,000,000	M	69	128	Transamerica Life Insurance Company	AA-
786	\$ 1,000,000	M	69	150	Lincoln National Life Insurance Company	AA-
787	\$ 250,000	F	69	65	Transamerica Life Insurance Company	AA-
788	\$ 3,000,000	M	69	138	Genworth Life Insurance Company	BB-
789	\$ 1,200,000	M	69	138	Genworth Life Insurance Company	BB-
790	\$ 750,000	M	69	151	Northwestern Mutual Life Insurance Company	AA+
791	\$ 300,000	M	69	93	Lincoln National Life Insurance Company	AA-
792	\$ 2,000,000	M	69	162	John Hancock Life Insurance Company (U.S.A.)	AA-
793	\$ 150,000	M	69	108	Protective Life Insurance Company	AA-
794	\$ 3,000,000	M	69	136	Transamerica Life Insurance Company	AA-
795	\$ 600,000	M	69	78	William Penn Life Insurance Company of New York	AA-
796	\$ 219,686	M	69	86	Sunset Life Insurance Company of America	N/A
797	\$ 100,000	M	69	113	Phoenix Life Insurance Company	BB
798	\$ 5,616,468	M	69	172	John Hancock Life Insurance Company (U.S.A.)	AA-
799	\$ 4,383,532	M	69	172	John Hancock Life Insurance Company (U.S.A.)	AA-
800	\$ 560,000	M	69	106	AXA Equitable Life Insurance Company	A+
801	\$ 1,100,000	M	69	144	John Hancock Life Insurance Company (U.S.A.)	AA-
802	\$ 3,000,000	M	69	182	John Hancock Life Insurance Company (U.S.A.)	AA-
803	\$ 400,000	M	68	180	Lincoln National Life Insurance Company	AA-
804	\$ 3,000,000	M	68	92	Reliastar Life Insurance Company	A
805	\$ 2,000,000	M	68	92	AXA Equitable Life Insurance Company	A+
806	\$ 2,000,000	M	68	92	AXA Equitable Life Insurance Company	A+
807	\$ 1,000,000	M	68	42	Lincoln National Life Insurance Company	AA-
808	\$ 1,000,000	M	68	86	Transamerica Life Insurance Company	AA-
809	\$ 350,000	F	68	77	Assurity Life Insurance Company	N/A
810	\$ 5,000,000	M	68	95	Athene Annuity & Life Assurance Company	A-
811	\$ 1,000,000	M	68	138	Sun Life Assurance Company of Canada (U.S.)	AA-
812	\$ 900,000	M	68	170	American General Life Insurance Company	A+
813	\$ 846,510	M	68	119	Lincoln National Life Insurance Company	AA-
814	\$ 846,210	M	68	119	Lincoln National Life Insurance Company	AA-
815	\$ 5,000,000	M	68	111	Lincoln National Life Insurance Company	AA-
816	\$ 229,725	F	68	97	Hartford Life and Annuity Insurance Company	BBB+
817	\$ 492,547	M	68	88	AXA Equitable Life Insurance Company	A+
818	\$ 105,798	F	68	124	Lincoln Benefit Life Company	BBB+
819	\$ 67,602	F	68	124	Allstate Life Insurance Company of New York	A+
820	\$ 320,581	M	68	19	American General Life Insurance Company	A+
821	\$ 1,000,000	M	68	79	The Savings Bank Life Insurance Company of Massachusetts	A-

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822	\$	320,000	M	68	151	Transamerica Life Insurance Company	AA-
823	\$	250,000	M	68	153	Pruco Life Insurance Company	AA-
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	Face Amount	Gender	Age (ALB) ⁽¹⁾	LE (mo.) ⁽²⁾	Insurance Company	S&P Rating
824	\$ 250,000	M	68	188	Zurich Life Insurance Company	A
825	\$ 650,000	M	68	175	Lincoln National Life Insurance Company	AA-
826	\$ 750,000	M	67	76	Massachusetts Mutual Life Insurance Company	AA+
827	\$ 1,000,000	M	67	105	Prudential Insurance Company of America	AA-
828	\$ 400,000	M	67	122	Jackson National Life Insurance Company	AA
829	\$ 1,500,000	M	67	144	John Hancock Life Insurance Company (U.S.A.)	AA-
830	\$ 500,000	F	67	161	Banner Life Insurance Company	AA-
831	\$ 350,000	M	67	89	RiverSource Life Insurance Company	AA-
832	\$ 250,000	M	67	152	AIG Life Insurance Company	A+
833	\$ 989,361	M	67	140	General American Life Insurance Company	AA-
834	\$ 200,000	M	67	153	Prudential Insurance Company of America	AA-
835	\$ 200,000	M	67	153	Prudential Insurance Company of America	AA-
836	\$ 750,000	M	67	119	Pacific Life Insurance Company	AA-
837	\$ 500,000	F	67	122	AIG Life Insurance Company	A+
838	\$ 500,000	M	66	140	Protective Life Insurance Company	AA-
839	\$ 250,000	M	66	138	Conseco Life Insurance Company	N/A
840	\$ 2,000,000	F	66	165	Metropolitan Life Insurance Company	AA-
841	\$ 250,000	F	66	168	Principal Life Insurance Company	A+
842	\$ 500,000	M	66	67	Transamerica Life Insurance Company	AA-
843	\$ 265,000	M	66	149	Protective Life Insurance Company	AA-
844	\$ 350,000	M	66	113	Hartford Life and Annuity Insurance Company	BBB+
845	\$ 3,500,000	M	66	189	Prudential Insurance Company of America	AA-
846	\$ 250,000	M	66	110	Transamerica Life Insurance Company	AA-
847	\$ 10,000,000	M	66	56	Lincoln National Life Insurance Company	AA-
848	\$ 540,000	M	66	162	West Coast Life Insurance Company	AA-
849	\$ 1,000,000	M	65	172	John Hancock Life Insurance Company (U.S.A.)	AA-
850	\$ 150,000	M	60	88	Jackson National Life Insurance Company	AA
	\$ 1,622,627,412					

(1) Age Last Birthday - the insured's age is current as of the measurement date.

(2) The insured's life expectancy estimate, other than for a small face value insurance policy (i.e., a policy with \$1 million in face value benefits or less), is the average of two life expectancy estimates provided by independent third-party medical-actuarial underwriting firms at the time of purchase, actuarially adjusted through the measurement date. Numbers in this column represent months.

Competition

We encounter significant competition from numerous companies in the life insurance secondary market, including hedge funds, investment banks, secured lenders, specialty life insurance finance companies and life insurance companies. Many of these competitors have greater financial and other resources than we do and may have significantly lower cost of funds because they have greater access to insured deposits or the capital markets. Moreover, some of these competitors have significant cash reserves and can better fund shortfalls in collections that might have a more pronounced impact on companies such as ours. They may also have greater market share. In the

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event that better-financed life insurance companies make a significant effort to compete against our business or the secondary market in general, we would experience significant challenges with our business model.

Competition can take many forms, including the pricing of the financing, transaction structuring, timeliness and responsiveness in processing a seller's application, and customer service. Some competitors may outperform us in these areas. Some competitors target the same type of life insurance clients as we do and generally have operated in the markets we service for a longer period of time. Increased competition may result in increased costs of purchasing policies or may affect the availability and quality of policies that are available for our purchase. These factors could adversely affect our profitability by reducing our return on investment or increasing our risk.

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As we enter new markets, we expect to experience significant competition from incumbent market participants. Our ability to compete in these markets will be dependent upon our ability to deliver value-added products and services to the customers we serve. Even still, our competitors in these markets may have greater financial, market share and other resources than we do. These factors could adversely affect our profitability by reducing our return on investment or increasing our risk as we enter these markets.

Government Regulation

Our business is highly regulated at the state level with respect to life insurance assets, and at the federal level with respect to the issuance of securities. At the state level, states generally subject us to laws and regulations requiring us to obtain specific licenses or approvals to purchase or issue life insurance policies in those states. State statutes typically provide state regulatory agencies with significant powers to interpret, administer and enforce the laws relating to the life insurance industry. Under this authority, state regulators have broad discretionary power and may impose new licensing and other requirements, and interpret or enforce existing regulatory requirements in new and different ways. Any of these new requirements, interpretations or enforcement directives could be adverse to our industry, even in a material way. Furthermore, because the life insurance secondary market is relatively new and because of the history of certain abuses in the industry, we believe it is likely that state regulation will increase and grow more complex in the foreseeable future. We cannot, however, predict what any new regulation would specifically involve or how it might affect our industry or our business.

State regulation more generally affecting life insurance assets (and not necessarily directed at the life insurance secondary market itself) may also affect our industry and business in negative ways. For example, we are aware of recent legislative efforts in some states to mandate the sale or liquidation of life insurance policies as a precondition to eligibility for health care under the Patient Protection and Affordable Care Act. These kinds of laws, if passed, may adversely affect the number of life insurance policies available for purchase.

Although the federal laws and regulations do not directly affect life insurance, in some cases the purchase of a variable life insurance policy may constitute a transaction involving a “security” that is governed by federal securities laws. While we presently hold few variable life insurance policies, our holding of a significant amount of such policies in the future could cause our company or one of our subsidiaries to be characterized as an “investment company” under the federal Investment Company Act of 1940. The application of that law to all or part of our businesses — whether due to our purchase of life insurance policies or to the expansion of the definition of “securities” under federal securities laws — could require us to comply with detailed and complex regulatory requirements, and cause us to fall out of compliance with certain covenants under our senior credit facility. Such an outcome could negatively affect our liquidity and increase our cost of capital and operational expenses, all of which would adversely affect our operating results. It is possible that such an outcome could even threaten the viability of our business and our ability to satisfy our obligations as they come due.

We hold licenses to purchase life insurance policies in 37 states and can also purchase in the eight unregulated states. At times, we may work with licensed entities to purchase a policy in a state where we are not licensed.

Health Insurance Portability and Accountability Act (HIPAA)

HIPAA requires that holders of medical records maintain such records and implement procedures designed to assure the privacy of patient records. In order to carry out our business, we receive medical records and obtain a release to share such records with a defined group of persons, take on the responsibility for preserving the privacy of that information, and use the information only for purposes related to the life insurance policies we own.

The Genetic Information Nondiscrimination Act of 2008 (GINA)

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GINA is a federal law that protects people from genetic discrimination in health insurance and employment. GINA prohibits health insurers from: (i) requesting, requiring, or using genetic information to make decisions about eligibility for health insurance; or (ii) making decisions on the health insurance premium, contribution amounts, or coverage terms they offer to consumers. This means it is against the law for health insurance companies to use a genetic test result or family health history to deny health insurance, or to decide how much to charge for health insurance. In addition, GINA makes it against the law for health insurers to consider family history or a genetic test result, a pre-existing condition, require a genetic test, or use any genetic information, to discriminate coverage, even if the health insurance company did not mean to collect such genetic information.

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GINA does not apply to the life insurance, long-term care or annuity industries. The life insurance, long-term care or annuity industries are founded on medical-evidenced underwriting principles in which specific medical conditions are taken into account when assessing and pricing risk. The regulation of genomic data is relatively new, and we believe it is likely that regulation will increase and grow more complex in the foreseeable future. We cannot, however, predict what any new law or regulation would specifically involve or how it might affect our industry, our business, or our future plans.

Employees

We employ approximately 76 employees.

Properties

Our principal executive offices are located at 220 South Sixth Street, Suite 1200, Minneapolis, Minnesota 55402. At that location, we lease 17,687 square feet of space for a lease term expiring in 2025. We believe that these facilities are adequate for our current needs and that suitable additional space will be available as needed.

Company Website Access and SEC Filings

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934 are filed with the SEC. We are subject to the informational requirements of the Securities Exchange Act of 1934 and file or furnish reports, proxy statements and other information with the SEC.

Our general website address is www.gwgh.com. Our website has a wealth of information about our company, its mission, and our specialty finance business. Our website also has tools that could be used by our potential clients, financial advisors and investors alike.

DESCRIPTION OF THE L BONDS

General

The L Bonds are secured obligations of GWG Holdings. The L Bonds will be issued under the amended and restated indenture between us and Bank of Utah as the indenture trustee, dated October 23, 2017, which amends and restates the original indenture dated October 19, 2011 and as may be amended or supplemented from time to time (referred to herein as the “indenture”). The terms and conditions of the L Bonds include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939. The following is a summary of the material provisions of the indenture. For a complete understanding of the L Bonds, you should review the definitive terms and conditions contained in the indenture, which include definitions of certain terms used below. A copy of the indenture has been filed with the SEC as an exhibit to the registration statement of which this prospectus is a part, and is available from us at no charge upon request.

The following is a summary of the material terms associated with the L Bonds:

- The L Bonds are general secured obligations of GWG Holdings. The obligations are secured by a grant of a security interest in all of the assets of GWG Holdings, which assets will serve as collateral for our obligations under the L Bonds. This grant of a security interest is effected pursuant to a pledge and security agreement attached to the indenture.
- The L Bonds are fully and unconditionally guaranteed by our wholly owned direct subsidiary, GWG Life, but otherwise are not guaranteed by any other person or entity. The guarantee is backed by a grant of a security interest in all of the assets of GWG Life, which assets will serve as additional collateral for our obligations under the L Bonds. Chief among these assets is GWG Life’s ownership interest in DLP IV. This guarantee is effected pursuant to provisions contained in the indenture.
- The L Bonds are also secured by a pledge of the equity ownership interests in GWG Holdings beneficially owned by its principal stockholders — Jon R. Sabes and Steven F. Sabes — which pledge is effected pursuant to a pledge and security agreement attached to the indenture.
- Through DLP IV, we are party to a \$172.3 million senior credit facility with LNV/CLMG. The amount outstanding under this facility was \$212.5 million at September 30, 2017 and \$162.7 million at December 31, 2016. The L Bonds will also be junior to any other senior lending facility we may later obtain.
- The L Bonds are not savings accounts, certificates of deposit (CDs) or other forms of “deposits,” and are not insured by the FDIC or any other governmental agency.
- The L Bonds are not directly secured by any life insurance assets not owned by GWG Life. Substantially all of our life insurance assets are held by DLP IV. Although GWG Life’s equity ownership interest in DLP IV is an asset in which GWG Life has, pursuant to its guarantee, granted a security interest to serve as collateral for obligations under the L Bonds, the payment on such equity interest will be subordinate to the interests of creditors of DLP IV, including our senior creditor LNV/CLMG.
- The L Bonds do not have the benefit of a “sinking fund” for the retirement of principal.
- The L Bonds are not convertible into our capital stock or other securities.
- We have the option to call and redeem the entire outstanding principal balance and accrued but unpaid interest of any L Bonds at any time and without premium or penalty. If we elect to call and redeem your L Bonds, those redeemed L Bonds will cease to accrue interest after the redemption date under the terms and subject to the conditions

of the indenture.

- Except in limited circumstances (death, bankruptcy or total permanent disability), L Bond holders will have no right to require us to redeem any L Bond prior to its maturity date. Any early redemption will be for the total outstanding principal balance and accrued but unpaid interest. If we in our sole discretion nonetheless elect to accommodate a redemption request, we will redeem the entire (but not less than the entire) outstanding principal balance and accrued but unpaid interest of the L Bonds and may impose a redemption fee of 6% against the outstanding principal balance of the L Bond redeemed. This fee will be subtracted from the amount paid to you.

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The L Bonds will be represented by “Units,” with each whole Unit representing \$1,000 in principal amount (USD) of L Bonds. Accordingly, L Bond Units will be sold at 100% of their principal face amount. Throughout this prospectus, we refer to L Bond Units simply as “L Bonds.” The minimum investment amount in the L Bonds will be 25 Units, or \$25,000. Above that minimum amount, L Bonds may be purchased in whole Units. Subject to the minimum investment amount, you may select the principal amount and term of the L Bonds (ranging from two to seven years) you would like to purchase when you subscribe. The interest rate of your L Bonds will remain fixed until maturity. Depending on our capital requirements, we may not, however, always offer L Bonds with the particular terms you seek. See “Description of the L Bonds — Interest Rate and Maturity” below.

Upon acceptance of your subscription, we will create an account in a book-entry registration and transfer system for you, and credit the principal amount of your subscription to your account. We will also send you a purchase confirmation that will indicate our acceptance of your subscription. If your subscription is rejected, all funds deposited will be promptly returned to you without any interest. See “— Registration and Exchange” below. Alternatively, you may subscribe for L Bonds as a direct participant with Depository Trust Company (DTC settlement). See “Plan of Distribution — Settlement Procedures” for more information.

Investors whose subscriptions for L Bonds have been accepted and anyone who subsequently acquires L Bonds in a qualified transfer are referred to as “holders” or “registered holders” in this prospectus. We may modify or supplement the terms of the L Bonds described in this prospectus from time to time in a supplement to the indenture and a supplement to this prospectus. Except as set forth under “— Amendment, Supplement and Waiver” below, any modification or amendment will not affect L Bonds outstanding at the time of such modification or amendment.

The L Bonds are transferable pursuant to the terms of the indenture. The L Bonds may be transferred or exchanged for other L Bonds of the same series and class of a like aggregate principal amount (i.e., the same number of Units) subject to limitations contained in the indenture. We will not charge a fee for any registration, transfer or exchange of L Bonds. However, we may require the holder to pay any tax, assessment fee, or other governmental charge required in connection with any registration, transfer or exchange of L Bonds. The registered holder of any L Bonds will be treated as the owner of such L Bond Units for all purposes.

Denomination

You may purchase L Bonds in the minimum amount of 25 Units, representing a minimum principal amount of \$25,000, and in any whole Unit amounts in excess thereof. You will determine the exact number of L Bond Units you purchase when you subscribe. You may not cumulate multiple purchases L Bond Units in amounts less than 25 Units to satisfy the 25 Unit minimum requirement. In our discretion, however, we may waive the 25 Unit minimum purchase requirement for any investor.

Term

We may offer L Bonds with the following terms to maturity: two years, three years, five years, and seven years.

You will select the term of the L Bonds you purchase when you subscribe. You may purchase multiple L Bonds with different terms by filling in investment amounts for more than one term on your Subscription Agreement. Nevertheless, during this offering we may not always offer L Bonds with each of the maturity terms outlined above.

The actual maturity date will be on the last day of the month in which the L Bond matures (i.e., the month in which the L Bond’s term ends). For example, if you select a two-year term and your L Bond becomes effective on January 1, 2018, then the actual maturity date will be January 31, 2020. After actual maturity, we will pay all outstanding principal and accrued but unpaid interest on the L Bond no later than the fifth day of the calendar month next following its maturity (or the first business day following the fifth day of such month). So, in the case of an L Bond with a maturity date of January 31, 2020, actual payment will be made on or prior to February 5, 2020 (unless such

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date is not a business day, in which case actual payment will be made on the next business day). The L Bonds do not earn interest after the maturity date or any date set for prepayment.

Should the original L Bond holder (x) no longer be the holder of the L Bond or (y) be unavailable, or a change in payee be necessary, such as in the case of a surviving estate, we may require a copy of the executed assignment to any transferee, or an order from a court or probate commission, as the case may be, in order that we know the principal is returned to the rightful party.

Interest Rate

The rate of interest we will offer to pay on L Bonds at any particular time will vary based upon market conditions, and will be determined by the term to maturity of the L Bonds, our capital requirements and other factors described below. The interest rate on particular L Bonds will be determined at the time of subscription or renewal and then remain fixed for the original or renewal term of the L Bond. We will establish and may change the interest rates payable for L Bonds of various terms and at various investment levels in an interest rate supplement to this prospectus.

We may offer L Bonds that earn incrementally higher interest rates when, at the time they are purchased or renewed, the aggregate principal amount of the L Bond portfolio of the holder increases. If applicable, the interest rates payable at each level of investment will be set forth in an interest rate supplement to this prospectus. We may change the interest rate for any or all maturities to reflect market conditions at any time by supplementing this prospectus. If we change the interest rates, the interest rate on L Bonds issued before the date of the change will not be affected.

Payments on the L Bonds; Paying Agent and Registrar

Investors will have the opportunity to select whether interest on their L Bonds will be paid monthly or annually. For investors using direct settlement with the Company, this selection opportunity will be presented in the Subscription Agreement.

Interest will accrue on the L Bonds at the stated rate from and including the effective date of the L Bond until maturity. The effective date of an L Bond will be as follows:

- If you purchase an L Bond through DTC settlement, the effective date of your L Bond purchase will be the date your subscription is accepted by the Company.
- If you purchase an L Bond through direct settlement with the Company, the effective date of your L Bond purchase will be the following, as applicable: (i) in cases where you pay for your bond via wire transfer directly to us, the first business day of the next calendar month after which we receive the wire; (ii) in cases where you pay for your bond by bank draft directly to us, the first business day of the next calendar month after which we receive the draft; or (iii) in cases where you pay for your bond by personal check, the first business day of the calendar month that is at least five full business days after which we receive the check. In all cases involving direct settlement with the Company, we must also have received and accepted your completed and executed Subscription Agreement.

Interest payments on L Bonds will be paid on the 15th day immediately following the last day of the applicable interest payment period. Interest will be paid without any compounding. The first payment of interest will include interest for the partial period in which the purchase occurred. The indenture provides that all interest will be calculated based on a year with twelve 30-day months.

If you purchase your L Bond Units through direct settlement, we will pay the principal of, and interest on, L Bonds by direct deposit to the account you specify in your Subscription Agreement. We will not accept subscriptions from investors who are not willing to receive their interest payments via direct deposit. If the foregoing payment method is not available, principal and interest payments on the L Bonds will be payable at our principal executive office or at such other place as we may designate for payment purposes. If you purchase your L Bond Units through DTC settlement, our payments of principal and interest will be paid to the depository (DTC) and then be credited to your brokerage or custodial account through the DTC procedures followed by your brokerage firm or custodian. For more information, please see “Registration and Exchange — Global Certificates Deposited with DTC” below.

We will withhold 28% of any interest payable to any investor who has not provided us with a social security number, employer identification number, or other satisfactory equivalent in the Subscription Agreement (or another document) or where the IRS has notified us that backup withholding is otherwise required. Please see “Material Federal Income

Registration and Exchange

The L Bonds that we settle directly will generally be issued in book-entry form, which means that no physical L Bond is created, subject, however, to limited exceptions described in the indenture. The L Bonds settled through DTC settlement will be represented by global certificates deposited with the depository as described below.

Book-Entry Registration

Evidence of your ownership will be provided by written confirmation. As described below, holders may, under certain circumstance described below, opt to receive physical delivery of a certificated security that evidences their L Bonds. Otherwise, the issuance and transfer of L Bonds will be accomplished exclusively through the crediting and debiting of the appropriate accounts in our book-entry registration and transfer system.

The holders of the accounts established upon the purchase or transfer of L Bonds will be deemed to be the owners of the L Bonds under the indenture. The holder of the L Bonds must rely upon the procedures established by the trustee to exercise any rights of a holder of L Bonds under the indenture. We will regularly provide the trustee with information regarding the establishment of new accounts and the transfer of existing accounts.

On or prior to any interest payment date or upon redemption, we will also provide the trustee with information regarding the total amount of any principal and interest due to holders of L Bonds. On each interest payment date, we will credit interest due on each account and direct payments to the holders. We will determine the interest payments to be made to the book-entry accounts and maintain, supervise and review any records relating to book-entry accounts for the L Bonds.

Book-entry notations in the accounts evidencing ownership of the L Bonds are exchangeable for certificated L Bonds only: (i) at the request of the holder, at the end of the Company's next fiscal quarter; or (ii) after the occurrence of an event of default under the indenture, if holders of more than 50% of the aggregate outstanding principal amount of the L Bonds advise the trustee in writing that the continuation of a book-entry system is no longer in the best interests of the holders of L Bonds. In its discretion, the Company may elect to terminate the book-entry system and replace book-entry notations with physical certificates.

Global Certificates Deposited with DTC

L Bonds may be issued in the form fully registered global certificates deposited with, or on behalf of, The Depository Trust Company ("DTC"), New York, NY, and registered in the name of Cede & Co., as nominee of DTC. Unless and until exchanged, in whole or in part, for L Bonds in definitive registered form, a global certificate may not be transferred except as a whole by the depository to a nominee of such depository, by a nominee of such depository to such depository or another nominee of such depository, or by such depository or any nominee of such depository to a successor of such depository or a nominee of such successor.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions, such as transfers and pledges, among its participants in such securities through electronic computerized book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers (including the managing broker-dealer), banks, trust companies, clearing corporations and certain other organizations, some of whom own DTC. Access to DTC's book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

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If available, purchases of L Bonds within the DTC system must be made by or through direct participants, which will receive a credit for the L Bonds on DTC's records. The ownership interest of each beneficial owner of the L Bonds will be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the direct or indirect participants through

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which the beneficial owners entered into the transaction. Transfers of ownership interests in the L Bonds are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners.

To facilitate subsequent transfers, all L Bonds deposited by participants with DTC will be registered in the name of DTC's nominee, Cede & Co. The deposit of L Bonds with DTC and their registration in the name of Cede & Co. will effect no change in beneficial ownership. DTC will have no knowledge of the actual beneficial owners of the L Bonds. DTC's records will reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We will make payments due on the notes to Cede & Co., as nominee of DTC, in immediately available funds. DTC's practice is to credit direct participants' accounts, upon DTC's receipt of funds and corresponding detailed information, on the relevant payment date in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers in bearer form or registered in "street name," and will be the responsibility of such participant and not our responsibility or that of DTC, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. is our responsibility. Disbursement of such payments to direct participants is the responsibility of Cede & Co. Thereafter, disbursement of such payments to the beneficial owners is the responsibility of direct and indirect participants (i.e., brokers, dealers and custodians).

Except as provided herein, a beneficial owner of an interest in a global certificate will not be entitled to receive physical delivery of the L Bonds. Accordingly, each beneficial owner must rely on the procedures of DTC to exercise any rights under the L Bonds. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in a global certificate.

As long as the depository, or its nominee, is the registered holder of a global certificate, the depository or such nominee will be considered the sole owner and holder of the L Bonds represented thereby for all purposes under the L bonds and the indenture. Except in the limited circumstances referred to below, owners of beneficial interests in a global certificate will not be entitled to have such global certificate or any L Bonds represented thereby registered in their names, will not receive or be entitled to receive physical delivery of certificated L Bonds in exchange for the global certificate and will not be considered to be the owners or holders of such global certificate or any certificates represented thereby for any purpose under the L Bonds or the indenture. Accordingly, each person owning a beneficial interest in such global certificate must rely on the procedures of the depository and, if such person is not a participant, on the procedures of the participant through which such person owns its interest to exercise any rights of a holder under the indenture.

If the depository for a global certificate representing L Bonds is at any time unwilling or unable to continue as depository and a successor depository is not appointed by us within 90 days, we will issue L Bonds in definitive form in exchange for such global certificate. In addition, we may at any time and in our sole discretion determine not to have the L Bonds represented by one or more global certificates and, in such event, we will issue the notes in definitive form in exchange for all of the global certificates representing the L Bonds. Finally, if an event of default, or an event which with the giving of notice or lapse of time or both would constitute an event of default, with respect to the L Bonds represented by a global certificate has occurred and is continuing, then we will issue L Bonds in definitive form in exchange for all of the global certificates representing the notes.

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Although DTC has agreed to the procedures provided above in order to facilitate transfers, it is under no obligation to perform these procedures, and these procedures may be modified or discontinued at any time.

Limited Rescission Right

If you are purchasing L Bonds through direct settlement with the Company and your Subscription Agreement is accepted at a time when we have determined that a post-effective amendment to the registration statement of which this prospectus is a part must be filed with the SEC, but such post-effective amendment has not yet been declared

effective, we will send to you at your registered address a notice and a copy of the related prospectus once it has been declared effective. You will thereupon have the right to rescind your investment upon written request within ten business days from the postmark date of the notice we send to you that the post-effective amendment has been declared effective (and containing the related prospectus). We will promptly return any funds sent with a Subscription Agreement that is properly rescinded without penalty, although any interest previously paid on a rescinded L Bond will be deducted from the funds returned to you upon rescission. A written request for rescission, except in the case of a mailed rescission, must be postmarked on or before the tenth business day after our notice to you (described above). If you notify us other than by mail, we must actually receive your rescission request on or before the tenth business day after our notice to you.

We will not accept purchases of L Bonds through DTC settlement if, as of the end of the monthly closing for DTC settlement, we have determined that a post-effective amendment to the registration statement of which this prospectus is a part must be filed with the SEC, but such post-effective amendment has not yet been declared effective. In any such case, settlement of your L Bond purchase must occur in the following month.

Renewal or Repayment on Maturity

At least 30 days prior to the maturity of your L Bond, we will provide you with a notice indicating that your L Bond is about to mature and whether we will allow automatic renewal of your L Bond. If we allow you to renew your L Bond, we will also provide to you the then-current form of prospectus, which may include an interest rate or prospectus supplement and any other updates to the information contained in this prospectus. The prospectus, or the interest rate or prospectus supplement, will set forth the interest rates then in effect. The notice will recommend that you review the then-current prospectus, including any interest rate or prospectus supplement, prior to exercising one of the below options. If we do not provide you a new prospectus because the prospectus has not changed since the delivery of this prospectus in connection with your original investment or any prior renewal, we will nonetheless send you a new copy of the prospectus upon your request. Unless the election period is extended as described below, you will have until 15 days prior to the maturity date to exercise one of the following options:

- You can do nothing, in which case (subject to applicable law) your L Bond will automatically renew for a new term equal to the original term but at the interest rate in effect at the time of renewal. Interest on renewed L Bonds will be paid on the same schedule (i.e., monthly or annually) as the original L Bond. If applicable, a new certificate will be issued.
- You can elect repayment of your L Bond, in which case the principal amount will be repaid in full along with any accrued but unpaid interest. If you choose this option, your L Bond will not earn interest on or after the maturity date.
- You can elect repayment of your L Bond and use all or part of the proceeds to purchase a new L Bond with a different term or principal amount. To exercise this option, you will need to complete a new Subscription Agreement for the new L Bond and mail it along with your request, or else work with your broker if you wish to purchase your new L Bond through DTC settlement. Any proceeds from the old L Bond that are not applied to the new L Bond will be sent to you.

The foregoing options will be available to holders unless and until terminated under the indenture. Interest will accrue from the first day of each renewed term. Each renewed L Bond will retain all its original provisions, including provisions relating to payment, except that the interest rate payable during any renewal term will be the interest rate that is being offered at that time to other holders with similar aggregate L Bond portfolios for L Bonds of the same term as set forth in the interest rate supplement delivered with the maturity notice. If similar L Bonds are not then being offered, the (i) interest rate upon renewal will be the rate specified by us on or before the maturity date, or the rate of the existing L Bond if no such rate is specified, and (ii) the maturity will, if L Bonds of the same maturity are being offered at the time of renewal, be the same or, if not, the next earliest maturity.

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If we notify the holder of our intention to repay an L Bond at maturity, or if the holder timely requests repayment, we will pay the principal and all accrued but unpaid interest on the L Bond on or prior to the fifth day of the calendar month after the maturity date (or the first business day following the fifth day of such month). Thus, in the case of an L Bond with a maturity date of January 31, 2020, actual payment will be made on or prior to February 5, 2020 (unless such date is not a business day, in which case actual payment will be made on the next business day). No interest will

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accrue after the maturity date. You should be aware that because payment is made by ACH transfer, funds may not be received in the holder's account for two to three business days.

We will be required from time to time to file post-effective amendments to the registration statement of which this prospectus is a part to update the information it contains. If you would otherwise be entitled to renew your L Bonds upon their stated maturity at a time when we have determined that a post-effective amendment must be filed with the SEC, but such post-effective amendment has not yet been declared effective, then the period during which you can elect renewal (or repayment) will be automatically extended until ten days following the postmark date of our notice to you that the post-effective amendment has been declared effective, which notice shall contain a copy of the related prospectus. All other provisions relating to the renewal or redemption of L Bonds upon their stated maturity described above shall remain unchanged.

For any L Bonds offered hereby that mature on or after the three-year anniversary of the date on which the registration statement of which this prospectus is a part shall have been declared effective, we expect that the renewal of such L Bonds may require us to file a new registration statement. In such a case, the new registration statement must be declared effective before we can renew your L Bond. In this event, if the new registration statement has not yet been filed or become effective, we will extend your election period until ten days following the date of our notice to you that the new registration statement has become effective, which notice will include a new prospectus.

Call and Redemption Prior to Stated Maturity

We may call and redeem, in whole or in part, principal amount and accrued but unpaid interest on any L Bonds prior to their stated maturity only as set forth in the indenture and described below. The holder has no right to put or otherwise require us to redeem any L Bond prior to its maturity date (as originally stated or as it may be extended), except as indicated in the indenture and described below.

Our Voluntary Redemption

We have the right to redeem any L Bond, in whole or in part, at any time prior to its stated maturity upon at least 30 days written notice to the holder of the L Bond. The holder of the L Bond being redeemed will be paid a redemption price equal to the outstanding principal amount thereof plus accrued but unpaid interest up to but not including the date of redemption without any penalty or premium. We may use any criteria we choose to determine which L Bonds we will redeem if we choose to do so. We are not required to redeem L Bonds on a pro rata basis.

Holder's Put Election Upon Death, Bankruptcy or Total Permanent Disability

L Bonds may be redeemed prior to maturity at the election of a holder who is a natural person (including L Bonds held in an individual retirement account and the holders of a beneficial interest in a global certificate held by a depository or its nominee), by giving us written notice within 45 days following the holder's total permanent disability or bankruptcy, as established to our satisfaction, or at the election of the holder's estate, by giving written notice within 45 days following the death of the holder. Subject to the limitations described below, we will redeem the L Bonds not later than the 15th day of the month next following the month in which we establish to our satisfaction the holder's death, bankruptcy or total permanent disability. In the event that the 15th day of the month next following the month in which we so establish such facts is not a business day, we will redeem the L Bonds on the next business day. The redemption price, in the event of such a death, bankruptcy or total permanent disability, will be the entire principal amount of the L Bonds, plus accrued but unpaid interest thereon up to and through the last day of the calendar month preceding the redemption date. The indenture defines "total permanent disability" as the determination by a physician, approved by us, that a holder of an L Bond who is a natural person, and who was gainfully employed at the time of issuance of the L Bond (or its renewal date), is unable to work on a full-time basis during a period of 24 consecutive months.

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If spouses are joint registered holders of an L Bond, the right to elect to have us redeem L Bonds will apply when either registered holder dies, files bankruptcy or suffers a total permanent disability. If the L Bond is held jointly by two or more persons who are not legally married, none of these persons will have the right to request that we redeem the L Bonds unless all joint holders have died, filed bankruptcy or suffered a total permanent disability. If the L Bond is held by a trust, partnership, corporation or other similar entity, the right to request redemption upon death or total permanent disability does not apply.

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Redemption at Request of Holder

We have no obligation to redeem any L Bonds other than upon maturity, or upon the death, bankruptcy or total permanent disability of a natural person holder. Nevertheless, at our sole discretion we may agree from time to time, at the written request of a holder (including the holder of a beneficial interest in a global certificate held by a depository or its nominee), to redeem an L Bond, subject, however, to a redemption fee of 6.0% of the principal amount of such L Bond. If we so redeem any L Bond prior to maturity, we will redeem the entire principal amount of such L Bond together with accrued but unpaid interest thereon, The redemption fee will be subtracted from the amount paid to you.

Transfers

The L Bonds will be transferable in accordance with the indenture. For L Bonds that are issued solely in book-entry form, transfers will be effective only upon the delivery to us of an executed assignment or other conveyance instrument in customary form. For L Bonds that are represented by a global certificate held by a depository or its nominee, transfers of beneficial interests in such certificate must be effected in accordance with the procedures and rules of the depository.

Upon transfer of an L Bond, we will provide the new holder of the L Bond with a purchase confirmation that will evidence the transfer of the account on our records. If applicable (e.g., if transferred to a custodial account), a new certificate will be issued. No written confirmations will be provided with respect to transfers of beneficial interests in a global certificate held by a depository or its nominee.

Quarterly Statements

We will provide holders of the L Bonds with quarterly statements, which will indicate, among other things, the account balance at the end of the quarter, interest credited, redemptions made, if any, and the interest rate paid during the quarter. These statements will be sent electronically on or prior to the 10th business day after the end of each calendar quarter. If a holder is unwilling or unable to receive quarterly statements electronically, we will mail the statements to the address of record on or prior to the 10th business day after the end of each calendar quarter. In such a case, we may charge such holders a reasonable fee to cover our expenses incurred in mailing the statements.

Ranking

The L Bonds will constitute secured debt of GWG Holdings. The payment of principal and interest on the L Bonds will be:

- pari passu with respect to payment and collateral securing all L Bonds previously issued by GWG Holdings, Inc., of which approximately \$424.8 million in principal amount is outstanding as of September 30, 2017 (see the caption “— Collateral Security” below);
- structurally and contractually junior to the present and future obligations owed by our subsidiary DLP IV under our senior credit facility with LNV/CLMG, and structurally or contractually junior to any future obligations that DLP IV or other primary obligors or guarantors may have under future senior secured borrowing facilities; and
- structurally junior to the present and future claims of creditors of our subsidiaries, other than GWG Life, including trade creditors.

The indenture will permit us to issue other forms of debt, including secured and senior debt, in the future.

“Pari passu” means that claims for payment and entitlement to security among the holders of L Bonds, including the holders of previously issued L Bonds, and the holders of any later-created class of “pari passu debt,” will be treated equally and without preference. Although we have no present intention of causing GWG Life to issue additional secured debt in the future, any such debt issued on a pari passu basis in the future (including renewals of outstanding L Bonds or other renewable pari passu debt) would also be treated equally and without preference in respect of all outstanding L Bonds. Thus, in the event of any default on the L Bonds (or any other debt securities of ours that are pari passu with the L Bonds) resulting in claims for payment or claims on collateral security, the holders of the L Bonds and all such other debt securities pari passu with the L Bonds would share in payment or collateral in proportion to the amount of principal and interest owed on each such debt instrument.

Guarantee by GWG Life Subsidiary

The payment of principal and interest on the L Bonds, including previously issued L Bonds, is fully and unconditionally guaranteed by GWG Life. There were approximately \$424.8 million in principal amount of previously issued L Bonds outstanding as of September 30, 2017.

Collateral Security

The L Bonds are secured by the assets of GWG Holdings, Inc. We will grant a security interest in all of the assets of GWG Holdings to the indenture trustee for the benefit of the L Bond holders. The assets of GWG Holdings consist, and are expected to consist, primarily of (i) any cash proceeds received from its subsidiaries as distributions derived from life insurance assets of subsidiaries, (ii) all other cash and investments held in various accounts, (iii) the equity ownership interests in subsidiaries of GWG Holdings, including the equity ownership interest in GWG Life, together with (iv) all proceeds from the foregoing. This collateral security granted by us is referred to as the “GWG Holdings Assets Collateral.”

As indicated above, our direct and wholly owned subsidiary, GWG Life, will fully and unconditionally guarantee our obligations under the L Bonds. This guarantee will be supported by GWG Life’s grant of a security interest in all of its assets. The assets of GWG Life consist, and are expected to consist, primarily of (i) certain life insurance assets, (ii) any cash proceeds received from life insurance assets owned by GWG Life or received from DLP IV, as distributions derived from life insurance policies owned by that subsidiary, (iii) all other cash and investments held by GWG Life in its various accounts, (iv) GWG Life’s equity ownership interest in its direct subsidiaries, including DLP IV, together with (v) all proceeds from the foregoing. The collateral security granted by GWG Life pursuant to its guarantee of our obligations under the L Bonds is referred to as the “GWG Life Assets Collateral.”

In addition, Messrs. Jon R. Sabes and Steven F. Sabes, our principal stockholders beneficially holding approximately 75% of the outstanding shares of our common stock, have pledged all of the shares they beneficially own in GWG Holdings to further secure our obligations under the L Bonds. This collateral security granted by Messrs. Jon R. Sabes and Steven F. Sabes is referred to as the “GWG Holdings Equity Collateral.”

Together, the GWG Holdings Assets Collateral, GWG Life Assets Collateral and GWG Holdings Equity Collateral comprise all of the collateral security for our obligations under the L Bonds. To the extent that we subsequently establish one or more wholly owned subsidiaries of GWG Holdings or GWG Life, the L Bonds will have a security interest in the equity ownership interests of those subsidiaries if and to the extent owned by GWG Holdings or GWG Life.

The guarantee by GWG Life is contained in the indenture, and the grant of security interests in the GWG Holdings Assets Collateral, GWG Life Assets Collateral and GWG Holdings Equity Collateral is effected through a “Pledge and Security Agreement” that is an exhibit to the indenture and has been amended in connection with this offering of L Bonds. Neither the indenture nor the Pledge and Security Agreement contain any provision preventing a pledging party from disposing of any collateral in the ordinary course of business. In this regard, the Pledge and Security Agreement permits the disposition of GWG Holdings Equity Collateral to the extent the number of shares continuing to constitute such collateral represents at least 10% of the number of shares beneficially held by each individual grantor as of the date of the Pledge and Security Agreement.

Substantially all of our life insurance assets are held in our subsidiaries. The L Bonds will not be directly secured by any security interest in the assets of those subsidiaries, including DLP IV. Instead, the L Bonds will be secured by a pledge of the equity ownership interests in those subsidiaries, including DLP IV, owned by GWG Life by virtue of the guarantee provisions in the indenture and the Pledge and Security Agreement referenced above. An equity ownership interest is, by its very nature, subordinate to the interests of creditors. Therefore, although investors in the L Bonds will have a security interest in the ownership of DLP IV (and other direct subsidiaries of GWG Life) any claim they

may have to the assets owned by such entity will be subordinate to the interests of creditors of that entity, including LNV/CLMG, which is the lender to DLP IV under our senior credit facility, and all other creditors of DLP IV, including trade creditors. In addition, there is the risk that the collateral security granted for our obligations under the L Bonds may be insufficient to repay the L Bonds upon an event of default. See “Risk Factors,” page 12 (“The collateral granted as security...”).

Subordination; Other Indebtedness

Our obligations under the L Bonds will be subordinate to all our senior debt. For this purpose, “our senior debt” presently includes all indebtedness owed or that may in the future become owing under our senior credit facility with LNV/CLMG. As of September 30, 2017, DLP IV had approximately \$212.5 million of debt outstanding under the credit facility with LNV/CLMG. In addition, as of September 30, 2017, we had approximately \$424.8 million in principal amount of debt outstanding under previously issued L Bonds.

The maximum amount of debt, including the L Bonds, we may issue is limited by the indenture. In particular, the indenture prohibits us from issuing debt in an amount such that our “debt coverage ratio” would exceed 90%. The indenture defines the debt coverage ratio as a percentage calculated by the ratio of (A) obligations owing by us and our subsidiaries on all outstanding debt for borrowed money (including the L Bonds), over (B) the net present asset value of all life insurance assets we own, directly or indirectly, plus any cash held in our accounts. For this purpose, the net present asset value of our life insurance assets is equal to the present value of the cash flows derived from the face value of policy benefit assets we own, discounted at a rate equal to the weighted average cost of capital for all our indebtedness for the prior month.

We are required to notify the indenture trustee in the event that we violate this restrictive covenant. An “event of default” will exist under the indenture if a violation of this covenant persists for a period of 30 calendar days after our initial notice to the trustee. The L Bonds are guaranteed by GWG Life but otherwise are not guaranteed by any of our subsidiaries, affiliates or control persons. Neither indenture nor the Pledge and Security Agreement prevent holders of debt issued by our subsidiaries from disposing of, or exercising any other rights with respect to, any or all of the collateral securing that debt. Accordingly, in the event of a liquidation or dissolution of one of our subsidiaries (other than GWG Life), creditors of that subsidiary that are senior in rank will be paid in full, or provision for such payment will be made, from the assets of that subsidiary prior to distributing any remaining assets to us as an equity owner of that subsidiary.

The indenture also contains specific subordination provisions, benefitting lenders under any senior credit facility, restricting the right of L Bond holders to enforce certain of their rights in certain circumstances, including:

- a prohibition on challenging any enforcement action taken by a senior lender or interfering with any legal action or suits undertaken by our senior lenders against us and our affiliates;
- a 180-day standstill period during which there may not be brought any action against us or our affiliates to enforce rights respecting collateral unless our senior credit facilities have been repaid in full, which period may be extended if the senior lender takes action during such standstill period; and
- a prohibition on filing a bankruptcy or insolvency case against us or our affiliates for at least one year plus one day after the senior credit facility lenders have been paid in full.

We will not make any payment, direct or indirect (whether for interest, principal, as a result of any redemption or repayment at maturity, on default, or otherwise), on the L Bonds and any other indebtedness, and neither the holders of the L Bonds nor the trustee will have the right, directly or indirectly, to sue to enforce the indenture or the L Bonds, if a default or event of default under any senior credit facility has occurred and is continuing, or if any default or event of default under any senior credit facility would result from such payment, in each case unless and until:

- the default and event of default has been cured or waived or has ceased to exist; or
- in the case of a non-payment default that permits a senior lender to declare as due and payable all amounts owing under a senior credit facility (but where that senior lender has not yet so declared amounts as being due and payable), the end of the period commencing on the date the trustee receives written notice of default from the senior

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lender and ending on the earliest of (1) our discharge of the default (or other cure), (2) the trustee's receipt of a valid waiver of default from the senior lender, or (3) a written notice from the senior lender terminating the payment prohibition.

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During any payment prohibition period, neither the holders of the L Bonds nor the trustee will have the right, directly or indirectly, to sue to enforce the indenture or the L Bonds. Other provisions of the indenture do permit the trustee to take action to enforce the payment rights of L Bond holders after 179 days have passed since the trustee's receipt of notice of default from a senior lender, but in such case any funds paid as a result of any such suit or enforcement action shall be applied toward the senior credit facility until the facility is indefeasibly paid in full before being applied to the L Bonds. The indenture contains provisions whereby each investor in the L Bonds consents to the subordination provisions contained in the indenture and related agreements governing collateral security.

If the 180-day standstill period noted above or any other limitation on the rights of the trustee or L Bond holders to assert their rights to payment of principal or interest under the indenture or L Bonds is ultimately determined to conflict with provisions of the Trust Indenture Act of 1939 (most notably sections 316(b) and 317(a) of that Act), then the trustee, as well as any holder who shall not have earlier consented to such subordination provisions, shall (notwithstanding such provision contained in the indenture) be authorized to institute a lawsuit for the enforcement of any payment of principal or interest after their respective due dates.

No Sinking Fund

The L Bonds are not associated with any sinking fund. A sinking fund is generally any account to which contributions will be made, from which payments of principal or interest owed on the L Bonds will be made. See "Risk Factors," page 12.

Restrictive Covenants

The indenture contains covenants that restrict us from certain actions as described below. In particular, the indenture provides that:

- we will not declare or pay any dividends or other payments of cash or other property solely in respect of our capital stock to our stockholders (other than a dividend paid in shares of our capital stock on a pro rata basis to all our stockholders) unless no default and no event of default with respect to the L Bonds exists or would exist immediately following the declaration or payment of the dividend or other payment;
- to the extent legally permissible, we will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or the performance of the indenture;
- our Board of Directors will not adopt a plan of liquidation that provides for, contemplates or the effectuation of which is preceded by (a) the sale, lease, conveyance or other disposition of all or substantially all of our assets, otherwise than (i) substantially as an entirety, or (ii) in a qualified sales and financing transaction, and (b) the distribution of all or substantially all of the proceeds of such sale, lease, conveyance or other disposition and of our remaining assets to the holders of our capital stock, unless, prior to making any liquidating distribution pursuant to such plan, we make provision for the satisfaction of our obligations under the renewable unsecured subordinated notes; and
- our debt coverage ratio may not exceed 90%.

The indenture defines the debt coverage ratio as a percentage calculated by the ratio of (A) obligations owing on all outstanding debt for borrowed money (including the L Bonds), over (B) the net present asset value of all life insurance assets we own, plus any cash held in our accounts. For this purpose, the net present asset value of our life insurance assets is equal to the present value of the face value of policy benefit assets we own, discounted at a rate equal to the weighted-average cost of capital for all our indebtedness for the prior month.

Importantly, we are not restricted from entering into “qualified sale and financing transactions” as defined — in the indenture, or incurring additional indebtedness, including additional senior debt.

Consolidation, Mergers or Sales

The indenture generally permits a consolidation or merger between us and another entity. It also permits the sale or transfer by us of all or substantially all of our property and assets. These transactions are permitted if:

- the resulting or acquiring entity, if other than us, is a United States corporation, limited liability company or limited partnership and assumes all of our responsibilities and liabilities under the indenture, including the payment of all amounts due on the notes and performance of the covenants in the indenture; and
- immediately after the transaction, and after giving effect to the transaction, no event of default shall exist under the indenture.

If we consolidate or merge with or into any other entity or sell or lease all or substantially all of our assets, according to the terms and conditions of the indenture, the resulting or acquiring entity will be substituted for us in the indenture with the same effect as if it had been an original party to the indenture. As a result, the successor entity may exercise our rights and powers under the indenture in our name, and we (as an entity) will be released from all our liabilities and obligations under the indenture and under the L Bonds. Nevertheless, no such transaction will by itself eliminate or modify the collateral that we have provided as security for our obligations under the indenture.

Events of Default and Remedies

The indenture provides that each of the following constitutes an event of default:

- the failure to pay interest or principal on any L Bond for a period of 30 days after it becomes due and payable;
- a failure to observe or perform any material covenant, condition or agreement in the indenture, but only after notice of failure from the indenture trustee and such failure is not cured within 60 days;
- our debt coverage ratio exceeds 90% for a period of 30 consecutive calendar days, but only after notice of such breach from the indenture trustee and such breach is not cured within 60 days;
- certain events of bankruptcy, insolvency or reorganization with respect to us; or
- the cessation of our business.

In addition, a default under the indenture will create a default under our senior credit facility.

Through DLP IV, we are party to a senior credit facility with LNV Corporation (referred to in this prospectus as LNV), as the lender. The facility is governed by a Loan and Security Agreement, and CLMG Corp (referred to in this prospectus as CLMG) acts as the administrative agent for the lender under the Loan and Security Agreement.

On September 27, 2017, we entered into an amended and restated senior credit facility with LNV Corporation as lender through our subsidiary GWG DLP Funding IV, LLC. The Amended and Restated Loan Agreement governing the facility makes available a total of up to \$300,000,000 in credit with a maturity date of September 27, 2029. Additional advances are available under the Amended and Restated Loan Agreement at the LIBOR rate as defined in the Amended and Restated Loan Agreement. Advances are available as the result of additional borrowing base capacity, created as the premiums and servicing costs of pledged life insurance policies become due. Interest will accrue on amounts borrowed under the Amended and Restated Loan Agreement at an annual interest rate, determined as of each date of borrowing or quarterly if there is no 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) 7.50% per annum. The effective rate at September 30, 2017 was 7.52%. The interest rate effective October 1, 2017 was 9.31%. Interest

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payments are made on a quarterly basis. As of September 30, 2017, approximately \$212.5 million was outstanding under the line of credit. We may use proceeds of the line of credit to repay short-term debt and acquire additional life insurance assets.

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Under the Loan and Security Agreement, DLP IV has granted the administrative agent, for the benefit of the lenders under the agreement, a security interest in all of its assets. As with prior collateral arrangements relating to the senior secured debt of GWG Holdings and its subsidiaries (on a consolidated basis), GWG Holdings' equity ownership in DLP IV will serve as collateral for the obligations of GWG Holdings under its L Bonds (although the life insurance assets owned by DLP IV will not themselves serve directly as collateral for those obligations).

The Amended and Restated Loan Agreement does not require DLP IV to maintain a reserve account for future premiums.

In addition, the Loan and Security Agreement contains certain customary negative covenants restricting the ability of the borrower to directly or indirectly engage in a merger or exchange transaction, sell substantially all of its assets, or permit the amendment of the contracts governing the outstanding debt securities of GWG Holdings and its subsidiaries, without the prior consent of the lender.

The Loan and Security Agreement contains customary events of default (e.g., payment defaults, covenant defaults, cross-defaults, defaults arising by virtue of a change in control, and defaults arising from breaches of representations and warranties), as well as defaults for amendments to the organizational documents of the borrower, defaults from pledged policies falling out of good standing, the occurrence of an event that could terminate the arrangement by which GWG Life services the pledged life insurance policies, and the entry of a judgment against the borrower in an amount exceeding \$50,000 without payment or discharge, or a stay of execution obtained, within 30 days thereafter.

The indenture requires that we give immediate notice to the indenture trustee upon the occurrence of an event of default under the indenture, unless it has been cured or waived. The indenture trustee may then provide notice to the L Bond holders or withhold the notice if the indenture trustee determines in good faith that withholding the notice is in your best interest, unless the default is a failure to pay principal or interest on any L Bond.

If an event of default occurs, the indenture trustee or the holders of at least 25% in principal amount of the outstanding L Bonds, may by written notice to us declare the unpaid principal and all accrued but unpaid interest on the L Bonds to be immediately due and payable. Notwithstanding the foregoing, the indenture limits the ability of the L Bond holders to enforce certain rights under the indenture in certain circumstances. These limitations are required subordination provisions under our senior credit facility and are summarized above under “— Subordination; Other Indebtedness.” The Pledge and Security Agreement permits the trustee to exercise on behalf of the holders of L Bonds all rights and remedies as are available to a secured creditor under applicable law, subject to any limitations therein or in the indenture. In this regard, the trustee is not authorized under the Pledge and Security Agreement to distribute in kind any collateral in its possession to the holders of L Bonds.

Amendment, Supplement and Waiver

Except as provided in this prospectus or the indenture, the terms of the indenture or the L Bonds then outstanding may be amended, supplemented or waived with the consent of the holders of at least a majority in principal amount of the L Bonds then outstanding (which consent will be presumed if a holder does not object within 30 days of a request for consent), and any existing default or compliance with any provision of the indenture or the L Bonds may be waived with the affirmative consent of the holders of a majority in principal amount of the then outstanding L Bonds.

Notwithstanding the foregoing, an amendment or waiver will not be effective with respect to the L Bonds held by a holder who him, her or itself has not consented if such amendment or waiver:

- reduces the principal of, or changes the fixed maturity of, any L Bond;
- reduces the rate of or changes the time for payment of interest, including default interest, on any L Bond;

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- waives a default or event of default in the payment of principal or interest on the L Bonds, except for a rescission or withdrawal of acceleration of the L Bonds made by the holders of at least a majority in aggregate principal amount of the then-outstanding L Bonds and a waiver of the payment default that resulted from such acceleration;

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- makes any change in the provisions of the indenture relating to waivers of past defaults or the rights of holders of L Bonds to receive payments of principal of or interest on the L Bonds; or
- makes any change to the subordination provisions of the indenture that has a material adverse effect on holders of L Bonds.

Notwithstanding the foregoing, the following kinds of amendments or supplements to the indenture may be effected by us and the trustee without any consent of any holder of the L Bonds:

- to cure any ambiguity, defect or inconsistency;
- to provide for assumption of our obligations to holders of the L Bonds in the case of a merger, consolidation or sale of all or substantially all of our assets;
- to provide for additional uncertificated or certificated L Bonds;
- to make any change that does not materially and adversely affect the legal rights under the indenture of any holder of L Bonds, including but not limited to an increase in the aggregate dollar amount of L Bonds which may be outstanding under the indenture and limited in amount thereunder;
- to modify or eliminate our policy regarding redemptions elected by a holder of L Bonds prior to maturity, including our obligation to redeem L Bonds upon the death, bankruptcy or total permanent disability of any holder of the L Bonds, but only so long as such modifications do not materially and adversely affect any then-existing obligations under pending repurchase commitments for L Bonds;
- to comply with requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act of 1939, or to comply with other applicable federal or state laws or regulations;
- to comply with the rules or policies of a depository of the L Bonds; or
- in connection with an amendment, extension, replacement, renewal or substitution of any senior debt, to amend the subordination provisions of the indenture to conform to the reasonable requirements of the holder or holders of such senior debt.

Rights of L Bond Holders

As an L Bond holder, you have limited rights to vote on our actions as set forth in the indenture. In general, you will have the right to vote on whether or not to approve some amendments to the indenture. For a description of these rights, see “— Amendment, Supplement and Waiver” above. You will also have the right to direct some actions that the trustee takes if there is an event of default with respect to the L Bonds. For a description of these rights, see above under the caption “— Events of Default.” For a complete description of your rights as an L Bond holder, we encourage you to read a copy of the indenture, which is filed as an exhibit to the registration statement of which this prospectus is a part. We will also provide you with a copy of the indenture upon your request.

The trustee and the L Bond holders will have the right to direct the time, method and place of conducting any proceeding for some of the remedies available, except as otherwise provided in the indenture. The trustee may require reasonable indemnity, satisfactory to the trustee, from L Bond holders before acting at their direction. You will not have any right to pursue any remedy with respect to the indenture or the L Bonds unless you satisfy the conditions contained in the indenture.

The Indenture Trustee

General

Bank of Utah has agreed to be the trustee under the indenture. The indenture contains certain limitations on the rights of the trustee, should it become one of our creditors, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any claim as security or otherwise. The trustee will be permitted to engage in other transactions with us.

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Subject to certain exceptions, the holders of a majority in principal amount of the then-outstanding L Bonds will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee. The indenture provides that if an event of default specified in the indenture shall occur and not be cured, the trustee will be required, in the exercise of its power, to use the degree of care of a reasonable person in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of L Bonds, unless the holder shall have offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

Resignation or Removal of the Trustee

The trustee may resign at any time, or may be removed by the holders of a majority of the aggregate principal amount of the outstanding L Bonds. In addition, we may remove the trustee for certain failures in its duties, including the insolvency of the trustee or the trustee's ineligibility to serve as trustee under the Trust Indenture Act of 1939. However, no resignation or removal of the trustee may become effective until a successor trustee has accepted the appointment as provided in the indenture.

Reports to Trustee

We will provide the trustee with (i) a calculation date report by the 15th day of each month containing a calculation of the debt coverage ratio that includes a summary of all cash, life insurance policy investments serving as collateral, as well as our total outstanding indebtedness including outstanding principal balances, interest credited and paid, transfers made, any redemption or repayment and interest rate paid; (ii) copies of our audited annual financials, no earlier than when the same become a matter of public record; and (iii) any additional information reasonably requested by the trustee.

Certain Charges

We and our servicing agents, if any, may assess service charges for changing the registration of any L Bond to reflect a change in name of the holder, multiple changes in interest payment dates or transfers (whether by operation of law or otherwise) of an L Bond by the holder to another person. The indenture permits us to set off, against amounts otherwise payable to you under the L Bonds, the amount of these charges.

Variations in Terms and Conditions

We may from time to time vary the terms and conditions of the L Bonds offered, including but not limited to minimum initial principal investment amount requirements, maximum aggregate principal amount limits, interest rates, minimum denominations, service and other fees and charges, and redemption provisions. Terms and conditions may be varied by state, locality, principal amount, type of investor (for example, new or current investor) or as otherwise permitted under the indenture governing the securities offered by this prospectus. No change in terms, however, will apply to any L Bonds already issued and outstanding at the time of such change.

Satisfaction and Discharge of Indenture

The indenture shall cease to be of further effect upon the payment in full of all of the outstanding L Bonds and the delivery of an officer's certificate to the trustee stating that we do not intend to issue additional L Bonds under the indenture or, with certain limitations, upon deposit with the trustee of funds sufficient for the payment in full of all of the outstanding L Bonds.

Reports

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We will publish annual reports containing financial statements and quarterly reports containing financial information for the first three quarters of each fiscal year. We will send copies of these reports, at no charge, to any holder of L Bonds who sends us a written request.

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PLAN OF DISTRIBUTION

General

We are offering up to 1,000,000 Units, representing \$1,000,000,000 in aggregate principal amount, of L Bonds (referred to throughout this prospectus simply as “L Bonds”) on a continuous basis. The L Bonds will be sold at \$1,000 per Unit, and in minimum amounts of 25 Units, or \$25,000 or more in principal. There is no minimum amount of L Bonds that must be sold before we access and use the proceeds. The proceeds of new sales of L Bonds will be paid directly to us promptly following each sale and will not be placed in an escrow account. Even if we sell less than the entire \$1,000,000,000 in aggregate principal amount of L Bonds Units being offered, the L Bonds that we sell will be issued, and the proceeds of those L Bond sales will be used by us, as described in this prospectus.

The L Bonds will be offered and sold on a best efforts basis by Emerson Equity LLC (our “dealer manager”). Our dealer manager will enter into participating dealer agreements with certain other broker-dealers that are members of FINRA, referred to as “selling group members,” to authorize those broker-dealers to sell our L Bonds. The L Bonds will be offered to the public on the terms set forth in this prospectus and any prospectus supplements we may file from time to time. Neither our dealer manager nor any selling group members will have any obligation to take or purchase any L Bonds. In addition to forming the selling group, our dealer manager provides services to us, which include conducting broker-dealer seminars, holding informational meetings and providing information and answering any questions investors or selling group members may have concerning this offering.

Members of the selling group will receive sales commissions of up to 5.00% of the gross offering proceeds depending upon the maturity of the L Bonds sold. In addition, our dealer manager and selling group members may receive up to 3.00% of the gross offering proceeds as additional compensation consisting of the following:

- a dealer-manager fee payable to the dealer manager in an amount equal to 0.50% of the principal amount of all L Bonds sold;
- an accountable expense allowance to be paid to the selling group members, which may include due diligence expenses of the dealer manager and selling group members set forth in a detailed and itemized invoice and as further described below;
- wholesaling fees, which may consist of commissions and non-transaction-based compensation of the wholesalers;
- non-cash compensation, which may consist of an occasional meal, a ticket to a sporting event or the theater, or comparable entertainment that is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target, the national and regional sales conferences of our selling group members, training and education meetings for registered representatives of our selling group members, and permissible forms of non-cash compensation to registered representatives of our selling group members, such as gifts that do not exceed an aggregate value of \$100 per annum per registered representative and that are not pre-conditioned on achievement of a sales target, including but not limited to seasonal gifts; and
- up to a 1.00% reallowance to selling group members.

As part of the accountable expense allowance, the dealer manager and selling group members are expected to be reimbursed for accountable out-of-pocket expenses incurred by them during the course of the offering. Expenses eligible for reimbursement may include:

- travel, lodging, and meals for the wholesalers who are our employees and associated with the dealer manager;

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- reasonable out-of-pocket expenses incurred by selling group members and their associated persons, including reimbursement of actual costs of third-party professionals retained by them; and
- due diligence expenses of the dealer manager and selling group members set forth in a detailed and itemized invoice.

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Upon the sale of L Bonds by a selling group member, the selling group member effecting the sale will receive selling commissions and additional compensation in connection therewith pursuant to the terms of the soliciting dealer agreement between the dealer manager and the selling group member.

In no event will the total selling commissions and additional compensation, including accountable due diligence expenses and reimbursements, exceed 8.00% of the aggregate gross offering proceeds we receive from the sale of L Bonds.

We may also sell our L Bonds at a discount through the following distribution channels in the event that the investor:

- purchases L Bonds through fee-based programs, also known as wrap accounts;
- purchases L Bonds through a selling group member that has an alternative fee arrangement with its clients;
- purchases L Bonds through certain registered investment advisers;
- purchases L Bonds through bank trust departments or any other organization or person authorized to act in a fiduciary capacity for its clients or customers; or
- is an endowment, foundation, pension fund or other institutional investor.

If an investor purchases shares through one of the above distribution channels in our offering, we will sell the L Bonds at a discount, reflecting that selling commissions are not being paid in connection with such purchase. The public offering price will be decreased by an amount equal to such reduction; however, the net proceeds to us will not be affected by any such reduction in selling commissions.

Our officers and directors and their family members may purchase the L Bonds offered hereby for investment and not for distribution at a discount from the public offering price. For purposes of this discount, we consider a family member to be a spouse, parent, child, sibling, mother- or father-in-law, son- or daughter-in-law or brother- or sister-in-law. In addition, if approved by our Board of Directors, certain of our joint venture partners, consultants and other service providers may purchase the L Bonds offered hereby at a discount from the public offering price. We will sell such L Bonds reflecting that selling commissions will not be paid in connection with such sales. The public offering price will be decreased by an amount equal to such reduction; however, the net proceeds to us from such sales made net of commissions will be the same as the net proceeds we receive from other sales of L Bonds.

Also, we may sell L Bonds to the dealer manager, selling group members, their retirement plans, their representatives and the family members as described above, IRAs and qualified plans of their representatives at a purchase price reflecting that selling commissions will not be payable in consideration of the services rendered by such dealer manager, selling group members, and their representatives in the offering. Such sales, however, may not be made for the period of time from the effective date through 90 days after the effective date. The public offering price will be decreased by an amount equal to such reduction; however, the net proceeds to us from the sales of these L Bonds will be the same as the net proceeds we receive from other sales of L Bonds.

Neither our dealer manager nor its affiliates will directly or indirectly compensate any person engaged as an investment advisor or a bank trust department by a potential investor as an inducement for such investment advisor or bank trust department to advise favorably for an investment in the L Bonds offered hereby. Also, we will not pay referral or similar fees to any accountants, attorneys or other persons in connection with the distribution of the L Bonds.

In addition to the sales commissions, fees, allowances, reimbursements and expenses described above, we expect to pay approximately \$1,500,500 in offering and related costs and expenses in connection with this offering. These kinds

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of expenses include all expenses to be paid by us in connection with the offering (other than sales commissions, additional compensation, and expense allowances and reimbursement to our selling group members), including but not limited to legal, accounting, printing and mailing expenses, registration, qualification and associated securities filing fees and other costs and expenses.

The table below sets forth the maximum amount of sales commissions and additional compensation, as described in footnote (1) to the table below, we may pay in connection with this offering.

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L Bond Term	Sales Commission		Additional Compensation(1)		Total(2)	
2 years	3.25	%	4.75	%	8.00	%
3 years	4.25	%	3.75	%	8.00	%
5 years	4.90	%	3.10	%	8.00	%
7 years	5.00	%	3.00	%	8.00	%

(1) As described above, additional compensation includes: (i) a dealer-manager fee payable to the dealer manager in an amount equal to 0.50% of the principal amount of all L Bonds sold; (ii) an accountable expense allowance to the selling group members as described above, which may include due-diligence expenses of the dealer manager and selling group members set forth in a detailed and itemized invoice; (iii) wholesaling fees, which may consist of commissions and non-transaction-based compensation of the wholesalers; (iv) non-cash compensation, which may consist of an occasional meal, a ticket to a sporting event or the theater, or comparable entertainment that is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target, the national and regional sales conferences of our selling group members, training and education meetings for registered representatives of our selling group members, and permissible forms of non-cash compensation to registered representatives of our selling group members, such as gifts that do not exceed an aggregate value of \$100 per annum per registered representative and that are not pre-conditioned on achievement of a sales target, including but not limited to seasonal gifts; and (v) up to a 1.00% reallowance to selling group members.

(2) The combined selling commissions and additional compensation for this offering will not exceed 8.00% of the aggregate gross proceeds of this offering.

The line items reflected in the table below are our current estimates of average sales commissions and additional compensation (including accountable expenses) that we will pay. Specifically, we estimate that the average sales commission will be 5.00%, or \$50,000,000 based on \$1,000,000,000 in principal amount of L Bonds sold, and the average additional compensation will be 3.00%, or \$30,000,000 based on \$1,000,000,000 in principal amount of L Bonds sold. The components of “additional compensation” are detailed in footnote (1) to the table above. Actual costs may differ from the percentages and amounts shown in the table below, subject, however, to the limitations noted above.

L Bonds Sold	Sales Commission	Additional Compensation	Total	
\$500,000,000	\$ 25,000,000	\$ 15,000,000	8.00	%
\$750,000,000	\$ 37,500,000	\$ 22,500,000	8.00	%
\$1,000,000,000	\$ 50,000,000	\$ 30,000,000	8.00	%

The wholesalers employed by us are registered with and associated persons of our dealer manager. The wholesalers will:

- attend local, regional and national conferences of the selling group members; and
- contact selling group members and their registered representatives to make presentations concerning us and this offering.

The wholesalers will receive a portion of their non-transaction based compensation as compensation for their selling efforts. We host training and education meetings for selling group members and their representatives. The costs of the training and education meetings will be borne by us, but counted toward the 8.00% underwriting compensation limit.

Certain of our employees who are also registered representatives and supervisory principals of the dealer manager have been granted certain share appreciation rights (“SARs”) as part of their compensation. The SARs give such

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individual the contractual right to receive from us additional cash compensation at any point before the SAR's expiration, but only if the price of our common stock has increased between the grant date and the date when we receive notice of such individual's intention to exercise the SAR. At the termination of this offering, the aggregate of the appreciation amount, as defined in the SAR agreement, will be calculated and added to the other items of value (e.g., selling commissions and additional forms of compensation) to ensure that aggregate compensation paid in connection with this offering does not exceed 8.00% of the gross offering proceeds.

In accordance with FINRA rules, in no event will our total compensation to FINRA members, including but not limited to sales commissions, the dealer-manager fee and accountable expense and other reimbursements to our dealer

manager and selling group members, including non-transaction-based compensation of the wholesalers and non-cash compensation, exceed 8.00% of our gross offering proceeds, in the aggregate.

We will indemnify the selling group members and our dealer manager against some civil liabilities, including certain liabilities under the Securities Act of 1933 and liabilities arising from breaches of our representations and warranties contained in the Dealer Manager Agreement.

The foregoing is a summary of the material terms relating to the plan of distribution of the L Bonds contained in the Dealer Manager Agreement. Any amendment to the Dealer Manager Agreement will be filed as an exhibit to an amendment to the registration statement of which this prospectus is a part.

Settlement Procedures

You can place an order for the purchase of L Bonds using DTC Settlement through your selling group member. A selling group member using DTC settlement will have an account with a DTC participant in which your funds will be placed to facilitate settlement. Orders may be placed until the cyclical order due date. Orders will be executed by such selling group member electronically and you must coordinate with your selling group member's registered representative to pay the full purchase price of the L Bonds by the trade date. If you purchase your L Bonds using DTC settlement, you will be credited with ownership of an L Bond on the second business day after the end of the DTC closing cycle in which the subscription is made (typically, closings will occur on a bi-monthly cycle). If you purchase your L Bonds in this manner, your purchase price will not be held in escrow.

You also have the option to elect to settle your purchase directly with us, the Company. If you elect to use direct settlement with us, you should complete and sign a Subscription Agreement similar to the one filed as an exhibit to the registration statement of which this prospectus is a part. A form of Subscription Agreement is available from your selling group member's registered representative. Once completed and signed, your Subscription Agreement should be provided to your selling group member who will deliver it to us to be held, together with your related subscription funds, until our acceptance of your subscription. In connection with a direct settlement subscription, you should pay the full purchase price of the L Bonds to us as set forth in the Subscription Agreement. Subscribers may not withdraw funds from the subscription account. Subscriptions will be effective upon our acceptance of your Subscription Agreement and related funds, and we reserve the right to reject any subscription in whole or in part.

Covered Security

Our L Bonds are a "covered security." The term "covered security" applies to securities exempt from state registration because of their oversight by federal authorities and national-level regulatory bodies pursuant to Section 18 of the Securities Act of 1933. Generally, securities listed on national exchanges are the most common type of covered security exempt from state registration. A non-traded security also can be a covered security if it has a seniority greater than or equal to other securities from the same issuer that are listed on a national exchange. Our L Bonds are a covered security because they are senior to our common stock, which is listed on The Nasdaq Capital Market, and therefore our offering of L Bonds will be exempt from state registration.

Although the status of our L Bonds as a "covered security" will facilitate their purchase and sale to a broader range of investors than would otherwise be available to us, and although the offer and sale of a "covered security" generally involves fewer issuance costs to the issuer of such securities, our L Bonds are not a suitable purchase for all investors. In this regard, please carefully review the "Risk Factors" contained in this prospectus, as well as the disclosures on page 12 under the heading "Covered Security."

MATERIAL FEDERAL INCOME TAX CONSIDERATIONS

The following is a general discussion of the material United States (“U.S.”) federal income tax considerations relating to the initial purchase, ownership and disposition of the L Bonds by U.S. and non-U.S. holders. This discussion is a summary only and is not a complete analysis of all the potential tax considerations relating to the purchase, ownership and disposition of the L Bonds. We have based this summary on current provisions of the Code of 1986, as amended (the “Code”), applicable U.S. Treasury Regulations promulgated thereunder, judicial opinions, and published rulings of the Internal Revenue Service (the “IRS”), all as in effect on the date of this prospectus. However, these laws and other guidance are subject to differing interpretations or change, possibly with retroactive effect. In addition, we have not sought, and will not seek, a ruling from the IRS or an opinion of counsel with respect to any tax consequences of purchasing, owning or disposing of L Bonds. Thus, the IRS could take a different position regarding one or more of the tax consequences or matters described in this prospectus; and there can be no assurance that any position taken by the IRS would not be sustained.

This discussion is limited to purchasers of L Bonds who acquire the L Bonds from us in this offering and hold the L Bonds as capital assets for federal income tax purposes. This discussion does not address all possible tax consequences that may be applicable to you in light of your specific circumstances. For instance, this discussion does not address the alternative minimum tax provisions of the Code, or special rules applicable to some categories of investors such as financial institutions, insurance companies, tax-exempt organizations, dealers in securities, real estate investment trusts, regulated investment companies, or persons who hold L Bonds as part of a hedge, conversion or constructive sale transaction, straddle or other risk reduction transaction that may be subject to special rules. This discussion also does not address the tax consequences arising under the laws of any foreign, state or local jurisdiction; or any U.S. estate or gift tax laws.

If you are considering the purchase of an L Bond, you should consult your own tax advisors as to the particular tax consequences to you of acquiring, holding or otherwise disposing of the L Bonds, including the effect and applicability of state, local or foreign tax laws, or any U.S. estate and gift tax laws.

As used in this discussion, the term “U.S. holder” means a holder of an L Bond that is:

- (i) for United States federal income tax purposes, a citizen or resident of the United States;
- (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof or other entity characterized as a corporation or partnership for federal income tax purposes;
- (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- (iv) a trust, the administration of which is subject to the primary supervision of a court within the United States and which has one or more United States persons with authority to control all substantial decisions, or if the trust was in existence on August 20, 1996, and has elected to continue to be treated as a United States trust.

For the purposes of this discussion, a “non-U.S. holder” means any holder of L Bonds other than a U.S. holder. Any L Bond purchaser who is not a U.S. citizen will be required to furnish documentation, on IRS Form W-8BEN, that clearly states whether it is subject to U.S. withholding taxes, in accordance with applicable requirements of the United States taxing authority.

Characterization of the L Bonds

The federal income tax consequences of owning L Bonds depend on characterization of the L Bonds as debt for federal income tax purposes, rather than as equity interests or a partnership among the holders of the L Bonds. We

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believe that the L Bonds have been structured in a manner that will allow the L Bonds to be characterized as debt for federal income tax purposes. However, this is only our belief; and no ruling from the IRS or an opinion of counsel has been sought in this regard. Thus, the IRS could successfully challenge this characterization.

If the L Bonds were treated as equity interests, there could be adverse effects on some holders. For example, payments on the L Bonds could (1) if paid to non-U.S. holders, be subject to federal income tax withholding; (2) constitute unrelated business taxable income to some tax-exempt entities, including pension funds and some retirement accounts (if the relationship were characterized as a partnership for tax purposes); and (3) cause the timing and amount of income that accrues to holders of L Bonds to be different from that described below.

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Because of these potential adverse effects, you are urged to consult your own tax advisors as to the tax consequences that may apply to your particular situation in the event the L Bonds are re-characterized as equity interests; and as to the likelihood that the L Bonds could be so re-characterized. The remainder of this discussion assumes that the L Bonds are characterized as debt.

Taxation of U.S. Holders

Stated Interest

Under general federal income tax principles, you must include stated interest in income in accordance with the method of accounting you use for federal income tax purposes. Accordingly, if you are using the accrual method of tax accounting, you must include stated interest in income as it accrues. If you are using the cash method of tax accounting, you must include stated interest in income as it is actually or constructively received. Payments of interest to taxable holders of L Bonds will constitute portfolio income, and not passive activity income, for the purposes of the passive loss limitations of the Code. Accordingly, income arising from payments on the L Bonds will not be subject to reduction by losses from passive activities of a holder.

Income attributable to interest payments on the L Bonds may be offset by investment expense deductions, subject to the limitation that individual investors may only deduct miscellaneous itemized deductions, including investment expenses other than interest, to the extent these deductions exceed 2% of the investor's adjusted gross income.

If a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds L Bonds, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership purchasing L Bonds, we urge you to consult your tax advisor.

Disposition of L Bonds

In general, a U.S. holder will recognize gain or loss upon the sale, exchange or other taxable disposition of an L Bond measured by the difference between (1) the sum of the cash and the fair market value of all other property received on such disposition, excluding any portion of the payment that is attributable to accrued interest on the L Bonds; and (2) your adjusted tax basis in the L Bond. A U.S. holder's adjusted tax basis in an L Bond generally will be equal to the price the U.S. holder paid for the L Bond. Any of this gain or loss generally will be long-term capital gain or loss if, at the time of any such taxable disposition, the L Bond was a capital asset in the hands of the holder and was held for more than one year. Net long-term capital gain recognized by individual U.S. holders is eligible for a reduced rate of taxation. The deductibility of capital losses is subject to annual limitations.

The terms of the L Bonds may be modified upon the consent of a specified percentage of holders and, in some cases, without consent of the holders. In addition, the L Bonds may be assumed upon the occurrence of specific transactions. The modification or assumption of an L Bond could, in some instances, give rise to a deemed exchange of an L Bond for a new debt instrument for federal income tax purposes. If an exchange is deemed to occur by reason of a modification or assumption, you could realize gain or loss without receiving any cash.

Additional Tax on Net Investment Income

If you are a U.S. holder other than a corporation, you generally will be subject to a 3.8% additional tax on the lesser of (1) your "net investment income" for the taxable year, and (2) the excess of your modified adjusted gross income for the taxable year over a certain threshold. Your net investment income generally will include any income or gain recognized by you with respect to our L Bonds, unless such income or gain is derived in the ordinary course of the conduct of your trade or business (other than a trade or business that consists of certain passive or trading activities).

Considerations for Tax-Exempt Holders of L Bonds

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Tax-exempt entities, including charitable corporations, pension plans, profit sharing or stock bonus plans, individual retirement accounts and some other employee benefit plans are subject to federal income tax on unrelated business taxable income. For example, net income derived from the conduct of a trade or business regularly carried on by a tax-exempt entity or by a partnership in which it is a partner is treated as unrelated business taxable income.

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A \$1,000 special deduction is allowed in determining the amount of unrelated business taxable income subject to tax. Tax-exempt entities taxed on their unrelated business taxable income are also subject to the alternative minimum tax for items of tax preference which enter into the computation of unrelated business taxable income.

In general, interest income does not constitute unrelated business taxable income. However, under the debt-financed property rules, if tax-exempt holders of L Bonds finance the acquisition or holding of L Bonds with debt, interest on the L Bonds will be taxable as unrelated business taxable income. The L Bonds will be treated as debt-financed property if the debt was incurred to acquire the L Bonds or was incurred after the acquisition of the L Bonds, so long as the debt would not have been incurred but for the acquisition and, at the time of the acquisition, the incurrence of the debt has already occurred or was foreseeable.

Non-U.S. Holders

The following discussion is a summary of the principal U.S. federal income consequences resulting from the ownership of the L Bonds by non-U.S. holders. However, application of the U.S. federal income tax rules associated with non-U.S. holders is complex and factually sensitive. Thus, if you could be considered to be a non-U.S. holder, you are urged to consult your own tax advisors with respect to the application of the federal income tax rules for your particular situation.

Payments of Interest to Non-U.S. Holders

Subject to the discussion below under “Backup Withholding and Information Reporting,” payments of interest received by a non-U.S. holder generally will not be subject to U.S. federal withholding tax, provided (1) that (a) the non-U.S. holder does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote; (b) the non-U.S. holder is not a controlled foreign corporation, actually or constructively, through stock ownership; and (c) the beneficial owner of the L Bond complies with the certification requirements, including delivery of a statement, signed by the holder under penalties of perjury, certifying that the holder is a foreign person and provides its name and address; or (2) that the non-U.S. holder is entitled to the benefits of an income tax treaty under which the interest is exempt from U.S. withholding tax and the non-U.S. holder complies with the reporting requirements. If an L Bond is held through a securities clearing organization or other specified financial institutions (an “Intermediary”), the Intermediary may provide the relevant signed statement and, unless the Intermediary is a “qualified” intermediary as defined under the Code, the signed statement provided by the Intermediary must be accompanied by a copy of a valid Form W-8BEN provided by the non-U.S. beneficial holder of the L Bond.

Payments of interest not exempt from United States federal withholding tax as described above will be subject to a withholding tax at the rate of 30%, subject to reduction under an applicable income tax treaty.

Payments of interest on an L Bond to a non-U.S. holder generally will not be subject to U.S. federal income tax, as opposed to withholding tax, unless the income is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States. To claim the benefit of a lower treaty withholding rate, a non-U.S. holder must provide a properly executed IRS Form W-8BEN to us or our paying agent before the payment of stated interest; and may be required to obtain a U.S. taxpayer identification number and provide documentary evidence issued by foreign governmental authorities to prove residence in the foreign country. You should consult your own tax advisor to determine the effects of the application of the U.S. federal withholding tax to your particular situation.

Disposition of the L Bonds by Non-U.S. Holders

Subject to the discussion below under “Backup Withholding and Information Reporting,” a non-U.S. holder generally will not be subject to United States federal income tax, and generally no tax will be withheld with respect to gains realized on the disposition of an L Bond, unless (a) the gain is effectively connected with a United States trade or business conducted by the non-U.S. holder or (b) the non-U.S. holder is an individual who is present in the United

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States for 183 or more days during the taxable year of the disposition and other requirements are satisfied.

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Non-U.S. Holders Subject to U.S. Income Taxation

If interest and other payments received by a non-U.S. holder with respect to the L Bonds, including proceeds from the disposition of the L Bonds, are effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States, or the non-U.S. holder is otherwise subject to United States federal income taxation on a net basis with respect to the holder's ownership of the L Bonds, or are individuals that have by operation of law become residents in the United States for federal income tax purposes, the non-U.S. holder generally will be subject to the rules described above applicable to U.S. holders of L Bonds, subject to any modification provided under an applicable income tax treaty. If any of these non-U.S. holders is a corporation, it may also be subject to a U.S. "branch profits tax" at a 30% rate.

Backup Withholding and Information Reporting

Non-corporate U.S. holders may be subject to backup withholding at a rate of 28% on payments of principal, premium, and interest on, and the proceeds of the disposition of, the L Bonds. In general, backup withholding will be imposed only if the U.S. holder (1) fails to furnish its taxpayer identification number ("TIN"), which for an individual would be his or her Social Security number; (2) furnishes an incorrect TIN; (3) is notified by the IRS that it has failed to report payments of interest or dividends; or (4) under some circumstances, fails to certify under penalty of perjury that it has furnished a correct TIN and has been notified by the IRS that it is subject to backup withholding tax for failure to report interest or dividend payments. In addition, the payments of principal and interest to U.S. holders generally will be subject to information reporting. You should consult your tax advisors regarding your qualification for exemption from backup withholding and the procedure for obtaining an exemption, if applicable.

Backup withholding generally will not apply to payments made to a non-U.S. holder of an L Bond who provides the certification that it is a non-U.S. holder, and the payor does not have actual knowledge that a certificate is false, or otherwise establishes an exemption from backup withholding. Payments by United States office of a broker of the proceeds of a disposition of the L Bonds generally will be subject to backup withholding at a rate of 28% unless the non-U.S. holder certifies it is a non-U.S. holder under penalties of perjury or otherwise establishes an exemption. In addition, if a foreign office of a foreign custodian, foreign nominee or other foreign agent of the beneficial owner, or if a foreign office of a foreign "broker" pays the proceeds of the sale of an L Bond to the seller, backup withholding and information reporting will not apply; provided that the nominee, custodian, agent or broker is not a "United States related person," or a person which derives more than 50% of its gross income for some periods from the conduct of a trade or business in the United States or is a controlled foreign corporation. The payment by a foreign office of a broker that is a United States person or a United States related person of the proceeds of the sale of L Bonds will not be subject to backup withholding, but will be subject to information reporting unless the broker has documentary evidence in its records that the beneficial owner is not a United States person for purposes of the backup withholding and information reporting requirements and other conditions are met, or the beneficial owner otherwise establishes an exemption.

The amount of any backup withholding imposed on a payment to a holder of an L Bond will be allowed as a credit against the holder's United States federal income tax liability and may entitle the holder to a refund; provided that the required information is furnished to the IRS.

STATE, LOCAL AND FOREIGN TAXES

We make no representations regarding the tax consequences of the purchase, ownership or disposition of the L Bonds under the tax laws of any state, locality or foreign country. You should consult your own tax advisors regarding these state and foreign tax consequences.

ERISA CONSIDERATIONS

General

Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and Section 4975 of the Code impose restrictions on employee benefit plans that are subject to ERISA, or plans or arrangements that are subject to Code Section 4975, and on persons who are parties in interest or disqualified persons with respect to those plans or arrangements. Some employee benefit plans, like governmental plans and church plans (if no election has been made under Section 410(d) of the Code), are not subject to the restrictions of Title I of ERISA or Code Section 4975, and assets of these plans may be invested in the L Bonds without regard to the ERISA considerations described below, subject to the Code and other applicable federal and state laws affecting tax-exempt organizations generally. Any plan fiduciary that proposes to cause a plan to acquire any of the L Bonds should consult with its counsel with respect to the potential consequences under ERISA and the Code of the plan’s acquisition and ownership of the L Bonds. Investments by plans are also subject to ERISA’s and the Code’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that a plan’s investments be made in accordance with the documents governing the plan.

Prohibited Transactions

General

Section 406 of ERISA and Section 4975 of the Code prohibits certain “parties in interest” and “disqualified persons” with respect to a plan from engaging in select transactions involving a plan and its assets unless a statutory, regulatory or administrative exemption applies to the transaction. Section 4975 of the Code imposes excise taxes on parties in interest that engage in non-exempt “prohibited transactions.” Section 502(i) of ERISA requires the Secretary of the U.S. Department of Labor (“Labor”) to assess a civil penalty against a fiduciary who breaches any fiduciary responsibility under, or commits any other violation of, part 4 of Title I of ERISA, or any other person who knowingly participates in a breach or violation.

Plan Asset Regulations

Labor has issued regulations concerning the definition of what constitutes the assets of a plan for purposes of ERISA and the prohibited transaction provisions of the Code. The plan asset regulations describe the circumstances where the assets of an entity in which a plan invests will be considered to be “plan assets,” so that any person who exercises control over the assets would be subject to ERISA’s fiduciary standards. Generally, under the plan asset regulation, when a plan invests in another entity, the plan’s assets do not include, solely by reason of the investment, any of the underlying assets of the entity. However, the plan asset regulation provides that, if a plan acquires an “equity interest” in an entity that is neither a “publicly-offered security” nor a security issued by an investment company registered under the Investment Company Act of 1940 the assets of the entity will be treated as assets of the plan investor unless exceptions apply.

Under the plan asset regulations the term “equity interest” is defined as any interest in an entity other than an instrument that is treated as indebtedness under “applicable local law” and that has no “substantial equity features.” Although the plan asset regulation is silent with respect to the question of which law constitutes “applicable local law” for this purpose, Labor has stated that these determinations should be made under the state law governing interpretation of the

instrument in question. In the preamble to the plan asset regulation, Labor declined to provide a precise definition of what features are equity features or the circumstances under which the features would be considered “substantial,” noting that the question of whether a plan’s interest has substantial equity features is an inherently factual one, but that in making that determination it would be appropriate to take into account whether the equity features are such that a plan’s investment would be a practical vehicle for the indirect provision of investment management services. We believe that the L Bonds will be classified as indebtedness without substantial equity features for ERISA purposes.

Under the plan asset regulations the term “publicly-offered security” is defined as a security that is (i) freely transferable, (ii) part of a class of securities that is widely held, and (iii) either (A) part of a class of securities registered under section 12(b) or 12(g) of the Securities Exchange Act of 1934 or (B) sold to the plan as part of an offering of securities to the public pursuant to an effective registration statement under the Securities Act of 1933 and the class of securities of which such security is a part is registered under the Securities Exchange Act of 1934 within 120 days after the end of the fiscal year of the issuer during which the offering of such securities to the public occurred. For purposes of the above, a class of securities is considered to be “widely held” if it is owned by 100 or more investors independent of the issuer and of one another. In the case of this offering, while the offer and sale of the L Bonds have been registered under the Securities Act of 1933, the L Bonds themselves have not been registered under the Securities Exchange Act of 1934. For this reason, we believe that the L Bonds will not likely meet the definition for “publicly-offered security” under the plan asset regulations.

In light of the foregoing, if the L Bonds were deemed to be equity interests for this purpose and no statutory, regulatory, or administrative exception applies, we could be considered to hold plan assets by reason of a plan’s investment in the L Bonds. These plan assets would include an undivided interest in all of our assets. In this case, we may be considered a fiduciary with respect to the investing plans. We would be subject to the fiduciary responsibility provisions of Title I of ERISA, including the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code, and to Section 4975 of the Code with respect to transactions involving any of our assets. The ERISA fiduciary standards could affect the way we conduct the business, which would have consequences for all investors, not just those that are employee benefit plans.

Depending on the relevant facts and circumstances, prohibited transaction exemptions may apply to the purchase or holding of the L Bonds. See, for example, Prohibited Transaction Class Exemption (“PTE”) 96-23, which exempts some transactions effected on behalf of a plan or by an “in-house asset manager;” PTE 95-60, which exempts some transactions between insurance company general accounts and parties in interest; PTE 91-38, which exempts some transactions between bank collective investment funds and parties in interest; PTE 90-1, which exempts some transactions between insurance company pooled separate accounts and parties in interest; or PTE 84-14, which exempts some transactions effected on behalf of a plan by a “qualified professional asset manager.” However, there can be no assurance that any of these exemptions will apply with respect to any plan’s investment in the L Bonds, or that the exemption, if it did apply, would apply to all prohibited transactions that may occur in connection with the investment.

Any plan fiduciary considering whether to purchase L Bonds on behalf of a plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code. Before purchasing any L Bonds, a fiduciary of a plan should make its own determination as to (1) whether GWG Holdings, as issuer of and borrower under the L Bonds, is a “party in interest” under ERISA or a “disqualified person” under the Code with respect to the plan; (2) the availability of the relief provided in the plan asset regulation and (3) the availability of any other prohibited transaction exemptions. In addition, purchasers that are insurance companies should consult their own ERISA counsel with respect to their fiduciary responsibilities associated with their purchase and ownership of the L Bonds, including any responsibility under the Supreme Court case *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*.

LEGAL MATTERS

Certain legal matters in connection with the L Bonds will be passed upon for us by Maslon LLP, of Minneapolis, Minnesota.

EXPERTS

The consolidated financial statements of GWG Holdings, Inc. and its subsidiaries as of and for the years ended December 31, 2016 and December 31, 2015, included in this prospectus and in the registration statement of which this prospectus is a part, have been audited by Baker Tilly Virchow Krause, LLP, an independent registered public accounting firm. As indicated in their report with respect thereto, these consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting are included in this prospectus in reliance upon the authority of such firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the L Bonds to be offered and sold pursuant to the prospectus which is a part of that registration statement. This prospectus does not contain all the information contained in the registration statement. For further information with respect to us and the L Bonds to be sold in this offering, we refer you to the registration statement, including the agreements, other documents and schedules filed as exhibits to the registration statement.

We file annual, quarterly and current reports, and other information with the SEC. We intend to make these filings available on our website at www.gwgh.com. Information on our website is not incorporated by reference in this prospectus. We maintain an office at 220 South Sixth Street, Suite 1200, Minneapolis, MN 55402 where all records concerning the L Bonds are to be retained. L Bond holders and their representatives can request information regarding the L Bonds by contacting our office by mail at our address or by telephone at (612) 746-1944 or by fax at (612) 746-0445. Upon request, we will provide copies of our filings with the SEC free of charge to our investors. Our SEC filings, including the registration statement of which this prospectus is a part, will also be available on the SEC's Internet site at <http://www.sec.gov>. You may read and copy all or any portion of the registration statement or any reports, statements or other information we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. In addition, you may call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. You may receive copies of these documents upon payment of a duplicating fee by writing to the SEC.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We are incorporating certain information about us that we have filed with the SEC by reference in this prospectus, which means that we are disclosing important information to you by referring you to those documents. The information we incorporate by reference is an important part of this prospectus.

We incorporate by reference the documents listed below and any future filings we will make with the Commission under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act (i) after the date of the initial filing of the registration statement of which this prospectus is a part and prior to effectiveness of such registration statement, and (ii) from the date of this prospectus but prior to the termination of the offering of the securities covered by this prospectus:

- Our Annual Report on Form 10-K for the period ended December 31, 2016, filed with the SEC on March 15, 2017 (including all exhibits thereto);
- Our Quarterly Reports on Form 10-Q for the periods ended March 31, 2017, June 30, 2017, and September 30, 2017 filed with the SEC on May 12, 2017, August 10, 2017, and November 9, 2017 respectively (including all exhibits thereto);
- Our Current Reports on Form 8-K filed with the SEC on February 9, February 22, March 8, April 3, April 19, May 10, June 30, August 10, 2017, September 27, 2017, October 26, 2017, and November 9, 2017 (including all exhibits thereto); and
- Our definitive proxy statement filed with the SEC on March 30, 2017 (including all exhibits thereto).

We are not, however, incorporating by reference any documents or portions thereof, whether specifically listed above or filed in the future, that are not deemed “filed” with the SEC or any information furnished pursuant to Items 2.02 or 7.01 of Form 8-K or certain exhibits furnished pursuant to Item 9.01 of Form 8-K.

The section entitled “Where You Can Find More Information” above describes how you can obtain or access any documents or information that we have incorporated by reference herein. The information relating to us contained in this prospectus does not purport to be comprehensive and should be read together with the information contained in the documents incorporated or deemed to be incorporated by reference in this prospectus.

Upon written or oral request, we will provide, free of charge, to each person, including any beneficial owner, to whom a prospectus is delivered, a copy of any or all of the reports or documents that are incorporated by reference into this prospectus. Such written or oral requests should be made to:

William Acheson, Chief Financial Officer

220 South Sixth Street, Suite 1200

Minneapolis, MN 55402

Telephone Number: (612) 746-1944

In addition, such reports and documents may be found on our website at www.gwgh.com.

GWG HOLDINGS, INC.

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors
GWG Holdings, Inc. and Subsidiaries
Minneapolis, MN

We have audited the accompanying consolidated balance sheets of GWG Holdings, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. We also have audited GWG Holdings, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013 framework). The company's management is responsible for these consolidated financial statements, for maintaining effective control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements include examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GWG Holdings, Inc. and Subsidiaries as of December 31, 2016 and 2015 and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, GWG Holdings, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway

Commission (COSO) (2013 framework).

/s/ Baker Tilly Virchow Krause, LLP
Minneapolis, Minnesota
March 15, 2017

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GWG HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
	<u>ASSETS</u>	
Cash and cash equivalents	\$ 78,486,982	\$ 34,425,105
Restricted cash	37,826,596	2,341,900
Investment in life insurance policies, at fair value	511,192,354	356,649,715
Secured MCA advances	5,703,147	—
Life insurance policy benefits receivable	5,345,000	—
Other assets	4,688,103	2,461,045
TOTAL ASSETS	\$ 643,242,182	\$ 395,877,765
	<u>LIABILITIES & STOCKHOLDERS' EQUITY</u>	
LIABILITIES		
Senior credit facilities	\$ 156,064,818	\$ 63,279,596
Series I Secured Notes	16,404,836	23,287,704
L Bonds	381,312,587	276,482,796
Accounts payable	2,226,712	1,517,440
Interest payable	16,160,599	12,340,061
Other accrued expenses	1,676,761	1,060,786
Deferred taxes, net	2,097,371	1,763,968
TOTAL LIABILITIES	\$ 575,943,684	\$ 379,732,351
STOCKHOLDERS' EQUITY		
CONVERTIBLE PREFERRED STOCK – Series A		
(par value \$0.001; shares authorized 40,000,000; shares outstanding 2,640,521 and 2,781,735; liquidation preference of \$19,804,000 and \$20,863,000 as of December 31, 2016 and 2015, respectively)	19,701,133	20,784,841
REDEEMABLE PREFERRED STOCK – RPS		
(par value \$0.001; shares authorized 100,000; shares outstanding 59,183 as of December 31, 2016)	59,025,164	—
COMMON STOCK		
(par value \$0.001: shares authorized 210,000,000; shares issued and outstanding 5,980,190 and 5,941,790 as of December 31, 2016 and 2015, respectively)	5,980	5,942
Additional paid-in capital	7,383,515	14,563,834
Accumulated deficit	(18,817,294)	(19,209,203)
TOTAL STOCKHOLDERS' EQUITY	67,298,498	16,145,414

TOTAL LIABILITIES & STOCKHOLDERS'
EQUITY

\$ 643,242,182

\$ 395,877,765

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2016	December 31, 2015
REVENUE		
Gain on life insurance policies, net	\$ 67,801,565	\$ 39,381,003
MCA income	929,303	—
Interest and other income	746,466	251,249
TOTAL REVENUE	69,477,334	39,632,252
EXPENSES		
Interest expense	42,343,374	29,518,718
Employee compensation and benefits	11,784,296	8,010,020
Legal and professional fees	3,947,376	3,152,783
Other expenses	10,676,976	7,784,350
TOTAL EXPENSES	68,752,022	48,465,871
INCOME (LOSS) BEFORE INCOME TAXES	725,312	(8,833,619)
Income tax expense (benefit)	333,403	(3,509,587)
NET INCOME (LOSS)	391,909	(5,324,032)
Preferred stock dividends	(3,537,287)	(2,069,242)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (3,145,378)	\$ (7,393,274)
NET LOSS PER COMMON SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS		
Basic	\$ (0.53)	\$ (1.25)
Diluted	\$ (0.53)	\$ (1.25)
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	5,967,274	5,906,761
Diluted	5,967,274	5,906,761

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

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	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	\$ 15,741,371	\$ (13,885,171)	\$ 22,389,936
Net loss	—	—	—	—	—	(5,324,032)	(5,324,032)
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
Preferred stock dividends	—	—	—	—	(2,069,242)	—	(2,069,242)
Stock-based compensation	—	—	—	—	193,804	—	193,804
Balance, December 31, 2015	2,781,735	\$ 20,784,841	5,941,790	\$ 5,942	\$ 14,563,834	\$ (19,209,203)	\$ 16,145,414
Net loss	—	—	—	—	—	391,909	391,909
Issuance of common stock	—	—	36,450	36	244,149	—	244,185
Redemption of Series A Preferred Stock	(239,749)	(1,788,451)	1,950	2	19,498	—	(1,768,951)
Issuance of Series A Preferred Stock	98,535	704,743	—	—	—	—	704,743
Issuance Redeemable Preferred Stock	59,183	59,025,164	—	—	(4,133,525)	—	54,891,639
	—	—	—	—	(3,537,288)	—	(3,537,288)

Preferred stock
dividends

Issuance of stock
options

**Balance,
December 31,
2016**

—	—	—	—	226,847	—	226,847
2,699,704	\$ 78,726,297	5,980,190	\$ 5,980	\$ 7,383,515	\$ (18,817,294)	\$ 67,298,498

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ 391,909	\$ (5,324,032)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Gain on life insurance policies	(48,988,406)	(39,371,059)
Amortization of deferred financing and issuance costs	8,445,252	3,712,056
Deferred income taxes	333,402	(3,509,587)
Preferred stock issued in lieu of cash dividends	689,742	683,133
Preferred stock dividends payable	302,972	6,800
(Increase) decrease in operating assets:		
Due from related parties	1,169	(1,256)
Life insurance policy benefits receivable	(5,345,000)	1,750,000
Other assets	(23,022,962)	(304,526)
Increase in operating liabilities:		
Accounts payable	709,272	313,864
Interest payable	4,868,196	2,213,529
Other accrued expenses	(4,399,443)	2,183,393
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(66,013,897)	(37,647,685)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in life insurance policies	(94,952,879)	(38,906,934)
Carrying value of matured life insurance policies	10,992,624	4,511,289
Investment in Secured MCA advances	(8,727,924)	—
Proceeds from Secured MCA advances	2,553,466	—
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(90,134,713)	(34,395,645)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on (repayments of) Senior Credit Facilities	97,713,952	(7,150,000)
Payments for redemption of Series I Secured Notes	(7,469,462)	(4,891,681)
Proceeds from issuance of L Bonds	153,874,402	131,159,348
Payments for issuance and redemption of L Bonds	(10,149,316)	(7,499,601)
Payments for redemption of L Bonds	(45,754,691)	(35,984,061)
Proceeds from (increase in) restricted cash	(35,484,697)	1,954,153
Issuance of common stock	244,185	582,000
Proceeds from issuance of preferred stock	57,112,501	—
Payments for issuance costs of preferred stock	(4,140,866)	—
Payments for redemption of preferred stock	(2,198,233)	(295,185)
Payments of preferred stock dividends	(3,537,288)	(2,069,242)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	200,210,487	75,805,731
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,061,877	3,762,401

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CASH AND CASH EQUIVALENTS

BEGINNING OF YEAR	34,425,105	30,662,704
END OF YEAR	\$ 78,486,982	\$ 34,425,105

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS — CONTINUED

	Year Ended December 31, 2016	2015
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$ 34,607,000	\$ 22,648,000
Premiums paid	\$ 40,240,000	\$ 26,650,000
Stock-based compensation	\$ 227,000	\$ 194,000
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Options issued to purchase common stock	638,000	353,000
Series I Secured Notes:		
Conversion of accrued interest and commission payable to principal	\$ 234,000	\$ 203,000
L Bonds:		
Conversion of accrued interest and commission payable to principal	\$ 1,988,000	\$ 806,000
Series A Preferred Stock:		
Conversion to common stock	\$ 39,000	\$ 116,000
Issuance of preferred stock in lieu of cash dividends	\$ 690,000	\$ 683,000
Investment in life insurance policies included in accounts payable	\$ 605,000	\$ 1,079,000

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

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business — We are a financial services company committed to finding new ways of disrupting and transforming the life insurance and related industries through innovative products and services, business processes, financing strategies, and advanced epigenetic technology. Historically, we have focused on creating opportunities for consumers to obtain significantly more value for their life insurance policies as compared to the traditional options offered by the insurance industry. As part of our business, we create opportunities for investors to receive income and capital appreciation from our various activities in the life insurance and related industries. Through its wholly owned subsidiaries, GWG Holdings, Inc. owns a portfolio of life insurance policies. As of the date of this report, our portfolio had an aggregate fair value of \$511.2 million. We earn income from changes in the fair value of our portfolio and through the benefits we receive upon the mortality of insureds.

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.

On September 30, 2015, GWG Holdings formed a wholly owned subsidiary, Wirth Park Agency, LLC. Wirth Park Agency was formed to convert term life insurance policies into universal, or permanent life insurance. Wirth Park Agency produces commission revenue through this activity.

On December 7, 2015, GWG Holdings formed a wholly owned subsidiary, GWG MCA, LLC. On January 13, 2016, GWG MCA, LLC was converted to a corporation and became GWG MCA Capital, Inc. GWG MCA Capital, Inc. was formed to engage in the merchant cash advance business.

On August 25, 2016, GWG Holdings formed a wholly owned subsidiary, Actua Life & Annuity Ltd. to engage in various life insurance related businesses and activities.

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. We regularly evaluate 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 that we experience may differ materially and adversely from our 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 policies, 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 Policies — ASC 325-30 permits a reporting entity to account for its investments in life insurance policies using either the investment method or the fair value method. We elected to use the fair value method to account for our life insurance policies. Under the fair value method we recognize our initial investment at the purchase price. At

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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 also recognize realized gain (revenue) from a life insurance policy upon one of the two following events: (1) our receipt of notice or verified mortality of the insured; or (2) our sale of the policy, 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 policy benefits and the carrying values of the policy once we determine that collection of the policy benefits is realizable and reasonably assured. In the case of a policy sale, the gain (or loss) we recognize is the difference between the sale price and the carrying value of the policy on the date of our receipt of sale proceeds.

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Nature of Business and Summary of Significant Accounting Policies (cont.)

In a case where our acquisition of a policy 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 have secured title to the policy. On December 31, 2016 and 2015, a total of \$42,000 and \$31,000, respectively, of our “other assets” comprised direct costs and deposits that we advanced for policy acquisitions.

Other Assets — Actua Life & Annuity Ltd. (“Actua”) is a new wholly-owned subsidiary of GWG Holdings engaged in various life insurance businesses and activities. In August 2016, Actua entered into an exclusive option agreement with the Regents of the University of California to explore the use of predictive mortality forecasting using an epigenetic mortality predictor invented by Dr. Steve Horvath. The cost of entering into this exclusive option agreement is listed as “other assets.”

Stock-Based Compensation: We measure and recognize compensation expense for all stock-based payments at fair value over the requisite service period. We use the Black-Scholes option pricing model to determine the weighted average fair value of options. For restricted stock grants, fair value is determined as the average price of our common stock on the date of grant. Equity-based compensation expense is recorded in administrative expenses based on the classification of the employee or vendor. The determination of fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as by assumptions regarding a number of subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

The expected terms of the options are based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at grant date. Volatility is based on historical and expected future volatility of our stock. To date, we have not paid any dividends on our common stock. Forfeitures for both option and restricted stock grants are estimated at the time of the grant and revised in subsequent periods if actual forfeitures differ from estimates.

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 include issuance costs, sales commissions and other direct expenses, 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 financing costs, which are amortized using the interest method over the term of those borrowings. The Series A, as described in Note 9, is reported net of financing costs (including the fair value of warrants issued), all of which were fully amortized using the interest method as of December 31, 2016. Selling and issuance costs of RPS and Series 2 Redeemable Preferred Stock (“RPS 2”), described in Notes 10 and 11, are netted against additional paid-in-capital.

Earnings (loss) per Share — Basic earnings (loss) per share attributable to common shareholders 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, RPS, warrants and stock options. Due to our net loss for years ended December 31, 2016 and 2015, there are no dilutive securities.

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

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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.

On February 25, 2016, the FASB issued ASU 2016-02 Leases (“ASU 2016-02”). The new guidance is effective for fiscal years beginning after December 15, 2018. ASU 2016-02 provides more transparency and comparability in the financial statements of lessees by recognizing all leases with a term greater than twelve months on the balance sheet. Lessees will also be required to disclose key information about their leases. Early adoption is permitted. We have not adopted ASU 2016-02 as of December 31, 2016.

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 policies, pay annual policy premiums, pay interest and other charges under the facility, and collect policy benefits. The agent for the lender authorizes the disbursements from these accounts. At December 31, 2016 and December 31, 2015, there was a balance of \$37,827,000, and \$2,342,000, respectively, in these restricted cash accounts.

(3) Investment in Life Insurance Policies

Life insurance policies are valued based on unobservable inputs that are significant to their overall fair value. Changes in the fair value of these policies are recorded as gain or loss on life insurance policies, net of cash premiums paid on those policies, in our consolidated statements of operations. Fair value is determined on a discounted cash flow basis that incorporates life expectancy assumptions generally 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 policies, the discount rates observed in the life insurance secondary market, market interest rates, the credit exposure to the insurance companies that issued the life insurance policies 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 10.96% and 11.09% were applied to our portfolio as of December 31, 2016 and December 31, 2015, respectively.

A summary of our policies, organized according to their estimated life expectancy dates as of the dates indicated, is as follows:

Years Ending December 31,	As of December 31, 2016			As of December 31, 2015		
	Number of Policies	Estimated Fair Value	Face Value	Number of Policies	Estimated Fair Value	Face Value
2016	—	\$ —	\$ —	5	\$ 7,503,000	\$ 8,500,000
2017	11	14,837,000	16,939,000	12	12,875,000	17,418,000
2018	23	30,830,000	42,564,000	27	37,109,000	58,428,000
2019	55	57,556,000	88,858,000	51	54,242,000	100,967,000
2020	93	85,414,000	159,814,000	59	64,750,000	137,868,000
2021	86	73,825,000	158,744,000	48	45,724,000	116,805,000
2022	66	56,909,000	147,222,000	44	38,394,000	116,998,000
Thereafter	356	191,821,000	747,534,000	150	96,053,000	387,860,000
Totals	690	\$ 511,192,000	1,361,675,000	396	\$ 356,650,000	\$ 944,844,000

We recognized life insurance benefits of \$48,452,000 and \$31,232,000 during 2016 and 2015, respectively, related to policies with a carrying value of \$10,993,000 and \$4,511,000, respectively, and as a result recorded realized gains of \$37,459,000 and \$26,721,000.

Reconciliation of gain on life insurance policies:

Years Ended December 31,	
2016	2015

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Change in fair value	\$ 70,582,000	\$ 39,371,000
Premiums and other annual fees	(40,240,000)	(26,711,000)
Policy maturities	37,460,000	26,721,000
Gain on life insurance policies, net	\$ 67,802,000	\$ 39,381,000

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Investment in Life Insurance Policies (cont.)

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

Years Ending December 31,	Premiums	Servicing	Premiums and Servicing Fees
2017	\$ 44,787,000	\$ 534,000	\$ 45,321,000
2018	50,165,000	534,000	50,699,000
2019	55,685,000	534,000	56,219,000
2020	60,561,000	534,000	61,095,000
2021	67,824,000	534,000	68,358,000
	\$ 279,022,000	\$ 2,670,000	\$ 281,692,000

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 policies. The proceeds of these capital sources may also be used for the purchase, financing, and maintenance of additional life insurance policies.

(4) Fair Value Definition and Hierarchy

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 we have 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

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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.

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Fair Value Definition and Hierarchy (cont.)

Level 3 Valuation Process

The estimated fair value of our portfolio of life insurance policies 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 current information about discount rate applied by other reporting companies owning portfolios of life insurance policies, the discount rates observed in the life insurance secondary market, market interest rates, the credit exposure to the insurance company that issued the life insurance policy and management's estimate of the risk premium a purchaser would require to receive the future cash flows derived from our portfolio 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.

The following table reconciles the beginning and ending fair value of our Level 3 investments in our portfolio of life insurance policies for the periods ended December 31, as follows:

	Years Ended December 31,	
	2016	2015
Beginning balance	\$ 356,650,000	\$ 282,883,000
Purchases	94,953,000	38,907,000
Maturities (initial cost basis)	(10,993,000)	(4,511,000)
Net change in fair value	70,582,000	39,371,000
Ending balance	\$ 511,192,000	\$ 356,650,000

In the past, we periodically updated the independent life expectancy estimates on the insured lives in our portfolio, other than insured lives covered under small face amount policies (i.e., \$1 million in face value benefits or less), on a continuous rotating three-year cycle, and through that effort attempted to update life expectancies for approximately one-twelfth of our portfolio each quarter. Nevertheless, the terms of our senior credit facility with LNV Corporation currently requires us to attempt to update life expectancies on a rotating two-year cycle.

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

	As of December 31, 2016		As of December 31, 2015	
Weighted-average age of insured, years	81.6		82.6	
Weighted-average life expectancy, months	83.2		79.3	
Average face amount per policy	\$ 1,973,000		\$ 2,386,000	
Discount rate	10.96	%	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

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Fair Value Definition and Hierarchy (cont.)

policy, 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 policies would increase or (decrease) as summarized below:

Change in Fair Value of the Investment in Life Insurance Policies

	Change in life expectancy estimates			
	minus 8 months	minus 4 months	plus 4 months	plus 8 months
December 31, 2016	\$ 69,253,000	\$ 34,601,000	\$ (33,846,000)	\$ (67,028,000)
December 31, 2015	\$ 48,339,000	\$ 24,076,000	\$ (23,501,000)	\$ (46,482,000)

	Change in discount rate			
	minus 2%	minus 1%	plus 1%	plus 2%
December 31, 2016	\$ 53,764,000	\$ 25,728,000	\$ (23,668,000)	\$ (45,491,000)
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 \$403,681,000 as of December 31, 2016, is approximately \$414,419,000 based on a weighted-average market interest rate of 6.45%. 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 policies collateralizing the debt. The overall rate reflects market, and the carrying value of the facility approximates fair value.

GWG MCA participates in the merchant cash advance industry 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 December 31, 2016 one of our secured loans was potentially impaired. The secured loan to Nulook Capital LLC had an outstanding balance of \$2,527,000 and a loan loss reserve of \$600,000 at December 31, 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.

The following table summarizes outstanding warrants as of December 31, 2016:

Month issued	Warrants issued	Fair value per share	Risk free rate		Volatility		Term
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
	363,017						

(5) Credit Facility — Autobahn Funding Company LLC

Through DLP III, we are party to a \$105 million 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 senior credit facility in full with funds received from a new senior credit facility with LNV Corporation as described in Note 6.

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Credit Facility — Autobahn Funding Company LLC (cont.)

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

The Agreement has certain financial (as described below) and nonfinancial covenants, and we were in compliance with these covenants at both December 31, 2016 and 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 December 31, 2016, as calculated under the Agreement, was \$38,642,000 and \$182,514,000, respectively.

Total funds available for additional borrowings under the facility at December 31, 2016 and 2015, were \$0 and \$39,989,000, respectively.

(6) Credit Facility — CSG Investments, Inc.

On September 14, 2016, we entered into a senior credit facility with LNV Corporation as lender through our subsidiary GWG DLP Funding IV, LLC ("DLP IV"). The facility is governed by a Loan and Security Agreement (the "Loan Agreement"), with CLMG Corp. acting as administrative agent on behalf of the lenders 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 at the LIBOR rate as defined by the lender. Interest will accrue on amounts borrowed under the agreement at an annual interest rate, determined as of each date of borrowing or quarterly if there is no 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.

The amount outstanding under this facility was \$162,725,000 at December 31, 2016. 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 life insurance policies owned by DLP IV do not serve as direct collateral for the obligations of GWG Holdings under its L Bonds or Series I Secured Notes. The difference between the outstanding balance as of December 31, 2016 and the carrying amount relates to unamortized debt issuance costs.

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 December 31, 2016, the amount set aside in the reserve account was

\$27,500,000.

The Agreement has certain financial and nonfinancial covenants, and we were in compliance with these covenants at December 31, 2016.

Total funds available for additional borrowings under the facility at December 31, 2016 was \$0.

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Series I Secured Notes

Series I Secured Notes (“Series I”) are legal obligations of GWG Life and were privately offered and sold from August 2009 through June 2011. The Series I 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 both December 31, 2016 and 2015.

The Series I 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 Series I 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 renew the Series I.

Interest on the Series I is payable monthly, quarterly, annually or at maturity depending on the election of the investor. At December 31, 2016 and 2015, the weighted-average interest rate of our Series I was 8.68% and 8.47%, respectively. The principal amount of Series I outstanding was \$16,614,000 and \$23,578,000 at December 31, 2016 and 2015, respectively. The difference between the amount outstanding on the Series I 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 \$332,000 and \$362,000 in 2016 and 2015, respectively. Future expected amortization of deferred financing costs is \$209,000 in total over the next five years.

Future contractual maturities of Series I payable and future amortization of their deferred financing costs at December 31, 2016 are as follows:

Years Ending December 31,	Contractual Maturities	Amortization of Deferred Financing Costs
2017	\$ 10,523,000	\$ 41,000
2018	2,401,000	41,000
2019	1,024,000	20,000
2020	1,725,000	52,000
2021	941,000	55,000
	\$ 16,614,000	\$ 209,000

(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 December 31, 2016 and 2015.

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Effective September 1, 2016, we ceased selling 6-month and 1-year L Bonds until further notice. 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.

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) L Bonds (cont.)

At December 31, 2016 and 2015, the weighted-average interest rate of our L Bonds was 7.23% and 7.16%, respectively. The principal amount of L Bonds outstanding was \$387,067,000 and \$282,171,000 at December 31, 2016 and 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 \$7,099,000 and \$5,285,000 in 2016 and 2015, respectively. Future expected amortization of deferred financing costs as of December 31, 2016 is \$11,636,000 in total over the next eight years.

Future contractual maturities of L Bonds, and future amortization of their deferred financing costs, at December 31, 2016 are as follows:

Years Ending December 31,	Contractual Maturities	Amortization of Deferred Financing Costs
2017	\$ 106,955,000	\$ 1,178,000
2018	109,407,000	3,000,000
2019	90,463,000	3,450,000
2020	20,679,000	809,000
2021	28,923,000	1,512,000
Thereafter	30,640,000	1,687,000
	\$ 387,067,000	\$ 11,636,000

(9) Series A Convertible Preferred Stock

From July 2011 until September 2012, we privately offered shares of 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 accumulating and are recorded as a reduction to additional paid-in capital. 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 a price of \$10.00 per share.

As of December 31, 2016, we issued an aggregate of 473,000 shares of Series A in satisfaction of \$3,310,000 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 December 31, 2016, we had 2,640,000 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.

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 December 31, 2016, none of these warrants were exercised, 69,000 warrants have expired. The weighted-average remaining life of these warrants was 0.56 and 1.43 years at December 31, 2016 and 2015, respectively.

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In September 2014, we completed, at our discretion, 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 at a price equal to 110% of their liquidation preference (\$7.50 per share) at any time. As of December 31, 2016, we have redeemed an aggregate of 277,000 shares of Series A.

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 recorded as a reduction to additional paid-in capital. 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.

Holdes of RPS may request that we redeem their RPS 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 complete discretion to grant redemption requests. 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 December 31, 2016, we had sold 59,183 shares of RPS for aggregate gross consideration of \$59,025,000, and incurred approximately \$4,134,000 of selling costs related to the sale of those shares.

At the time of its issuance, we determined that the RPS contained two embedded features: (1) optional redemption by the holder at our discretion and (2) optional conversion by the holder. We determined that each of the embedded features met the definition of a derivative and that the RPS should be considered an equity host for the purposes of assessing the embedded derivatives for potential bifurcation. Based on our assessment under ASC 470 “Debt” we do not believe bifurcation of either the holder’s redemption or conversion feature is appropriate.

(11) Series 2 Redeemable Preferred Stock

On February 14, 2017, our public offering up to 150,000 shares of Series 2 Redeemable Preferred Stock (“RPS 2”) at \$1,000 per share was declared effective. Holders of RPS 2 are entitled to cumulative dividends at the rate of 7% per annum, paid monthly. Dividends on the RPS 2, when payable, will be recorded as a reduction to additional paid-in capital. Under certain circumstances described in the Certificate of Designation for the RPS 2, additional shares of RPS 2 may be issued in lieu of cash dividends.

The RPS 2 ranks senior to our common stock and pari passu with our Series A and RPS, 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 2 may, less an applicable conversion discount, if any, convert their RPS 2 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 \$12.75 and in an aggregate amount limited to 10% of the stated value of RPS 2 originally purchased from us.

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Holders of RPS 2 may request that we redeem their RPS 2 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 2 permits us complete discretion to decline requests for redemption. Subject to certain restrictions and conditions, we may also redeem shares of RPS 2 without a redemption fee upon a holder's death, total disability or bankruptcy. In addition, we may, at our option, call and redeem shares of RPS 2 at a price equal to their liquidation preference (subject to a minimum redemption price, in the event of redemptions occurring less than one year after issuance, of 107% of the stated value of the shares being redeemed).

We have not sold any shares of RPS 2.

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) 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 December 31, 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.

Holdings of MCA Preferred were redeemed as of December 31, 2016 at the stated value of their shares plus accrued but unpaid dividends.

(13) Income Taxes

We had a current income tax liability of \$0 as of both December 31, 2016 and 2015. The components of deferred income tax expense (benefit) for 2016 and 2015, respectfully, consisted of the following:

	2016	2015
Income tax provision:		
Deferred:		
Federal	\$ 252,000	\$ (2,660,000)
State	81,000	(850,000)
Total income tax expense (benefit)	\$ 333,000	\$ (3,510,000)

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. 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 December 31, 2016 effective tax rate and the statutory federal rate are state taxes, and other non-deductible expenses. The most significant temporary differences between GAAP net income and taxable net income are the treatment of interest costs with respect to the acquisition of the life insurance policies and revenue recognition with respect to the mark-to-market of our life insurance portfolio.

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

	2016			2015		
Statutory federal income tax	\$ 247,000	34.0	%	\$ (3,004,000)	34.0	%
State income taxes, net of federal benefit	56,000	7.8	%	(561,000)	6.3	%
Other permanent differences	30,000	4.2	%	55,000	(0.6))%
Total income tax expense	\$ 333,000	46.0	%	\$ (3,510,000)	39.7	%

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Income Taxes (cont.)

The tax effects of temporary differences that give rise to deferred income taxes were as follows:

	2016	2015
Deferred tax assets:		
Note receivable from related party	\$ 2,023,000	\$ 2,023,000
Net operating loss carryforwards	10,781,000	7,049,000
Other assets	1,130,000	375,000
Subtotal	13,934,000	9,447,000
Valuation allowance	(2,164,000)	(2,164,000)
Deferred tax assets	11,770,000	7,283,000
Deferred tax liabilities:		
Investment in life insurance policies	(13,867,000)	(9,046,000)
Other	—	(1,000)
Net deferred tax liability	\$ (2,097,000)	\$ (1,764,000)

At December 31, 2016 and 2015, we had federal net operating loss (“NOL”) carryforwards of \$26,642,000 and \$17,451,000, respectively, and aggregate state NOL carryforwards of approximately \$26,616,000 and \$17,423,000, respectively. The NOL carryforwards will begin to expire in 2031. Future utilization of NOL carryforwards is subject to limitations under Section 382 of the Internal Revenue Code. This section generally relates to a more than 50 percent change in ownership over a three-year period. We currently do not believe that any issuance of common stock has resulted in an ownership change under Section 382.

We provide for a valuation allowance when it is not considered “more likely than not” that our deferred tax assets will be realized. At both December 31, 2016 and 2015 based upon all available evidence, we provided a valuation allowance of \$2,164,000, against deferred tax assets related to the likelihood of recovering the tax benefit of a capital loss on a note receivable from a related entity and other capital losses. Management believes all other deferred tax assets are recoverable.

ASC 740 requires the reporting of certain tax positions that do not meet a threshold of “more-likely-than-not” to be recorded as uncertain tax benefits. It management’s responsibility to determine whether it is “more-likely-than-not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation, based upon the technical merits of the position. Management has reviewed all income tax positions taken or expected to be taken for all open years and determined that the income tax positions are appropriately stated and supported. We do not anticipate that the total unrecognized tax benefits will significantly change prior to December 31, 2016.

Under our accounting policies, interest and penalties on unrecognized tax benefits, as well as interest received from favorable tax settlements are recognized as components of income tax expense. At December 31, 2016 and 2015, we recorded no accrued interest or penalties related to uncertain tax positions.

Our income tax returns for tax years ended December 31, 2013, 2014, 2015 and 2016, when filed, remain open to examination by the Internal Revenue Service and various state taxing jurisdictions. Our tax return for tax year 2012 has now been examined by the IRS (finalized April of 2015) but is open for examination by various state taxing jurisdictions.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(14) 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.

(15) Stock Incentive Plan

We adopted our 2013 Stock Incentive Plan in March 2013. The Compensation Committee of our Board of Directors is responsible for the administration 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.

In September 2014, we entered into a stock option agreement with a new management employee granting the employee the right to purchase up to 318,000 of our common stock at an exercise price of \$12.50. The grant of such rights to purchase our common stock was treated as an inducement grant and was issued outside the GWG Holdings Inc. 2013 Stock Incentive Plan.

Through December 31, 2016, we had issued stock options for 2,048,000 shares of common stock to employees, officers, and directors under the plan. Options for 738,000 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. The expected annualized volatility used in the Black-Scholes model valuation of options issued during the period was 25.9%. 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 December 31, 2016, stock options for 437,000 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)

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Balance as of December 31, 2015	483,703	569,912	1,053,615
Granted during the year	22,500	608,350	630,850
Vested during the year	251,788	(251,788)	—
Forfeited during the year	(19,926)	(82,140)	(102,066)
Balance as of December 31, 2016	738,065	844,334	1,582,399

Compensation expense related to un-vested options not yet recognized is \$525,000. We expect to recognize this compensation expense over the next three years (\$265,000 in 2017, \$157,000 in 2018, and \$103,000 in 2019).

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Stock Incentive Plan (cont.)

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 December 31, 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	106,608	133,127	239,735
Forfeited during the year	—	—	—
Balance as of December 31, 2016	106,608	133,127	239,735

A liability for Stock Appreciation Rights — Compensation Expense was recorded on December 31, 2016 in the amount of \$4,266 and Compensation Expense was charged for the same amount.

(16) Net Loss per Common Share

We have outstanding Series A and RPS, as described in Notes 9 and 10. The Series A and RPS are anti-dilutive to our net loss attributable to common shareholders calculation for the years ended December 31, 2016 and December 31, 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 at December 31, 2016 and 2015 and have not been included in the fully diluted net loss per common share calculation.

(17) 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 2026. 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 this agreement were \$415,000 and \$283,000 during 2016 and 2015, respectively.

Minimum lease payments under the amended lease are as follows:

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
	\$ 1,836,000

(18) Contingencies

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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.

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds

We are publicly offering and selling L Bonds 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 our 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 our life insurance policies are held by DLP III, DLP IV and the Trust. The policies held by DLP III and DLP IV are not collateral for the L Bond obligations as such policies 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 described in these notes. A majority of insurance policies 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 policies and to pay interest and other charges under the senior credit facility.

The following represents consolidating financial information as of December 31, 2016 and December 31, 2015, with respect to the financial position, and as of December 31, 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 CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds (cont.)

Consolidating Balance Sheets

December 31, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<u>ASSETS</u>					
Cash and cash equivalents	\$ 28,481,047	\$ 49,360,952	\$ 644,983	\$ —	\$ 78,486,982
Restricted cash	—	2,117,649	35,708,947	—	37,826,596
Investment in life insurance policies, at fair value	—	41,277,896	469,914,458	—	511,192,354
Secured MCA advances	—	—	5,703,147	—	5,703,147
Life insurance policy benefits receivable	—	—	5,345,000	—	5,345,000
Other assets	3,854,233	2,056,822	810,640	(2,033,592)	4,688,103
Investment in subsidiaries	429,971,148	352,337,037	—	(782,308,185)	—
TOTAL ASSETS	\$ 462,306,428	\$ 447,150,356	\$ 518,127,175	\$ (784,341,777)	\$ 643,242,182

LIABILITIES & STOCKHOLDERS' EQUITY

LIABILITIES

Senior credit facilities	\$ —	\$ —	\$ 156,064,818	\$ —	\$ 156,064,818
Series I Secured Notes	—	16,404,836	—	—	16,404,836
L Bonds	381,312,587	—	—	—	381,312,587
Accounts payable	853,470	731,697	641,545	—	2,226,712
Interest payable	9,882,133	3,743,277	2,535,189	—	16,160,599
Other accrued expenses	862,369	544,032	2,303,952	(2,033,592)	1,676,761
Deferred taxes, net	2,097,371	—	—	—	2,097,371
TOTAL LIABILITIES	395,007,930	21,423,842	161,545,504	(2,033,592)	575,943,684

STOCKHOLDERS'
EQUITY (DEFICIT)

Member capital	—	425,726,514	356,581,671	(782,308,185)	—
Convertible preferred stock	19,701,133	—	—	—	19,701,133
Redeemable preferred stock	59,025,164	—	—	—	59,025,164
Common stock	5,980	—	—	—	5,980
Additional paid-in capital	7,383,515	—	—	—	7,383,515
Accumulated deficit	(18,817,294)	—	—	—	(18,817,294)
	67,298,498	425,726,514	356,581,671	(782,308,185)	67,298,498

TOTAL
STOCKHOLDERS'
EQUITY

TOTAL LIABILITIES
AND
STOCKHOLDERS'
EQUITY
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\$ 462,306,428	\$ 447,150,356	\$ 518,127,175	\$ (784,341,777)	\$ 643,242,182
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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds (cont.)

Consolidating Balance Sheets (continued)

December 31, 2015	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<u>ASSETS</u>					
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 policies, 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)	—
TOTAL ASSETS	\$ 303,920,490	\$ 296,069,001	\$ 357,070,479	\$ (561,182,205)	\$ 395,877,765
<u>LIABILITIES & STOCKHOLDERS' EQUITY</u>					
LIABILITIES					
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
TOTAL LIABILITIES	287,775,076	26,332,968	65,624,307	—	379,732,351
STOCKHOLDERS' EQUITY (DEFICIT)					
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	14,563,834	—	—	—	17,149,391
Accumulated deficit	(19,209,203)	—	—	—	(19,209,203)
TOTAL STOCKHOLDERS' EQUITY	16,145,414	269,736,033	291,446,172	(561,182,205)	16,145,414
TOTAL LIABILITIES AND	\$ 303,920,490	\$ 296,069,001	\$ 357,070,479	\$ (561,182,205)	\$ 395,877,765

STOCKHOLDERS'
EQUITY
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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds (cont.)

Consolidated Statements of Operations

For the year ended December 31, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Policy servicing fees	\$ —	\$ 13,417	\$ —	\$ (13,417)	\$ —
Gain on life insurance policies, net	—	379,405	67,422,160	—	67,801,565
MCA income	—	—	929,303	—	929,303
Interest and other income	260,087	59,340	639,414	(212,375)	746,466
TOTAL REVENUE	260,087	452,162	68,990,877	(225,792)	69,477,334
EXPENSES					
Origination and servicing fees	—	—	13,417	(13,417)	—
Interest expense	32,149,577	2,311,819	8,094,353	(212,375)	42,343,374
Employee compensation and benefits	6,874,368	4,358,406	551,522	—	11,784,296
Legal and professional fees	2,107,053	1,628,408	211,915	—	3,947,376
Other expenses	5,822,621	2,871,318	1,983,037	—	10,676,976
TOTAL EXPENSES	46,953,619	11,169,951	10,854,244	(225,792)	68,752,022
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES					
	(46,693,532)	(10,717,789)	58,136,633	—	725,312
EQUITY IN INCOME OF SUBSIDIARIES					
	47,418,844	58,822,543	—	(106,241,387)	—
NET INCOME BEFORE INCOME TAXES					
	725,312	48,104,754	58,136,633	(106,241,387)	725,312
INCOME TAX EXPENSE					
	333,403	—	—	—	333,403
NET INCOME					
	391,909	48,104,754	58,136,633	(106,241,387)	391,909
Preferred stock dividends					
	(3,537,287)	—	—	—	(3,537,287)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS					
	\$ (3,145,378)	\$ —	\$ —	\$ —	\$ (3,145,378)

For the year ended December 31, 2015	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
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REVENUE					
Policy servicing fees	\$ —	\$ 2,217,471	\$ —	\$ (2,217,471)	\$ —
Gain on life insurance policies, net	—	—	39,381,003	—	39,381,003
Interest and other income	45,613	62,125	143,511	—	251,249
TOTAL REVENUE	45,613	2,279,596	39,524,514	(2,217,471)	39,632,252
EXPENSES					
Origination and servicing fees	—	—	2,217,471	(2,217,471)	—
Interest expense	22,416,821	2,703,124	4,398,743	—	29,518,718
Employee compensation and benefits	6,007,347	2,002,673	—	—	8,010,020
Legal and professional fees	2,115,580	1,037,203	—	—	3,152,783
Other expenses	4,295,085	3,347,294	141,971	—	7,784,350
TOTAL EXPENSES	34,834,863	9,090,294	6,758,185	(2,217,471)	48,465,871
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES					
	(34,789,250)	(6,810,698)	32,766,329	—	(8,833,619)
EQUITY IN INCOME OF SUBSIDIARIES					
	25,955,631	32,766,108	—	(58,721,739)	—
NET INCOME (LOSS) BEFORE INCOME TAXES					
	(8,833,619)	25,955,410	32,766,329	(58,721,739)	(8,833,619)
INCOME TAX BENEFIT					
	(3,509,587)	—	—	—	(3,509,587)
NET INCOME (LOSS)					
	(5,324,032)	25,955,410	32,766,329	(58,721,739)	(5,324,032)
Preferred stock dividends					
	(2,069,242)	—	—	—	(2,069,242)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS					
	\$ (7,393,274)	\$ —	\$ —	\$ —	\$ (7,393,274)

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds (cont.)

Consolidated Statements of Cash Flows

For the year ended December 31, 2016	Parent	Guarantor Sub	Non-Guarantor Sub	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	\$ 391,909	\$ 48,104,754	\$ 58,136,633	\$ (106,241,387)	\$ 391,909
Adjustments to reconcile net income to net cash flows from operating activities:					
(Equity) of subsidiaries	(47,418,845)	(58,822,542)	—	106,241,387	—
Gain on life insurance policies, gross	—	—	(48,988,406)	—	(48,988,406)
Amortization of deferred financing and issuance costs	7,720,065	(1,307,640)	2,032,827	—	8,445,252
Deferred income taxes	333,402	—	—	—	333,402
Preferred stock issued in lieu of cash dividends	689,742	—	—	—	689,742
Preferred stock dividends payable	302,972	—	—	—	302,972
(Increase) decrease in operating assets:					
Life insurance policy benefits receivable	—	—	(5,345,000)	—	(5,345,000)
Due from related parties	—	1,169	—	—	1,169
Other assets	(112,725,117)	(44,866,357)	19,683,919	114,884,593	(23,022,962)
Increase (decrease) in operating liabilities:					
Due to related party	(2,033,592)	—	2,033,592	—	—
Accounts payable	572,483	574,481	(437,692)	—	709,272
Interest payable	2,191,113	420,259	2,256,824	—	4,868,196
Other accrued expenses	706,718	2,873,233	(7,979,395)	—	(4,399,444)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(149,269,149)	(53,022,643)	21,393,302	114,884,593	(66,013,897)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in life insurance policies	—	—	(94,952,879)	—	(94,952,879)
	—	—	10,992,624	—	10,992,624

Carrying value of matured life insurance policies					
Investment in Secured MCA advances	—	—	(8,727,924)	—	(8,727,924)
Proceeds from Secured MCA advances	—	—	2,553,466	—	2,553,466
NET CASH FLOWS USED IN INVESTING ACTIVITIES	—	—	(90,134,713)	—	(90,134,713)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net borrowings on senior credit facilities	—	—	97,713,952	—	97,713,952
Payments for redemption of Series I Secured Notes	—	(7,469,462)	—	—	(7,469,462)
Proceeds from issuance of L Bonds	153,874,402	—	—	—	153,874,402
Payment of deferred issuance costs for L Bonds	(10,149,316)	—	—	—	(10,149,316)
Payments for redemption of L Bonds	(45,754,691)	—	—	—	(45,754,691)
Issuance of common stock	244,185	—	—	—	244,185
Proceeds (payments) from restricted cash	—	(15,392)	(35,469,305)	—	(35,484,697)
Proceeds from issuance of preferred stock	57,040,946	—	71,555	—	57,112,501
Payments for issuance costs of preferred stock	(4,133,526)	—	(7,340)	—	(4,140,866)
Payments for redemption of preferred stock	(2,126,678)	—	(71,555)	—	(2,198,233)
Payments of preferred stock dividends	(3,537,288)	—	—	—	(3,537,288)
Issuance of member capital	—	107,885,727	6,998,866	(114,884,593)	—
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	145,458,034	100,400,873	69,236,173	(114,884,593)	200,210,487
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,811,115)	47,378,230	494,762	—	44,061,877
CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD	32,292,162	1,982,722	150,221	—	34,425,105

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END OF THE PERIOD	\$ 28,481,047	\$ 49,360,952	\$ 644,983	\$ —	\$ 78,486,982
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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds (cont.)

Consolidated Statements of Cash Flows (continued)

For the year ended December 31, 2015	Parent	Guarantor Sub	Non-Guarantor Sub	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	\$ (5,324,032)	\$ 25,955,410	\$ 32,766,329	\$ (58,721,739)	\$ (5,324,032)
Adjustments to reconcile net income to net cash flows from operating activities:					
(Equity) of subsidiaries	(25,955,632)	(32,766,107)	—	58,721,739	—
Gain on life insurance policies, gross	—	—	(39,371,059)	—	(39,371,059)
Amortization of deferred financing and issuance costs	4,081,051	362,457	(731,452)	—	3,712,056
Deferred income taxes	(3,509,587)	—	—	—	(3,509,587)
Preferred stock issued in lieu of cash dividends	683,133	—	—	—	683,133
Preferred stock dividends payable	6,800	—	—	—	6,800
(Increase) decrease in operating assets:					
Due from related parties	—	(1,256)	—	—	(1,256)
Life insurance policy benefits receivable	—	—	1,750,000	—	1,750,000
Other assets	(58,689,451)	(43,314,345)	—	101,699,270	(304,526)
Increase (decrease) in operating liabilities:					
Accounts payable	(129,909)	(85,463)	529,236	—	313,864
Interest payable	2,730,921	233,786	(751,178)	—	2,213,529
Other accrued expenses	2,059,136	149,242	(24,985)	—	2,183,393
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(84,047,570)	(49,466,276)	(5,833,109)	101,699,270	(37,647,685)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in life insurance policies	—	—	(38,906,934)	—	(38,906,934)
Proceeds from settlement of life insurance policies	—	—	4,511,289	—	4,511,289

NET CASH FLOWS USED IN INVESTING ACTIVITIES	—	—	(34,395,645)	—	(34,395,645)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net repayment of senior credit facilities	—	—	(7,150,000)	—	(7,150,000)
Payments for redemption of Series I Secured Notes	—	(4,891,681)	—	—	(4,891,681)
Proceeds from issuance of L Bonds	131,159,348	—	—	—	131,159,348
Payment of deferred issuance costs for L Bonds	(7,499,601)	—	—	—	(7,499,601)
Payments for redemption of L Bonds	(35,984,061)	—	—	—	(35,984,061)
Proceeds (payments) from restricted cash	—	(2,019,757)	3,973,910	—	1,954,153
Issuance of common stock	582,000	—	—	—	582,000
Payments for redemption of preferred stock	(295,185)	—	—	—	(295,185)
Payments of preferred stock dividends	(2,069,242)	—	—	—	(2,069,242)
Issuance of member capital	—	58,144,205	43,555,065	(101,699,270)	—
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	85,893,259	51,232,767	40,378,975	(101,699,270)	75,805,731
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,845,689	1,766,491	150,221	—	3,762,401
CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD	30,446,473	216,231	—	—	30,662,704
END OF THE PERIOD	\$ 32,292,162	\$ 1,982,722	\$ 150,221	\$ —	\$ 34,425,105

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(20) Concentration

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

Life insurance company	As of December 31,			
	2016		2015	
John Hancock	14.36	%	12.73	%
AXA Equitable	13.42	%	14.00	%
Lincoln National	11.22	%		*

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

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

State of residence	As of December 31,			
	2016		2015	
California	20.72	%	25.25	%
Florida	19.42	%	19.95	%

(21) Subsequent Events

Subsequent to December 31, 2016, eight policies covering seven individuals have matured. The combined insurance benefits of these policies were \$15,975,000. We recorded realized gains of \$13,956,000 on these seven policies.

Subsequent to December 31, 2016, we have issued approximately an additional \$15,318,000 in principal amount of L Bonds.

Subsequent to December 31, 2016 we have issued approximately \$16,871,000 of RPS.

On February 9, 2017, we declared a special cash dividend in the amount of \$2.50 per share, payable on or about April 14, 2017, to the holders of RPS of record as of the close of business on April 5, 2017.

On February 14, 2017, we began a public offering of up to 150,000 shares of RPS 2 at \$1,000 per share. As of the date of this report, we have not sold any shares of RPS 2.

Effective February 16, 2017, Paul Siegert, Director and Executive Chairman, voluntarily resigned from the Board of Directors. As part of his resignation, we agreed to repurchase Mr. Siegert's 200,445 shares of GWG common stock for an aggregate of approximately \$1.604 million. As a separation payment, Mr. Siegert will continue to receive his regular salary payments (annualized to approximately \$201,000) through December 31, 2017 and he forfeited all options, both unvested and vested, to purchase shares of GWG common stock. Following his resignation, the Board of Directors appointed Mark Schwarzmann as a director of the Board and Jon Sabes was appointed Chairman of the Board.

(22) Reclassification of Preferred Stock Dividends

For the quarter ended December 31, 2016, we identified an error relating to prior periods in the classification of preferred stock dividends on the consolidated statement of operations and balance sheet. Preferred stock dividends have been classified as interest expense since the third quarter of 2014, when our initial public offering became effective. As a result, dividend cost resulted in an increase of the accumulated deficit on the balance sheet. The preferred stock dividends should have been charged directly to additional paid-in capital and are separately reflected as preferred stock dividends on the consolidated statement of operations. The reclassification of preferred stock dividends did not result in any changes to total equity in any of the periods effected. Additionally, the reclassification did not result in any changes to net loss attributable to common shareholders or net loss per common share for the year ended December 31, 2015.

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GWG HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2017 (unaudited)	December 31, 2016
<u>ASSETS</u>		
Cash and cash equivalents	\$ 115,345,481	\$ 78,486,982
Restricted cash	5,819,230	37,826,596
Investment in life insurance policies, at fair value	620,097,938	511,192,354
Secured MCA advances	2,623,657	5,703,147
Life insurance policy benefits receivable	14,597,000	5,345,000
Deferred taxes, net	4,384,546	—
Other assets	3,824,200	4,688,103
TOTAL ASSETS	\$ 766,692,052	\$ 643,242,182
<u>LIABILITIES & STOCKHOLDERS' EQUITY</u>		
LIABILITIES		
Senior Credit Facilities	\$ 201,978,580	\$ 156,064,818
Series I Secured Notes	—	16,404,836
L Bonds	413,060,517	381,312,587
Accounts payable	3,715,236	2,226,712
Interest payable	13,521,174	16,160,599
Other accrued expenses	2,792,521	1,676,761
Deferred taxes, net	—	2,097,371
TOTAL LIABILITIES	635,068,028	575,943,684
STOCKHOLDERS' EQUITY		
CONVERTIBLE PREFERRED STOCK		
(par value \$0.001; shares authorized 40,000,000; shares outstanding 2,694,725 and 2,640,521; liquidation preference of \$20,210,000 and \$19,804,000 as of September 30, 2017 and December 31, 2016, respectively)	19,408,980	19,701,133
REDEEMABLE PREFERRED STOCK		
(par value \$0.001; shares authorized 100,000; shares outstanding 99,080 and 59,183; liquidation preference of \$99,080,000 and \$59,183,000 as of September 30, 2017 and December 31, 2016, respectively)	96,106,633	59,025,164
SERIES 2 REDEEMABLE PREFERRED STOCK		
(par value \$0.001; shares authorized 150,000; shares outstanding 48,316 and 0; liquidation preference of \$48,316,000 and \$0 as of September 30, 2017 and December 31, 2016, respectively)	44,721,747	—
COMMON STOCK		
(par value \$0.001; shares authorized 210,000,000; shares issued and outstanding 5,813,555 and 5,980,190 as of September 30, 2017 and December 31, 2016, respectively)	5,814	5,980
Additional paid-in capital	—	7,383,515

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Accumulated deficit	(28,619,150)	(18,817,294)
TOTAL STOCKHOLDERS' EQUITY	131,624,024	67,298,498
TOTAL LIABILITIES & EQUITY	\$ 766,692,052	\$ 643,242,182

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
REVENUE				
Gain on life insurance policies, net	\$ 14,421,353	\$ 13,509,755	\$ 45,117,438	\$ 51,606,815
MCA income	100,367	286,225	480,526	654,441
Interest and other income	175,323	124,998	855,009	341,098
TOTAL REVENUE	14,697,043	13,920,978	46,452,973	52,602,354
EXPENSES				
Interest expense	13,275,407	10,942,790	38,765,647	29,856,601
Employee compensation and benefits	3,792,096	2,912,463	10,696,455	8,450,168
Legal and professional fees	1,657,090	586,830	3,934,027	3,097,312
Provision for MCA advances	28,000	—	906,000	400,000
Other expenses	2,771,196	2,863,212	8,434,617	7,208,057
TOTAL EXPENSES	21,523,789	17,305,295	62,736,746	49,012,138
INCOME (LOSS) BEFORE INCOME TAXES	(6,826,746)	(3,384,317)	(16,283,773)	3,590,216
INCOME TAX EXPENSE (BENEFIT)	(2,764,243)	(1,428,130)	(6,481,917)	1,478,617
NET INCOME (LOSS)	(4,062,503)	(1,956,187)	(9,801,856)	2,111,599
Preferred stock dividends	3,548,165	1,041,178	7,447,022	2,153,333
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (7,610,668)	\$ (2,997,365)	\$ (17,248,878)	\$ (41,734)
NET INCOME (LOSS) PER SHARE				
Basic	\$ (1.31)	\$ (0.50)	\$ (2.96)	\$ (0.01)
Diluted	\$ (1.31)	\$ (0.50)	\$ (2.96)	\$ (0.01)
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	5,797,800	5,978,322	5,829,808	5,962,938
Diluted	5,797,800	5,978,322	5,829,808	5,962,938

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, 2017	September 30, 2016	September 30, 2017	September 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	\$ (4,062,503)	\$ (1,956,187)	\$ (9,801,856)	\$ 2,111,599
Adjustments to reconcile net income (loss) to net cash flows from operating activities:				
Change in fair value of life insurance policies	(20,181,732)	(21,073,226)	(49,301,067)	(53,846,155)
Amortization of deferred financing and issuance costs	2,344,541	2,765,743	6,508,692	6,077,905
Deferred income taxes	(2,764,243)	(1,428,130)	(6,481,917)	1,478,617
Preferred stock dividends payable	333,391	333,565	1,034,139	663,614
(Increase) decrease in operating assets:				
Life insurance policy benefits receivable	(7,627,000)	700,000	(9,252,000)	(6,129,022)
Other assets	102,437	419,836	970,767	(617,630)
Increase (decrease) in operating liabilities:				
Due to related party	(3,429)	(80,949)	(13,214)	(182,730)
Accounts payable and other accrued expenses	(415,471)	(3,216,990)	1,840,616	(2,024,234)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(32,274,009)	(23,536,338)	(64,495,840)	(52,468,036)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in life insurance policies	(25,199,692)	(25,770,326)	(67,321,363)	(74,470,362)
Carrying value of matured life insurance policies	2,333,039	1,078,889	7,716,847	7,381,132
Investment in Secured MCA advances	—	(1,965,896)	(39,671)	(7,613,310)
Proceeds from Secured MCA advances	826,621	220,911	2,250,323	1,246,703
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(22,040,032)	(26,436,422)	(57,393,864)	(73,455,837)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings on (repayments of) Senior Credit Facilities	56,887,491 (3,937,907)	(10,761,048) —	49,787,954 (5,128,319)	6,238,952 —

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Payments for issuance of senior debt				
Payments for redemption of Series I Secured Notes	(6,815,406)	(541,275)	(16,613,667)	(6,264,018)
Proceeds from issuance of L Bonds	30,271,873	64,350,430	87,016,343	135,477,090
Payments for issuance and redemption of L Bonds	(19,752,717)	(14,373,447)	(58,949,880)	(37,036,922)
Transfer from (payments to) restricted cash	40,340,401	(4,527,232)	32,007,366	(13,346,126)
Issuance (repurchase) of common stock	30	31,515	(1,603,526)	244,185
Proceeds from issuance of preferred stock	25,211,870	20,786,332	86,692,811	31,287,541
Payment for issuance and redemption of preferred stock	(1,291,420)	(2,556,859)	(7,013,857)	(4,174,773)
Payment of preferred stock dividends	(3,548,165)	(1,041,178)	(7,447,022)	(2,153,333)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	117,366,050	51,367,238	158,748,203	110,272,596
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,052,009	1,394,478	36,858,499	(15,651,277)
CASH AND CASH EQUIVALENTS				
BEGINNING OF PERIOD	52,293,472	17,379,350	78,486,982	34,425,105
END OF PERIOD	\$ 115,345,481	\$ 18,773,828	\$ 115,345,481	\$ 18,773,828

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, 2017	September 30, 2016	September 30, 2017	September 30, 2016
SUPPLEMENTAL				
DISCLOSURES OF CASH				
FLOW INFORMATION				
Interest paid	\$ 17,478,000	\$ 10,808,000	\$ 45,101,000	\$ 27,207,000
Premiums paid	\$ 12,927,000	\$ 11,785,000	\$ 35,533,000	\$ 29,225,000
Stock-based compensation	\$ 270,000	\$ 162,000	\$ 350,000	\$ 213,000
Payments for exercised stock options	\$ 164,000	\$ —	\$ 264,000	\$ —
NON-CASH INVESTING				
AND FINANCING				
ACTIVITIES				
Series I Secured Notes:				
Conversion of accrued interest and commissions payable to principal	\$ —	\$ 47,000	\$ —	\$ 234,000
L Bonds:				
Conversion of accrued interest and commissions payable to principal	\$ 477,000	\$ 854,000	\$ 1,382,000	\$ 1,515,000
Series A Preferred Stock:				
Issuance of Series A Preferred Stock in lieu of cash dividends	\$ 161,000	\$ 170,000	\$ 499,000	\$ 509,000
Investment in life insurance policies included in accounts payable	\$ 966,000	\$ 1,603,000	\$ 966,000	\$ 1,603,000

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, 2015	2,781,735	\$ 20,784,841	5,941,790	\$ 5,942	\$ 14,563,834	\$ (19,209,203)	\$ 16,145,414
Net loss	—	—	—	—	—	391,909	391,909
Issuance of common stock	—	—	36,450	36	244,149	—	244,185
Redemption of Series A Preferred Stock	(239,749)	(1,788,451)	1,950	2	19,498	—	(1,768,951)
Issuance of Series A Preferred Stock	98,535	704,743	—	—	—	—	704,743
Issuance of Redeemable Preferred Stock	59,183	59,025,164	—	—	(4,133,525)	—	54,891,639
Preferred stock dividends	—	—	—	—	(3,537,288)	—	(3,537,288)
Issuance of stock options	—	—	—	—	226,847	—	226,847
Balance, December 31, 2016	2,699,704	\$ 78,726,297	5,980,190	\$ 5,980	\$ 7,383,515	\$ (18,817,294)	\$ 67,298,498
Net income	—	—	—	—	—	(9,801,856)	(9,801,856)
Issuance of common stock	—	—	33,810	34	320,970	—	321,004
Redemption of common	—	—	(200,445)	(200)	(1,603,360)	—	(1,603,560)

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stock

Issuance of
Series A
Preferred
Stock

71,237 498,659 — — — — 498,659

Redemption
of Series A
Preferred
Stock

(17,033) (126,997) — — — — (126,997)

Issuance of
redeemable
preferred
stock

88,822 85,082,425 — — (2,338,457) — 82,743,968

Redemption
of
redeemable
preferred
stock

(609) (608,777) — — — — (608,777)

Dividends
paid

(3,670,488) — — (3,776,534) — (7,447,022)

Issuance of
stock
options

336,241 — — 13,866 — 350,107

**Balance,
September
30, 2017**

2,842,121 \$ 160,237,360 5,813,555 \$ 5,814 \$ — \$ (28,619,150) \$ 131,624,021

* Preferred stock dividends were paid from additional paid-in capital until the latter was exhausted in the second quarter of 2017. Subsequent dividends were charged against the carrying values of the respective series of the Company's preferred stock, resulting in a difference between the Company's preferred stock book balances and liquidation preference of the respective series of preferred stock.

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 — We are a financial services company committed to disrupting and transforming the life insurance industry and related industries. We built our business by creating opportunities for consumers to obtain significantly more value for their life insurance policies in a secondary market as compared to the traditional options offered by the insurance industry. We are enhancing and extending these activities through innovation in our products and services, business processes, financing strategies, and advanced epigenetic technologies. At the same time, we are creating opportunities for investors to receive income and capital appreciation from our investment activities in the life insurance and related industries.

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.

On December 7, 2015, GWG Holdings formed a wholly owned subsidiary, GWG MCA, LLC. On January 13, 2016, GWG MCA, LLC was converted to a corporation and became GWG MCA Capital, Inc. GWG MCA Capital, Inc. was formed to provide cash advances to small businesses.

On August 25, 2016, GWG Holdings formed a wholly owned subsidiary, Actüa Life & Annuity Ltd., renamed to Life Epigenetics Inc. (“Life Epigenetics”) in August 2017, to engage in various life insurance related businesses and activities related to its exclusive license for “DNA Methylation Based Predictor of Mortality” technology.

Use of Estimates — The preparation of our consolidated financial statements in conformity with GAAP requires management to make significant 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. We regularly evaluate estimates and assumptions, which are based on current facts, historical experience, management’s judgment, and various other factors that we believe to be reasonable under the circumstances. Our actual results may differ materially and adversely from our 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 policies 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 Policies — Accounting Standards Codification 325-30, *Investments in Insurance Contracts* permits a reporting entity to account for its investments in life insurance policies using either the investment method or the fair value method. We elected to use the fair value method to account for our life insurance policies. We initially record our purchase of life insurance policies at the transaction price, which is the amount paid for the policy, inclusive of all external fees and costs associated with the acquisition. At each subsequent reporting period, we re-measure the investment at fair value in its entirety and recognize the change in fair value as unrealized gain (revenue) in the current period, net of premiums paid.

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In a case where our acquisition of a policy 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 have secured title to the policy. On September 30, 2017 and December 31, 2016, a total of \$0 and \$42,000, respectively, of our “other assets” comprised direct costs and deposits that we had advanced for life insurance policy acquisitions.

We also recognize realized gain (or loss) from a life insurance policy upon one of the two following events: (1) our receipt of notice or verified mortality of the insured; or (2) our sale of the policy (upon filing of change-of-ownership

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Nature of Business and Summary of Significant Accounting Policies (cont.)

forms and receipt of payment). In the case of mortality, the gain (or loss) we recognize is the difference between the policy benefits and the carrying values of the policy once we determine that collection of the policy benefits is realizable and reasonably assured. In the case of a policy sale, the gain (or loss) we recognize is the difference between the sale price and the carrying value of the policy on the date we receive sale proceeds.

Other Assets — Life Epigenetics is engaged in various life insurance related businesses and activities related to its exclusive license for the “DNA Methylation Based Predictor of Mortality” technology for the life insurance industry. The cost of entering into this license agreement is included in “other assets.”

Stock-Based Compensation — We measure and recognize compensation expense for all stock-based payments at fair value over the requisite service period. We use the Black-Scholes option pricing model to determine the weighted-average fair value of options. For restricted stock grants, fair value is determined as of the closing price of our common stock on the date of grant. Stock-based compensation expense is recorded in general and administrative expenses based on the classification of the employee or vendor. The determination of fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as by assumptions regarding a number of subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards.

The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at grant date. Volatility is based on the standard deviation of the average continuously compounded rate of return of five selected comparable companies over the previous 52 weeks. We have not historically issued any common stock dividends and do not expect to do so in the foreseeable future.

Deferred Financing and Issuance Costs — Loans advanced to us under our senior credit facility with LNV Corporation, as described in Note 6, are reported net of financing costs, including issuance costs, sales commissions and other direct expenses, which are amortized using the straight-line method over the term of the facility. We had no loans advanced to us under our senior credit facility with Autobahn Funding Company during the nine months ended September 30, 2017, as described in Note 5. The Series I and L Bonds, as respectively described in Notes 7 and 8, are reported net of financing costs, which are amortized using the interest method over the term of those borrowings. The Series A Convertible Preferred Stock (“Series A”), as described in Note 9, is reported net of financing costs (including the fair value of warrants issued), all of which were fully amortized using the interest method as of September 30, 2017. Selling and issuance costs of Redeemable Preferred Stock (“RPS”) and Series 2 Redeemable Preferred Stock (“RPS 2”), described in Notes 10 and 11, are netted against additional paid-in-capital, if any, and then against the outstanding balance of the preferred stock.

Earnings (loss) per Share — Basic earnings (loss) per share attributable to common shareholders 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 Series A, RPS, RPS 2, warrants and stock options. Due to our net loss for the three and nine months ended September 30, 2017 and 2016, there are no dilutive securities.

Recently Issued Accounting 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.

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On February 25, 2016, the FASB issued Accounting Standards Update 2016-02 *Leases* (“ASU 2016-02”). The new guidance is effective for fiscal years beginning after December 15, 2018. ASU 2016-02 provides more transparency and comparability in the financial statements of lessees by recognizing all leases with a term greater than twelve months on the balance sheet. Lessees will also be required to disclose key information about their leases. Early adoption is permitted. We are currently evaluating the impact of the adoption of this pronouncement and have not yet adopted ASU 2016-02 as of September 30, 2017.

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Nature of Business and Summary of Significant Accounting Policies (cont.)

In March 2016, the FASB issued Accounting Standards Update 2016-09 (“ASU 2016-09”) to simplify the accounting for stock compensation related to the following items: income tax accounting, award classification, estimation of forfeitures, and cash flow presentation. The new guidance is effective for fiscal years beginning after December 15, 2016. We adopted ASU 2016-09 effective January 1, 2017. The impact of the adoption was not material to the financial statements.

(2) Restrictions on Cash

Under the terms of our senior credit facility with LNV Corporation (discussed in Note 6), we are required to maintain a collection account that is used to collect policy benefits from pledged policies, pay interest and other charges under the facility, and distribute funds to pay down the facility. The agents for the lenders authorize disbursements from these accounts. At September 30, 2017 and December 31, 2016, there was a balance of \$5,819,000, and \$37,827,000, respectively, in these restricted cash accounts.

(3) Investment in Life Insurance Policies

Life insurance policies are valued based on unobservable inputs that are significant to their overall fair value. Changes in the fair value of these policies are recorded as gain or loss on life insurance policies, net of premiums paid on those policies, in our consolidated statements of operations. Fair value is determined on a discounted cash flow basis that incorporates life expectancy assumptions generally derived from reports obtained from widely accepted life expectancy providers, other than insured lives covered under small face amount policies (i.e., \$1 million in face value benefits or less), assumptions relating to cost-of-insurance (premium) rates and other assumptions. The discount rate we apply incorporates current information about discount rates applied by other public reporting companies owning portfolios of life insurance policies, the discount rates observed in the life insurance secondary market, market interest rates, the estimated credit exposure to the insurance companies that issued the life insurance policies and management’s estimate of the operational risk premium a purchaser would require to receive the future cash flows derived from our portfolio as a whole. Management has discretion regarding the combination of these and other factors when determining the discount rate. As a result of management’s analysis, a discount rate of 10.54% was applied to our portfolio as of September 30, 2017 as compared to 10.96% as of December 31, 2016.

A summary of our policies, organized according to their estimated life expectancy dates as of the reporting date, is as follows:

Years Ending December 31,	As of September 30, 2017			As of December 31, 2016		
	Number of Policies	Estimated Fair Value	Face Value	Number of Policies	Estimated Fair Value	Face Value
2017	2	\$ 2,016,000	\$ 2,125,000	11	\$ 14,837,000	\$ 16,939,000
2018	9	13,222,000	16,564,000	23	30,830,000	42,564,000
2019	57	63,926,000	88,967,000	55	57,556,000	88,858,000
2020	94	88,281,000	148,908,000	93	85,414,000	159,814,000
2021	88	87,710,000	162,525,000	86	73,825,000	158,744,000
2022	91	78,940,000	174,699,000	66	56,909,000	147,222,000
2023	84	63,439,000	168,821,000	64	44,953,000	128,581,000

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Thereafter	425	222,564,000	860,018,000	292	146,868,000	618,953,000
Totals	850	\$ 620,098,000	\$ 1,622,627,000	690	\$ 511,192,000	1,361,675,000

We recognized life insurance benefits of \$9,747,000 and \$5,300,000 during the three months ended September 30, 2017 and 2016, respectively, related to policies with a carrying value of \$2,333,000 and \$1,078,000, respectively, and as a result recorded realized gains of \$7,414,000 and \$4,222,000, respectively. We recognized life insurance benefits of \$39,657,000 and \$34,367,000 during the nine months ended September 30, 2017 and 2016, respectively, related to policies with a carrying value of \$7,716,000 and \$7,381,000, respectively, and as a result recorded realized gains of \$31,941,000 and \$26,986,000.

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(3) Investment in Life Insurance Policies (cont.)

Reconciliation of gain on life insurance policies:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Change in estimated probabilistic cash flows	\$ 12,568,000	\$ 12,955,000	\$ 40,033,000	\$ 34,078,000
Unrealized gain on acquisitions	7,217,000	11,668,000	25,863,000	29,509,000
Premiums and other annual fees	(13,174,000)	(11,784,000)	(36,124,000)	(29,225,000)
Change in discount rates ⁽¹⁾	7,987,000	(378,000)	12,130,000	460,000
Change in life expectancy evaluation ⁽²⁾	(5,370,000)	(2,285,000)	(13,974,000)	(3,199,000)
Face value of matured policies	9,747,000	5,300,000	39,657,000	34,367,000
Fair value of matured policies	(4,554,000)	(1,966,000)	(22,468,000)	(14,383,000)
Gain on life insurance policies, net	\$ 14,421,000	\$ 13,510,000	\$ 45,117,000	\$ 51,607,000

(1) The discount rate applied to estimate the fair value of the portfolio of life insurance policies we own was 10.54% as of September 30, 2017, compared to 10.96% as of December 31, 2016 and 11.07% as of September 30, 2016. The carrying value of policies 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.

(2) The change in fair value due to updating independent life expectancy estimates on certain life insurance policies in our portfolio.

We currently estimate that premium payments and servicing fees required to maintain our current portfolio of life insurance policies 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, 2017	\$ 16,915,000	\$ 1,587,000	\$ 18,502,000
2018	54,931,000	1,587,000	56,518,000
2019	60,916,000	1,587,000	62,503,000
2020	68,728,000	1,587,000	70,315,000
2021	77,522,000	1,587,000	79,109,000
2022	87,424,000	1,587,000	89,011,000
	\$ 366,436,000	\$ 9,522,000	\$ 375,958,000

Management anticipates funding the majority of the premium payments estimated above with additional borrowing capacity, created as the premiums and servicing costs of pledged life insurance policies become due, under the amended and restated senior credit facility with LNV Corporation as described in Note 6. Management anticipates funding premiums and servicing costs of non-pledged life insurance policies from proceeds from the receipt of policy benefits from our portfolio of life insurance policies and net proceeds from our offering of L Bonds and RPS 2. The

proceeds of these capital sources may also be used for the purchase, financing, and maintenance of additional life insurance policies.

(4) Fair Value Definition and Hierarchy

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (“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

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(4) Fair Value Definition and Hierarchy (cont.)

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 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 policies 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 current information about discount rates applied by other reporting companies owning portfolios of life insurance policies, the discount rates observed in the life insurance secondary market, market interest rates, the estimated credit exposure to the insurance company that issued the life insurance policy and management’s estimate of the operational risk premium a purchaser would require to receive the future cash flows derived from our portfolio as a whole. Management has discretion regarding the combination of these and other factors when determining the discount rate.

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.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(4) Fair Value Definition and Hierarchy (cont.)

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Beginning balance	\$ 577,050,000	\$ 431,820,000	\$ 511,192,000	\$ 356,650,000
Purchases	25,199,000	25,770,000	67,321,000	74,470,000
Maturities (initial cost basis)	(2,333,000)	(1,078,000)	(7,716,000)	(7,381,000)
Net change in fair value	20,182,000	21,073,000	49,301,000	53,846,000
Ending balance	\$ 620,098,000	\$ 477,585,000	\$ 620,098,000	\$ 477,585,000

In the past, we periodically updated the independent life expectancy estimates on the insured lives in our portfolio, other than insured lives covered under small face amount policies (i.e., \$1 million in face value benefits or less), on a continuous rotating three-year cycle, and through that effort attempted to update life expectancies for approximately one-twelfth of our portfolio each quarter. Currently, however, the terms of our senior credit facility with LNV Corporation require us to update the independent life expectancy estimates every two years beginning from the date of the amended facility.

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

	As of September 30, 2017	As of December 31, 2016
Weighted-average age of insured, years*	81.7	81.6
Weighted-average life expectancy, months*	82.6	83.2
Average face amount per policy	\$ 1,909,000	\$ 1,973,000
Discount rate	10.54 %	10.96 %

(*) Weighted average by face amount of policy benefits

Life expectancy estimates and market discount rates for a portfolio of life insurance policies are 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 policy, 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 policies would increase or decrease as summarized below:

Change in Fair Value of the Investment in Life Insurance Policies

	Change in life expectancy estimates			
	minus 8 months	minus 4 months	plus 4 months	plus 8 months
September 30, 2017	\$ 83,536,000	\$ 41,411,000	\$ (40,893,000)	\$ (81,069,000)
December 31, 2016	\$ 69,253,000	\$ 34,601,000	\$ (33,846,000)	\$ (67,028,000)

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	Change in discount rate			
	minus 2%	minus 1%	plus 1%	plus 2%
September 30, 2017	\$ 65,263,000	\$ 31,222,000	\$ (28,708,000)	\$ (55,167,000)
December 31, 2016	\$ 53,764,000	\$ 25,728,000	\$ (23,668,000)	\$ (45,491,000)

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GWG HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

(4) Fair Value Definition and Hierarchy (cont.)

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 L Bonds, having an aggregate face value of \$424,778,000 as of September 30, 2017, is approximately \$434,374,000 based on a weighted-average market interest rate of 6.68%. The carrying value of the senior credit facility 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 policies pledged against the debt. The overall rate reflects market, and the carrying value of the facility approximates fair value.

GWG MCA participated in the merchant cash advance industry 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, 2017 one of our secured loans was potentially impaired. Specifically, the secured loan to Nulook Capital LLC had an outstanding balance of \$2,001,000 and a loan loss reserve of \$1,506,000 at September 30, 2017. 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, referred to as an impairment charge. We recorded an impairment charge of \$28,000 and \$906,000 for the three and nine months ended September 30, 2017, respectively.

The following table summarizes outstanding warrants related to the Company's initial public offering as of September 30, 2017:

Month issued	Warrants issued	Fair value per share	Risk free rate		Volatility		Term
September 2014	16,000 16,000	\$ 1.26	1.85	%	17.03	%	5 years

(5) Credit Facility — Autobahn Funding Company LLC

On September 12, 2017, we terminated our \$105 million senior credit facility with Autobahn Funding Company LLC, the Credit and Security Agreement governing the facility as well as the related pledge agreement, pursuant to which our obligations under the facility were secured. We had paid off in full all obligations under the facility on September 14, 2016, and since that date, we have had no amounts outstanding under the facility.

The Credit and Security Agreement contained certain financial and non-financial covenants, and we were in compliance with these covenants during the nine months ended September 30, 2017 until the date of termination.

(6) Credit Facility — LNV Corporation

On September 27, 2017, we entered into an amended and restated senior credit facility with LNV Corporation as lender through our subsidiary GWG DLP Funding IV, LLC. The Amended and Restated Loan Agreement governing the facility makes available a total of up to \$300,000,000 in credit with a maturity date of September 27, 2029. Additional advances are available under the Amended and Restated Loan Agreement at the LIBOR rate as defined in the Amended and Restated Loan Agreement. Advances are available as the result of additional borrowing base capacity, created as the premiums and servicing costs of pledged life insurance policies become due. Interest will

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accrue on amounts borrowed under the Amended and Restated Loan Agreement at an annual interest rate, determined as of each date of borrowing or quarterly if there is no 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) 7.50% per annum. The effective rate at September 30, 2017 was 7.52%. The interest rate effective October 1, 2017 was 9.31%. Interest payments are made on a quarterly basis.

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(6) Credit Facility — LNV Corporation (cont.)

As of September 30, 2017, approximately 86.6% of the total face value of our portfolio is pledged to LNV Corporation. The amount outstanding under this facility was \$212,513,000 at September 30, 2017 and \$162,725,000 at December 31, 2016. Obligations under the facility are secured by a security interest in DLP IV's assets, for the benefit of the lenders under the Amended and Restated Loan Agreement, through an arrangement under which Wells Fargo serves as securities intermediary. The life insurance policies owned by DLP IV do not serve as direct collateral for the obligations of GWG Holdings under the L Bonds. The difference between the outstanding balance as of September 30, 2017 and the carrying amount relates to unamortized debt issuance costs.

The Amended and Restated Loan Agreement does not require DLP IV to maintain a reserve account for future premiums.

The Amended and Restated Loan Agreement has certain financial and nonfinancial covenants, and we were in compliance with these covenants at September 30, 2017 and with the covenants in the original Loan Agreement at December 31, 2016.

(7) Series I Secured Notes

Series I Secured Notes were legal obligations of GWG Life and were privately offered and sold from August 2009 through June 2011. On September 8, 2017, we redeemed all outstanding Series I Secured Notes for an aggregate of \$6,815,000.

The Series I Secured Notes were governed by an Intercreditor Agreement, a Third Amended and Restated Note Issuance and Security Agreement dated November 1, 2011, as amended, and a related Pledge Agreement. Upon the redemption of the Series I Secured Notes and the termination of all obligations outstanding thereunder, those agreements were terminated effective as of September 8, 2017.

(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, 2017 and December 31, 2016.

Effective September 1, 2016, we ceased selling 6-month and 1-year L Bonds until further notice. In addition, effective September 1, 2016, the L Bond interest rates that we offer 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.

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At September 30, 2017 and December 31, 2016, the weighted-average interest rate of our L Bonds was 7.35% and 7.23%, respectively. The principal amount of L Bonds outstanding was \$424,778,000 and \$387,067,000 at September 30, 2017 and December 31, 2016, 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, cash receipts for new issuances and payments of redemptions in process. Amortization of deferred issuance costs was \$2,076,000 and \$4,931,000 for the three and nine months ended September 30, 2017 and \$2,073,000 and \$5,362,000 for the three and nine months ended September 30, 2016. Future expected amortization of deferred financing costs as of September 30, 2017 is \$14,462,000 in total over the next seven years.

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(8) L Bonds (cont.)

Future contractual maturities of L Bonds, and their related unamortized deferred financing costs, at September 30, 2017 are as follows:

Years Ending December 31,	Contractual Maturities	Unamortized Deferred Financing Costs
Three months ending December 31, 2017	\$ 17,059,000	\$ 104,000
2018	108,717,000	1,652,000
2019	133,174,000	4,294,000
2020	63,523,000	2,763,000
2021	28,703,000	1,350,000
Thereafter	73,602,000	4,299,000
	\$ 424,778,000	\$ 14,462,000

(9) Series A Convertible Preferred Stock

From July 2011 through September 2012, we privately offered shares of 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 were entitled to cumulative dividends at the rate of 10% per annum, paid quarterly.

As of September 30, 2017, we issued an aggregate of 544,000 shares of Series A in satisfaction of \$3,808,000 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, 2017, we had 2,695,000 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.

Purchasers of Series A in our offering received warrants to purchase an aggregate of 416,000 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, 2017, all of these warrants have expired and none of them had been exercised.

The terms of the Series A permit us to redeem Series A shares at a price equal to 110% of their liquidation preference (\$7.50 per share) at any time.

On October 9, 2017 all shares of Series A were redeemed with a redemption payment equal to the sum of: (i) \$8.25 per Series A share and (ii) all accrued but unpaid dividends.

(10) Redeemable Preferred Stock

On November 30, 2015, our public offering of up to 100,000 shares of Redeemable Preferred Stock ("RPS") at \$1,000 per share was declared effective. Holders of RPS are entitled to cumulative dividends at the rate of 7% per annum, paid monthly. Dividends on the RPS are recorded as a reduction to additional paid-in capital, if any, then to the outstanding balance of the preferred stock if additional paid-in-capital has been exhausted. 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 RPS 2, 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

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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.

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(10) Redeemable Preferred Stock (cont.)

Holders of RPS may request that we redeem their RPS 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 complete discretion to grant or decline redemption requests. 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.

On March 31, 2017, we closed the RPS offering to investors having sold 99,127 shares of RPS for an aggregate gross consideration of \$99,127,000 and incurred approximately \$7,019,000 of related selling costs.

At the time of its issuance, we determined that the RPS contained two embedded features: (1) optional redemption by the holder; and (2) optional conversion by the holder. We determined that each of the embedded features met the definition of a derivative and that the RPS should be considered an equity host for the purposes of assessing the embedded derivatives for potential bifurcation. Based on our assessment under Accounting Standards Codification 470 "*Debt*" ("ASC 470") we do not believe bifurcation of either the holder's redemption or conversion feature is appropriate.

(11) Series 2 Redeemable Preferred Stock

On February 14, 2017, our public offering of up to 150,000 shares of Series 2 Redeemable Preferred Stock ("RPS 2") at \$1,000 per share was declared effective. Holders of RPS 2 are entitled to cumulative dividends at the rate of 7% per annum, paid monthly. Dividends on the RPS 2, when payable, will be recorded as a reduction to additional paid-in capital, if any, then to the outstanding balance of the preferred stock if additional paid-in-capital has been exhausted. Under certain circumstances described in the Certificate of Designation for the RPS 2, additional shares of RPS 2 may be issued in lieu of cash dividends.

The RPS 2 ranks senior to our common stock and pari passu with our Series A and RPS, 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 2 may, less an applicable conversion discount, if any, convert their RPS 2 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 \$12.75 and in an aggregate amount limited to 10% of the stated value of RPS 2 originally purchased by such holder from us and still held by such holder.

Holders of RPS 2 may request that we redeem their RPS 2 shares at a price equal to their liquidation preference, less an applicable redemption fee, if any. Nevertheless, the Certificate of Designation for RPS 2 permits us complete discretion to grant or decline requests for redemption. Subject to certain restrictions and conditions, we may also redeem shares of RPS 2 without a redemption fee upon a holder's death, total disability or bankruptcy. In addition, we may, at our option, call and redeem shares of RPS 2 at a price equal to their liquidation preference (subject to a minimum redemption price, in the event of redemptions occurring less than one year after issuance, of 107% of the stated value of the shares being redeemed).

As of September 30, 2017, we had sold 48,316 shares of RPS 2 for aggregate gross consideration of \$48,316,000, and incurred approximately \$2,322,000 of selling costs related to the sale of those shares.

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At the time of its issuance, we determined that the RPS 2 contained two embedded features: (1) optional redemption by the holder; and (2) optional conversion by the holder. We determined that each of the embedded features met the definition of a derivative and that the RPS 2 should be considered an equity host for the purposes of assessing the embedded derivatives for potential bifurcation. Based on our assessment under ASC 470 we do not believe bifurcation of either the holder's redemption or conversion feature is appropriate.

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GWG HOLDINGS, INC. AND SUBSIDIARIES
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(12) Income Taxes

We had a current income tax liability of \$0 as of both September 30, 2017 and December 31, 2016. The components of deferred income tax expense (benefit) for the three and nine months ended September 30, 2017 and 2016, respectfully, consisted of the following:

	Three Months Ended September 30, 2017	September 30, 2016	Nine Months Ended September 30, 2017	September 30, 2016
Deferred:				
Federal	\$ (2,095,000)	\$ (1,082,000)	\$ (4,912,000)	\$ 1,121,000
State	(669,000)	(346,000)	(1,570,000)	358,000
Total income tax expense (benefit)	\$ (2,764,000)	\$ (1,428,000)	\$ (6,482,000)	\$ 1,479,000

We provide for a valuation allowance when it is not considered “more likely than not” that our deferred tax assets will be realized. At both September 30, 2017 and December 31, 2016, based upon all available evidence, we provided a valuation allowance of \$2,164,000 against deferred tax assets related to the likelihood of recovering the tax benefit of a capital loss on a note receivable from a related entity and other capital losses.

The Company is engaged in acquiring of life insurance policies and holding them to maturity. Due to the nature of holding policies and the aging of the underlying insureds, Management believes the Company likely will recognize taxable income as the policies in our portfolio start maturing at an accelerated rate in the near future. Management has evaluated and concluded on the material accuracy of our deferred tax carrying amounts.

Accounting Standards Codification 740, *Income Taxes* requires the reporting of certain tax positions that do not meet a threshold of “more likely than not” to be recorded as uncertain tax benefits. It is management’s responsibility to determine whether it is “more likely than not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation, based upon the technical merits of the position. Management has reviewed all income tax positions taken or expected to be taken for all open years and determined that the income tax positions are appropriately stated and supported.

Under our accounting policies, interest and penalties on unrecognized tax benefits, as well as interest received from favorable tax settlements, are recognized as components of income tax expense. At September 30, 2017 and December 31, 2016, we recorded no accrued interest or penalties related to uncertain tax positions.

Our income tax returns for tax years ended December 31, 2013, 2014, 2015 and 2016 remain open to examination by the Internal Revenue Service and various state taxing jurisdictions. Our tax return for tax year 2012 has now been examined by the IRS (finalized April of 2015) but is open for examination by various state taxing jurisdictions.

(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.”

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In conjunction with the initial public offering our Company issued warrants to purchase 16,000 shares of our common stock at an exercise price of \$15.63 per share. As of September 30, 2017 none of these warrants had been exercised. The weighted average remaining life of these warrants at September 30, 2017 was 2.0 years.

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(14) Stock Incentive Plan

We adopted our 2013 Stock Incentive Plan in March 2013, as amended on June 1, 2015 and May 5, 2017. The Compensation Committee of our Board of Directors is responsible for the administration of the plan. Participants 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. As of September 30, 2017, 3,000,000 common stock options are issuable under the plan.

Stock Options

Through September 30, 2017, we had outstanding stock options for 1,514,000 shares of common stock to employees, officers, and directors under the plan. Options for 762,000 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 \$10.38 for those beneficially owning more than 10% of our common stock, and between \$4.83 and \$10.76 for all others, which is equal to the estimated market price of the shares on the date of grant. The expected annualized volatility used in the Black-Scholes model valuation of options issued during the period was 34.9%. 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. As of September 30, 2017, stock options for 682,000 shares had been forfeited and stock options for 120,000 shares had been exercised.

Outstanding stock options:

	Vested	Un-vested	Total
Balance as of December 31, 2015	483,703	569,912	1,053,615
Granted during the year	22,500	608,350	630,850
Vested during the year	251,788	(251,788)	—
Exercised during the year			
Forfeited during the year	(19,926)	(82,140)	(102,066)
Balance as of December 31, 2016	738,065	844,334	1,582,399
Granted year-to-date	40,100	228,300	268,400
Vested year-to-date	218,218	(218,218)	—
Exercised year-to-date	(92,000)	—	(92,000)
Forfeited year-to-date	(142,119)	(102,315)	(244,434)
Balance as of September 30, 2017	762,264	752,101	1,514,365

Compensation expense related to unvested options not yet recognized is \$488,000. We expect to recognize this compensation expense over the next three years (\$103,000 in 2017, \$267,000 in 2018, \$103,000 in 2019, and \$15,000 in 2020).

Stock Appreciation Rights (SARs)

As of September 30, 2017, we have issued SARs for 280,472 shares of common stock to employees. The strike price of the SARs was between \$7.84 and \$10.38, which was equal to the market price of the common stock at the date of issuance. As of September 30, 2017, 149,000 of the SARs were vested. On September 30, 2017 the market price of GWG's common stock was \$10.07.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(14) Stock Incentive Plan (cont.)

Outstanding Stock Appreciation Rights:

	Vested	Un-vested	Total
Balance as of December 31, 2015	—	—	—
Granted during the year	106,608	133,127	239,735
Forfeited during the year	—	—	—
Balance as of December 31, 2016	106,608	133,127	239,735
Granted during the year	4,063	36,674	40,737
Vested during the year	38,197	(38,197)	—
Forfeited during the year	—	—	—
Balance as of September 30, 2017	148,868	131,604	280,472

The liability for the SARs as of September 30, 2017, recorded within Other accrued expenses, was \$307,000.

Employee compensation and benefits expense for SARs of (\$9,000) and \$303,000 was recorded during the three and nine months ended September 30, 2017.

Upon the exercise of SARs, the Company is obligated to make cash payment equal to the positive difference between the fair market value of the Company's common stock on the date of exercise less the fair market value of the common stock on the date of grant.

(15) Other Expenses

The components of "Other expenses" on our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016 are as follows:

	Three months ended		Nine months ended	
	September 30, 2017	2016	September 30, 2017	2016
Contract Labor	\$ 130,041	\$ 218,884	\$ 311,314	\$ 717,111
Marketing	485,510	423,041	1,686,943	1,234,372
Information Technology	410,903	194,653	1,093,011	522,552
Servicing and Facility Fees	276,826	520,235	855,928	680,208
Travel and Entertainment	249,684	272,785	767,958	838,111
Insurance and Regulatory	415,817	452,814	1,239,670	1,107,088
Charitable Contributions	42,093	277,508	462,103	279,682
General and Administrative	760,322	503,292	2,017,690	1,828,933
	\$ 2,771,196	\$ 2,863,212	\$ 8,434,617	\$ 7,208,057

(16) Net Loss per Common Share

We have outstanding Series A, RPS and RPS 2, as respectively described in Notes 9, 10 and 11. The Series A, RPS and RPS 2 are anti-dilutive to our net loss or income attributable to common shareholders calculation at both September 30, 2017 and 2016. We also issued warrants to purchase common stock in conjunction with the sale of Series A (see Note 9), which have expired as of September 30, 2017. Both those warrants and our vested stock options are anti-dilutive at both September 30, 2017 and 2016.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(17) 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 October 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 this agreement were \$121,000 and \$344,000 during the three and nine months ended September 30, 2017 and \$102,000 and \$306,000 for the three and nine months ended September 30, 2016.

Minimum lease payments under the amended lease are as follows:

Three months ending December 31, 2017	\$ 64,000
2018	266,000
2019	275,000
2020	284,000
2021	293,000
2022	302,000
Thereafter	904,000
	\$ 2,388,000

(18) 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.

(19) Guarantee of L Bonds

We are publicly offering and selling L Bonds 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 our 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. GWG Life's equity in DLP IV serve as collateral for our L Bond obligations. Substantially all of our life insurance policies are held by DLP IV and the Trust. The policies held by DLP IV are not collateral for the L Bond obligations as such policies are pledged to the senior credit facility with LNV Corporation.

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 described in these notes. A substantial majority of insurance policies we currently own are subject to a collateral arrangement with LNV Corporation described in Note 6. Under this arrangement, we are required to maintain a collection account that is used to collect policy benefits from pledged policies, pay interest and other charges under the facility, and distribute funds to pay down the facility.

The following represents consolidating financial information as of September 30, 2017 and December 31, 2016, with respect to the financial position, and for the three and nine months ended September 30, 2017 and 2016, with respect

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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 represents the financial information of GWG Life, the guarantor subsidiary of the L Bonds, presenting its investment in 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 IV and the Trust.

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(19) Guarantee of L Bonds (cont.)

Condensed Consolidating Balance Sheets

September 30, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<u>ASSETS</u>					
Cash and cash equivalents	\$ 31,382,104	\$ 82,587,231	\$ 1,376,146	\$ —	\$ 115,345,481
Restricted cash	—	2,647,121	3,172,109	—	5,819,230
Investment in life insurance policies, at fair value	—	45,962,331	574,135,607	—	620,097,938
Secured MCA advances	—	—	2,623,657	—	2,623,657
Life insurance policy benefits receivable	—	—	14,597,000	—	14,597,000
Deferred taxes, net	4,384,546	—	—	—	4,384,546
Other assets	1,883,433	2,013,796	61,584	(134,613)	3,824,200
Investment in subsidiaries	519,803,823	385,753,794	—	(905,557,617)	—
TOTAL ASSETS	\$ 557,453,906	\$ 518,964,273	\$ 595,966,103	\$ (905,692,230)	\$ 766,692,052

LIABILITIES & STOCKHOLDERS' EQUITY**LIABILITIES**

Senior credit facility	\$ —	\$ —	\$ 201,978,580	\$ —	\$ 201,978,580
L Bonds	413,060,517	—	—	—	413,060,517
Accounts payable	1,062,708	1,259,708	1,392,820	—	3,715,236
Interest and dividends payable	10,541,613	—	2,980,582	(1,021)	13,521,174
Other accrued expenses	1,165,044	1,351,379	409,690	(133,592)	2,792,521
TOTAL LIABILITIES	425,829,882	2,611,087	206,761,672	(134,613)	635,068,028

STOCKHOLDERS' EQUITY

Member's capital	—	516,353,186	389,204,431	(905,557,617)	—
Convertible preferred stock	19,408,980	—	—	—	19,408,980
Redeemable preferred stock and Series 2 redeemable preferred stock	140,828,380	—	—	—	140,828,380

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Common stock	5,814	—	—	—	5,814
Accumulated deficit	(28,619,150)	—	—	—	(28,619,150)
TOTAL STOCKHOLDERS' EQUITY	131,624,024	516,353,186	389,204,431	(905,557,617)	131,624,024
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 557,453,906	\$ 518,964,273	\$ 595,966,103	\$ (905,692,230)	\$ 766,692,052
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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(19) Guarantee of L Bonds (cont.)

Condensed Consolidating Balance Sheets (continued)

December 31, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<u>ASSETS</u>					
Cash and cash equivalents	\$ 28,481,047	\$ 49,360,952	\$ 644,983	\$ —	\$ 78,486,982
Restricted cash	—	2,117,649	35,708,947	—	37,826,596
Investment in life insurance policies, at fair value	—	41,277,896	469,914,458	—	511,192,354
Secured MCA advances	—	—	5,703,147	—	5,703,147
Life insurance policy benefits receivable	—	—	5,345,000	—	5,345,000
Other assets	3,854,233	2,056,822	810,640	(2,033,592)	4,688,103
Investment in subsidiaries	429,971,148	352,337,037	—	(782,308,185)	—
TOTAL ASSETS	\$ 462,306,428	\$ 447,150,356	\$ 518,127,175	\$ (784,341,777)	\$ 643,242,182

LIABILITIES & STOCKHOLDERS' EQUITY**LIABILITIES**

Senior credit facilities	\$ —	\$ —	\$ 156,064,818	\$ —	\$ 156,064,818
Series I Secured Notes	—	16,404,836	—	—	16,404,836
L Bonds	381,312,587	—	—	—	381,312,587
Accounts payable	853,470	731,697	641,545	—	2,226,712
Interest and dividends payable	9,882,133	3,743,277	2,535,189	—	16,160,599
Other accrued expenses	862,369	544,032	2,303,952	(2,033,592)	1,676,761
Deferred taxes, net	2,097,371	—	—	—	2,097,371
TOTAL LIABILITIES	395,007,930	21,423,842	161,545,504	(2,033,592)	575,943,684

STOCKHOLDERS' EQUITY

Member's capital	—	425,726,514	356,581,671	(782,308,185)	—
Convertible preferred stock	19,701,133	—	—	—	19,701,133

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Redeemable preferred stock	59,025,164	—	—	—	59,025,164
Common stock	5,980	—	—	—	5,980
Additional paid-in capital	7,383,515	—	—	—	7,383,515
Accumulated deficit	(18,817,294)	—	—	—	(18,817,294)
TOTAL STOCKHOLDERS' EQUITY	67,298,498	425,726,514	356,581,671	(782,308,185)	67,298,498
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 462,306,428	\$ 447,150,356	\$ 518,127,175	\$ (784,341,777)	\$ 643,242,182

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(19) Guarantee of L Bonds (cont.)

Condensed Consolidating Statements of Operations

For the three months ended September 30, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Policy servicing income	\$ —	\$ 125,525	\$ —	\$ (105,525)	\$ 20,000
Gain on life insurance policies, net	—	2,780,544	11,640,809	—	14,421,353
MCA income	—	—	100,367	—	100,367
Interest and other income	40,044	(12,115)	139,498	(12,104)	155,323
TOTAL REVENUE	40,044	2,893,954	11,880,674	(117,629)	14,697,043
EXPENSES					
Policy servicing fees	—	—	105,525	(105,525)	—
Interest expense	9,907,959	253,422	3,126,130	(12,104)	13,275,407
Employee compensation and benefits	2,140,675	1,413,103	238,318	—	3,792,096
Legal and professional fees	746,939	246,691	663,460	—	1,657,090
Provision for MCA advances	—	—	28,000	—	28,000
Other expenses	1,743,730	711,528	315,938	—	2,771,196
TOTAL EXPENSES	14,539,303	2,624,744	4,477,371	(117,629)	21,523,789
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(14,499,259)	269,210	7,403,303	—	(6,826,746)
EQUITY IN INCOME OF SUBSIDIARIES	7,672,513	8,263,120	—	(15,935,633)	—
INCOME (LOSS) BEFORE INCOME TAXES	(6,826,746)	8,532,330	7,403,303	(15,935,633)	(6,826,746)
INCOME TAX BENEFIT	(2,764,243)	—	—	—	(2,764,243)
NET INCOME (LOSS)	(4,062,503)	8,532,330	7,403,303	(15,935,633)	(4,062,503)
Preferred stock dividends	3,548,165	—	—	—	3,548,165
	\$ (7,610,668)	\$ 8,532,330	\$ 7,403,303	\$ (15,935,633)	\$ (7,610,668)

NET LOSS
ATTRIBUTABLE TO
COMMON
SHAREHOLDERS

For the three months ended September 30, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Policy servicing income	\$ —	\$ —	\$ —	\$ —	\$ —
Gain on life insurance policies, 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
TOTAL REVENUE	75,808	30,126	13,879,293	(64,249)	13,920,978
EXPENSES					
Policy servicing fees	—	—	—	—	—
Interest expense	8,705,950	554,938	1,746,151	(64,249)	10,942,790
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
TOTAL EXPENSES	12,153,048	2,693,906	2,522,590	(64,249)	17,305,295
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(12,077,240)	(2,663,780)	11,356,703	—	(3,384,317)
EQUITY IN INCOME OF SUBSIDIARIES	8,692,923	11,361,329	—	(20,054,252)	—
INCOME BEFORE INCOME TAXES	(3,384,317)	8,697,549	11,356,703	(20,054,252)	(3,384,317)
INCOME TAX BENEFIT	(1,428,130)	—	—	—	(1,428,130)
NET INCOME	(1,956,187)	8,697,549	11,356,703	(20,054,252)	(1,956,187)
Preferred stock dividends	1,041,178	—	—	—	1,041,178
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (2,997,365)	\$ 8,697,549	\$ 11,356,703	\$ (20,054,252)	\$ (2,997,365)

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(19) Guarantee of L Bonds (cont.)

Condensed Consolidating Statements of Operations (continued)

For the nine months ended September 30, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Policy servicing income	\$ —	\$ 311,800	\$ —	\$ (291,800)	\$ 20,000
Gain on life insurance policies, net	—	4,481,555	40,635,883	—	45,117,438
MCA income	—	—	480,526	—	480,526
Interest and other income	194,273	36,895	683,141	(79,300)	835,009
TOTAL REVENUE	194,273	4,830,250	41,799,550	(371,100)	46,452,973
EXPENSES					
Policy servicing fees	—	—	291,800	(291,800)	—
Interest expense	27,495,867	930,837	10,418,243	(79,300)	38,765,647
Employee compensation and benefits	6,179,032	4,163,873	353,550	—	10,696,455
Legal and professional fees	1,524,510	687,240	1,722,277	—	3,934,027
Provision for MCA advances	—	—	906,000	—	906,000
Other expenses	5,291,881	2,244,577	898,159	—	8,434,617
TOTAL EXPENSES	40,491,290	8,026,527	14,590,029	(371,100)	62,736,746
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(40,297,017)	(3,196,277)	27,209,521	—	(16,283,773)
EQUITY IN INCOME OF SUBSIDIARIES	24,013,244	29,569,105	—	(53,582,349)	—
INCOME (LOSS) BEFORE INCOME TAXES	(16,283,773)	26,372,828	27,209,521	(53,582,349)	(16,283,773)
INCOME TAX BENEFIT	(6,481,917)	—	—	—	(6,481,917)
NET INCOME (LOSS)	(9,801,856)	26,372,828	27,209,521	(53,582,349)	(9,801,856)
Preferred stock dividends	7,447,022	—	—	—	7,447,022

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NET LOSS
ATTRIBUTABLE TO
COMMON

SHAREHOLDERS	\$ (17,248,878)	\$ 26,372,828	\$ 27,209,521	\$ (53,582,349)	\$ (17,248,878)
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For the nine months
ended September 30,
2016

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Policy servicing income	\$ —	\$ 13,417	\$ —	\$ (13,417)	\$ —
Gain on life insurance policies, 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
TOTAL REVENUE	181,828	44,554	52,543,515	(167,543)	52,602,354

EXPENSES

Policy servicing fees	—	—	13,417	(13,417)	—
Interest expense	23,323,987	1,856,909	4,829,831	(154,126)	29,856,601
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
TOTAL EXPENSES	34,102,070	8,514,108	6,563,503	(167,543)	49,012,138

INCOME (LOSS)
BEFORE EQUITY IN
INCOME OF
SUBSIDIARIES

(33,920,242)	(8,469,554)	45,980,012	—	3,590,216
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EQUITY IN INCOME
OF SUBSIDIARIES

37,510,458	46,497,731	—	(84,008,189)	—
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INCOME BEFORE
INCOME TAXES

3,590,216	38,028,177	45,980,012	(84,008,189)	3,590,216
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INCOME TAX
EXPENSE

1,478,617	—	—	—	1,478,617
2,111,599	38,028,177	45,980,012	(84,008,189)	2,111,599

Preferred stock
dividends

2,153,333	—	—	—	2,153,333
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NET INCOME
ATTRIBUTABLE TO
COMMON

SHAREHOLDERS	\$ (41,734)	\$ 38,028,177	\$ 45,980,012	\$ (84,008,189)	\$ (41,734)
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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(19) Guarantee of L Bonds (cont.)

Condensed Consolidating Statements of Cash Flows

For the three months ended September 30, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	\$ (4,062,503)	\$ 8,532,330	\$ 7,403,303	\$ (15,935,633)	\$ (4,062,503)
Adjustments to reconcile net income to net cash flows from operating activities:					
Equity of subsidiaries	(7,672,513)	(8,263,120)	—	15,935,633	—
Change in fair value of life insurance policies	—	(3,609,194)	(16,572,538)	—	(20,181,732)
Amortization of deferred financing and issuance costs	2,075,632	134,445	134,464	—	2,344,541
Deferred income taxes	(2,764,243)	—	—	—	(2,764,243)
Preferred stock dividends payable	333,391	—	—	—	333,391
(Increase) decrease in operating assets:					
Life insurance policy benefits receivable	—	—	(7,627,000)	—	(7,627,000)
Other assets	(38,552,777)	51,740,361	330,547	(13,415,694)	102,437
Increase (decrease) in operating liabilities:					
Due to related party Accounts payable and accrued expenses	807,511	(10,940)	(800,000)	—	(3,429)
	693,285	(844,072)	(264,684)	—	(415,471)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(49,142,217)	47,679,810	(17,395,908)	(13,415,694)	(32,274,009)

**CASH FLOWS
FROM
INVESTING
ACTIVITIES**

Investment in life insurance policies	—	—	(25,199,692)	—	(25,199,692)
Carrying value of matured life insurance policies	—	505,000	1,828,039	—	2,333,039
Proceeds from Secured MCA advances	—	—	826,621	—	826,621
NET CASH FLOWS USED IN INVESTING ACTIVITIES	—	505,000	(22,545,032)	—	(22,040,032)

**CASH FLOWS
FROM
FINANCING
ACTIVITIES**

Net borrowings on senior credit facilities	—	—	56,887,491	—	56,887,491
Payments for issuance of senior debt	—	—	(3,937,907)	—	(3,937,907)
Payments for redemption of Series I Secured Notes	—	(6,815,406)	—	—	(6,815,406)
Proceeds from issuance of L Bonds	30,271,873	—	—	—	30,271,873
Payments for issuance and redemption of L Bonds	(19,752,717)	—	—	—	(19,752,717)
Payments to restricted cash	—	1,807,105	38,533,296	—	40,340,401
Issuance of member capital	—	37,959,462	(51,375,156)	13,415,694	—
Issuance of common stock	30	—	—	—	30
Proceeds from issuance of preferred stock	25,211,870	—	—	—	25,211,870
Payments for issuance and redemption of preferred stock	(1,291,420)	—	—	—	(1,291,420)
Payments of preferred stock	(3,548,165)	—	—	—	(3,548,165)

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dividends					
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	30,891,471	32,951,161	40,107,724	13,415,694	117,366,050
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,250,746)	81,135,971	166,784		63,052,009
CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD	49,632,850	1,451,260	1,209,362	—	52,293,472
END OF THE PERIOD	\$ 31,382,104	\$ 82,587,231	\$ 1,376,146	\$ —	\$ 115,345,481

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(19) Guarantee of L Bonds (cont.)

Consolidating Statements of Cash Flows (continued)

For the three months ended September 30, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	\$ (1,956,187)	\$ 8,697,549	\$ 11,356,703	\$ (20,054,252)	\$ (1,956,187)
Adjustments to reconcile net loss to net cash flows from operating activities:					
Equity of subsidiaries	(8,692,924)	(11,361,328)	—	20,054,252	—
Change in fair value of life insurance policies	—	—	(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) decrease in operating assets:					
Life insurance policy 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)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(64,007,218)	(54,698,992)	(13,950,705)	109,120,577	(23,536,338)

**CASH FLOWS
FROM
INVESTING
ACTIVITIES**

Investment in life insurance policies	—	—	(25,770,326)	—	(25,770,326)
Carrying value of matured life insurance policies	—	—	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
NET CASH FLOWS USED IN INVESTING ACTIVITIES	—	—	(26,436,422)	—	(26,436,422)

**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 issuance and redemption of L Bonds	(14,373,447)	—	—	—	(14,373,447)
Payments to 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)
	(1,041,178)	—	—	—	(1,041,178)

Payments of preferred stock dividends					
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	67,268,348	52,249,353	40,970,114	(109,120,577)	51,367,238
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,261,130	(2,449,639)	582,987	—	1,394,478
CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD	10,051,621	6,822,484	505,245	—	17,379,350
END OF THE PERIOD	\$ 13,312,751	\$ 4,372,845	\$ 1,088,232	\$ —	\$ 18,773,828

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(19) Guarantee of L Bonds (cont.)

Consolidating Statements of Cash Flows (continued)

For the nine months ended September 30, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	\$ (9,801,856)	\$ 26,372,828	\$ 27,209,521	\$ (53,582,349)	\$ (9,801,856)
Adjustments to reconcile net loss to net cash flows from operating activities:					
Equity of subsidiaries	(24,013,243)	(29,569,106)	—	53,582,349	—
Change in fair value of life insurance policies	—	(4,803,015)	(44,498,052)	—	(49,301,067)
Amortization of deferred financing and issuance costs	4,931,441	208,829	1,368,422	—	6,508,692
Deferred income taxes	(6,481,917)	—	—	—	(6,481,917)
Preferred stock dividends payable	1,034,139	—	—	—	1,034,139
(Increase) decrease in operating assets:					
Life insurance policy benefits receivable	—	—	(9,252,000)	—	(9,252,000)
Other assets	(65,691,037)	(3,794,004)	788,726	69,667,082	970,767
Increase (decrease) in operating liabilities:					
Due to related party	1,897,406	(10,620)	(1,900,000)	—	(13,214)
Accounts payable and other accrued expenses	2,331,255	(2,407,918)	1,917,279	—	1,840,616
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(95,793,812)	(14,003,006)	(24,366,104)	69,667,082	(64,495,840)

**CASH FLOWS
FROM
INVESTING
ACTIVITIES**

Investment in life insurance policies	—	—	(67,321,363)	—	(67,321,363)
Carrying value of matured life insurance policies	—	1,256,576	6,460,271	—	7,716,847
Investment in Secured MCA advances	—	—	(39,671)	—	(39,671)
Proceeds from Secured MCA advances	—	—	2,250,323	—	2,250,323
NET CASH FLOWS USED IN INVESTING ACTIVITIES	—	1,256,576	(58,650,440)	—	(57,393,864)

**CASH FLOWS
FROM
FINANCING
ACTIVITIES**

Net repayment of senior credit facilities	—	—	49,787,954	—	49,787,954
Payments for issuance of senior debt	—	(1,076,118)	(4,052,201)	—	(5,128,319)
Payments for redemption of Series I Secured Notes	—	(16,613,667)	—	—	(16,613,667)
Proceeds from issuance of L Bonds	87,016,343	—	—	—	87,016,343
Payments for issuance and redemption of L Bonds	(58,949,880)	—	—	—	(58,949,880)
Payments to restricted cash	—	(529,472)	32,536,838	—	32,007,366
Issuance of member capital	—	64,191,966	5,475,116	(69,667,082)	—
Payments for issuance and redemption of common stock	(1,603,526)	—	—	—	(1,603,526)
Proceeds from issuance of preferred stock	86,692,811	—	—	—	86,692,811
	(7,013,857)	—	—	—	(7,013,857)

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Payments for issuance and redemption of preferred stock					
Payments of preferred stock dividends	(7,447,022)	—	—	—	(7,447,022)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	98,694,869	45,972,709	83,747,707	(69,667,082)	158,748,203
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,901,057	33,226,279	731,163	—	36,858,499
CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD	28,481,047	49,360,952	644,983	—	78,486,982
END OF THE PERIOD	\$ 31,382,104	\$ 82,587,231	\$ 1,376,146	\$ —	\$ 115,345,481

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(19) Guarantee of L Bonds (cont.)

Consolidating Statements of Cash Flows (continued)

For the nine
months ended
September 30,
2016

**CASH FLOWS
FROM
OPERATING
ACTIVITIES**

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 2,111,599	\$ 38,028,177	\$ 45,980,012	\$ (84,008,189)	\$ 2,111,599
Adjustments to reconcile net income to net cash flows from operating activities:					
Equity of subsidiaries	(37,510,459)	(46,497,730)	—	84,008,189	—
Change in fair value of life insurance policies	—	—	(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) decrease in operating assets:					
Life insurance policy benefits receivable	—	—	(6,129,022)	—	(6,129,022)
Other assets	(114,885,990)	(92,168,163)	—	206,436,523	(617,630)
Increase 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)
NET CASH FLOWS USED IN	(142,630,539)	(99,128,310)	(17,145,710)	206,436,523	(52,468,036)

OPERATING
ACTIVITIES**CASH FLOWS
FROM
INVESTING
ACTIVITIES**

Investment in life insurance policies	—	—	(74,470,362)	—	(74,470,362)
Carrying value of matured life insurance policies	—	—	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
NET CASH FLOWS USED IN INVESTING ACTIVITIES	—	—	(73,455,837)	—	(73,455,837)

**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 issuance and redemption of L Bonds	(37,036,922)	—	—	—	(37,036,922)
Payments to 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	(4,095,878)	—	(78,895)	—	(4,174,773)

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preferred stock Payments of preferred stock dividends	(2,153,333)	—	—	—	(2,153,333)
Issuance of member capital	—	110,118,219	96,318,304	(206,436,523)	—
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	123,651,128	101,518,433	91,539,558	(206,436,523)	110,272,596
NET INCREASE IN CASH AND CASH EQUIVALENTS	(18,979,411)	2,390,123	938,011	—	(15,651,277)
CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD	32,292,162	1,982,722	150,221	—	34,425,105
END OF THE PERIOD	\$ 13,312,751	\$ 4,372,845	\$ 1,088,232	\$ —	\$ 18,773,828

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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(20) Concentrations

We mostly purchase life insurance policies written by life insurance companies having investment-grade ratings by independent rating agencies. As a result, there may be certain concentrations of policies with life insurance companies. The following summarizes the face value of insurance policies with specific life insurance companies exceeding 10% of the total face value of our portfolio.

Life insurance company	September 30,		December 31,	
	2017		2016	
John Hancock	14.92	%	14.36	%
AXA Equitable	12.24	%	13.42	%
Lincoln National	11.27	%	11.22	%

The following summarizes the number of insurance policies held in specific states exceeding 10% of the total face value of our portfolio:

State of Residence	September 30,		December 31,	
	2017		2016	
Florida	19.76	%	19.42	%
California	19.06	%	20.72	%

(21) Subsequent Events

Since September 30, 2017, eight policies covering seven individuals have matured. The combined life insurance benefits of these policies were \$14,953,000.

Since September 30, 2017, we have issued approximately \$18,277,000 of L Bonds.

Since September 30, 2017, we have issued approximately \$13,037,000 of RPS 2.

On October 9, 2017, all shares of Series A were redeemed with a redemption payment equal to the sum of (i) \$8.25 per share of Series A and (ii) all accrued but unpaid dividends calculated at an annual rate of \$0.75 per share, for an aggregate of \$22,252,000.

On October 23, 2017, we entered into an Amended and Restated Indenture with GWG Life, LLC, as guarantor, and Bank of Utah, as trustee, for the purposes of (i) eliminating references to the Series I Secured Notes that had been governed by the original indenture and were fully paid off as described in this report (and replacing those references, where appropriate, with general references to pari passu debt that may be incurred in the future), (ii) eliminating references to an intercreditor agreement that had been entered into for the benefit of the holders of the Series I Secured Notes, and (iii) updating and otherwise clarifying certain provisions of the original Indenture. Our L Bonds are presently the only securities that have been issued under the Amended and Restated Indenture.

Also on October 23, 2017, we entered into an Amended and Restated Pledge and Security Agreement with GWG Life, LLC, Jon R. Sabes and Steven F. Sabes, each as a grantor, and Bank of Utah, as the collateral trustee, for the purposes of (i) amending and restating the terms under which it and the other grantors have granted a security interest for the obligations owing in respect of the L Bonds issued under the Amended and Restated Indenture to be consistent with the Amended and Restated Indenture described above, and (ii) updating and otherwise clarifying certain provisions of the original Pledge and Security Agreement.

1,000,000 Units

(\$1,000,000,000)

GWG HOLDINGS, INC.

L Bonds

PROSPECTUS

, 2017

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

Set forth below are expenses (other than the selling agent's commissions, dealer-manager fees and allowance expenses) we expect to be incurred in connection with the issuance and distribution of the securities registered hereby. With the exception of the Securities and Exchange Commission registration fee, the amounts set forth below are estimates and actual expenses may vary considerably from these estimates depending upon how long the notes are offered and other factors:

Securities and Exchange Commission registration fee	\$ 115,900
Accounting fees and expenses	\$ 200,000
Legal fees and expenses	\$ 500,000
Blue sky fees and expenses	\$ 20,000
Printing expenses	\$ 200,000
Trustee fees and expenses	\$ 0
Miscellaneous	\$ 164,100
Total	\$ 1,200,000

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law provides for, under certain circumstances, the indemnification of our officers, directors, employees and agents against liabilities that they may incur in such capacities. A summary of the circumstances in which such indemnification provided for is contained herein, but that description is qualified in its entirety by reference to the relevant Section of the Delaware General Corporation Law.

In general, the statute provides that any director, officer, employee or agent of a corporation may be indemnified against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, actually and reasonably incurred in a proceeding (including any civil, criminal, administrative or investigative proceeding) to which the individual was a party by reason of such status. Such indemnity may be provided if the indemnified person's actions resulting in the liabilities: (i) were taken in good faith; (ii) were reasonably believed to have been in or not opposed to our best interest; and (iii) with respect to any criminal action, such person had no reasonable cause to believe the actions were unlawful. Unless ordered by a court, indemnification generally may be awarded only after a determination of independent members of the Board of Directors or a committee thereof, by independent legal counsel or by vote of the stockholders that the applicable standard of conduct was met by the individual to be indemnified.

The statutory provisions further provide that to the extent a director, officer, employee or agent is wholly successful on the merits or otherwise in defense of any proceeding to which he was a party, he is entitled to receive indemnification against expenses, including attorneys' fees, actually and reasonably incurred in connection with the proceeding.

Indemnification in connection with a proceeding by or in the right of GWG Holdings, Inc. (the "Company") in which the director, officer, employee or agent is successful is permitted only with respect to expenses, including attorneys' fees actually and reasonably incurred in connection with the defense. In such actions, the person to be indemnified must have acted in good faith, in a manner believed to have been in our best interest and must not have been adjudged liable to us unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expense which the Court of Chancery or such other court shall deem proper. Indemnification is otherwise prohibited in connection with a proceeding brought on behalf of the Company in which a director is adjudged liable to us, or in connection with any proceeding charging improper personal benefit to the director in which the director is adjudged liable for receipt of an improper personal

benefit.

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Delaware law authorizes us to reimburse or pay reasonable expenses incurred by a director, officer, employee or agent in connection with a proceeding in advance of a final disposition of the matter. Such advances of expenses are permitted if the person furnishes to us a written agreement to repay such advances if it is determined that he is not entitled to be indemnified by us.

The statutory section cited above further specifies that any provisions for indemnification of or advances for expenses does not exclude other rights under our certificate of incorporation, corporate bylaws, resolutions of our stockholders or disinterested directors, or otherwise. These indemnification provisions continue for a person who has ceased to be a director, officer, employee or agent of the corporation and inure to the benefit of the heirs, executors and administrators of such persons.

The statutory provision cited above also grants the power to the Company to purchase and maintain insurance policies that protect any director, officer, employee or agent against any liability asserted against or incurred by him in such capacity arising out of his status as such. Such policies may provide for indemnification whether or not the corporation would otherwise have the power to provide for it.

Article 6 of our corporate bylaws provides that we shall indemnify our directors, officers, employees and agents to the fullest extent permitted by the Delaware General Corporation Law. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, we understand that in the opinion of the SEC such indemnification is against public policy as expressed in that Act and is therefore unenforceable.

We have purchased directors' and officers' liability insurance in order to limit the exposure to liability for indemnification of directors and officers, including liabilities under the Securities Act of 1933.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

In 2014, the Company issued 110,584 shares of Series A Preferred Stock as in-kind dividends payable on account of the preferred stock. The preferred stock was sold solely to accredited investors in a private placement under Section 4(a)(2) of the Securities Act of 1933, and Regulation D/Rule 506 thereunder.

In 2014, the Company issued 60,000 shares of common stock to Brewer Consulting Group in exchange for certain advisory services including financial consulting and marketing support to be provided to the Company by Brewer Consulting Group. The common stock was sold to Brewer Consulting Group, as accredited investor, in a private placement under Section 4(a)(2) of the Securities Act of 1933, and Regulation D/Rule 506 thereunder.

In 2015, the Company issued 97,590 shares of Series A Preferred Stock as in-kind dividends payable on account of the preferred stock. The preferred stock was sold solely to accredited investors in a private placement under Section 4(a)(2) of the Securities Act of 1933, and Regulation D/Rule 506 thereunder.

In 2016, the Company issued 99,000 shares of Series A Preferred Stock as in-kind dividends payable on account of the preferred stock. The preferred stock was sold solely to accredited investors in a private placement under Section 4(a)(2) of the Securities Act of 1933, and Regulation D/Rule 506 thereunder.

From January 1 through June 30, 2017, the Company issued 48,000 shares of Series A Preferred Stock as in-kind dividends payable on account of the preferred stock. The preferred stock was sold solely to accredited investors in a private placement under Section 4(a)(2) of the Securities Act of 1933, and Regulation D/Rule 506 thereunder.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits. The exhibits listed below are filed as a part of this registration statement.

Exhibit	Description
1.1	<u>Form of Dealer Manager Agreement with Emerson Equity⁽¹⁴⁾</u>
1.2	<u>Form of Soliciting Dealer Agreement⁽¹⁴⁾</u>
3.1	<u>Certificate of Incorporation⁽¹⁾</u>
3.2	<u>Bylaws (as amended to and including June 2, 2015)⁽¹¹⁾</u>
3.3	<u>Certificate of Amendment to Certificate of Incorporation⁽²⁾</u>
3.4	<u>Certificate of Designations for Series A Convertible Preferred Stock⁽²⁾</u>
3.5	<u>Certificate of Amendment to Certificate of Incorporation⁽⁵⁾</u>
3.6	<u>Certificate of Designation for Redeemable Preferred Stock⁽⁷⁾</u>
3.7	<u>Certificate of Amendment to Certificate of Designation for Redeemable Preferred Stock⁽⁴⁾</u>
3.8	<u>Certificate of Amendment to Certificate of Designation for Redeemable Preferred Stock⁽⁷⁾</u>
3.9	<u>Certificate of Designation for Series 2 Redeemable Preferred Stock⁽¹⁰⁾</u>
4.1	<u>Amended and Restated Indenture with Bank of Utah⁽¹⁵⁾</u>
4.2	<u>Amended and Restated Pledge and Security Agreement by and among GWG Holdings, Inc., GWG Life, LLC, Jon R. Sabes, Steven F. Sabes, and Bank of Utah⁽¹⁵⁾</u>
4.3	<u>Form of L Bond⁽⁸⁾</u>
4.4	<u>Form of Subscription Agreement for L Bonds⁽¹⁴⁾</u>
5.1	<u>Opinion of Maslon⁽¹⁴⁾</u>
10.1	<u>Loan and Security Agreement with GWG DLP Funding IV, LLC (as borrower), CLMG Corp. (as agent) and LNV Corporation (as lender), dated September 14, 2016⁽⁹⁾</u>
10.2	<u>Employment Agreement with Jon R. Sabes, dated June 14, 2011⁽³⁾</u>
10.3	<u>Employment Agreement with Steven F. Sabes, dated June 14, 2011⁽³⁾</u>
10.4	<u>Employment Agreement with William B. Acheson, dated June 28, 2017⁽¹³⁾</u>
10.5	<u>2013 Stock Incentive Plan (as amended)⁽¹²⁾</u>
10.6	<u>Form of Stock Option Agreement used with 2013 Stock Incentive Plan⁽⁶⁾</u>
21.1	<u>List of Subsidiaries⁽¹¹⁾</u>
23.1	<u>Consent of Baker Tilly Virchow Krause, LLP (filed herewith)</u>
23.2	<u>Consent of Maslon LLP (contained within Exhibit 5.1 above)</u>
25.1	<u>Statement of Eligibility of Trustee (filed herewith)</u>

(1) Incorporated by reference to Form S-1 Registration Statement filed on June 14, 2011 (File No. 333-174887).

(2) Incorporated by reference to Form S-1/A Registration Statement filed on August 23, 2011 (File No. 333-174887).

(3) Incorporated by reference to Form S-1/A Registration Statement filed on September 20, 2011 (File No. 333-174887).

(4) Incorporated by reference to Current Report on Form 8-K filed on April 28, 2016.

(5) Incorporated by reference to Quarterly Report on Form 10-Q filed on August 8, 2014.

(6) Incorporated by reference to Form S-1/A Registration Statement filed on June 6, 2014 (File No. 333-195505).

(7) Incorporated by reference to the registrant's Annual Report on Form 10-K filed on March 22, 2016.

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- (8) Incorporated by reference to Form S-1/A Registration Statement filed on October 30, 2014 (File No. 333-197227).
- (9) Incorporated by reference to Current Report on Form 8-K filed on September 19, 2016.
- (10) Incorporated by reference to Current Report on Form 8-K filed on February 22, 2017.
- (11) Incorporated by reference to Annual Report on Form 10-K filed on March 15, 2017.
- (12) Incorporated by reference to the registrant's Definitive Proxy Statement filed on April 30, 2015.
- (13) Incorporated by reference to Current Report on Form 8-K filed on June 30, 2017.
- (14) Incorporated by reference to Form S-1/A Registration Statement filed on October 10, 2017 (File No. 333-220288).
- (15) Incorporated by reference to Current Report on Form 8-K filed on October 26, 2017.

ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the

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event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(a)(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) [intentionally omitted]

(5) For the purpose of determining any liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(6) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Minneapolis, State of Minnesota, on November 28, 2017.

GWG HOLDINGS, INC.

By: /s/ Jon R. Sabes
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed, as of November 28, 2017, by the following persons in the capacities indicated below.

Name	Title
/s/ Jon R. Sabes Jon R. Sabes	Director, Chief Executive Officer (Principal Executive Officer)
/s/ William Acheson William Acheson	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Steven F. Sabes Steven F. Sabes	Director, Executive Vice President and Secretary
/s/ David H. Abramson David H. Abramson	Director
/s/ Charles H. Maguire III Charles H. Maguire III	Director
/s/ Jeffrey L. McGregor Jeffrey L. McGregor	Director
/s/ Shawn R. Gensch Shawn R. Gensch	Director
/s/ Mark E. Schwarzmann Mark E. Schwarzmann	Director

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Minneapolis, State of Minnesota, on November 28, 2017.

GWG LIFE, LLC

By: /s/ Jon R. Sabes
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed, as of November 28, 2017, by the following persons in the capacities indicated below.

Name	Title
/s/ Jon R. Sabes Jon R. Sabes	Chief Executive Officer (Principal Executive Officer)
/s/ William Acheson William Acheson	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Jon R. Sabes Jon R. Sabes II-6	Manager of GWG Life, LLC