

COHEN & STEERS INC  
Form 4  
October 04, 2016

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287  
Expires: January 31, 2015  
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
Connor Frank T

(Last) (First) (Middle)

280 PARK AVE, 10TH FLOOR

(Street)

NEW YORK, NY 10017

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
COHEN & STEERS INC [CNS]

3. Date of Earliest Transaction  
(Month/Day/Year)  
10/03/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
Common Stock	10/03/2016		A	583 <sup>(1)</sup> A	\$ 0 6,721	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474  
(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Transaction (Instr. 5)
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## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Connor Frank T 280 PARK AVE, 10TH FLOOR NEW YORK, NY 10017		X		

## Signatures

/s/ Francis C. Poli,  
Attorney-in-Fact  
Date: 10/04/2016

Signature of Reporting Person Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
  - \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
  - (1) Represents shares of common stock underlying restricted stock units granted by the issuer to the reporting person. Such restricted stock units were 100% vested on the date of grant and will be delivered to the reporting person on the third anniversary of the date of grant.
- Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ext-autospace: none; font-size: 10.0pt; font-family: TimesNewRomanPSStd-Regular; color: black;"> \$

2,000,000

Male

40

Jefferson-Pilot Life Insurance Company

AA-

238

\$

10,000,000

Male

81

68

Hartford Life and Annuity Insurance Company

BBB+

239

\$

1,750,000

Male

81

81

AXA Equitable Life Insurance Company

A+

240

\$

250,000

Male

81

79

American General Life Insurance Company

A+

241

\$

3,500,000

Male

81

100

Metropolitan Life Insurance Company

AA-

242

\$

2,502,000

Male

81

149

Transamerica Life Insurance Company

AA-

243

\$

Explanation of Responses:

3,000,000

Male

81

111

Principal Life Insurance Company

A+

244

\$

1,210,000

Male

81

65

Lincoln National Life Insurance Company

AA-

245

Explanation of Responses:

\$

3,000,000

Female

81

104

West Coast Life Insurance Company

AA-

246

\$

3,000,000

Male

80

43

Pacific Life Insurance Company

A+

247

\$

3,000,000

Male

80

43

Minnesota Life Insurance Company

A+

248

\$

3,000,000

Male

80

43



Prudential Life Insurance Company

AA-

249

\$

3,000,000

Male

80

90

Voya Retirement Insurance and Annuity Company

A

250

\$

5,000,000

Male

80

98

Pacific Life Insurance Company

A+

251

\$

5,000,000

Male

80

98

Pacific Life Insurance Company

A+

252

\$

4,000,000

Male

80

81

Jefferson-Pilot Life Insurance Company

AA-

253

\$

3,000,000

Male

80

148

Metropolitan Life Insurance Company

AA-

254

\$

300,000

Female

80

98

Metropolitan Life Insurance Company

AA-

255

\$

5,000,000

Male

80

129

Principal Life Insurance Company

A+

256

\$

Explanation of Responses:

5,000,000

Male

80

90

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

AA-

257

\$

800,000

Male

80

78

North American Company for Life And Health Insurance

A+

258

Explanation of Responses:

\$

7,000,000

Male

80

86

Lincoln Benefit Life Company

BBB+

259

\$

1,000,000

Female

80

87

Lincoln Benefit Life Company

Explanation of Responses:

BBB+

260

\$

6,000,000

Male

80

122

AXA Equitable Life Insurance Company

A+

261

\$

130,000

Male

80

51

Genworth Life Insurance Company

BBB-

262

\$

1,000,000

Male

80

123

Empire General Life Assurance Corporation

AA-

263

\$

4,300,000

Female

80



American National Insurance Company

A

264

\$

200,000

Male

80

67

Kansas City Life Insurance Company

N/A

265

\$

200,000

Male

80

57

Lincoln National Life Insurance Company

AA-

266

\$

6,000,000

Male

80

107

AXA Equitable Life Insurance Company

A+

267

\$

2,000,000

Female

80

87

Transamerica Life Insurance Company

AA-

268

\$

1,000,000

Male

80

56

Pacific Life Insurance Company

A+

269

\$

Explanation of Responses:

200,000

Male

80

46

Prudential Life Insurance Company

AA-

270

\$

500,000

Male

80

48

Transamerica Life Insurance Company

AA-

271

Explanation of Responses:

\$

5,000,000

Male

79

79

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

AA-

272

\$

3,601,500

Male

79

94

Transamerica Life Insurance Company

AA-

273

\$

1,000,000

Male

79

96

Sun Life Assurance Company of Canada (U.S.)

AA-

274

\$

5,000,000

Male

79

89

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

AA-

275

\$

1,009,467

Male

79

59

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

AA-

276

\$

4,000,000

Male

79

51

MetLife Investors USA Insurance Company

AA-

277

\$

100,000

Male

79

64

North American Company for Life And Health Insurance

A+

278

\$

5,000,000

Male



79

57

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

AA-

279

\$

476,574

Male

79

72

Transamerica Life Insurance Company

AA-

280

\$

2,250,000

Male

79

94

Massachusetts Mutual Life Insurance Company

AA+

281

\$

775,000

Male

79

124

Lincoln National Life Insurance Company

AA-

282

\$

Explanation of Responses:

1,000,000

Female

79

123

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

AA-

30

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	Face Amount	Gender	Age (ALB)	LE (mo.)	Insurance Company	S&P Rating
283	\$ 1,445,000	Female	79	104	AXA Equitable Life Insurance Company	A+
284	\$ 1,500,000	Female	79	104	AXA Equitable Life Insurance Company	A+
285	\$ 1,000,000	Male	79	87	Lincoln National Life Insurance Company	AA-
286	\$ 325,000	Male	79	43	American General Life Insurance Company	A+
287	\$ 3,750,000	Male	79	60	AXA Equitable Life Insurance Company	A+
288	\$ 1,000,000	Male	79	111	Metropolitan Life Insurance Company Voya Retirement Insurance and Annuity Company	AA-  A
289	\$ 5,000,000	Female	79	117	Lincoln National Life Insurance Company	AA-
290	\$ 750,000	Male	79	70	Lincoln National Life Insurance Company	AA-
291	\$ 5,000,000	Male	79	182	West Coast Life Insurance Company	AA-
292	\$ 3,000,000	Male	79	96	Principal Life Insurance Company	A+
293	\$ 5,000,000	Male	78	119	Jefferson-Pilot Life Insurance Company	AA-
294	\$ 3,000,000	Male	78	86	American General Life Insurance Company John Hancock Life Insurance Company (U.S.A)	A+  AA-
295	\$ 500,000	Male	78	68	Metropolitan Life Insurance Company	AA-
296	\$ 1,000,000	Male	78	115	Metropolitan Life Insurance Company	AA-
297	\$ 3,000,000	Female	78	88	New York Life Insurance Company Massachusetts Mutual Life Insurance Company	AA+  AA+
298	\$ 2,500,000	Male	78	88	Massachusetts Mutual Life Insurance Company	AA+  AA+
299	\$ 2,500,000	Male	78	88	Company	AA+
300	\$ 500,000	Female	78	116	Columbus Life Insurance Company John Hancock Life Insurance Company (U.S.A)	AA  AA-
301	\$ 1,750,000	Male	78	64	Transamerica Life Insurance Company	AA-
302	\$ 5,000,000	Male	78	104	John Hancock Life Insurance Company (U.S.A)	AA-  AA-
303	\$ 6,250,000	Male	78	197	Transamerica Life Insurance Company	AA-
304	\$ 2,000,000	Female	78	57	Transamerica Life Insurance Company	AA-
305	\$ 2,840,000	Male	77	99	Transamerica Life Insurance Company Massachusetts Mutual Life Insurance Company	AA-  AA+
306	\$ 4,000,000	Male	77	69	John Hancock Life Insurance Company (U.S.A)	AA-  AA-
307	\$ 1,000,000	Female	77	76	Pacific Life Insurance Company	A+
308	\$ 7,000,000	Female	77	124	Genworth Life Insurance Company	BBB-
309	\$ 2,000,000	Male	77	108	Transamerica Life Insurance Company	AA-
310	\$ 2,000,000	Male	77	121	Transamerica Life Insurance Company	AA-
311	\$ 490,620	Male	77	88	Ameritas Life Insurance Corporation	A+
312	\$ 600,000	Male	77	86	Protective Life Insurance Company	AA-
313	\$ 5,000,000	Male	76	151	Prudential Life Insurance Company	AA-
314	\$ 250,000	Male	76	106	Midland National Life Insurance Company	A+
315	\$ 3,000,000	Male	76	57	Aviva Life Insurance Company	A-
316	\$ 3,000,000	Male	76	99	Prudential Life Insurance Company	AA-
317	\$ 500,000	Male	76	105	AXA Equitable Life Insurance Company Massachusetts Mutual Life Insurance Company	A+  AA+
318	\$ 5,000,000	Male	76	144	Massachusetts Mutual Life Insurance Company	AA+  AA+
319	\$ 5,000,000	Male	76	144	Protective Life Insurance Company	AA-
320	\$ 3,000,000	Male	76	106	Aviva Life Insurance Company	A-
321	\$ 2,000,000	Female	76	122	Aviva Life Insurance Company	A-

Explanation of Responses:

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322	\$	1,000,000	Male	76	106	Athene Life Insurance Company of New York	A-
323	\$	5,000,000	Male	76	35	Lincoln Benefit Life Company	BBB+
324	\$	850,000	Male	76	71	New York Life Insurance Company	AA+
325	\$	1,000,000	Male	76	85	Pacific Life Insurance Company	A+
326	\$	150,000	Male	76	108	Genworth Life Insurance Company	BBB-
327	\$	5,000,000	Male	76	61	West Coast Life Insurance Company Voya Retirement Insurance and Annuity Company	AA-
328	\$	200,000	Male	75	73	John Hancock Life Insurance Company (U.S.A)	A
329	\$	3,000,000	Male	75	116		AA-
31							

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	Face Amount	Gender	Age (ALB)	LE (mo.)	Insurance Company	S&P Rating
330	\$ 5,000,000	Male	75	116	John Hancock Life Insurance Company (U.S.A)	AA-
331	\$ 8,000,000	Male	75	106	Metropolitan Life Insurance Company	AA-
332	\$ 500,000	Male	75	97	AXA Equitable Life Insurance Company	A+
333	\$ 4,000,000	Female	75	146	American General Life Insurance Company	A+
334	\$ 300,000	Male	75	19	Lincoln National Life Insurance Company	AA-
335	\$ 10,000,000	Female	75	142	Voya Retirement Insurance and Annuity Company	A
336	\$ 500,000	Male	75	79	American General Life Insurance Company	A+
337	\$ 3,000,000	Female	75	119	General American Life Insurance Company	AA-
338	\$ 412,839	Male	75	73	Pacific Life Insurance Company	A+
339	\$ 300,000	Female	75	141	Minnesota Life Insurance Company	A+
340	\$ 500,000	Male	74	40	Midland National Life Insurance Company	A+
341	\$ 1,000,000	Male	74	104	Transamerica Life Insurance Company	AA-
342	\$ 3,000,000	Male	74	78	AXA Equitable Life Insurance Company	A+
343	\$ 500,000	Male	74	111	United of Omaha Life Insurance Company	AA-
344	\$ 2,000,000	Male	74	127	Prudential Life Insurance Company	AA-
345	\$ 2,000,000	Male	74	102	American General Life Insurance Company	A+
346	\$ 400,000	Male	74	88	Protective Life Insurance Company	AA-
347	\$ 1,000,000	Female	73	128	United of Omaha Life Insurance Company	AA-
348	\$ 2,500,000	Male	73	111	John Hancock Life Insurance Company (U.S.A)	AA-
349	\$ 500,000	Male	73	143	Prudential Life Insurance Company	AA-
350	\$ 2,500,000	Male	73	112	American General Life Insurance Company	A+
351	\$ 1,500,000	Male	73	134	Lincoln National Life Insurance Company	AA-
352	\$ 1,500,000	Male	73	134	Lincoln National Life Insurance Company	AA-
353	\$ 1,500,000	Male	73	134	Lincoln National Life Insurance Company	AA-
354	\$ 500,000	Male	72	130	Ameritas Life Insurance Corporation	A+
355	\$ 370,000	Male	72	130	Ameritas Life Insurance Corporation	A+
356	\$ 5,000,000	Male	72	136	John Hancock Life Insurance Company (U.S.A)	AA-
357	\$ 2,500,000	Male	72	122	Lincoln National Life Insurance Company	AA-
358	\$ 2,500,000	Male	72	122	John Hancock Life Insurance Company (U.S.A)	AA-
359	\$ 500,000	Male	72	136	Metropolitan Life Insurance Company	AA-
360	\$ 250,000	Male	72	75	American General Life Insurance Company	A+
361	\$ 300,000	Male	72	119	New England Life Insurance Company	AA-
362	\$ 1,167,000	Male	72	31	Transamerica Life Insurance Company	AA-
363	\$ 600,000	Male	72	90	AXA Equitable Life Insurance Company	A+
364	\$ 1,500,000	Male	72	116	Metropolitan Life Insurance Company	AA-
365	\$ 420,000	Male	72	130	RiverSource Life Insurance Company	A+
366	\$ 10,000,000	Male	72	126	AXA Equitable Life Insurance Company	A+
367	\$ 650,000	Female	71	79	Voya Retirement Insurance and Annuity Company	A
368	\$ 3,000,000	Male	71	81	John Hancock Life Insurance Company (U.S.A)	AA-
369	\$ 2,000,000	Male	71	107	New York Life Insurance Company	AA+
370	\$ 2,000,000	Male	71	107	New York Life Insurance Company	AA+
371	\$ 500,000	Male	71	98	Transamerica Life Insurance Company	AA-

Explanation of Responses:

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372	\$	500,000	Male	71	98	North American Company for Life And Health Insurance	A+
373	\$	1,250,000	Male	70	107	West Coast Life Insurance Company	AA-
374	\$	1,500,000	Female	70	161	Prudential Life Insurance Company	AA-
375	\$	750,000	Male	69	142	North American Company for Life And Health Insurance	A+
376	\$	250,000	Female	69	129	Ohio National Life Assurance Corporation	AA-

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Face Amount	Gender	Age (ALB)	LE (mo.)	Insurance Company	S&P Rating
377 \$ 400,000	Male	69	169	Lincoln National Life Insurance Company	AA-
378 \$ 1,000,000	Male	69	67	Protective Life Insurance Company	AA-
379 \$ 2,500,000	Male	68	169	Prudential Life Insurance Company	AA-
380 \$ 2,500,000	Male	68	169	Prudential Life Insurance Company	AA-
381 \$ 1,000,000	Male	68	94	Protective Life Insurance Company	AA-
382 \$ 2,000,000	Male	68	119	Transamerica Life Insurance Company	AA-
383 \$ 1,000,000	Male	68	119	Genworth Life Insurance Company	BBB-
384 \$ 150,000	Male	68	125	Protective Life Insurance Company	AA-
385 \$ 156,538	Female	68	113	New York Life Insurance Company	AA+
386 \$ 2,000,000	Male	68	55	MetLife Investors USA Insurance Company	AA-
387 \$ 2,000,000	Male	68	55	MetLife Investors USA Insurance Company	AA-
388 \$ 3,000,000	Male	67	108	Voya Retirement Insurance and Annuity Company	A
389 \$ 2,000,000	Male	67	108	AXA Equitable Life Insurance Company	A+
390 \$ 2,000,000	Male	67	108	AXA Equitable Life Insurance Company	A+
391 \$ 750,000	Male	67	169	Northwestern Mutual Life Insurance Company	AA+
392 \$ 5,616,468	Male	67	188	John Hancock Life Insurance Company (U.S.A)	AA-
393 \$ 1,000,000	Male	66	52	Lincoln National Life Insurance Company	AA-
394 \$ 1,000,000	Male	66	84	Transamerica Life Insurance Company	AA-
395 \$ 350,000	Female	66	93	Assurity Life Insurance Company	N/A
396 \$ 250,000	Male	66	171	Prudential Life Insurance Company	AA-
\$ 944,844,471					

(1) 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 in the life insurance purchasing and financing business from numerous companies, including hedge funds, investment banks, secured lenders, specialty life insurance finance companies and life insurance companies themselves. 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 also have greater market share. In the event that certain 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.

Explanation of Responses:



Government Regulation

Our business is highly regulated at the state level with respect to the purchase of life insurance assets and federal laws and regulations with respect to the issuance of securities. In general, we believe that regulatory and legal environments with respect to the purchase of life insurance assets are well settled. A stable regulatory and legal environment is necessary to give consumers, financial professionals, and investor's greater confidence and willingness to participate in the development of the life insurance secondary market.

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At the state level, many states subject us to laws and regulations requiring us to obtain specific licenses or approvals to be able to purchase 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 purchase of life insurance policies. 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 the life insurance secondary market, the settlement (i.e., purchase) of life insurance contracts may in some cases constitute a transaction in “securities” that is governed by federal securities laws. Specifically, several federal court cases have held that the offer and sale of fractionalized life insurance contracts (i.e., selling direct and fractionalized investments in life insurance contracts to investors) is a transaction in securities under the Securities Act of 1933. These cases do not impact the way in which we finance our business since our financing efforts do not involve the fractionalization of any life insurance assets.

These same and other federal court cases, however, have also held that variable life insurance contracts are themselves “securities.” While we presently hold few variable life insurance contracts, our holding of a significant amount of such contracts in the future could cause our company or one of its 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 business — whether due to our purchase of variable life insurance contracts or to the expansion of 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 revolving 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.

#### State Life Settlement License Requirements

State laws differ as to the extent to which purchasers of life insurance policies are required to be licensed. We purchase life insurance policies only in those states in which we are licensed or where no licensure is required. In certain states in which we do not hold a required license, we purchase life insurance policies through a licensed provider. Although licensing requirements differ from state to state, where they exist they typically require the payment of licensing fees, periodic reporting, and submission to audit by state regulators.

Almost every state has regulation that governs the sale of a life insurance policy, with the exception of eight states that remain unregulated. We hold licenses to purchase policies in 35 states and can also purchase in the eight unregulated states. At times, acting as a fund, we will utilize another licensed life settlement provider for the purchase of a policy in a state where we are not licensed. In the following states, because we are not currently licensed we do not conduct business and do not purchase policies through another licensed life settlement provider: Alaska, New Hampshire, North Dakota, Vermont, and West Virginia.

#### Health Insurance Portability and Accountability Act (HIPAA)

Explanation of Responses:

HIPAA requires that holders of medical records maintain such records and implement procedures in ways designed to assure the privacy of patient records. HIPAA has precipitated widespread changes in record keeping, including patient consent forms and access restrictions in data processing software. 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. We are entitled to have access to patient information, take on the responsibility for preserving the privacy of that information, and use the information only for purposes related to the life insurance policies.

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## Employees

We employ approximately 50 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 2026. 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, as amended (the "Exchange Act"), are filed with the SEC. We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements and other information with the SEC.

Our general website address is [www.gwglife.com](http://www.gwglife.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.

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## DESCRIPTION OF THE REDEEMABLE PREFERRED STOCK

### General

We are offering a maximum of 100,000 shares of our Redeemable Preferred Stock, par value \$.001 per share, referred to as our “Redeemable Preferred Stock,” in this offering. Each share of Redeemable Preferred Stock has an initial Stated Value of \$1,000 per share. Up to a maximum 15% of the aggregate Stated Value of preferred shares purchased from us may be converted 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 on which notice of conversion is delivered to us, subject, however, to a minimum conversion price of \$15.00. This minimum conversion price will be equitably adjusted upon customary events affecting our share capital, such as stock dividends, subdivisions (splits), and combinations. For more detailed information, see “Redeemable Preferred Stock — Conversion by a Holder” below.

### Redeemable Preferred Stock

Our Board of Directors has created, out of our authorized and unissued shares of our preferred stock, a series of preferred stock designated as the Redeemable Preferred Stock. Our Redeemable Preferred Stock is being offered pursuant to this prospectus and will be issued in up to 100,000 shares.

The following is a brief description of the terms of our Redeemable Preferred Stock. The description of our Redeemable Preferred Stock contained herein does not purport to be complete and is qualified in its entirety by reference to the Certificate of Designation for our Redeemable Preferred Stock, which is filed with the SEC as an exhibit to the registration statement of which this prospectus is a part.

**Rank.** With respect to dividend rights and rights upon our liquidation, winding-up or dissolution, our Redeemable Preferred Stock ranks:

- senior to our common stock and any other class or series of our capital stock, including capital stock issued in the future, the terms of which expressly provide that our Redeemable Preferred Stock ranks senior to such class or series as to dividend rights or rights on our liquidation, winding-up and dissolution;
- *pari passu* with our Series A Convertible Preferred Stock;
- junior to each class or series of our capital stock, including capital stock issued in the future, the terms of which expressly provide that such class or series ranks senior to the Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding up and dissolution; and
- junior to all our existing and future debt obligations.

“*Pari passu*” means that in determining priority of payment in respect of entitlement to dividends and rights upon our liquidation, winding-up or dissolution, the holders of our Redeemable Preferred Stock, together with the holders of any other class of “*pari passu*” equity, will be treated equally and without preference.

**Stated Value.** Each share of Redeemable Preferred Stock has an initial “Stated Value” of \$1,000, subject to appropriate adjustment upon certain events such as recapitalizations, stock dividends, stock splits, stock combinations, reclassifications or similar events as set forth in the Certificate of Designation for our Redeemable Preferred Stock.

**Dividends.** Subject to the preferential rights of the holders of any class or series of our capital stock ranking senior to our Redeemable Preferred Stock, if any such class or series is authorized in the future, the holders of Redeemable Preferred Stock are entitled to receive, when and as declared by our Board of Directors out of legally available funds, cumulative cash dividends on each share of Redeemable Preferred Stock at an annual rate of 7.00% of the Stated

Value on such share.

Dividends on each share of Redeemable Preferred Stock begin accruing on, and are cumulative from, the date of issuance. Dividends on the Redeemable Preferred Stock will be calculated based on twelve 30-day months. The regular record date we will use for determining the holders of record entitled to receive any payment of dividends on a payment date will be the last calendar day of each calendar month. A pending amendment to the Certificate of Designation will, if approved, change this regular record date to the final business day of each month, on which

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business day our common stock trades or is eligible for trading (subject to the requirement that a holder must have held his, her or its preferred shares for more than two business days). Payment of dividends will be made monthly, in arrears (to the holders of record on the immediately prior record date), on the 15th calendar day of the next following month (or the next business day thereafter if the 15th calendar day is not a business day). In the event that provisions of Delaware law, our Certificate of Incorporation, as amended, or our borrowing agreements prohibit us from paying dividends in cash, and we do not pay dividends through the issuance of preferred stock as described above, unpaid dividends will cumulate.

At our option, we may pay dividends in the form of duly authorized, validly issued, fully paid and non-assessable shares of the Redeemable Preferred Stock. Any Redeemable Preferred Stock we issue in satisfaction of our dividend-payment obligations will be valued at the Stated Value of such shares. We may exercise this option even if we are legally permitted to pay dividends in cash.

No commissions or additional compensation will be payable on preferred shares issued in satisfaction of our dividend-payment obligations.

Unless full cumulative dividends on our shares of Redeemable Preferred Stock for all past dividend periods through the most recent payment date have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment, we will not:

- declare a dividend on any other series or class or classes of capital stock as to which the Redeemable Preferred Stock ranks senior or pari passu as to dividends or liquidation, including without limitation shares of common stock, in respect of any period; or
- redeem, purchase or otherwise acquire any series or class of capital stock that ranks junior or pari passu to the Redeemable Preferred Stock (except for the repurchase of shares of common stock from employees, officers, directors, consultants or other persons performing services for us or any of our subsidiaries pursuant to agreements under which we have the right or option to repurchase such shares upon the occurrence of certain events or otherwise, or of shares of Series A Convertible Preferred Stock pursuant to the terms of the Certificate of Designation of Series A Convertible Preferred Stock, or terms superior to those contained within such Certificate of Designation of Series A Convertible Preferred Stock) for any consideration (or any money to be paid into any sinking fund or otherwise set apart for the purchase of any such junior stock).

Redemption Request at the Option of a Holder. Beginning one year from the date of original issuance of any shares of Redeemable Preferred Stock to be redeemed (and subject to the limitations described below under “Restrictions on Redemptions and Repurchases”), the holder will have the opportunity to request once per calendar quarter that we redeem up to 25% of such holder’s Redeemable Preferred Stock originally purchased from us (plus any preferred shares issued in satisfaction of dividends thereon) at a redemption price equal to the Stated Value of the shares to be redeemed, plus any accrued but unpaid dividends thereon, less an applicable redemption fee. As a percentage of the aggregate redemption price of a holder’s shares to be redeemed, the redemption fee shall be:

- 8% if the redemption is requested after the first anniversary and before the second anniversary of the original issuance of such shares.
- 5% if the redemption is requested after the second anniversary and before the third anniversary of the original issuance of such shares.
- Beginning three years from the date of original issuance of such shares, no redemption fee shall be subtracted from the redemption price.

A pending amendment to the Certificate of Designation will, if approved, modify these redemption features so as to (i) eliminate the one-year holding requirement, thereby permitting holders to request redemption at any time, (ii) eliminate the 25% per calendar quarter volume limitation on redemption requests, thereby permitting holders to request redemption without limit; and (iii) reset the applicable redemption fees to 12% for redemptions requested prior to the first anniversary of purchase; 10% for redemptions requested on or after the first anniversary, but prior to the second anniversary, of purchase; and 8% for redemptions requested on or after second anniversary, but prior to the third anniversary, of purchase. No redemption fee for redemptions requested on or after the third anniversary of purchase.

If these proposals are approved, we will update this prospectus accordingly and file an appropriate prospectus supplement with the SEC.

**Optional Repurchase Upon Death, Disability or Bankruptcy of a Holder.** Subject to certain restrictions and conditions, we will also redeem shares of Redeemable Preferred Stock of a holder who is a natural person (including an individual beneficial holder who holds our preferred shares through a custodian or nominee, such as a broker-dealer) upon his or her death, total disability or bankruptcy, within 60 days of our receipt of a written request from the holder or the holder's estate at a redemption price equal to the Stated Value, plus accrued and unpaid dividends thereon.

A "total disability" means a determination by a physician approved by us that a holder, who was gainfully employed and working on a full-time basis as of the date on which his or her Redeemable Preferred Stock was purchased, has been unable to work on a full-time basis for at least 24 consecutive months. In this regard, the Certificate of Designation for the Redeemable Preferred Stock defines working "on a full-time basis" to mean working at least 40 hours per week.

**Optional Redemption by the Company.** We will have the right to redeem any or all shares of our Redeemable Preferred Stock beginning on the one-year anniversary of the date of original issuance of such shares of Redeemable Preferred Stock to be redeemed. We will redeem such shares of Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value per share of Redeemable Preferred Stock, plus any accrued but unpaid dividends thereon.

We may exercise our redemption right by delivering a written notice thereof to all, but not less than all, of the holders of Redeemable Preferred Stock. Each such notice will state the date on which the redemption by us shall occur, which date will be no later than 60 days following the notice date.

**Restrictions on Redemption and Repurchase.** We will not be obligated in all cases to redeem shares of Redeemable Preferred Stock, whether upon a redemption request by a holder, at the option of the Company, or upon the death, total disability or bankruptcy of a holder. In particular, we will not redeem or repurchase any preferred shares if we are restricted by applicable law or our Certificate of Incorporation, as amended, from making such redemption or to the extent any such redemption would cause or constitute a default under any borrowing agreements to which we or any of our subsidiaries are a party or otherwise bound. In addition, we will have no obligation to redeem preferred shares upon a redemption request made by a holder if we do not have sufficient funds available to fund that redemption. We will have discretion under the Certificate of Designation for the Redeemable Preferred Stock to determine whether we are in possession of "sufficient funds" to fund a redemption request. To the extent we have requests for redemptions that we are unable to satisfy, we will honor redemption requests promptly after we become able to do so, with all such deferred redemption requests being satisfied on a prorated basis, regardless of the order in which we received the requests.

**Conversion by a Holder.** Subject to the limitations described below, holders of Redeemable Preferred Stock will have the option to convert the Redeemable Preferred Stock they purchase from us and hold into common stock at a conversion price equal to the volume-weighted average price of our common stock for the 20 trading days immediately prior to the date on which notice of conversion is delivered to us, subject, however, to a minimum conversion price of \$15.00. This minimum conversion price will be equitably adjusted upon customary events affecting our share capital, such as stock dividends, subdivisions (splits), and combinations.



The right of holders to convert their Redeemable Preferred Stock is limited to 15% of the Stated Value of Redeemable Preferred Stock originally purchased by such holder from us and still held by such holder. For this purpose, shares of Redeemable Preferred Stock issued to holders in satisfaction of our dividend-payment obligations will not count as shares “originally purchased” from us. For example, if you purchase 5,000 shares of Redeemable Preferred Stock having an aggregate Stated Value of \$50,000, and over the following one-year period either we ourselves elect

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to, or you elect to have us, satisfy our dividend-payment obligation through the issuance of additional preferred shares (resulting in our issuance to you of 3.5 additional shares of Redeemable Preferred Stock), the maximum number of shares of Redeemable Preferred Stock you may convert into our common stock will be 750 (having an aggregate Stated Value of \$7,500, which is 15% of \$50,000).

In the event that we deliver a notice of proposed redemption of an investor's preferred shares (see the caption "Optional Redemption by the Company" above), the right of a holder to convert those shares into our common stock will be suspended until the redemption date. If, however, we do not consummate the redemption on the redemption date, then the suspension on the right to convert will terminate and holders will once again have the right to convert their preferred shares into our common stock.

**Liquidation Preference.** Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, before any distribution or payment shall be made to holders of our common stock or any other class or series of capital stock ranking junior to our shares of Redeemable Preferred Stock, the holders of shares of Redeemable Preferred Stock will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference equal to the Stated Value per share, plus an amount equal to any accrued and unpaid dividends (whether or not declared) to and including the date of payment.

After payment of the full amount of the liquidating distributions to which they are entitled, the holders of our shares of Redeemable Preferred Stock will have no right or claim to any of our remaining assets. Our consolidation or merger with or into any other corporation, trust or other entity, the consolidation or merger of any other corporation, trust or entity with or into us, the sale or transfer of any or all our assets or business, or a statutory share exchange will not be deemed to constitute a liquidation, dissolution or winding-up of our affairs.

In determining whether a distribution (other than upon voluntary or involuntary liquidation) by dividend, redemption or other acquisition of shares of our capital stock, or otherwise, is permitted under Delaware law, amounts that would be needed, if we were to be dissolved at the time of any such distribution, to satisfy the preferential rights of the holders of Redeemable Preferred Stock will not be added to our total liabilities.

**Voting Rights.** Our Redeemable Preferred Stock has no voting rights.

**Protective Provisions.** Although the Redeemable Preferred Stock has no voting rights relative to matters submitted to a vote of our stockholders (other than as required by law), the affirmative vote or written consent of holders of at least a majority of the then-outstanding shares of Redeemable Preferred Stock, voting together as a single class, either given in writing or by vote at a meeting, is required for us to:

- amend, modify, add, repeal or waive any provision of the Certificate of Designation for the Redeemable Preferred Stock or otherwise take any action that modifies any powers, rights, preferences, privileges or restrictions of the Redeemable Preferred Stock;
- authorize, create or issue shares of any class of stock having rights, preferences or privileges upon our liquidation that are superior to the Redeemable Preferred Stock; or
- amend our Certificate of Incorporation in a manner that adversely and materially affects the rights of the Redeemable Preferred Stock.

**Exchange Listing.** We do not plan on making an application to list the shares of our Redeemable Preferred Stock on The NASDAQ Capital Market, any other national securities exchange or any other nationally recognized trading system. Our common stock is listed on The NASDAQ Capital Market.

**No Sinking Fund**

**Explanation of Responses:**

The Redeemable Preferred Stock is not associated with any sinking fund.

#### Reports

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 Redeemable Preferred Stock who sends us a written request.

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## PLAN OF DISTRIBUTION

### General

We are offering up to a maximum of 100,000 shares of our Redeemable Preferred Stock in this offering through Emerson Equity LLC, our dealer manager, on a “reasonable best efforts” basis, which means that the dealer manager is only required to use its good faith efforts and reasonable diligence to sell the Redeemable Preferred Stock and has no firm commitment or obligation to purchase any specific number or dollar amount of the Redeemable Preferred Stock.

The Redeemable Preferred Stock will be sold at a public offering price of \$1,000 per share. Investors may pay cash or exchange their outstanding debt securities of the Company in satisfaction of the aggregate purchase price for the Redeemable Preferred Stock. Redeemable Preferred Stock will not be issued or certificated. This offering is a continuous offering, and we may terminate this offering at any time.

We will sell Redeemable Preferred Stock using DTC settlement and direct settlement with the Company. See “Settlement Procedures” below for more detail.

Emerson Equity LLC is a securities broker-dealer registered with the SEC and a member firm of FINRA. The principal business address of Emerson Equity is 155 Bovet Road, Suite 725, San Mateo, CA 94402. Our dealer manager will manage, direct and supervise its associated persons who will be wholesalers in connection with the offering. We expect our dealer manager to authorize other broker-dealers that are members of FINRA, which we refer to as soliciting broker-dealers, to sell our Redeemable Preferred Stock.

### Compensation of Dealer Manager and Soliciting Broker-Dealers

We will pay to our dealer manager and soliciting broker-dealers a selling commission of 6.00% of the gross offering proceeds from this offering for a maximum of \$6,000,000. We will also pay additional compensation to soliciting broker-dealers. In particular, the managing dealer and soliciting broker-dealers may receive up to 2.00% of the gross offering proceeds as additional compensation consisting of (i) an accountable and non-accountable expense allowance, (ii) a dealer manager fee (payable only to Emerson Equity) for managing and coordinating the offering, (iii) a wholesaling fee (payable only to wholesaling dealers), and (iv) non-cash compensation. We will not pay referral or similar fees to any accountants, attorneys or other persons in connection with the distribution of the debentures.

Additional compensation includes (i) a non-accountable expense allowance of up to 0.60% of gross offering proceeds for a maximum of \$600,000; (ii) an accountable allowance expense of up to 0.40% of gross offering proceeds for a maximum of \$400,000; (iii) a dealer manager fee of 0.40% gross offering proceeds for a maximum of \$400,000; (iv) a wholesaling fee of 0.50% of gross offering proceeds for a maximum of \$500,000; and (v) non-cash compensation of up to 0.10% of gross offering proceed for a maximum of \$100,000. Final additional compensation will not exceed 2.00% of gross offering proceeds, and the combined selling commission and such additional compensation under this offering will not exceed 8.00% of gross offering proceeds. Our dealer manager will repay to us any payments exceeding 8.00% of gross offering proceeds if this offering is terminated before reaching the maximum amount of offering proceeds.

Our dealer manager may reallow up to 0.60% of any additional compensation it receives to a soliciting broker-dealer. The amount of any such reallowance will be determined by our dealer manager in its sole discretion.

We will not pay any selling commissions, but will pay dealer manager fees, in connection with the sale of Redeemable Preferred Stock to investors whose contracts for investment advisory and related brokerage services include a fixed or “wrap” fee feature. Investors may agree with their broker-dealers to reduce the amount of selling commissions payable with respect to the sale of their Redeemable Preferred Stock down to zero (i) if the investor has engaged the services of a registered investment advisor, or RIA, or other financial advisor who will be paid compensation for investment

advisory services or other financial or investment advice, or (ii) if the investor is investing through a bank trust account with respect to which the investor has delegated the decision-making authority for investments made through the account to a bank trust department. The net proceeds to us will not be affected by reducing the commissions payable in connection with such sales. 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 Redeemable Preferred Stock.

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No commissions or additional compensation will be payable on preferred shares issued in satisfaction of our dividend-payment obligations.

#### Dealer Manager and Soliciting Broker-Dealer Compensation

The table below sets forth the nature and estimated amount of all items viewed as compensation by FINRA, assuming we sell all the Redeemable Preferred Stock offered hereby.

	Per Share	Maximum Offering
Public offering price	\$ 1,000	\$ 100,000,000
Selling commissions(1)(3)	\$ 60	\$ 6,000,000
Additional compensation(2)(3)	\$ 20	\$ 2,000,000
Proceeds, before expenses, to us	\$ 9,200	\$ 92,000,000

(1) Selling commissions will equal 6.00% of aggregate gross proceeds, and will be payable to each soliciting broker-dealer as authorized by us and Emerson Equity LLC, the managing broker-dealer or “dealer manager” for this offering.

(2) Additional compensation consists of (i) a non-accountable expense allowance of up to 0.60% of gross offering proceeds, (ii) an accountable expense allowance of up to 0.40% of gross offering proceeds, (iii) a dealer manager fee (payable only to Emerson Equity) of 0.40% of gross offering proceeds for managing and coordinating the offering, (iv) a wholesaling fee (payable only to wholesaling dealers) of 0.50% of gross offering proceeds, and (v) non-cash compensation of up to 0.10% of gross offering proceeds. Aggregate additional compensation will not exceed 2.0% of gross offering proceeds. The dealer manager may reallocate up to 0.60% of additional compensation to other soliciting broker-dealers. The amount of the reallocation to any soliciting broker-dealer will be determined by the dealer manager in its sole discretion.

(3) The combined selling commissions and additional compensation for this offering will not exceed 8.00% of the aggregate gross proceeds of this offering. Our dealer manager will repay us any selling commission and additional compensation payments exceeding 8.00% of gross offering proceeds if this offering is terminated before reaching the maximum amount of offering proceeds.

To the extent permitted by law and our Certificate of Incorporation, we will indemnify the soliciting broker-dealers and the dealer manager against certain civil liabilities, including certain liabilities arising under the Securities Act of 1933 and liabilities arising from breaches of our representations and warranties contained in the dealer manager agreement. Nevertheless, the SEC takes the position that indemnification against liabilities arising under the Securities Act of 1933 is against public policy and is not enforceable.

We will be responsible for the expenses of issuance and distribution of the Redeemable Preferred Stock in this offering, including registration fees, printing expenses and our legal and accounting fees, which we estimate will total approximately \$300,000 (excluding selling commissions and dealer manager fees).

The obligations of the dealer manager may be terminated in the event of a material adverse change in economic, political or financial conditions or upon the occurrence of certain other conditions specified in the dealer manager agreement.

#### Settlement Procedures

We are settling purchases of our Redeemable Preferred Stock through a DTC participant (referred to as “DTC settlement”) or directly with the Company.

#### Explanation of Responses:

If your broker-dealer uses DTC settlement, then you may place an order for the purchase of Redeemable Preferred Stock through your broker-dealer. Investors purchasing Redeemable Preferred Stock through DTC settlement will coordinate with their registered representatives to pay the full purchase price for their Redeemable Preferred Stock by the applicable settlement date, and such payments will not be held in escrow. When settling their purchase through DTC settlement, investors purchasing Redeemable Preferred Stock will coordinate with their registered representatives of broker-dealer firms to pay the full purchase price for their Redeemable Preferred Stock by the settlement date, and such payments will not be held in escrow. Your broker-dealer will ensure your order is electronically placed with us and that we timely receive your subscription amount. There is no need to furnish us with a Subscription Agreement when you purchase through a DTC participant. Once we have received your subscription amount, we will either reject or accept your subscription. Once accepted based on our monthly closing cycle, we will have immediate access to your subscription amount and we will issue you the shares of Redeemable Preferred Stock you have purchased.

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When settling their purchase directly with the Company, investors will send their completed and executed Subscription Agreement, together with their subscription amount, to us at the address listed in “How to Purchase Redeemable Preferred Stock.” Your subscription amount should be paid through a certified check or personal check payable to the order of “GWG Holdings, Inc. — Subscription Account.” In lieu of paying by check, you may wire your subscription amount to the account referenced in “How to Purchase Redeemable Preferred Stock.” If you are working with a broker-dealer or other investment professional, your broker-dealer or professional will gather and send in the required information on your behalf, and may facilitate your payment of the subscription amount. Once we have received your subscription amount and required documentation, we will either reject or accept your subscription. Once accepted, we will have immediate access to your subscription amount and we will issue you, in book-entry form, the shares of Redeemable Preferred Stock you have purchased. See “Settlement Procedures” below for a description of the closing procedures.

Each soliciting dealer who sells shares on our behalf has the responsibility to make every reasonable effort to determine that the purchase of shares is appropriate for the investor. In making this determination, the soliciting broker-dealer will rely on relevant information provided by the investor, including information as to the investor’s age, investment objectives, investment experience, income, net worth, financial situation, other investments and other pertinent information. Each investor should be aware that the soliciting broker-dealer will be responsible for determining whether this investment is appropriate for your portfolio. Nevertheless, you may be required to represent and warrant to the registered representative that you have received a copy of this prospectus and have had sufficient time to review this prospectus. The selling broker-dealer will maintain records of any information used to determine that an investment in the Redeemable Preferred Stock is suitable and appropriate for an investor.

#### Minimum Purchase Requirements

For your initial investment in our Redeemable Preferred Stock, you must invest at least \$10,000, or such lesser amount as we in our discretion accept. In order to satisfy the minimum purchase requirement for retirement plans, unless otherwise prohibited by state law, a husband and wife may jointly contribute funds from their separate IRAs. You should note that an investment in the Redeemable Preferred Stock will not, in itself, create a retirement plan and that, in order to create a retirement plan, you must comply with all applicable provisions of the Internal Revenue Code of 1986.



## MATERIAL FEDERAL INCOME TAX CONSIDERATIONS

The following is a general discussion of the material United States federal income tax considerations relating to the initial purchase, ownership and disposition of shares of Redeemable Preferred Stock. 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 Redeemable Preferred Stock. We have based this summary on current provisions of the Internal Revenue 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 Redeemable Preferred Stock. 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 Redeemable Preferred Stock who acquire the Redeemable Preferred Stock from us in this offering and hold the Redeemable Preferred Stock 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, securities dealers, real estate investment trusts, regulated investment companies, or persons who hold Redeemable Preferred Stock 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 Redeemable Preferred Stock, you should consult your own tax advisors as to the particular tax consequences to you of acquiring, holding or otherwise disposing of the Redeemable Preferred Stock, including the effect and applicability of state, local or foreign tax laws, or any U.S. estate and gift tax laws.

### U.S. Holders

As used in this discussion, the term “U.S. holder” means a holder of Redeemable Preferred Stock that is:

- for United States federal income tax purposes, a citizen or resident of the United States;
- 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;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- 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.

**Cash Distributions.** In general, cash distributions, if any, made with respect to our Redeemable Preferred Stock will be treated as dividends to the extent of our current and accumulated earnings and profits as determined for U.S. federal income tax purposes. Any portion of a distribution that exceeds our current and accumulated earnings and profits will first reduce a U.S. holder’s tax basis in the Redeemable Preferred Stock, and the excess will be treated as gain from the disposition of Redeemable Preferred Stock, the tax treatment of which is discussed below under “Disposition of Redeemable Preferred Stock, Including Redemptions.” We currently do not have accumulated earnings and profits. Additionally, we may not have sufficient current earnings and profits during future fiscal years for any distributions

on the Redeemable Preferred Stock to qualify as dividends for U.S. federal income tax purposes.

Dividends received by individual holders of Redeemable Preferred Stock will generally be subject to a maximum tax rate of up to 20% if such dividends are treated as “qualified dividend income” for U.S. federal income tax purposes.

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That preferential rate does not apply to dividends received to the extent that the individual shareholder elects to treat the dividends as “investment income,” which may be offset against investment expenses. Furthermore, the preferential rate does not apply to dividends that are paid to individual shareholders with respect to the Redeemable Preferred Stock that is held for 60 days or less during the 121-day period beginning on the date which is 60 days before the date on which the Redeemable Preferred Stock becomes ex-dividend (or where the dividend is attributable to a period or periods in excess of 366 days, Redeemable Preferred Stock that is held for 90 days or less during the 181-day period beginning on the date which is 90 days before the date on which the Redeemable Preferred Stock becomes ex-dividend). In addition, if a dividend received by an individual shareholder that qualifies for the rate reduction is an “extraordinary dividend” within the meaning of Section 1059 of the Code, any loss recognized by such individual holder on a subsequent disposition of the stock will be treated as long-term capital loss to the extent of such “extraordinary dividend.” In addition, dividends recognized by certain U.S. holders could be subject to the 3.8% Medicare tax on net investment income. Shareholders should consult their own tax advisors regarding the implications of these rules in light of their particular circumstances.

Dividends received by corporate holders of Redeemable Preferred Stock generally will be eligible for the dividends-received deduction. Generally, this deduction is allowed if the underlying stock is held for at least 46 days during the 91 day period beginning on the date 45 days before the ex-dividend date of the stock, and for cumulative preferred stock with an arrearage of dividends attributable to a period in excess of 366 days, the holding period is at least 91 days during the 181-day period beginning on the date 90 days before the ex-dividend date of the stock. Corporate holders of Redeemable Preferred Stock should also consider the effect of Section 246A of the Code, which reduces the dividends-received deduction allowed to a corporate shareholder that has incurred indebtedness that is “directly attributable” to an investment in portfolio stock such as preferred stock. If a corporate shareholder receives a dividend on the Redeemable Preferred Stock that is an “extraordinary dividend” within the meaning of Section 1059 of the Code, the shareholder in certain instances must reduce its tax basis in the Redeemable Preferred Stock by the amount of the “nontaxed portion” of such “extraordinary dividend” that results from the application of the dividends-received deduction. If the “nontaxed portion” of such “extraordinary dividend” exceeds such corporate shareholder’s tax basis, any excess will be taxed as gain as if such shareholder had disposed of its shares in the year the “extraordinary dividend” is paid. Each corporate U.S. holder is urged to consult with its tax advisors with respect to the eligibility for and amount of any dividends received deduction and the application of Section 1059 of the Code to any dividends it receives on our Redeemable Preferred Stock.

**Constructive Distributions on Redeemable Preferred Stock.** A distribution of stock by a corporation may be deemed made with respect to its preferred stock in certain circumstances, even when no distribution of cash or property occurs, and such a deemed distribution is treated as a distribution of property under Code Section 301. If a corporation issues preferred stock that may be redeemed at a price higher than its issue price, the difference between the two prices (“redemption premium”) is treated under certain circumstances as a constructive distribution (or series of constructive distributions) of additional preferred stock.

The constructive distribution of property would accrue without regard to the holder’s method of accounting for U.S. federal income tax purposes at a constant yield determined under principles similar to the determination of original issue discount (“OID”) under Treasury regulations under Sections 1271 through 1275 of the Code (the “OID Rules”). The constructive distributions of property would be treated for U.S. federal income tax purposes as distributions of preferred stock that would constitute a dividend, return of capital or capital gain to the holder of the stock in the same manner as cash distributions described under “Material U.S. Federal Income Tax Considerations — U.S. Holders: Cash Distributions.” The application of principles similar to those applicable to debt instruments with OID to a redemption premium for the Redeemable Preferred Stock is uncertain.

We have the right to call the Redeemable Preferred Stock for redemption one year after the date of original issuance of shares of Redeemable Preferred Stock (the “call option”) at a price of 100% of the Stated Value plus any accrued but unpaid dividends thereon. We are required to redeem the Redeemable Preferred Stock of a holder who is a natural person upon his or her death, disability or bankruptcy within 60 days of receipt of a written request of the holder or the

holder's estate at a redemption price equal to the Stated Value plus accrued and unpaid dividends thereon through and including the date of redemption.

If the redemption price of the Redeemable Preferred Stock exceeds the issue price of Redeemable Preferred Stock upon any redemption, the excess will be treated as a redemption premium that may result in certain circumstances in

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a constructive distribution or series of constructive distributions of additional Redeemable Preferred Stock. Assuming that the issue price of the Redeemable Preferred Stock is determined under principles similar to the OID Rules, the issue price for the Redeemable Preferred Stock should be the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Redeemable Preferred Stock is sold.

A redemption premium for the Redeemable Preferred Stock should not result in constructive distributions if the redemption premium is less than a de minimis amount as determined under principles similar to the OID Rules. A redemption premium should be considered de minimis if such premium is less than one quarter of one percent of the Redeemable Preferred Stock's liquidation value, multiplied by the number of complete years such stock was held. Because the determination under the OID Rules of a maturity date for the Redeemable Preferred Stock is unclear, the remainder of this discussion assumes that the Redeemable Preferred Stock is issued with a redemption premium greater than a de minimis amount.

The call option should not require constructive distributions of the redemption premium, if based on all of the facts and circumstances as of the issue date, a redemption pursuant to the call option is not more likely than not to occur. The Treasury regulations provide that an issuer's right to redeem will not be treated as more likely than not to occur if: (i) the issuer and the holder of the stock are not related within the meaning of Section 267(b) or Section 707(b) of the Code (substituting "20%" for the phrase "50%"); (ii) there are no plans, arrangements, or agreements that effectively require or are intended to compel the issuer to redeem the stock; and (iii) exercise of the right to redeem would not reduce the yield on the stock determined using principles applicable to the determination of OID under the OID rules. The fact that a redemption right is not within the safe harbor described in the preceding sentence does not mean that an issuer's right to redeem is more likely than not to occur and the issuer's right to redeem must still be tested under all the facts and circumstances to determine if it is more likely than not to occur. We do not believe that redemption pursuant to the call option should be treated as more likely than not to occur under the foregoing test. Accordingly, no U.S. holder of the Redeemable Preferred Stock should be required to recognize constructive distributions of the redemption premium because of our call option.

Prospective purchasers of Redeemable Preferred Stock should consult their own tax advisors regarding the potential implications of these constructive distribution rules.

**Holder's Conversion Option.** If a U.S. holder's shares of Redeemable Preferred Stock are converted into our common stock, the holder should not recognize gain or loss upon the conversion except as noted below. If a U.S. holder receives cash in lieu of a fractional share of stock, the holder should recognize gain or loss equal to the difference between the cash received and that portion of such holder's basis in the stock attributable to the fractional share. The U.S. holder's conversion of Redeemable Preferred Stock into common stock may result in a deemed distribution taxed in the same manner as a cash distribution described under the heading "Material U.S. Federal Income Tax Consequences — U.S. Holder: Cash Distributions" if either: (i) the holder's right is pursuant to a plan to periodically increase a shareholder's proportionate interest in our assets or earnings and profits, or (ii) there are dividends in arrears on the Redeemable Preferred Stock at the time of the conversion, and as a result, the holder's interest in our assets or earnings and profits increases. In the latter case, the amount of the constructive distribution is limited to the lesser of (i) the redemption premium; or (ii) the amount of dividends in arrears on the Redeemable Preferred Stock. We believe that any conversion of the Redeemable Preferred Stock into common stock should not be treated as pursuant to a plan to periodically increase the holders' interest in the assets or earnings and profits of the Company. Accordingly, the amount of any deemed distribution upon conversion should be the lesser of: (i) the redemption premium for Redeemable Preferred Stock or (ii) the amount of dividends in arrears.

A U.S. holder's initial tax basis in common stock received in the conversion will be equal to such holder's basis in the Redeemable Preferred Stock surrendered in the exchange (taking into account the basis of any fractional share for which cash is paid), and the holding period for such common stock will include the period during which the holder held such Redeemable Preferred Stock. Generally, a U.S. holder's initial tax basis in any common stock (or portion thereof) considered received as a constructive distribution will be equal to its fair market value, and the holding period

with respect to such common stock will begin on the date of the exchange.

Disposition of Redeemable Preferred Stock, Including Redemptions. Upon any sale, exchange, redemption (except as discussed below) or other disposition of the Redeemable Preferred Stock, a U.S. holder will recognize capital gain or loss equal to the difference between the amount realized by the U.S. holder and the U.S. holder's adjusted tax basis in the Redeemable Preferred Stock. Such capital gain or loss will be long-term capital gain or loss if the U.S. holder's holding period for the Redeemable Preferred Stock is longer than one year. A U.S. holder should

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consult its own tax advisors with respect to applicable tax rates and netting rules for capital gains and losses. Certain limitations exist on the deduction of capital losses by both corporate and non-corporate taxpayers. In addition, gains recognized by non-corporate U.S. holders could be subject to the 3.8% tax on net investment income.

A redemption of shares of Redeemable Preferred Stock will generally be a taxable event. If the redemption is treated as a sale or exchange, instead of a dividend, a U.S. holder will recognize capital gain or loss (which will be long-term capital gain or loss, if the U.S. holder's holding period for such shares exceeds one year) equal to the difference between the amount realized by the U.S. holder and the U.S. holder's adjusted tax basis in the Redeemable Preferred Stock redeemed, except to the extent that any cash received is attributable to any declared but unpaid dividends, which will be subject to the rules discussed above in "Material U.S. Federal Income Tax Considerations — U.S. Holders: Cash Distributions." A payment made in redemption of Redeemable Preferred Stock may be treated as a distribution, rather than as payment in exchange for the Redeemable Preferred Stock, unless the redemption:

- is "not essentially equivalent to a dividend" with respect to a U.S. holder under Section 302(b)(1) of the Code;
- is a "substantially disproportionate" redemption with respect to a U.S. holder under Section 302(b)(2) of the Code;
- results in a "complete redemption" of a U.S. holder's stock interest in the company under Section 302(b)(3) of the Code; or
- is a redemption of stock held by a non-corporate shareholder, which results in a partial liquidation of the company under Section 302(b)(4) of the Code.

In determining whether any of these tests has been met, a U.S. holder must take into account not only shares of the Redeemable Preferred Stock and our common stock that the U.S. holder actually owns, but also shares of stock that the U.S. holder owns through attribution under Code Section 318.

A redemption payment will be treated as "not essentially equivalent to a dividend" if it results in a "meaningful reduction" in a U.S. holder's aggregate stock interest in the company, which will depend on the U.S. holder's particular facts and circumstances at such time. If the redemption payment is treated as a distribution, the rules discussed above in "Material U.S. Federal Income Tax Considerations — U.S. Holders: Cash Distributions" apply.

Satisfaction of the "complete redemption" and "substantially disproportionate" exceptions is dependent upon compliance with the objective tests set forth in Code Section 302(b). A redemption will result in a "complete redemption" if either all of the shares of our stock actually and constructively owned by a U.S. holder are exchanged in the redemption or all of the shares of our stock actually owned by the U.S. holder are exchanged in the redemption and the U.S. holder effectively waives the attribution of shares of our stock constructively owned by the U.S. holder in accordance with Code Section 302(c)(2). A redemption does not qualify for the "substantially disproportionate" exception if the stock redeemed is only non-voting stock, and for this purpose, stock which does not have voting rights until the occurrence of an event is not voting stock until the occurrence of the specified event. Accordingly, any redemption of the Redeemable Preferred Stock will not qualify for this exception because the Redeemable Preferred Stock does not have voting rights.

For purposes of the "redemption from non-corporate shareholders in a partial liquidation" test, a distribution will be treated as in partial liquidation if the distribution is not essentially equivalent to a dividend (determined at the corporate level rather than the shareholder level) and the distribution is pursuant to a plan and occurs within the taxable year in which the plan was adopted or within the succeeding taxable year. For these purposes, a distribution is generally not essentially equivalent to a dividend if the distribution results in a corporate contraction. The determination of what constitutes a corporate contraction is factual in nature, and has been interpreted under case law to include the termination of a business or line of business.

Each U.S. holder of the Redeemable Preferred Stock should consult its own tax advisors to determine whether a payment made in redemption of the Redeemable Preferred Stock will be treated as a dividend or a payment in exchange for the Redeemable Preferred Stock. If the redemption payment is treated as a dividend, the rules discussed above in “Material U.S. Federal Income Tax Considerations — U.S. Holders: Cash Distributions” apply.



**Information Reporting and Backup Withholding.** Information reporting and backup withholding may apply with respect to payments of dividends on, and to certain payments of proceeds on the redemption of, the Redeemable Preferred Stock. Certain non-corporate U.S. holders may be subject to U.S. backup withholding (currently at a rate of 28%) on payments of dividends on, and certain payments of proceeds on the sale or other disposition of, the Redeemable Preferred Stock unless the beneficial owner thereof furnishes the payor or its agent with a taxpayer identification number, certified under penalties of perjury, and certain other information, or otherwise establishes, in the manner prescribed by law, an exemption from backup withholding.

U.S. backup withholding tax is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. holder's U.S. federal income tax liability, which may entitle the U.S. holder to a refund, provided the U.S. holder timely furnishes the required information to the IRS.

#### Non-U.S. Holders

For the purposes of this discussion, a "non-U.S. holder" means any holder of Redeemable Preferred Stock other than a U.S. holder. Any Redeemable Preferred Stock purchaser who is not a U.S. citizen will be required to furnish appropriate documentation that clearly states whether it is subject to U.S. withholding taxes, in accordance with applicable requirements of the IRS.

**Distributions on the Redeemable Preferred Stock.** If distributions are made with respect to the Redeemable Preferred Stock (including constructive distributions as discussed under the heading "Material U.S. Federal Income Tax Considerations — Constructive Distributions on Redeemable Preferred Stock"), such distributions will be treated as dividends to the extent of our current and accumulated earnings and profits as determined under the Code and may be subject to withholding as discussed below. Any portion of a distribution that exceeds our current and accumulated earnings and profits will first be applied to reduce the Non-U.S. holder's basis in the Redeemable Preferred Stock and, to the extent such portion exceeds the Non-U.S. holder's basis, the excess will be treated as gain from the disposition of the Redeemable Preferred Stock, the tax treatment of which is discussed below under "Material U.S. Federal Income Tax Considerations — Non-U.S. Holders: Disposition of Redeemable Preferred Stock, Including Redemptions." In addition, if we are a U.S. real property holding corporation (a "USRPHC") and any distribution exceeds our current and accumulated earnings and profits, we will need to choose to satisfy our withholding requirements either by treating the entire distribution as a dividend, subject to the withholding rules in the following paragraph (and withhold at the applicable rate), or by treating only the amount of the distribution equal to our reasonable estimate of our current and accumulated earnings and profits as a dividend, subject to the withholding rules in the following paragraph, with the excess portion of the distribution subject to withholding at the applicable rate (discussed below under "Material U.S. Federal Income Tax Considerations — Non-U.S. Holders: Disposition of Redeemable Preferred Stock, Including Redemptions"), with a credit generally allowed against the Non-U.S. holder's U.S. federal income tax liability in an amount equal to the amount withheld from such excess.

Dividends paid to a Non-U.S. holder of the Redeemable Preferred Stock will be subject to withholding of U.S. federal income tax at a 30% rate or the rate specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the Non-U.S. holder within the United States (and, where a tax treaty applies, are attributable to a permanent establishment (or in the case of an individual, a fixed base) maintained by the Non-U.S. holder in the United States) are not subject to the withholding tax, provided that certain certification and disclosure requirements are satisfied including completing IRS Form W-8ECI (or other applicable form). Instead, such dividends are subject to U.S. federal income tax on a net income basis in the same manner as if the Non-U.S. holder were a United States person as defined under the Code, unless an applicable income tax treaty provides otherwise. Any such effectively connected dividends received by a foreign corporation may be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A Non-U.S. holder who wishes to claim the benefit of an applicable treaty rate and avoid backup withholding, as discussed below, for dividends will be required to (i) complete IRS Form W-8BEN (or other applicable form) and

certify under penalty of perjury that such holder is not a United States person as defined under the Code and is eligible for treaty benefits, or (ii) if the Redeemable Preferred Stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable Treasury regulations.

A Non-U.S. holder eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS.

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Disposition of Redeemable Preferred Stock, Including Redemptions. Any gain realized by a Non-U.S. holder on the disposition of the Redeemable Preferred Stock will not be subject to U.S. federal income or withholding tax unless:

- the gain is effectively connected with a trade or business of the Non-U.S. holder in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment (or, in the case of an individual, a fixed base) maintained by the Non-U.S. holder in the United States);
- the Non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions are met; or
- we are or have been a USRPHC for U.S. federal income tax purposes, as such term is defined in Section 897(c) of the Code, and such Non-U.S. holder owned directly or pursuant to attribution rules at any time during the five-year period ending on the date of disposition more than 5% of the Redeemable Preferred Stock. This assumes that the Redeemable Preferred Stock is regularly traded on an established securities market, within the meaning of Section 897(c)(3) of the Code. We do not believe that we are currently a USRPHC or that we will become one in the future although we cannot be certain of our future operations and asset holdings.

A Non-U.S. holder described in the first bullet point immediately above will generally be subject to tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates in the same manner as if the Non-U.S. holder were a United States person as defined under the Code, and if it is a corporation, may also be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty. An individual Non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax (or at such reduced rate as may be provided by an applicable treaty) on the gain derived from the sale, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States. A Non-U.S. holder described in the third bullet point above will be subject to U.S. federal income tax under regular graduated U.S. federal income tax rates with respect to the gain recognized in the same manner as if the Non-U.S. holder were a United States person as defined under the Code.

If a Non-U.S. holder is subject to U.S. federal income tax on any sale, exchange, redemption (except as discussed below), or other disposition of the Redeemable Preferred Stock, such a Non-U.S. holder will recognize capital gain or loss equal to the difference between the amount realized by the Non-U.S. holder and the Non-U.S. holder's adjusted tax basis in the Redeemable Preferred Stock. Such capital gain or loss will be long-term capital gain or loss if the Non-U.S. holder's holding period for the Redeemable Preferred Stock is longer than one year. A Non-U.S. holder should consult its own tax advisors with respect to applicable tax rates and netting rules for capital gains and losses. Certain limitations exist on the deduction of capital losses by both corporate and non-corporate taxpayers.

If a Non-U.S. holder is subject to U.S. federal income tax on any disposition of the Redeemable Preferred Stock, a redemption of shares of the Redeemable Preferred Stock will be a taxable event. If the redemption is treated as a sale or exchange, instead of a dividend, a Non-U.S. holder generally will recognize long-term capital gain or loss, if the Non-U.S. holder's holding period for such Redeemable Preferred Stock exceeds one year, equal to the difference between the amount of cash received and fair market value of property received and the Non-U.S. holder's adjusted tax basis in the Redeemable Preferred Stock redeemed, except that to the extent that any cash received is attributable to any declared but unpaid dividends on the Redeemable Preferred Stock, which generally will be subject to the rules discussed above in "Material U.S. Federal Income Tax Considerations — Non-U.S. Holders: Distributions on the Redeemable Preferred Stock." A payment made in redemption of the Redeemable Preferred Stock may be treated as a dividend, rather than as payment in exchange for the Redeemable Preferred Stock, in the same circumstances discussed above under "Material U.S. Federal Income Tax Considerations — U.S. Holders: Disposition of Redeemable Preferred Stock, Including Redemptions." Each Non-U.S. holder of the Redeemable Preferred Stock should consult its own tax advisors to determine whether a payment made in redemption of the Redeemable Preferred Stock will be treated as a dividend or as payment in exchange for the Redeemable Preferred Stock.

Information Reporting and Backup Withholding. We must report annually to the IRS and to each Non-U.S. holder the amount of dividends paid to such Non-U.S. holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns may also be made available to the tax authorities in the country in which the Non-U.S. holder resides under the provisions of an applicable income tax treaty.

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A Non-U.S. holder will not be subject to backup withholding on dividends paid to such Non-U.S. holder as long as such Non-U.S. holder certifies under penalty of perjury that it is a Non-U.S. holder (and the payor does not have actual knowledge or reason to know that such Non-U.S. holder is a United States person as defined under the Code), or such Non-U.S. holder otherwise establishes an exemption.

Depending on the circumstances, information reporting and backup withholding may apply to the proceeds received from a sale or other disposition of the Redeemable Preferred Stock unless the beneficial owner certifies under penalty of perjury that it is a Non-U.S. holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a United States person as defined under the Code), or such owner otherwise establishes an exemption.

U.S. backup withholding tax is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a Non-U.S. holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Accounts at Foreign Financial Institutions. The Foreign Account Tax Compliance Act ("FATCA"), will generally impose a 30% withholding tax on dividends on, and the gross proceeds of a disposition of, Redeemable Preferred Stock that are paid to: (i) a foreign financial institution (as that term is defined in Section 1471(d)(4) of the Code) unless that foreign financial institution satisfies certain requirements, including entering into an agreement with the U.S. Treasury Department to collect and disclose information regarding U.S. account holders of that foreign financial institution (directly or indirectly); and (ii) certain other foreign entities unless such entity certifies that it does not have any substantial U.S. owners or provides information for each substantial U.S. owner and such entity satisfies other specified requirements. Foreign financial institutions located in jurisdictions that have an "intergovernmental agreement" with the United States governing FATCA may be subject to different rules.

Although FATCA generally applies now, IRS guidance indicates that the FATCA withholding tax of 30% will not apply to gross proceeds from the disposition of shares of our Redeemable Preferred Stock until after December 31, 2016.

Although administrative guidance and final Treasury regulations regarding the FATCA rules have recently been issued, the exact scope of these rules remains unclear. Prospective investors should consult their own tax advisors regarding the possible impact of these rules on their investment in the Redeemable Preferred Stock.

## STATE, LOCAL AND FOREIGN TAXES

We make no representations regarding the tax consequences of the purchase, ownership or disposition of the Redeemable Preferred Stock 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.

## LEGAL MATTERS

Certain legal matters in connection with the Redeemable Preferred Stock 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, 2015 and December 31, 2014, 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 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 Redeemable Preferred Stock 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 Redeemable Preferred Stock 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, and the documents incorporated by reference into the prospectus.

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.gwglife.com](http://www.gwglife.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 Redeemable Preferred Stock are to be retained. Redeemable Preferred Stock holders and their representatives can request information regarding the Redeemable Preferred Stock 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, 2015, filed with the SEC on March 22, 2016 (including all exhibits thereto);
- Our Current Reports on Form 8-K filed with the SEC on March 8, 2016 and February 26, 2016 (including all exhibits thereto); and
- Our definitive proxy statement filed with the SEC on April 4, 2016 (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:

Jon L. Gangelhoff, Chief Operating 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.gwglife.com](http://www.gwglife.com).

GWG HOLDINGS, INC.

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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, 2015 and 2014, 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, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013 framework). These consolidated financial statements are the responsibility of the company's management. 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, 2015 and 2014 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, 2015, 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 22, 2016

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## GWG HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
<u>ASSETS</u>		
Cash and cash equivalents	\$ 34,425,105	\$ 30,662,704
Restricted cash	2,341,900	4,296,053
Investment in life settlements, at fair value	356,649,715	282,883,010
Deferred financing costs, net	2,530,481	1,569,400
Policy benefits receivable	—	1,750,000
Other assets	2,218,546	1,909,362
<b>TOTAL ASSETS</b>	<b>\$ 398,165,747</b>	<b>\$ 323,070,529</b>
<u>LIABILITIES &amp; STOCKHOLDERS' EQUITY</u>		
<b>LIABILITIES</b>		
Revolving senior credit facility	\$ 65,011,048	\$ 72,161,048
Series I Secured Notes payable	23,287,704	27,616,578
L Bonds	277,024,326	182,782,884
Accounts payable	1,517,440	1,203,575
Interest payable	12,340,061	11,128,519
Other accrued expenses	1,060,786	514,434
Deferred taxes, net	1,763,968	5,273,555
<b>TOTAL LIABILITIES</b>	<b>382,005,333</b>	<b>300,680,593</b>
<b>STOCKHOLDERS' EQUITY</b>		
<b>CONVERTIBLE PREFERRED STOCK</b>		
(par value \$0.001; shares authorized 40,000,000; shares outstanding 2,781,735 and 2,738,966; liquidation preference of \$20,863,000 and \$20,542,000 on December 31, 2015 and 2014, respectively)	20,799,841	20,527,866
<b>COMMON STOCK</b>		
Common stock (par value \$0.001: shares authorized 210,000,000; shares issued and outstanding 5,941,790 and 5,870,193 on December 31, 2015 and 2014)	5,942	5,870
Additional paid-in capital	17,149,391	16,257,686
Accumulated deficit	(21,794,760 )	(14,401,486 )
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>16,160,414</b>	<b>22,389,936</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 398,165,747</b>	<b>\$ 323,070,529</b>

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

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended	
	December 31, 2015	December 31, 2014
REVENUE		
Gain on life settlements, net	\$ 39,381,003	\$ 30,416,127
Interest and other income	251,249	60,448
TOTAL REVENUE	39,632,252	30,476,575
EXPENSES		
Interest expense	31,587,960	26,716,798
Employee compensation and benefits	8,010,020	4,969,636
Legal and professional fees	3,152,783	2,339,235
Other expenses	7,784,350	4,815,434
TOTAL EXPENSES	50,535,113	38,841,103
(LOSS) INCOME BEFORE INCOME TAXES	(10,902,861 )	(8,364,528 )
Income tax (benefit) expense	(3,509,587 )	(2,401,619 )
NET LOSS	(7,393,274 )	(5,962,909 )
Income attributable to preferred shareholders	1,386,110	(138,374 )
LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (6,007,164 )	\$ (6,101,283 )
NET LOSS PER COMMON SHARE		
Basic	\$ (1.02 )	\$ (1.24 )
Diluted	\$ (1.02 )	\$ (1.24 )
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	5,906,761	4,909,657
Diluted	5,906,761	4,909,657

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
<b>Balance, December 31, 2013</b>	—	\$ —	<b>4,562,000</b>	<b>\$ 4,562</b>	<b>\$ 2,942,000</b>	<b>\$ (8,438,577 )</b>	<b>\$ (5,492,015 )</b>
Net loss	—	—	—	—	—	(5,962,909 )	(5,962,909 )
Issuance of common stock	—	—	800,000	800	8,642,990	—	8,643,790
Series A Preferred Stock conversion	—	—	508,193	508	4,956,591	—	4,957,099
Reclassification of preferred stock from temporary equity to permanent equity due to initial public offering (*)	2,710,214	20,326,605	—	—	—	—	20,326,605
Issuance of preferred stock	28,752	201,261	—	—	—	—	201,261
Issuance of stock options	—	—	—	—	122,412	—	122,412
Extension of warrants	—	—	—	—	47,120	—	47,120
Accretion of preferred stock to liquidation value	—	—	—	—	(453,427 )	—	(453,427 )
<b>Balance, December 31, 2014</b>	<b>2,738,966</b>	<b>\$ 20,527,866</b>	<b>5,870,193</b>	<b>\$ 5,870</b>	<b>\$ 16,257,686</b>	<b>\$ (14,401,486 )</b>	<b>\$ 22,389,936</b>
Net loss	—	—	—	—	—	(7,393,274 )	(7,393,274 )
Issuance of common stock	—	—	60,000	60	581,940	—	582,000
	(15,463 )	(115,973 )	11,597	12	115,961	—	—

Explanation of Responses:

Series A  
Preferred Stock  
conversion to  
common stock

Issuance of preferred stock	58,232	387,948	—	—	—	—	387,948
Issuance of stock options	—	—	—	—	193,804	—	193,804
<b>Balance, December 31, 2015</b>	<b>2,781,735</b>	<b>\$ 20,799,841</b>	<b>5,941,790</b>	<b>\$ 5,942</b>	<b>\$ 17,149,391</b>	<b>\$ (21,794,760)</b>	<b>\$ 16,160,414</b>

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

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

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## GWG HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2015	December 31, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (7,393,274 )	\$ (5,962,909 )
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Gain on life settlements, gross	(39,371,059 )	(39,928,003 )
Amortization of deferred financing and issuance costs	3,712,056	3,804,795
Deferred income taxes	(3,509,587 )	(2,401,619 )
Preferred stock issued in lieu of cash dividends	683,133	774,085
Preferred stock dividends payable	6,800	(116,207 )
(Increase) decrease in operating assets:		
Due from related parties	(1,256 )	(291 )
Policy benefits receivable	1,750,000	(1,750,000 )
Other assets	(304,526 )	(2,347,050 )
Increase in operating liabilities:		
Accounts payable	313,864	363,706
Interest payable	2,213,529	4,638,876
Other accrued expenses	2,183,393	70,366
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(39,716,927 )</b>	<b>(42,854,251 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in life settlements	(38,906,934 )	(12,292,401 )
Proceeds from settlement of life settlements	4,511,289	4,185,813
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(34,395,645 )</b>	<b>(8,106,588 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net repayment of revolving senior credit facility	(7,150,000 )	(6,838,952 )
Payments for redemption of Series I Secured Notes	(4,891,681 )	(2,268,379 )
Proceeds from issuance of L Bonds	131,159,348	65,713,297
Payment of deferred issuance costs for L Bonds	(7,499,601 )	(4,104,876 )
Payments for redemption of L Bonds	(35,984,061 )	(14,429,017 )
Issuance of common stock	582,000	9,030,000
Proceeds from restricted cash	1,954,153	1,536,916
Payments for redemption of preferred stock	(295,185 )	(465,239 )
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>77,874,973</b>	<b>48,173,750</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,762,401</b>	<b>(2,787,089 )</b>
<b>CASH AND CASH EQUIVALENTS</b>		
<b>BEGINNING OF YEAR</b>	<b>30,662,704</b>	<b>33,449,793</b>
<b>END OF YEAR</b>	<b>\$ 34,425,105</b>	<b>\$ 30,662,704</b>

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, 2015	December 31, 2014
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest and preferred dividends paid	\$ 24,027,000	\$ 16,931,000
Premiums paid	\$ 26,650,000	\$ 23,265,000
Stock-based compensation	\$ 194,000	\$ 122,000
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Warrants issued to purchase common stock	\$ —	\$ 47,000
Options issued to purchase common stock	\$ 353,000	\$ 122,000
Series I Secured Notes:		
Conversion of accrued interest and commission payable to principal	\$ 203,000	\$ 151,000
L Bonds:		
Conversion of accrued interest and commission payable to principal	\$ 806,000	\$ 452,000
Series A Preferred Stock:		
Conversion to common stock	\$ 116,000	\$ 4,957,000
Reclassification to permanent equity due to initial public offering	\$ —	\$ 20,327,000
Issuance of preferred stock in lieu of cash dividends	\$ 683,000	\$ 774,000
Accretion of preferred stock to redemption value	\$ —	\$ 453,000
Investment in life settlements included in accounts payable	\$ 1,079,000	\$ 50,000

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 — GWG Holdings, Inc. (GWG Holdings), located in Minneapolis, Minnesota, facilitates the purchase of life insurance policies for its own investment portfolio through its wholly-owned subsidiaries, GWG Life, LLC (GWG Life), GWG Life USA, LLC (GWG Life USA) and Wirth Park Agency, LLC, and GWG Life's own subsidiaries, GWG Trust (Trust), GWG DLP Funding II, LLC (DLP II) and its wholly-owned subsidiary, GWG DLP Master Trust II (the Trust II), and GWG DLP Funding III, LLC (DLP III). GWG Holdings is also involved in the merchant cash advance business through its wholly-owned subsidiary GWG MCA Capital, Inc. (GWG MCA Capital). All of these entities are legally organized in Delaware. Unless the context otherwise requires or we specifically so indicate, all references in this prospectus to “we,” “us,” “our,” “our Company,” “GWG,” or the “Company” refer to these entities collectively. References to particular entities, such as “GWG Holdings” or “GWG Life” or “GWG MCA Capital,” 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.

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

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

Life settlements — ASC 325-30, Investments in Insurance Contracts, allows a reporting entity the election to account for its investments in life settlements using either the investment method or the fair value method. The election shall be made on an instrument-by-instrument basis and is irrevocable. Under the investment method, an investor shall recognize the initial investment at the purchase price plus all initial direct costs. Continuing costs (policy premiums and direct external costs, if any) to keep the policy in force shall be capitalized. Under the fair value method, an investor shall recognize the initial investment at the purchase price. In subsequent periods, the investor shall

re-measure the investment at fair value in its entirety at each reporting period and shall recognize the change in fair value in current period income net of premiums paid. The Company uses the fair value method to account for all life settlements.

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

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

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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.)

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

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

Deferred financing and issuance costs — Costs incurred to obtain financing under the revolving senior credit facility, as described in note 5, have been capitalized and are amortized using the straight-line method over the term of the revolving senior credit facility. Amortization of deferred financing costs was \$727,000 and \$358,000 for the years ended December 31, 2015 and 2014, respectively. The future amortization is expected to be \$626,000 for the next four months ending April 30, 2016. The Series I Secured Notes, as described in note 6, are reported net of issuance costs, sales commissions and other direct expenses, which are amortized using the interest method over the term of each respective borrowing. The L Bonds, as described in note 7, are reported net of issuance costs, sales commissions and other direct expenses, which are amortized using the interest method over the term of each respective borrowing. The Series A Preferred Stock, as described in note 8, was also reported net of issuance costs, sales commissions, including the fair value of warrants issued, and other direct expenses, which were amortized using the interest method as interest expense over the three-year redemption period. As of December 31, 2015, those costs were fully amortized.

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

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

Recently adopted pronouncements — On April 7, 2015 the FASB issued Accounting Standards Update (ASU) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, as part of its simplification initiative. The ASU changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. For public business entities, the guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities would apply the new guidance retrospectively to all prior periods (i.e., the balance sheet for each period is adjusted). The Company will adopt ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, during the first quarter of 2016, as required by the standard. The

impact of the new ASU on the Company's balance sheet would be a reduction of approximately \$2,288,000 to assets and the corresponding reduction to liabilities. There would be no impact on the Company's statements of operations.

#### Reclassification

Certain 2014 amounts have been reclassified to conform to the 2015 presentation. The reclassifications have no effect on the reported amounts of consolidated net income or equity.

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## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (2) Restrictions on cash

The Company is required by its lenders to maintain collection and escrow accounts. These accounts are used to fund the acquisition, pay annual premiums of insurance policies, pay interest and other charges under the revolving senior credit facility, and collect policy benefits. DZ Bank AG, as agent for Autobahn Funding Company, LLC, the lender for the revolving senior credit facility as described in note 5, authorizes the disbursements from these accounts. At December 31, 2015 and 2014, there was a balance of \$2,342,000, and \$4,296,000, respectively, maintained in these restricted cash accounts.

## (3) Investment in life insurance policies

The life insurance policies (Level 3 fair value measurements) are valued based on unobservable inputs that are significant to the overall fair value measurement. Changes in the fair value of these instruments are recorded in gain or loss on life insurance policies in the consolidated statements of operations (net of the cash premiums paid on the policies). The fair value is determined on a discounted cash flow basis that incorporates life expectancy assumptions. Life expectancy reports have been obtained from widely accepted life expectancy providers. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy and our estimate of the risk premium an investor in the policy would require. As a result of management's analysis, discount rates of 11.09% and 11.43% were applied to the portfolio as of December 31, 2015 and 2014, respectively.

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

	As of December 31, 2015			As of December 31, 2014		
Years Ending December 31,	Number of Contracts	Estimated Fair Value	Face Value	Number of Contracts	Estimated Fair Value	Face Value
2015	—	\$ —	\$ —	3	\$ 5,063,000	\$ 6,000,000
2016	5	7,503,000	8,500,000	7	8,144,000	11,550,000
2017	12	12,875,000	17,418,000	17	21,916,000	35,542,000
2018	27	37,109,000	58,428,000	30	41,994,000	76,206,000
2019	51	54,242,000	100,967,000	45	47,303,000	106,973,000
2020	59	64,750,000	137,868,000	41	43,429,000	102,614,000
2021	48	45,724,000	116,805,000	36	29,789,000	90,921,000
Thereafter	194	134,447,000	504,858,000	112	85,245,000	349,293,000
Totals	396	\$ 356,650,000	944,844,000	291	\$ 282,883,000	\$ 779,099,000

The Company recognized insurance benefits of \$31,232,000 and \$18,050,000 during 2015 and 2014, respectively, related to policies with a carrying value of \$4,511,000 and \$4,186,000, respectively. The Company recorded realized gains of \$26,721,000 and \$13,864,000 on such policies.

## Reconciliation of gain on life settlements:

	Years Ended December 31,	
	2015	2014
Change in fair value	\$ 39,371,000	\$ 39,928,000

## Explanation of Responses:

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Premiums and other annual fees	(26,711,000 )	(23,376,000 )
Policy maturities	26,721,000	13,864,000
Gain on life settlements, net	\$ 39,381,000	\$ 30,416,000
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GWG HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Investment in life insurance policies (cont.)

The estimated expected premium payments and servicing fees to maintain the above 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
2016	\$ 32,227,000	\$ 475,000	\$ 32,702,000
2017	35,181,000	475,000	35,656,000
2018	38,204,000	475,000	38,679,000
2019	42,817,000	475,000	43,292,000
2020	47,637,000	475,000	48,112,000
	\$ 196,066,000	\$ 2,375,000	\$ 198,441,000

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

(4) Fair value definition and hierarchy

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

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

- Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based 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.

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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 the Company's portfolio of life settlements is determined on a quarterly basis by the Company's 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. These inputs are then used to estimate the discounted cash flows using the Model Actuarial Pricing System (MAPS), probabilistic portfolio price model, which estimates the cash flows using various probabilities and scenarios. The valuation process includes a review by senior management as of each valuation date. Management has also engaged a third-party expert to independently test the accuracy of the valuations using the inputs provided by management on a quarterly basis.

Life insurance policies, as well as the portfolio taken as a whole, represent financial instruments recorded at fair value on a recurring basis. The following table reconciles the beginning and ending fair value of the Company's Level 3 investments in its portfolio of life insurance policies for the years ending December 31, as follows:

	Years Ended December 31,	
	2015	2014
Beginning balance	\$ 282,883,000	\$ 234,673,000
Purchases	38,907,000	12,468,000
Maturities (cash in excess of carrying value)	(4,511,000 )	(4,186,000 )
Net change in fair value	39,371,000	39,928,000
Ending balance	\$ 356,650,000	\$ 282,883,000

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

During the 4th quarter of 2014, GWG adopted a plan to update the life expectancy reports on the insured lives in our portfolio. The plan covers all policies with the exception of those policies purchased with small face amount underwriting standards (under \$1 million in face amount). The plan is for each set of life expectancy estimates and medical records to be updated on a continuous rotating three-year cycle. The records for approximately 1/12th of the portfolio are being updated each quarter.

The discount rate incorporates current information about discount rate applied by other reporting companies owning portfolios of life insurance policies, 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 of life insurance policies.

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (4) Fair value definition and hierarchy (cont.)

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

	As of December 31, 2015	As of December 31, 2014
Weighted-average age of insured, years	82.6	82.8
Weighted-average life expectancy, months	79.3	78.4
Average face amount per policy	\$ 2,386,000	\$ 2,677,000
Discount rate	11.09 %	11.43 %

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

	Change in life expectancy estimates			
	minus 8 months	minus 4 months	plus 4 months	plus 8 months
December 31, 2015	\$ 48,339,000	\$ 24,076,000	\$ (23,501,000 )	\$ (46,482,000 )
December 31, 2014	\$ 40,634,000	\$ 20,130,000	\$ (19,664,000 )	\$ (38,864,000 )

	Change in discount rate			
	minus 2%	minus 1%	plus 1%	plus 2%
December 31, 2015	\$ 35,024,000	\$ 16,786,000	\$ (15,485,000 )	\$ (29,803,000 )
December 31, 2014	\$ 28,179,000	\$ 13,522,000	\$ (12,502,000 )	\$ (24,085,000 )

## Other Fair Value Considerations

Carrying value of receivables, prepaid expenses, accounts payable and accrued expenses approximate fair value due to their short-term maturities and low credit risk. The estimated fair value of the Company's Series I Secured Notes payable and L Bonds is approximately \$307,640,000 based on a weighted-average market interest rate of 7.07% based on an income approach, the combined face value of these notes is \$305,749,000 as of December 31, 2015. The carrying value of the revolving senior credit facility reflects interest charged at the commercial paper rate plus an applicable margin. The margin represents our credit risk, and the strength of the portfolio of life insurance policies collateralizing the debt. The overall rate reflects market, and the carrying value of the revolver approximates fair value. All of the financial instruments are Level 3 fair value measurements.

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

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## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (4) Fair value definition and hierarchy (cont.)

As of December 31, 2015:

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

Volatility is based upon the weekly percentage change in the stock price of selected comparable insurance companies. In June 2012, the Company evaluated the comparable companies used, and made certain changes to those used. The percentage change is calculated on the average price of those selected stocks at the weekly close of business for the year preceding the balance sheet date. The Company compares annual volatility based on this weekly information.

## (5) Credit facilities

## Revolving senior credit facility — Autobahn Funding Company LLC

On July 15, 2008, DLP II entered into a revolving senior credit facility pursuant to a Credit and Security Agreement (Agreement) with Autobahn Funding Company LLC (Autobahn), providing the Company with a maximum borrowing amount of \$100,000,000. Autobahn is a commercial paper conduit that issues commercial paper to investors in order to provide funding to DLP II. DZ Bank AG Deutsche Zentral-Genossenschaftsbank (DZ Bank) acts as the agent for Autobahn. The original Agreement was to expire on July 15, 2013. On January 29, 2013, GWG Holdings, together with GWG Life and DLP II, entered into an Amended and Restated Credit and Security Agreement with Autobahn, extending the facility expiration date to December 31, 2014. On May 29, 2014, GWG Holdings, together with GWG Life and DLP II, entered into an Amendment No. 1 to Amended and Restated Credit and Security Agreement with Autobahn and DZ Bank (as committed lender and Agent). The amendment was entered into for the purpose of extending the maturity date for borrowings under the Agreement to December 31, 2016. Effective May 11, 2015, GWG Holdings, together with certain of its subsidiaries, entered into a Second Amended and Restated Credit and Security Agreement with Autobahn Funding Company LLC, as the conduit lender, and DZ Bank AG Deutsche Zentral-Genossenschaftsbank, as the committed lender and as the agent on behalf of secured parties under such agreement. The Second Amended and Restated Credit and Security Agreement extends the maturity date of borrowings made by DLP II and DLP III, to June 30, 2018. Advances under the senior credit facility made after May 11, 2015 will bear interest at the commercial paper rate of the lender at the time of the advance, or at the lender's cost of borrowing plus 4.25%, which is 1.75% less than under the previous Credit and Security Agreement executed on January 25, 2013. In addition to the extended term and decreased interest rate and borrowing cost, the Second Amended and Restated Credit and Security Agreement also removes the requirement that the Company maintain a reserve for certain projected expenditures (including anticipated premium payments required to service its life insurance portfolio), thereby allowing for the Company's full use of the senior credit facility up to its limit of \$105,000,000.

In connection with the Second Amended and Restated Credit and Security Agreement, GWG Holdings and its subsidiaries entered into certain other agreements and amendments and restatements of earlier agreements entered into

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Credit facilities (cont.)

The Agreement requires DLP II to pay, on a monthly basis, interest at the commercial paper rate plus an applicable margin, as defined in the Agreement. The effective rate was 5.58% at December 31, 2015 and 6.24% at December 31, 2014. The Agreement also requires payment of an unused line fee on the unfunded amount under the revolving senior credit facility. The weighted-average effective interest rate (excluding the unused line fee) was 5.74% and 6.22% for the twelve months ended December 31, 2015 and 2014, respectively. The note is secured by substantially all of DLP II's and DLP III's assets, which consist primarily of life insurance policies.

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

- changing its corporate name, offices, and jurisdiction of incorporation;
- changing any deposit accounts or payment instructions to insurers;
- changing any operating policies and practices such that it would be reasonably likely to adversely affect the collectability of any asset in any material respect;
- merging or consolidating with, or selling all or substantially all of its assets to, any third party;
- selling any collateral or creating or permitting to exist any adverse claim upon any collateral;
- engaging in any other business or activity than that contemplated by the Agreement;
- incurring or guaranteeing any debt for borrowed money;
- amending the Company's certificate of incorporation or bylaws, making any loans or advances to, investments in, or paying any dividends to, any person unless both before and after any such loan, advance, investment or dividend there exists no actual event of default, potential event of default or termination event;
- removing an independent director on the board of directors except for cause or with the consent of the lender; or
- making payment on or issuing any Series I Secured Notes or L Bonds, or amending any agreements respecting such notes or bonds, if an event of default, potential event of default, or termination event exists or would arise from any such action.

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

Consolidated Non-GAAP net income and Non-GAAP tangible net worth as of and for the four quarters ended December 31, 2015, as calculated under the Agreement, was \$36,871,000 and \$112,555,000 respectively.

Advances under the Agreement are subject to a borrowing base formula, which limits the availability of advances based on attributes of policies pledged to the facility. Over-concentration of policies by insurance carrier, over-concentration of policies by insurance carriers with ratings below a AA- rating, and the premiums and facility



fees reserve are the three primary factors which might limit availability of funds on the facility. Total funds available for additional borrowings under the borrowing base formula criteria at December 31, 2015 and December 31, 2014, were \$39,989,000 and \$20,585,000 respectively.

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## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (6) Series I Secured Notes payable

Series I Secured Notes payable have been issued in conjunction with the GWG Series I Secured Notes private placement memorandum dated August 25, 2009 (last revised November 15, 2010). Series I Secured Notes are secured by assets of GWG Life and are subordinate to our revolving senior credit facility (see note 5). On June 14, 2011, the Company closed the offering to additional investors; however, existing investors may elect to continue advancing amounts outstanding upon maturity subject to the Company's option. Series I Secured Notes have maturity dates ranging from six months to seven years with fixed interest rates varying from 5.65% to 9.55% depending on the term of the note. Interest is payable monthly, quarterly, annually or at maturity depending on the terms of the note. At December 31, 2015 and December 31, 2014, the weighted-average interest rate of Series I Secured Notes was 8.47% and 8.37%, respectively. The notes are secured by assets of GWG Life. The principal amount outstanding under these Series I Secured Notes was \$23,578,000 and \$28,047,000 at December 31, 2015 and 2014, respectively. The difference between the amount outstanding on the Series I Secured Notes and the carrying amount on the consolidated balance sheet is due to netting of unamortized deferred issuance costs. Overall, interest expense includes amortization of deferred financing and issuance costs of \$362,000 and \$552,000 in 2015 and 2014, respectively. Future expected amortization of deferred financing costs is \$290,000 in total over the next six years.

Future contractual maturities of Series I Secured Notes payable and future amortization of their deferred financing costs at December 31, 2015 are as follows:

Years Ending December 31,	Contractual Maturities	Amortization of Deferred Financing Costs
2016	\$ 13,819,000	\$ 67,000
2017	6,180,000	108,000
2018	1,427,000	41,000
2019	347,000	7,000
2020	1,765,000	66,000
2021	40,000	1,000
	\$ 23,578,000	\$ 290,000

## (7) L Bonds

The Company registered with the SEC, effective January of 2012, the offer and sale of \$250,000,000 of Renewable Secured Debentures (subsequently renamed "L Bonds"). The debt securities are secured by assets of GWG Holdings and GWG Life and are subordinate to our revolving senior credit facility (see note 5). L Bonds have maturity dates ranging from six months to seven years with fixed interest rates varying from 4.25% to 9.50% depending on the term of the note. Interest is payable monthly, annually or at maturity depending on the terms of the debenture.

Effective January 9, 2015, the Company launched a \$1 billion follow-on offering of L Bonds. The Company is offering L Bonds on a continuous basis and there is no minimum amount of L Bonds that must be sold before the Company can use proceeds from the sale of L Bonds. Emerson Equity LLC is serving as the managing broker-dealer for the offering, which is being sold through a network of participating dealers and licensed financial advisors and representatives in minimum increments of \$25,000. At December 31, 2015 and 2014, the weighted-average interest rate of L Bonds was 7.18% and 7.45%, respectively. The amount outstanding under these L Bonds was \$282,171,000 and \$186,377,000 at December 31, 2015 and 2014, respectively. The difference between the amount outstanding on the L Bonds and the carrying amount on the consolidated balance sheets is due to netting of unamortized deferred issuance costs and cash receipts for new issuances in process. Amortization of deferred issuance costs was \$5,285,000

and \$3,537,000 in 2015 and 2014, respectively. Future expected amortization of deferred financing costs as of December 31, 2015 is \$8,158,000 in total over the next seven years.

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GWG HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (7) L Bonds (cont.)

Future contractual maturities of L Bonds and future amortization of their deferred financing costs at December 31, 2015 are as follows:

Years Ending December 31,	Contractual Maturities	Amortization of Deferred Financing Costs
2016	\$ 94,790,000	\$ 785,000
2017	64,589,000	1,834,000
2018	64,372,000	2,694,000
2019	18,514,000	742,000
2020	19,810,000	967,000
Thereafter	20,096,000	1,136,000
	\$ 282,171,000	\$ 8,158,000

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

## (8) Convertible preferred stock

The Company offered 3,333,333 shares of convertible redeemable preferred stock (Series A Preferred Stock) for sale to accredited investors in a private placement on July 31, 2011. The offering of Series A Preferred Stock concluded on September 2, 2012 and resulted in 3,278,000 shares being issued for gross consideration of \$24,582,000. As of December 31, 2015, 277,000 shares of Series A Preferred Stock have been issued as a result of conversion of \$1,936,681 in dividends, and 678,000 shares of Series A Preferred Stock have been converted to 508,000 shares of the Company's common stock. The Series A Preferred Stock was sold at an offering price of \$7.50 per share. Series A Preferred Stock has a preferred yield of 10% per annum, and each share has the right to convert into 0.75 shares of the Company's common stock. Series A preferred shareholders also received three-year warrants to purchase, at an exercise price per share of \$12.50, one share of common stock for every 40 shares of Series A Preferred Stock purchased. The warrants are exercisable immediately. Effective August 1, 2014, the Board of Directors authorized the extension of the warrant exercise period for an additional two years. In the Certificate of Designations for the Series A Preferred Stock, the Company agreed to permit preferred shareholders to sell their shares back to the Company for the stated value of \$7.50 per share, plus accrued dividends, according to the following schedule:

- Up to 33% of the holder's unredeemed shares one year after issuance;
- Up to 66% of the holder's unredeemed shares two years after issuance; and
- Up to 100% of the holder's unredeemed shares three years after issuance.

The Company's obligation to redeem its Series A Preferred Stock terminated upon the Company completing a registration of its common stock with the SEC, which occurred on September 24, 2014 (see Note 11). As such, the convertible redeemable preferred stock was reclassified from temporary equity to permanent equity. The Company may redeem the Series A Preferred Stock at a price equal to 110% of its liquidation preference (\$7.50 per share) at any time. As of December 31, 2015, the Company had redeemed an aggregate of 185,000 shares of Series A Preferred Stock. The Series A Preferred Stock shares (i) were convertible, at the election of the Company, into common stock of the Company in the event of either a registered offering of the Company's common stock with the SEC aggregating

gross proceeds of at least \$5.0 million and at a price equal to or greater than \$11.00 per share; (ii) remain convertible at the option of each holder; and (iii) are required to be converted upon the consent of shareholders holding at least a majority of the then-outstanding Series A Preferred Stock. In connection with the Company's initial public offering, the Company elected to cause the conversion of 677,566 shares of preferred stock into 508,193 shares of common stock. As of December 31, 2015, the Company had 2,782,000 shares of Series A Preferred Stock outstanding with gross consideration of \$20,800,000 (including cash proceeds, conversion of Series I Secured Notes and accrued

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Convertible preferred stock (cont.)

interest on Series I notes, and conversion of preferred dividends payable). The Company incurred Series A Preferred Stock issuance costs of \$2,838,000, all of which was included as a component of additional paid in capital as of December 31, 2015.

The Company determined that the grant date fair value of the outstanding warrants attached to the Series A Preferred Stock was \$428,000 for warrants outstanding as of December 31, 2015. The Company may redeem outstanding warrants prior to their expiration, at a price of \$0.01 per share upon 30 days written notice to the investors at any time after (i) the Company has completed a registration of its common stock with the SEC and (ii) the volume of weighted-average sale price per share of common stock equals or exceeds \$14.00 per share for ten consecutive trading days ending on the third business day prior to proper notice of such redemption.

Total warrants outstanding as of both December 31, 2015 and 2014, were 431,954 with a weighted-average remaining life of 1.43 and 2.43 years, respectively. As of December 31, 2015, none of these warrants have been exercised.

Dividends on the Series A Preferred Stock may be paid in either cash or additional shares of Series A Preferred Stock at the election of the holder and approval of the Company. The dividends are reported as an expense and included in the caption interest expense in the consolidated statements of operations. The Company declared and accrued dividends of \$2,069,000 and \$2,428,000 in 2015 and 2014, respectively, pursuant to a board resolution declaring the dividend. 98,000 and 111,000 shares of Series A Preferred Stock were issued in lieu of cash dividends in 2015 and 2014, respectively. The shares issued in lieu of cash dividends were issued at \$7.00 per share. As of December 31, 2015, GWG Holdings has \$520,000 of accrued preferred dividends which were paid or converted to shares of Series A Preferred Stock on January 15, 2016.

(9) Redeemable Preferred Stock

The Company began offering up to 100,000 shares of Redeemable Preferred Stock for sale via Form S-1 registration statement effective November 30, 2015. The proposed maximum offering price per share is \$1,000 with a par value per share of \$.001. We also registered an indeterminate number of shares of common stock that may be issuable upon the conversion of the Redeemable Preferred Stock. The shares of shares of common stock issuable upon conversion of the Redeemable Preferred Stock will be issued for no additional consideration.

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

Subject to the limitations described below, holders of Redeemable Preferred Stock will have the option to convert the Redeemable Preferred Stock they purchase from us and hold into common stock at a conversion price equal to the volume-weighted average price of our common stock for the 20 trading days immediately prior to the date on which notice of conversion is delivered to us, subject to a minimum conversion price of \$15.00, subject to equitable adjustment. The right of holders to convert their Redeemable Preferred Stock is limited to 15% of the stated value of Redeemable Preferred Stock originally purchased by such holder from us and still held by such holder.

Beginning one year from the date of original issuance of any shares of Redeemable Preferred Stock to be redeemed, a holder will have the opportunity to request once per calendar quarter that we redeem up to 25% of such holder's Redeemable Preferred Stock originally purchased from us (plus any preferred shares issued in satisfaction of

dividends thereon) at a redemption price equal to the stated value of such redeemed shares, plus any accrued but unpaid dividends thereon, less the applicable redemption fee (if any). As a percentage of the aggregate redemption price of a holder's shares to be redeemed, the redemption fee shall be:

- 8% if the redemption is requested after the first anniversary and before the second anniversary of the original issuance of such shares.
- 5% if the redemption is requested after the second anniversary and before the third anniversary of the original issuance of such shares.

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GWG HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (9) Redeemable Preferred Stock (cont.)

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

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

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

As of December 31, 2015 no shares of Redeemable Preferred Stock were issued.

## (10) Income taxes

The Company did not have any current income taxes for the years ended December 31, 2015 or 2014. The components of deferred income tax benefit for 2015 and 2014 consisted of the following:

	2015	2014
Income tax provision:		
Deferred:		
Federal	\$ (2,660,000 )	\$ (1,820,000 )
State	(850,000 )	(582,000 )
Total income tax expense	\$ (3,510,000 )	\$ (2,402,000 )

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):

	2015			2014		
Statutory federal income tax	\$ (3,707,000 )	34.0	%	\$ (2,844,000 )	34.0	%
State income taxes, net of federal benefit	(561,000 )	5.1	%	(374,000 )	4.5	%
Series A Preferred Stock dividends	703,000	(6.4	)%	826,000	(9.9	)%
Other permanent differences	55,000	(0.5	)%	(10,000 )	0.1	%
Total income tax expense	\$ (3,510,000 )	32.2	%	\$ (2,402,000 )	28.7	%



The primary differences between the Company's December 31, 2015 effective tax rate and the statutory federal rate are the accrual of nondeductible preferred stock dividend expense of \$2,069,000, state taxes, and other non-deductible expenses. The most significant temporary differences between GAAP net income and taxable net income are the treatment of interest costs with respect to the acquisition of the life insurance policies and revenue recognition with respect to the mark-to-market of life insurance portfolio.

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## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (10) Income taxes (cont.)

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

	2015	2014
Deferred tax assets :		
Note receivable from related party	\$ 2,023,000	\$ 2,023,000
Net operating loss carryforwards	7,049,000	4,517,000
Other assets	375,000	272,000
Subtotal	9,447,000	6,812,000
Valuation allowance	(2,164,000 )	(2,164,000 )
Net deferred tax asset	7,283,000	4,648,000
Deferred tax liabilities:		
Investment in life settlements	(9,046,000 )	(9,922,000 )
Other	(1,000 )	—
Net deferred tax assets	\$ (1,764,000 )	\$ (5,274,000 )

At December 31, 2015 and 2014, the Company had federal net operating loss (NOL) carryforwards of \$17,451,000 and \$11,163,000, respectively, and aggregate state NOL carryforwards of approximately \$17,423,000 and \$7,334,000, 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.

The Company provides 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, 2015 and 2014 based upon all available evidence, the Company has 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, Income Taxes, requires the reporting of certain tax positions which 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. The Company does not anticipate that the total unrecognized tax benefits will significantly change prior to December 31, 2016.

Under the Company’s 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, 2015 and 2014, the Company has recorded no accrued interest or penalties related to uncertain tax positions.

The Company’s income tax returns for tax years ended December 31, 2013, 2014 and 2015, when filed, remain open to examination by the Internal Revenue Service and various state taxing jurisdictions. The Company’s 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.

(11) Common Stock

On September 24, 2014, GWG consummated an initial public offering of its common stock which resulted in the sale of 800,000 shares of common stock at \$12.50 per share. The sale resulted in net proceeds of approximately \$8.6 million after the deduction of underwriting commissions, discounts and expense reimbursements. In connection with this offering, the Company listed its common stock on The NASDAQ Capital Market under the ticker symbol "GWGH" effective September 25, 2014.

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GWG HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Common Stock (cont.)

On June 24, 2015 GWG issued 60,000 restricted shares of common stock at \$9.70 per share, determined by closing market price, to a vendor as a form of payment for the services the vendor will provide to the Company in the next three years. The cost of the issued shares is being amortized over a twelve-month period.

(12) Stock Incentive Plan

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

The Company issued stock options for 1,053,615 shares of common stock to employees, officers, and directors of the Company through December 31, 2015. Options for 483,703 shares have vested, and the remaining options will vest over three years. The options were issued with an exercise price between \$6.60 and \$10.18 for those owning more than 10% of the Company's stock and between \$6.00 and \$10.25 for others, which is equal to the estimated market price of the shares on the date of grant valued using Black-Scholes binomial option pricing model. The expected volatility used in the Black-Scholes model valuation of options issued during the year was 20.59% annualized. The annual volatility rate is based on the standard deviation of the average continuously compounded rate of return of five selected comparable companies over the previous 52 weeks. Forfeiture rate of 15% is based on historical Company information and expected future trend. As of December 31, 2015, stock options for 335,185 shares were forfeited and stock options for 28,001 shares were exercised.

In September 2014, we entered into a stock option agreement (the Agreement) with a new management employee (the Employee) granting the Employee the right to purchase up to 318,000 of the Company's common stock at an exercise price of \$12.50. The grant of such rights to purchase the Company's common stock was treated as an inducement grant and was issued outside the GWG Holdings Inc. 2013 Stock Incentive Plan. The Agreement specifies that, among other things, options to purchase 159,000 shares of the Company's common stock will vest with the Employee ratably on the first, second and third anniversary of the date of the Agreement. The remaining 159,000 options will vest quarterly using a formula based upon the closing price of the Company's common stock on the last business day of such quarter. The maximum number of these remaining options that will vest with the Employee is 53,000 in each successive one-year period beginning on the date of the Agreement. As of December 31, 2015 53,000 of these options were forfeited and 53,000 have vested.

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (12) Stock Incentive Plan (cont.)

## Outstanding stock options:

	Vested	Un-vested	Total
Balance as of December 31, 2013	195,000	210,250	405,250
Granted during the year	64,450	565,901	630,351
Vested during the year	72,089	(72,089 )	—
Exercised during the year	(334 )	—	(334 )
Forfeited during the year	(16,917 )	(18,249 )	(35,166 )
Balance as of December 31, 2014	314,288	685,813	1,000,101
Granted during the year	79,500	273,700	353,200
Vested during the year	238,999	(238,999 )	—
Exercised during the year	(27,667 )	—	(27,667 )
Forfeited during the year	(121,417 )	(150,602 )	(272,019 )
Balance as of December 31, 2015	483,703	569,912	1,053,615

Compensation expense related to un-vested options not yet recognized is \$460,000. We expect to recognize this compensation expense over the next three years (\$223,000 in 2016, \$187,000 in 2017, and 50,000 in 2018). The Company issues new common stock for options exercised.

## (13) Net loss per common share

The Company began issuing Series A Preferred Stock September, 1, 2011, as described in note 8. The Series A Preferred Stock is anti-dilutive to the net loss per common share calculation at December 31, 2015 and 2014. The Company has also issued warrants to purchase common stock in conjunction with the sale of convertible preferred stock, discussed in note 8. The warrants and vested stock options are anti-dilutive at December 31, 2015 and 2014 and have not been included in the fully diluted net loss per common share calculation.

## (14) Commitments

The Company entered into an office lease with U.S. Bank National Association as the landlord. The lease was effective April 22, 2012 with a term through August 31, 2015. The lease is for 11,695 square feet of office space located at 220 South Sixth Street, Minneapolis, Minnesota. The Company is obligated to pay base rent plus common area maintenance and a share of the building operating costs. Effective September 1, 2015, the Company entered into a Second Amendment to the office lease with US Bank National Association that extended the term of the lease to 120 months from the effective date and expanded to 17,687 square feet. The landlord provided \$50 per square foot (a total of \$884,350) for tenant improvements to the leased space. The Second Amendment provides the right for us to extend the term of the lease for one three-year term, and a right of first offer on space adjacent to our leased premises.

The Company is obligated to pay base rent plus common area maintenance and a share of the building operating costs. Rent expenses under this agreement were \$283,000 and \$211,000 during 2015 and 2014, respectively.

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

2016	\$ 173,000
2017	178,000
2018	185,000

Explanation of Responses:

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2019	191,000
2020	198,000
2021	204,000
2022	210,000
2023	217,000
2024	223,000
2025	230,000
2026	38,000
	\$ 2,047,000
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GWG HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Contingencies

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

(16) Guarantees of L Bonds

GWG Holdings has registered with the SEC the offer and sale \$250,000,000 of L Bonds, and effective January 9, 2015, launched a \$1 billion follow-on to its publicly registered L Bond offering as described in note 7. The L Bonds are secured by the assets of GWG Holdings as described in note 7 and a pledge of all the common stock held by the largest individual shareholders. Obligations under the L Bonds are guaranteed by GWG Life. This guarantee involves the grant of a security interest in all the assets of GWG Life. The payment of principal and interest on the L Bonds is fully and unconditional guaranteed by GWG Life. Substantially all of the Company's life insurance policies are held by DLP III and the Trust. The policies held by DLP III are not collateral for the L Bond obligations as such policies serve as collateral for the senior credit facility.

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

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

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## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (16) Guarantees of L Bonds (cont.)

## Consolidating Balance Sheets

December 31, 2015	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 32,292,162	\$ 1,982,722	\$ 150,221	\$ —	\$ 34,425,105
Restricted cash	—	2,102,257	239,643	—	2,341,900
Investment in life settlements, at fair value	—	—	356,649,715	—	356,649,715
Deferred financing costs, net	799,029	1,000,000	731,452	—	2,530,481
Other assets	1,499,575	688,071	30,900	—	2,218,546
Investment in subsidiaries	269,886,254	291,295,951	—	(561,182,205 )	—
<b>TOTAL ASSETS</b>	<b>\$ 304,477,020</b>	<b>\$ 297,069,001</b>	<b>\$ 357,801,931</b>	<b>\$ (561,182,205 )</b>	<b>\$ 398,165,747</b>
<b><u>LIABILITIES &amp; STOCKHOLDERS' EQUITY (DEFICIT)</u></b>					
<b>LIABILITIES</b>					
Revolving senior credit facility	\$ —	\$ —	\$ 65,011,048	\$ —	\$ 65,011,048
Series I Secured Notes payable	—	23,287,704	—	—	23,287,704
L Bonds	277,024,326	—	—	—	277,024,326
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	1,763,968	—	—	—	1,763,968
<b>TOTAL LIABILITIES</b>	<b>288,316,606</b>	<b>27,332,968</b>	<b>66,355,759</b>	<b>—</b>	<b>382,005,333</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>					
Member capital	—	269,736,033	291,446,172	(561,182,205 )	—
Convertible preferred stock	20,799,841	—	—	—	20,799,841
Common stock	5,942	—	—	—	5,942
Additional paid-in capital	17,149,391	—	—	—	17,149,391

Explanation of Responses:



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Accumulated deficit	(21,794,760 )	—	—	—	(21,794,760 )
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	16,160,414	269,736,033	291,446,172	(561,182,205 )	16,160,414
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 304,477,020	\$ 297,069,001	\$ 357,801,931	\$ (561,182,205 )	\$ 398,165,747

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GWG HOLDINGS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (16) Guarantees of L Bonds (cont.)

## Consolidating Balance Sheets (continued)

December 31, 2014	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 30,446,473	\$ 216,231	\$ —	\$ —	\$ 30,662,704
Restricted cash	—	82,500	4,213,553	—	4,296,053
Investment in life settlements, at fair value	—	—	282,883,010	—	282,883,010
Deferred financing costs, net	569,400	1,000,000	—	—	1,569,400
Policy benefits receivable	—	—	1,750,000	—	1,750,000
Other assets	1,104,328	777,534	27,500	—	1,909,362
Investment in subsidiaries	185,636,417	215,124,779	—	(400,761,196 )	—
<b>TOTAL ASSETS</b>	<b>\$ 217,756,618</b>	<b>\$ 217,201,044</b>	<b>\$ 288,874,063</b>	<b>\$ (400,761,196 )</b>	<b>\$ 323,070,529</b>
<b><u>LIABILITIES &amp; STOCKHOLDERS' EQUITY (DEFICIT)</u></b>					
<b>LIABILITIES</b>					
Revolving senior credit facility	\$ —	\$ —	\$ 72,161,048	\$ —	\$ 72,161,048
Series I Secured Notes payable	—	27,616,578	—	—	27,616,578
L Bonds	182,782,884	—	—	—	182,782,884
Accounts payable	410,895	242,680	550,000	—	1,203,575
Interest payable	6,598,250	3,513,615	1,016,654	—	11,128,519
Other accrued expenses	301,098	191,753	21,583	—	514,434
Deferred taxes	5,273,555	—	—	—	5,273,555
<b>TOTAL LIABILITIES</b>	<b>195,366,682</b>	<b>31,564,626</b>	<b>73,749,285</b>	<b>—</b>	<b>300,680,593</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>					
Member capital	—	185,636,418	215,124,778	(400,761,196 )	—
Convertible preferred stock	20,527,866	—	—	—	20,527,866
Common stock	5,870	—	—	—	5,870
	16,257,686	—	—	—	16,257,686

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Additional paid-in capital					
Accumulated deficit	(14,401,486 )	—	—	—	(14,401,486 )
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	22,389,936	185,636,418	215,124,778	(400,761,196 )	22,389,936
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 217,756,618	\$ 217,201,044	\$ 288,874,063	\$ (400,761,196 )	\$ 323,070,529

## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (16) Guarantees of L Bonds (cont.)

## Consolidated Statements of Operations

For the year ended December 31, 2015	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>REVENUE</b>					
Contract servicing fees	\$ —	\$ 2,217,471	\$ —	\$ (2,217,471 )	\$ —
Gain on life settlements, net	—	—	39,381,003	—	39,381,003
Interest and other income	45,613	62,125	143,511	—	251,249
<b>TOTAL REVENUE</b>	<b>45,613</b>	<b>2,279,596</b>	<b>39,524,514</b>	<b>(2,217,471 )</b>	<b>39,632,252</b>
<b>EXPENSES</b>					
Origination and servicing fees	—	—	2,217,471	(2,217,471 )	—
Interest expense	24,486,093	2,703,124	4,398,743	—	31,587,960
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
<b>TOTAL EXPENSES</b>	<b>36,904,105</b>	<b>9,090,294</b>	<b>6,758,185</b>	<b>(2,217,471 )</b>	<b>50,535,113</b>
<b>INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES</b>					
	(36,858,492 )	(6,810,698 )	32,766,329	—	(10,902,861 )
<b>EQUITY IN INCOME OF SUBSIDIARIES</b>					
	25,955,631	32,766,108	—	(58,721,739 )	—
<b>NET INCOME BEFORE INCOME TAXES</b>					
	(10,902,861 )	25,955,410	32,766,329	(58,721,739 )	(10,902,861 )
<b>INCOME TAX BENEFIT</b>					
	(3,509,587 )	—	—	—	(3,509,587 )
<b>NET INCOME (LOSS)</b>					
	(7,393,274 )	25,955,410	32,766,329	(58,721,739 )	(7,393,274 )
<b>(Income) attributable to preferred shareholders</b>					
	(1,386,110 )	—	—	—	(1,386,110 )

Explanation of Responses:

LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (6,007,164 )	\$ —	\$ —	\$ —	\$ (6,007,164 )
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GWG HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (16) Guarantees of L Bonds (cont.)

## Consolidated Statements of Operations (continued)

For the year ended December 31, 2014	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>REVENUE</b>					
Contract servicing fees	\$ —	\$ 1,615,674	\$ —	\$ (1,615,674 )	\$ —
Gain on life settlements, net	—	—	30,416,127	—	30,416,127
Interest and other income	24,037	231,034	33,469	(228,092 )	60,448
<b>TOTAL REVENUE</b>	<b>24,307</b>	<b>1,846,708</b>	<b>30,449,596</b>	<b>(1,843,766 )</b>	<b>30,476,575</b>
<b>EXPENSES</b>					
Origination and servicing fees	—	—	1,615,674	(1,615,674 )	—
Interest expense	18,248,599	3,110,165	5,358,034	—	26,716,798
Employee compensation and benefits	3,018,570	1,951,066	—	—	4,969,636
Legal and professional fees	2,021,763	307,386	10,086	—	2,339,235
Other expenses	2,832,867	1,929,557	281,102	(228,092 )	4,815,434
<b>TOTAL EXPENSES</b>	<b>26,121,799</b>	<b>7,298,174</b>	<b>7,264,896</b>	<b>(1,843,766 )</b>	<b>38,841,103</b>
<b>INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES</b>					
	(26,097,762 )	(5,451,466 )	23,184,700	—	(8,364,528 )
<b>EQUITY IN INCOME OF SUBSIDIARIES</b>					
	17,733,234	23,184,700	—	(40,917,934 )	—
<b>NET INCOME BEFORE INCOME TAXES</b>					
	8,364,528	17,733,234	23,184,700	(40,917,934 )	(8,364,528 )
<b>INCOME TAX BENEFIT</b>					
	(2,401,619 )	—	—	—	(2,401,619 )
<b>NET INCOME (LOSS)</b>					
	(5,962,909 )	17,733,234	23,184,700	(40,917,934 )	(5,962,909 )
<b>(Income) attributable to preferred shareholders</b>					
	(138,374 )	—	—	—	(138,374 )
	\$ (6,101,283 )	\$ —	\$ —	\$ —	\$ (6,101,283 )

LOSS  
ATTRIBUTABLE  
TO COMMON  
SHAREHOLDERS  
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## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (16) Guarantees of L Bonds (cont.)

## Consolidated Statements of Cash Flows

<b>For the year ended December 31, 2015</b>	<b>Parent</b>	<b>Guarantor Sub</b>	<b>Non-Guarantor Sub</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net income (loss)	\$ (7,393,274 )	\$ 25,955,410	\$ 32,766,329	\$ (58,721,739 )	\$ (7,393,274 )
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 settlements, 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 )
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
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(86,116,812 )</b>	<b>(49,466,276)</b>	<b>(5,833,109 )</b>	<b>101,699,270</b>	<b>(39,716,927 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment in life settlements	—	—	(38,906,934)	—	(38,906,934 )
Proceeds from settlement of life settlements	—	—	4,511,289	—	4,511,289
	—	—	(34,395,645)	—	(34,395,645 )

Explanation of Responses:



NET CASH FLOWS  
USED IN INVESTING  
ACTIVITIES

**CASH FLOWS FROM  
FINANCING  
ACTIVITIES**

Net repayment of revolving senior credit facility	—	—	(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 )
Issuance of common stock	582,000	—	—	—	582,000
Proceeds (payments) from restricted cash	—	(2,019,757 )	3,973,910	—	1,954,153
Payments for redemption of preferred stock	(295,185 )	—	—	—	(295,185 )
Issuance of member capital	—	58,144,205	43,555,065	(101,699,270)	—
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>87,962,501</b>	<b>51,232,767</b>	<b>40,378,975</b>	<b>(101,699,270)</b>	<b>77,874,973</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,845,689</b>	<b>1,766,491</b>	<b>150,221</b>	<b>—</b>	<b>3,762,401</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD</b>	<b>30,446,473</b>	<b>216,231</b>	<b>—</b>	<b>—</b>	<b>30,662,704</b>
<b>END OF THE PERIOD</b>	<b>\$ 32,292,162</b>	<b>\$ 1,982,722</b>	<b>\$ 150,221</b>	<b>\$ —</b>	<b>\$ 34,425,105</b>

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GWG HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (16) Guarantees of L Bonds (cont.)

## Consolidated Statements of Cash Flows (continued)

For the year ended December 31, 2014	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net income (loss)	\$ (5,962,909 )	\$ 17,733,234	\$ 23,184,700	\$ (40,917,934)	\$ (5,962,909 )
Adjustments to reconcile net income (loss) to cash flows from operating activities:					
(Equity) of subsidiaries	(17,733,234)	(23,184,700)	—	40,917,934	—
Gain on life settlements	—	—	(39,928,003)	—	(39,928,003)
Amortization of deferred financing and issuance costs	2,967,617	479,278	357,900	—	3,804,795
Deferred income taxes	(2,401,619 )	—	—	—	(2,401,619 )
Preferred stock issued in lieu of cash dividends	774,085	—	—	—	774,085
Convertible, redeemable preferred stock dividends payable	(116,207 )	—	—	—	(116,207 )
(Increase) decrease in operating assets:					
Due from related parties	—	(291 )	—	—	(291 )
Policy benefits receivable	—	—	(1,750,000 )	—	(1,750,000 )
Other assets	(39,118,259)	(33,434,321)	—	70,205,530	(2,347,050 )
Increase (decrease) in operating liabilities:					
Accounts payable	177,681	136,025	50,000	—	363,706
Interest payable	3,359,926	599,419	679,531	—	4,638,876
Other accrued expenses	43,591	16,367	10,408	—	70,366
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(58,009,328)</b>	<b>(37,654,989)</b>	<b>(17,395,464)</b>	<b>70,205,530</b>	<b>(42,854,251)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment in life settlements	—	—	(12,292,401)	—	(12,292,401)
Proceeds from settlement of life settlements	—	—	4,185,813	—	4,185,813
<b>NET CASH FLOWS USED IN INVESTING</b>	<b>—</b>	<b>—</b>	<b>(8,106,588 )</b>	<b>—</b>	<b>(8,106,588 )</b>

Explanation of Responses:

## ACTIVITIES

**CASH FLOWS FROM  
FINANCING  
ACTIVITIES**

Net repayment of revolving senior credit facility	—	—	(6,838,952 )	—	(6,838,952 )
Payments for redemption of Series I Secured Notes	—	(2,268,379 )	—	—	(2,268,379 )
Proceeds from issuance of L Bonds	65,713,297	—	—	—	65,713,297
Payment of deferred issuance costs for L Bonds	(4,104,876 )	—	—	—	(4,104,876 )
Payments for redemption of L Bonds	(14,429,017)	—	—	—	(14,429,017)
Issuance of common stock	9,030,000	—	—	—	9,030,000
Proceeds from restricted cash	—	1,337,500	199,416	—	1,536,916
Payments for redemption of preferred stock	(456,239 )	—	—	—	(465,239 )
Issuance of member capital	—	38,063,942	32,141,588	(70,205,530)	—
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>55,744,165</b>	<b>37,133,063</b>	<b>25,502,052</b>	<b>(70,205,530)</b>	<b>48,173,750</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,265,163 )</b>	<b>(521,926 )</b>	<b>—</b>	<b>—</b>	<b>(2,787,089 )</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR</b>	<b>32,711,636</b>	<b>738,157</b>	<b>—</b>	<b>—</b>	<b>33,449,793</b>
<b>END OF THE YEAR</b>	<b>\$ 30,446,473</b>	<b>\$ 216,231</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 30,662,704</b>

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## GWG HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (17) Concentration

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

Life insurance company	As of December 31,			
	2015		2014	
AXA Equitable	14.00	%	14.55	%
John Hancock	12.73	%	11.48	%

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

State of residence	As of December 31,			
	2015		2014	
California	25.25	%	28.87	%
Florida	19.95	%	18.56	%

## (18) Subsequent events

Subsequent to December 31, 2015, five policies covering five individuals have matured. The combined insurance benefits of these policies were \$9,238,000. The Company recorded realized gains of \$6,162,000 on these five policies.

Subsequent to December 31, 2015, the Company has issued approximately an additional \$30,341,000 in principal amount of L Bonds.

Subsequent to December 31, 2015 the Company has issued approximately \$1,423,000 of Redeemable Preferred Stock.

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. Effective February 4, 2016, GWG MCA Capital began to offer for sale up to of 2,000,000 shares of Redeemable Preferred Stock at an offering price of \$10 per share in a private placement. Subsequent to December 31, 2015, the Company hasn't issued any Redeemable Preferred Stock related to this offering. On February 15, 2016, GWG MCA Capital purchased revolving credit arrangements from Walker Preston Capital Holdings, LLC for the amount of \$4,354,000. For this purchase, GWG MCA Capital obtained a \$2,700,000 loan from GWG Holdings evidenced by a promissory note maturing December 31, 2016, and a \$1,760,000 loan from Insurance Strategies Fund, a related party, evidenced by a promissory note maturing December 31, 2016. Both promissory notes accrue interest at a rate of 9% per annum.

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\$100,000,000 of Redeemable Preferred Stock

Maximum of 100,000 Shares of Redeemable Preferred Stock

GWG HOLDINGS, INC.

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PROSPECTUS

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April 12, 2016