GWG Holdings, Inc.
Form 10-Q/A
April 22, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _________ to ________

Commission File Number: None

GWG HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**26-2222607**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

220 South Sixth Street, Suite 1200

Minneapolis, MN 55402

(Address of principal executive offices, including zip code)

(612) 746-1944

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 19, 2018, GWG Holdings, Inc. had 5,980,124 shares of common stock outstanding.

Explanatory Note

This Amendment No. 1 to Form 10-Q (this “Amendment”) amends the Quarterly Report of GWG Holdings, Inc. (“GWG” or the “Company”) on Form 10-Q for the quarterly period ended September 30, 2018, originally filed with the Securities and Exchange Commission (“the Commission”) on November 19, 2018 (the “Original Filing”). Subsequent to the Original Filing, in consultation with the Commission, the Company determined that it incorrectly applied certain accounting guidance to the acquisition of certain assets and the issuance of related liabilities in connection with our transaction with The Beneficient Company Group, L.P., a Delaware limited partnership (“Beneficient”) and various related trusts occurring on August 10, 2018. The transaction was disclosed in the Notes to Condensed Consolidated Financial Statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Original Filing. As a result, the Company determined that its financing receivable from affiliate and equity method investment were understated at September 30, 2018, and its long-term debt was also understated by a similar amount. There was no change to the Company’s originally reported net loss attributable to common shareholders or stockholders’ equity.

Restatement

As further discussed in Note 1 to our unaudited condensed consolidated financial statements in Part 1, Item 1, “Financial Statements” of this Amendment, on April 9, 2019, management of the Company concluded that we would restate our previously issued condensed consolidated financial statements as of and for the three and nine months ended September 30, 2018, as set forth in the Original Filing in connection with the recognition in this Amendment of certain assets and liabilities, along with related amounts of offsetting revenue and expenses, that were not recognized previously.

Internal Control Over Financial Reporting

Management has reassessed its evaluation of the effectiveness of the operation of controls in application of generally accepted accounting principles regarding material complex non-routine transactions. As a result of that assessment, management has concluded that we did not maintain effective controls due to material weakness in internal control over financial reporting which existed at that date. For a description of the material weakness in internal control over financial reporting and actions taken to address the material weakness, see Part I, Item 4 “Controls and Procedures” of this Amendment.

Amendment

The Company is filing this Amendment to restate our previously issued unaudited condensed consolidated financial statements and related disclosures as of and for the three and nine months ended September 30, 2018 pertaining to the acquisition of certain assets and the incurrence of related liabilities in connection with the Beneficient transaction that were not previously recognized. This Amendment also includes (i) an amended Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to reflect the correction of the errors described above, and (ii) an amended Part I, Item 4 “Controls and Procedures” to restate the conclusion on the effectiveness of controls in application of generally accepted accounting principles regarding material complex non-routine transactions. Controls and procedures were deemed effective in the Original Filing on November 19, 2018 and are deemed ineffective as a result of the material weakness described in Part I, Item 4 “Controls and Procedures” in this Amendment. The impact of the restatement is summarized in Note 1 to the condensed consolidated financial statements.

Except as expressly set forth herein, including in the notes to the condensed consolidated financial statements, this Amendment does not reflect events occurring after the date of the Original Filing or modify or update any of the other disclosures contained therein other than as required to reflect the amendment discussed above. Accordingly, this Amendment should be read in conjunction with the Original Filing and our other filings with the Commission. Information not affected by the restatement is unchanged and reflects disclosures made at the time of the filing of the Original Filing.

Items Amended in this Filing

For reasons discussed above, we are filing this Amendment to amend the following items in our Original Filing to the extent necessary to reflect the adjustments discussed above and make corresponding revisions to our financial data cited elsewhere in this Amendment as a result of assets and liabilities that were not recognized previously:

- Part I, Item 1. Financial Statements
- Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
- Part I, Item 4. Controls and Procedures

In accordance with applicable Commission rules, this Amendment includes new certifications required by Rule 13a-14 under the Securities Exchange Act of 1934, as amended, from our Chief Executive Officer and Chief Financial Officer dated as of the date of filing of this Amendment.

GWG HOLDINGS, INC.

Index to Form 10-Q/A

for the Quarter Ended September 30, 2018

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (unaudited) (as restated)	December 31, 2017
A S S E T S		
Cash and cash equivalents	$ 117,873,668	$ 114,421,491
Restricted cash	3,069,759	28,349,685
Investment in life insurance policies, at fair value	791,468,587	650,527,353
Life insurance policy benefits receivable	10,472,696	16,658,761
Financing receivable from affiliate	366,871,036	-
Equity method investment	42,069,259	-
Other assets	9,836,811	8,898,884
TOTAL ASSETS	$ 1,341,661,816	$ 818,856,174
L I A B I L I T I E S & S T O C K H O L D E R S' E Q U I T Y		
LIABILITIES		
Senior credit facility with LNV Corporation	$ 162,469,172	$ 212,238,192
L Bonds	570,199,704	447,393,568
Seller Trust L Bonds	403,234,866	-
Accounts payable	2,579,323	6,394,439
Interest and dividends payable	18,748,558	15,427,509
Other accrued expenses	3,272,758	3,730,723
TOTAL LIABILITIES	1,160,504,381	685,184,431
STOCKHOLDERS' EQUITY		
REDEEMABLE PREFERRED STOCK		
(par value $0.001; shares authorized 100,000; shares outstanding 97,534 and 98,611; liquidation preference of $98,103,000 and $99,186,000 as of September 30, 2018 and December 31, 2017, respectively)	86,920,335	92,840,243
SERIES 2 REDEEMABLE PREFERRED STOCK		
(par value $0.001; shares authorized 150,000; shares outstanding 148,444 and 88,709; liquidation preference of $149,310,000 and $89,208,000 as of	129,147,704	80,275,204

September 30, 2018 and December 31, 2017, respectively)		
SERIES B CONVERTIBLE PREFERRED STOCK		
(par value $0.001; stated value $10; shares authorized and outstanding 5,000,000)	50,000,000	-
COMMON STOCK		
(par value $0.001; shares authorized 210,000,000; shares issued and outstanding 5,980,124 as of September 30, 2018 and 5,813,555 as of December 31, 2017)	5,980	5,813
Additional paid-in capital	-	-
Accumulated deficit	(84,916,584)	(39,449,517)
TOTAL STOCKHOLDERS' EQUITY	181,157,435	133,671,743
TOTAL LIABILITIES & EQUITY	$ 1,341,661,816	$ 818,856,174

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018 (as restated)	September 30, 2017	September 30, 2018 (as restated)	September 30, 2017
REVENUE				
Gain on life insurance policies, net	$ 15,721,513	$ 14,421,353	$ 52,930,008	$ 45,117,438
Interest and other income	5,215,515	275,690	6,863,640	1,335,535
TOTAL REVENUE	20,937,028	14,697,043	59,793,648	46,452,973
EXPENSES				
Interest expense	21,799,332	13,275,407	55,010,519	38,765,647
Employee compensation and benefits	5,548,771	3,792,096	12,527,139	10,696,455
Legal and professional fees	1,421,964	1,657,090	3,751,321	3,934,027
Other expenses	2,688,970	2,799,196	8,262,324	9,340,617
TOTAL EXPENSES	31,459,037	21,523,789	79,551,303	62,736,746
INCOME (LOSS) BEFORE INCOME TAXES	(10,522,009)	(6,826,746)	(19,757,655)	(16,283,773)
INCOME TAX EXPENSE (BENEFIT)	-	(2,764,243)	-	(6,481,917)
NET INCOME (LOSS)	(10,522,009)	(4,062,503)	(19,757,655)	(9,801,856)
Preferred stock dividends	4,313,542	3,548,165	12,356,513	7,447,022
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (14,835,551)	$ (7,610,668)	$ (32,114,168)	$ (17,248,878)
NET INCOME (LOSS) PER SHARE				
Basic	$ (2.52)	$ (1.31)	$ (5.50)	$ (2.96)
Diluted	$ (2.52)	$ (1.31)	$ (5.50)	$ (2.96)
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	5,894,639	5,797,800	5,840,880	5,829,808
Diluted	5,894,639	5,797,800	5,840,880	5,829,808

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018 (as restated)	September 30, 2017	September 30, 2018 (as restated)	September 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	$ (10,522,009)	$ (4,062,503)	$ (19,757,655)	$ (9,801,856)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:				
Change in fair value of life insurance policies	(24,839,567)	(20,181,732)	(56,058,336)	(49,301,067)
Amortization of deferred financing and issuance costs	2,575,322	2,344,541	7,241,283	6,508,692
Financing receivable from affiliate	(4,284,370)	-	(4,284,370)	-
Deferred income taxes	-	(2,764,243)	-	(6,481,917)
(Increase) decrease in operating assets:				
Life insurance policy benefits receivable	16,562,304	(7,627,000)	6,186,065	(9,252,000)
Other assets	321,968	929,058	(1,487,238)	3,181,419
Increase (decrease) in operating liabilities:				
Accounts payable and other accrued expenses	1,918,702	(85,509)	915,584	2,861,541
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(18,267,650)	(31,447,388)	(67,244,667)	(62,285,188)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in life insurance policies	(42,891,764)	(25,199,692)	(98,440,528)	(67,321,363)
Carrying value of matured life insurance policies	2,325,989	2,333,039	13,557,632	7,716,847
Equity method investment acquired	(1,421,059)	-	(1,421,059)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(41,986,834)	(22,866,653)	(86,303,955)	(59,604,516)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings on (repayments of) senior debt	(18,425,136)	56,887,491	(50,560,286)	49,787,954
Payments for issuance of senior debt	-	(3,937,907)	-	(5,128,319)
	-	(6,815,406)	-	(16,613,667)

Payments for redemption of Series I Secured Notes				
Proceeds from issuance of L Bonds	68,884,369	30,271,873	166,081,914	87,016,343
Payments for issuance and redemption of L Bonds	(20,195,657)	(19,752,717)	(46,151,926)	(58,949,880)
Issuance (repurchase) of common stock	682,954	30	682,954	(1,603,526)
Common stock dividends	(25,709,412)	-	(25,709,412)	-
Proceeds from issuance of convertible preferred stock	50,000,000	-	50,000,000	-
Proceeds from issuance of redeemable preferred stock	-	25,211,870	56,238,128	86,692,811
Payments for issuance of redeemable preferred stock	-	(1,243,920)	(4,142,294)	(5,207,025)
Payments for redemption of redeemable preferred stock	(821,778)	(47,500)	(2,361,692)	(1,806,832)
Preferred stock dividends	(4,313,542)	(3,548,165)	(12,356,513)	(7,447,022)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	50,101,798	77,025,649	131,720,873	126,740,837
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,152,686)	22,711,608	(21,827,749)	4,851,133
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH				
BEGINNING OF PERIOD	131,096,113	98,453,103	142,771,176	116,313,578
END OF PERIOD	$ 120,943,427	$ 121,164,711	$ 120,943,427	$ 121,164,711

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — CONTINUED

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018 (as restated)	September 30, 2017	September 30, 2018	September 30, 2017
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Interest paid	$ 17,340,000	$ 17,478,000	$ 44,591,000	$ 45,101,000
Premiums paid, including prepaid	$ 14,672,000	$ 12,927,000	$ 38,898,000	$ 35,533,000
Stock-based compensation	$ 278,000	$ 270,000	$ 538,000	$ 350,000
Payments for exercised stock options	$ -	$ 164,000	$ -	$ 264,000
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Financing receivable from affiliate:				
Commercial Loan receivable	$ 190,670,000	$ -	$ 190,670,000	$ -
Exchangeable Note receivable	$ 171,917,000	$ -	$ 171,917,000	$ -
Equity method investment acquired	$ 40,648,000	$ -	$ 40,648,000	$ -
Seller Trust L Bonds issued	$ 403,235,000	$ -	$ 403,235,000	$ -
L Bonds:				
Conversion of accrued interest and commissions payable to principal	$ 410,000	$ 477,000	$ 972,000	$ 1,382,000
Conversion of L Bonds to redeemable preferred stock	$ -	$ 545,000	$ 4,546,000	$ 2,334,000
Preferred Stock:				
Issuance of Series A Preferred Stock in lieu of cash dividends	$ -	$ 161,000	$ -	$ 499,000
Conversion of L Bonds to redeemable preferred stock	$ -	$ 545,000	$ 4,546,000	$ 2,334,000
Options and stock appreciation rights issued:	290,000	76,000	458,000	309,000
Investment in life insurance policies included in accounts payable	$ 508,000	$ 966,000	$ 508,000	$ 966,000

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited)

	Preferred Stock Shares	Preferred Stock	Common Shares	Common Stock (par)	Additional Paid-in Capital	Accumulated Deficit	Total Equity
Balance, December 31, 2016	2,699,704	$78,726,297	5,980,190	$ 5,980	$7,383,515	$(18,817,294)	$67,298,498
Net income (loss)	-	-	-	-	-	(20,632,223)	(20,632,223)
Issuance of common stock	-	-	33,810	33	320,970	-	321,003
Redemption of common stock	-	-	(200,445)	(200)	(1,603,360)	-	(1,603,560)
Issuance of Series A preferred stock	71,237	498,659	-	-	-	-	498,659
Redemption of Series A preferred stock	(2,711,916)	(20,199,792)	-	-	-	-	(20,199,792)
Issuance of redeemable preferred stock	129,622	122,933,106	-	-	(2,338,457)	-	120,594,649
Redemption of redeemable preferred stock	(1,328)	(1,327,776)	-	-	-	-	(1,327,776)
Preferred stock dividends	-	(8,925,807)	-	-	(3,776,534)	-	(12,702,341)
Stock-based compensation	-	1,410,760	-	-	13,866	-	1,424,626
Balance, December 31, 2017	187,319	$173,115,447	5,813,555	$ 5,813	$-	$(39,449,517)	$133,671,743

Net income (loss)	-	-	-	-	-	(19,757,655)	(19,757,655)
Issuance of common stock	-	-	166,569	167	1,181,435	-	1,181,602
Issuance of redeemable preferred stock	61,021	56,878,238	-	-	-	-	56,878,238
Redemption of redeemable preferred stock	(2,362)	(2,362,914)	-	-	-	-	(2,362,914)
Issuance of Series B convertible preferred stock	5,000,000	50,000,000	-	-	-	-	50,000,000
Common stock dividends	-	-	-	-	-	(25,709,412)	(25,709,412)
Preferred stock dividends	-	(11,562,732)	-	-	(793,781)	-	(12,356,513)
Stock-based compensation	-	-	-	-	(387,654)	-	(387,654)
Balance, September 30, 2018	5,245,978	$266,068,039	5,980,124	$5,980	$-	$(84,916,584)	$181,157,435

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

Nature of Business — We are a leading provider of liquidity to consumers owning life insurance policies, an owner of a portfolio of alternative assets, and a developer of epigenetic technology for the life insurance industry and beyond. We built our business providing value to consumers owning illiquid life insurance products across America, delivering more than $564 million in value for their policies since 2006. As of September 30, 2018, we own an alternative asset portfolio of $1.96 billion in face value of life insurance policy benefits.

In addition, we continue to innovate in the life insurance industry through our insurance technology initiative which is based upon the use of step-change epigenetic technology. Our wholly owned insurtech subsidiary, Life Epigenetics is focused on creating intellectual property and commercialized testing from supervised machine learning and advanced epigenetic technology. We believe our technology offers the life insurance industry a step-change opportunity for enhanced life insurance underwriting and risk assessment. Our wholly owned insurtech subsidiary, YouSurance is a digital life insurance agency that is working to offer life insurance directly to consumers in conjunction with our epigenetic testing. We believe that consumers who are interested in their health and wellness and in reducing the cost of their insurance will benefit from working with YouSurance.

The Beneficient Transaction

On August 10, 2018, we completed the first of two anticipated closings (the "Initial Transfer") contemplated by a Master Exchange Agreement with The Beneficient Company Group, L.P. ("Beneficient") and certain other parties (the "Seller Trusts"), which governs the strategic exchange of assets among the parties (the "Beneficient Transaction"). At the Initial Transfer:

GWG issued L Bonds to the Seller Trusts in an aggregate principal amount of $403,234,866 that mature on August 9, 2023, and bear interest at 7.5% per annum (the "Seller Trust L Bonds"), GWG issued to Beneficient 5,000,000 shares of GWG's Series B Convertible Preferred Stock, par value $0.001 per share and having a stated value of $10 per share ("Series B"), for cash consideration of $50,000,000,

Beneficient, as borrower, entered into a commercial loan agreement with GWG Life, as lender, in a principal amount of $200,000,000 (the "Commercial Loan"),

Beneficient delivered to GWG a promissory note in the principal amount of $162,911,379 (the "Exchangeable Note"), and

the Seller Trusts delivered to GWG 4,032,349 common units of Beneficient at $10 per common unit.

Upon the final closing of the Beneficient Transaction, which is expected at or near year-end 2018, subject to the satisfaction of certain closing conditions (the "Final Closing" and the date upon which the Final Closing occurs, the "Final Closing Date"):

the Seller Trusts will transfer to GWG an aggregate of 40,485,230 common units of Beneficient, inclusive of 16.3 million units in full satisfaction of the Exchangeable Note,

Beneficient will issue to GWG an amount of securities or other instruments, containing the same rights, preferences and privileges of certain limited partnership interests of Beneficient Company Holdings, L.P., a subsidiary of Beneficient ("Beneficient Holdings"), equivalent to seven percent (7.0%) of such limited partnership interests attributable to certain of Beneficient Holdings' founders, and

GWG will deliver to the Seller Trusts up to 29.1 million shares of GWG common stock at $10 per share.

A summary of the Beneficient Transaction is set forth in our Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 14, 2018 and amended in our Current Report on Form 8-K/A filed with the Securities and Exchange Commission on November 9, 2018.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Description of the Assets Exchanged at the Initial Transfer

Seller Trust L Bonds

On August 10, 2018, in connection with the Initial Transfer, GWG Holdings, GWG Life and Bank of Utah, as trustee (the “Trustee”), entered into a Supplemental Indenture (the “Supplemental Indenture”) to the Amended and Restated Indenture dated as of October 23, 2017 (the “Amended and Restated Indenture”). GWG Holdings entered into the Supplemental Indenture to add and modify certain provisions of the Amended and Restated Indenture necessary to provide for the issuance of the Seller Trust L Bonds. The maturity date of the Seller Trust L Bonds is August 9, 2023. The Seller Trust L Bonds bear interest at 7.5% per year. Interest is payable monthly in cash.

So long as the Final Closing has not occurred, the redemption price payable in respect of a redemption effected by GWG after January 31, 2019 may be paid, at GWG’s option, in the form of cash, a pro rata portion of (i) the outstanding principal amount and accrued and unpaid interest under the Commercial Loan, (ii) the outstanding principal amount and accrued and unpaid interest under the Exchangeable Note and (iii) Beneficient common units, or a combination of cash and such property. After the second anniversary of the Final Closing Date, the holders of the Seller Trust L Bonds will have the right to cause GWG to repurchase, in whole but not in part, the Seller Trust L Bonds held by such holder. The repurchase may be paid, at GWG’s option, in the form of cash, a pro rata portion of (i) the outstanding principal amount and accrued and unpaid interest under the Commercial Loan, (ii) the outstanding principal amount and accrued and unpaid interest under the Exchangeable Note and (iii) Beneficient common units, or a combination of cash and such property.

The Seller Trust L Bonds are senior secured obligations of GWG, ranking junior only to all senior debt of GWG (see Note 8), pari passu in right of payment and in respect of collateral with all “L Bonds” of GWG (see Note 10), and senior in right of payment to all subordinated indebtedness of GWG. Payments under the Seller Trust L Bonds are guaranteed by GWG Life (see Note 23).

Series B Convertible Preferred Stock

The Series B ranks, as to the payment of dividends and the distribution of our assets upon liquidation, junior to our Redeemable Preferred Stock ("RPS") and Series 2 Redeemable Preferred Stock ("RPS 2") and pari passu with our common stock. The Series B has no dividend rights. The Series B has no voting rights, except as required by law.

The Series B will convert into 5,000,000 shares of our common stock at a conversion price of $10 per share upon the Final Closing.

Commercial Loan

The $200,000,000 principal amount under the Commercial Loan is due on August 9, 2023; however, is extendable for two five-year terms. The extensions are available to the borrower provided that (a) in the event Beneficient completes at least one public offering of its common units raising at least $50,000,000 which on its own or together with any other public offering of Beneficient's common units results in Beneficient raising at least $100,000,000, then the maturity date will be extended to August 9, 2028; and (b) in the event that Beneficient (i) completes at least one public offering of its common units raising at least $50,000,000 which on its own or together with any other public offering of Beneficient's common units results in Beneficient raising at least $100,000,000 and (ii) at least 75% of Beneficient Holding's total outstanding NPC-B limited partnership interests, if any, have been converted to shares of Beneficient's common units, then the maturity date will be extended to August 9, 2033.

Repayment of the Commercial Loan is subordinated in right of payment to any of Beneficient's commercial bank debt and to Beneficient's obligations which may arise in connection with its NPC-B limited partnership interests. Beneficient's obligations under the Commercial Loan are unsecured.

The Commercial Loan contains negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens and indebtedness by Beneficient, fundamental changes to its business and transactions with affiliates. The Commercial Loan also contains customary affirmative covenants, including, but not limited to, preservation of corporate existence, compliance with applicable law, payment of taxes, notice of material events, financial reporting and keeping of proper books of record and account.

The Commercial Loan includes customary events of default, including, but not limited to, nonpayment of principal or interest, failure to comply with covenants, failure to pay other indebtedness when due, cross-acceleration to other debt, material adverse effects, events of bankruptcy and insolvency, and unsatisfied judgments. The borrower was in compliance with the covenants as of the most recent balance sheet date.

The principal amount of the Commercial Loan bears interest at 5.0% per year; provided that the accrued interest from the date of the Initial Transfer to the Final Closing Date of the Beneficient Transaction will be added to the principal balance of the Commercial Loan. From and after the Final Closing Date, one-half of the interest, or 2.5% per year, will be due and payable monthly in cash, and (ii) one-half of the interest, or 2.5% per year, will accrue and compound annually on each anniversary date of the Final Closing Date and become due and payable in full in cash on the maturity date.

In accordance with the Supplemental Indenture issuing the Seller Trust L Bonds, upon a redemption event or at the maturity date of the Seller Trust L Bonds, the Company, at its option, may use the outstanding principal amount of the Commercial Loan, and accrued and unpaid interest thereon, as repayment consideration of the Seller Trust L Bonds.

GWG HOLDINGS, INC. AND SUBSIDIARIES

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Exchangeable Note

The Exchangeable Note accrues interest at a rate of 12.4% per year, compounded annually. Interest is payable in cash on the earlier to occur of the maturity date or the Final Closing Date; provided that Beneficient may, at its option, add to the outstanding principal balance under the Commercial Loan the accrued interest in lieu of payment in cash of such accrued interest thereon at the Final Closing Date (or, if earlier, the maturity date of the Exchangeable Note). The principal amount of the Exchangeable Note is payable in cash on August 9, 2023. In the event the Final Closing Date occurs on or prior to the maturity date, the principal amount of the Exchangeable Note is payable in Beneficient common units at a price equal to $10 per common unit. In the event the Final Closing Date occurs prior to the maturity date, Beneficient may, at its option, pay the accrued interest on the Exchangeable Note in the form of Beneficient common units, at $10 per common unit, or in the form of a promissory note providing for a term of up to two years and cash interest payable semi-annually at the rate of 5.0% per year.

In accordance with the Supplemental Indenture issuing the Seller Trust L Bonds, upon a redemption event or at the maturity date of the Seller Trust L Bonds, the Company, at its option, may use the outstanding principal amount of the Exchangeable Note, and accrued and unpaid interest thereon, as repayment consideration of the Seller Trust L Bonds.

Common Units in Beneficient

In connection with the Initial Transfer, the Seller Trusts delivered to us 4,032,349 common units of Beneficient. This represents a 17.6% interest in the common units of Beneficient.

Beneficient operates in a sector of the alternative asset market that is complementary to ours by providing a suite of innovative liquidity and trust products to mid-to-high net worth individual investors and small-to-medium institutional owners of professionally managed illiquid alternative investment assets. We believe the Beneficient Transaction provides us with the opportunity to significantly increase and diversify our alternative asset portfolio that is intended to provide us with a new source of earnings and cash flow while at the same time significantly increasing our common shareholder equity.

We plan to continue to create and extend transformative products and services in the life insurance industry, while at the same time increasing and diversifying our alternative asset portfolio with Beneficient that creates opportunities for investors to receive income and capital appreciation from our investment and commercial activities.

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

On August 25, 2016, GWG Holdings formed a wholly owned subsidiary, currently named Life Epigenetics Inc. ("Life Epigenetics"), to commercialize advanced epigenetic technology for the life insurance industry related to its exclusive license for "DNA Methylation Based Predictor of Mortality" technology, as well as through the development of its own proprietary intellectual property.

Through its wholly owned subsidiary, youSurance General Agency, LLC ("YouSurance"), GWG Holdings offers life insurance directly to customers from a variety of life insurance carriers.

Principles of Consolidation – The condensed consolidated financial statements include the accounts of GWG Holdings, Inc. and all its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated upon consolidation.

The Company has interests in various entities including corporations and limited partnerships. For each such entity, the Company evaluates its ownership interest to determine whether the entity is a variable interest entity ("VIE") and, if so, whether it is the primary beneficiary of the VIE. The Company would consolidate any entity for which it was the primary beneficiary, regardless of its ownership or voting interests. Upon inception of a variable interest or the occurrence of a reconsideration event, the Company makes judgments in determining whether entities in which it invests are VIEs. If so, the Company makes judgments to determine whether it is the primary beneficiary and is thus required to consolidate the entity.

If it is concluded that an entity is not a VIE, then the Company considers its proportional voting interests in the entity. The Company consolidates majority-owned subsidiaries in which a controlling financial interest is maintained. A controlling financial interest is determined by majority ownership and the absence of significant third-party participating rights. Ownership interests in entities for which the Company has significant influence that are not consolidated under the Company's consolidation policy are accounted for as equity method investments.

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Related party transactions between the Company and its equity method investee have not been eliminated.

Use of Estimates — The preparation of our condensed consolidated financial statements in conformity with the Generally Accepted Accounting Principles in the United States of America (GAAP) requires management to make significant estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements, as well as the reported amounts of revenue during the reporting period. We regularly evaluate estimates and assumptions, which are based on current facts, historical experience, management’s judgment, and various other factors that we believe to be reasonable under the circumstances. Our actual results may differ materially and adversely from our estimates. The most significant estimates with regard to these condensed consolidated financial statements relate to (1) the determination of the assumptions used in estimating the fair value of our investments in life insurance policies, (2) the assessment of potential impairment and need for an allowance for loan loss on our notes receivable from affiliate, and (3) the value of our deferred tax assets and liabilities.

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

Life Insurance Policies — Accounting Standards Codification 325-30, *Investments in Insurance Contracts* permits a reporting entity to account for its investments in life insurance policies using either the investment method or the fair value method. We elected to use the fair value method to account for our life insurance policies. We initially record our purchase of life insurance policies at the transaction price, which is the amount paid for the policy, inclusive of all external fees and costs associated with the acquisition. At each subsequent reporting period, we re-measure the investment at fair value in its entirety and recognize the change in fair value as unrealized gain or loss in the current period, net of premiums paid, within gain on life insurance policies, net in our condensed consolidated statements of operations.

In a case where our acquisition of a policy is not complete as of a reporting date, but we have nonetheless advanced direct costs and deposits for the acquisition, those costs and deposits are recorded as other assets on our condensed consolidated balance sheets until the acquisition is complete and we have secured title to the policy. On both September 30, 2018 and December 31, 2017, a total of $0 of our other assets comprised direct costs and deposits that we had advanced for life insurance policy acquisitions.

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

Other Assets — Included in other assets at the current balance sheet date are $5.3 million of prepaid expenses, $1.6 million of net fixed assets, $1.0 cost method investment, $0.6 million of security deposits with states for life settlement provider licenses, $0.6 million net secured merchant cash advances and $0.8 million of other miscellaneous assets – including Life Epigenetics Inc.'s exclusive license for the "DNA Methylation Based Predictor of Mortality" technology for the life insurance industry. At December 31, 2017, other assets included $4.5 million of prepaid expenses, $1.9 million of net fixed assets, $0.6 million of security deposits with states for life settlement provider licenses, $1.7 million net secured merchant cash advances and $0.3 million of other miscellaneous assets.

Financing Receivable — Accounting Standards Codification 310, *Receivables* provides guidance for receivables and notes that receivables arise from credit sales, loans or other transactions. Financing receivable includes loans and notes receivable. Originated loans we hold for which we have the intent and ability to hold for the foreseeable future or to maturity (or payoff) are classified as held for investment. Financing receivables held for investment are reported in our condensed consolidated balance sheets at the outstanding principal balance adjusted for any write-offs, allowance for loan losses, deferred fees or costs, and any unamortized premiums or discounts. Interest income is accrued on outstanding principal as earned. Unamortized discounts and premiums are amortized using the interest method with the amortization recognized as part of interest income in the condensed consolidated statements of operations.

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Losses on financing receivables are recognized when they are incurred, which requires us to make our best estimate of probable losses. Specific allowances are recorded for individually impaired loans to the extent we have determined that it is probable that we will be unable to collect all amounts due according to original contractual terms of the loan agreement. Certain loans classified as impaired may not require an allowance for loan loss because we believe that we will ultimately collect the unpaid balance (through collection or collateral repossession). The method for calculating the best estimate of losses depends on the type and risk characteristics of the related financing receivable. Such an estimate requires consideration of historical loss experience, adjusted for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates, financial health of market sectors, and the present and expected future levels of interest rates. The underlying assumptions, estimates and assessments we use to provide for losses are updated periodically to reflect our view of current conditions. Changes in such estimates can significantly affect the allowance and provision for losses. It is possible that we will experience credit losses that are different from our current estimates. We have no allowance for losses as of September 30, 2018. Write-offs are deducted from the allowance for losses when we judge the principal to be uncollectible and subsequent recoveries are added to the allowance at the time cash is received on a written-off account.

Equity Method Investment — We account for investments in common stock or in-substance common stock in which we have the ability to exercise significant influence, but do not own a controlling financial interest, under the equity method of accounting. Investments within the scope of the equity method of accounting are initially measured at cost, including the cost of the investment itself and direct transaction costs incurred to acquire the investment. After the initial recognition of the investment at cost, we recognize income and losses from our investment by adjusting upward or downward the balance of our equity method investment on our condensed consolidated balance sheet with such adjustments, if any, flowing through equity in net earnings of investee on our condensed consolidated statement of operations, in all cases adjusted to reflect amortization of basis differences, if any, and the elimination of intercompany gains and losses, if any. Cash distributions received from equity method investees are recorded as reductions to the investment balance and classified on the statement of cash flows using the cumulative earnings approach.

Our equity method investment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. These circumstances can include, but are not limited to: evidence that we do not have the ability to recover the carrying amount, the inability of the investee to sustain earnings, a current fair value of the investment that is less than the carrying amount, and other investors ceasing to provide support or reduce their financial commitment to the investee. If the fair value of the investment is less than the carrying amount, and the investment will not recover in the near term, then an other-than-temporary impairment may exist. We recognize a loss in value of an investment deemed other-than-temporary in the period the conclusion is made.

The Company reports its share of the income or loss of the equity method investee companies on a one-quarter lag where we do not expect financial information to be consistently available on a timely basis.

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

The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at grant date. Volatility is based on the standard deviation of the average continuously compounded rate of return of five selected companies.

Deferred Financing and Issuance Costs — Loans advanced to us under our amended and restated senior credit facility with LNV Corporation, as described in Note 8, are reported net of financing costs, including issuance costs, sales commissions and other direct expenses, which are amortized using the straight-line method over the term of the facility. We had no loans advanced to us under our senior credit facility with Autobahn Funding Company during the year ended December 31, 2017 and this credit facility has since been terminated, as described in Note 7. The L Bonds, as described in Note 10, are reported net of financing costs, which are amortized using the interest method over the term of those borrowings. The Series I Secured Notes, as described in Note 9 have been redeemed, was reported net of financing costs, all of which were fully amortized using the interest method as of December 31, 2017. The Series A Convertible Preferred Stock (“Series A”), as described in Note 12, was reported net of financing costs (including the fair value of warrants issued), all of which were fully amortized using the interest method as of December 31, 2017. All shares of Series A have been redeemed and the obligations thereunder satisfied. Selling and issuance costs of RPS and RPS 2, described in Notes 13 and 14, are netted against additional paid-in-capital, until depleted, and then against the outstanding balance of the preferred stock. The offerings of our RPS and RPS 2 closed in March 2017 and April 2018, respectively. There were no issuance costs associated with issuance of the Series B, described in Note 15, in August 2018.

Earnings (Loss) per Share — Basic earnings (loss) per share attributable to common shareholders are calculated using the weighted-average number of shares outstanding during the reported period. Diluted earnings (loss) per share are calculated based on the potential dilutive impact of our Series A, RPS, RPS 2, Series B, warrants and stock options. Due to our net loss attributable to common shareholders for the three and nine months ended September 30, 2018, there are no dilutive securities.

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Reclassification — Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

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

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

In November 2016, the FASB issued Accounting Standards Update 2016-18 (“ASU 2016-18”), which amends ASC 230 *Statement of Cash Flows* to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The guidance, to be applied retrospectively when adopted, requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. We adopted ASU 2016-18 as of March 31, 2018. The impact of the adoption was not material to the financial statements.

Restatement of previously issued consolidated financial statements — The Company has restated these financial statements to correct an error in recognizing the effects of the Beneficient Transaction described above which occurred on August 10, 2018. After consultation with the Commission, the Company determined that it had understated certain assets and liabilities related to the Beneficient Transaction. This restatement has recognized the effects of the transaction as noted below, which are largely balance sheet related.

Impacts of restatement – The effects of the restatement on the line items within the Company's consolidated balance sheet as of September 30, 2018 are as follows:

	As originally reported	Adjustments	As restated
ASSETS:			
Financing receivable from affiliate	$ -	$ 366,871,000	$ 366,871,000
Equity method investment	-	42,069,000	42,069,000
Other assets	13,022,000	(3,185,000)	9,837,000
Total assets	935,907,000	405,755,000	1,341,662,000
LIABILITIES:			
Seller Trust L Bonds	$ -	$ 403,235,000	$ 403,235,000
Interest and dividends payable	16,228,000	2,520,000	18,748,000
Total liabilities	754,749,000	405,755,000	1,160,504,000

The effects of the restatement on the line items within the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2018 are as follows:

	Three Months ended September 30, 2018			Nine Months ended September 30, 2018		
	As originally reported	Adjustments	As restated	As originally reported	Adjustments	As restated
Interest and other income	$ 931,000	$ 4,285,000	$ 5,216,000	$ 2,579,000	$ 4,285,000	$ 6,864,000
Interest expense	17,515,000	4,285,000	21,800,000	50,726,000	4,285,000	55,011,000
Net Loss	(10,522,000)	-	(10,522,000)	(19,758,000)	-	(19,758,000)

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The effects of restatement on the major categories within the Company's condensed consolidated statements of cash flows for the three and nine months ended September 30, 2018 are as follows:

	Three Months ended September 30, 2018		
	As originally Reported	Adjustments	As restated
Net cash flows provided (used) in operating activities	$ (19,689,000)	$ 1,421,000	$ (18,268,000)
Net cash flows provided (used) in investing activities	(40,566,000)	(1,421,000)	(41,987,000)
Net increase (decrease) in cash and cash equivalents	$ (10,153,000)	$ -	$ (10,153,000)

	Nine Months ended September 30, 2018		
	As originally Reported	Adjustments	As restated
Net cash flows provided (used) in operating activities	$ (68,666,000)	$ 1,421,000	$ (67,245,000)
Net cash flows provided (used) in investing activities	(84,883,000)	(1,421,000)	(86,304,000)
Net increase (decrease) in cash and cash equivalents	$ (21,828,000)	$ -	$ (21,828,000)

(2) Restrictions on Cash

Under the terms of our amended and restated senior credit facility with LNV Corporation (discussed in Note 8), we are required to maintain collection and payment accounts that are used to collect policy benefits from pledged policies, pay annual policy premiums, interest and other charges under the facility, and distribute funds to pay down the facility. The agents for the lender authorize the disbursements from these accounts. At September 30, 2018 and December 31, 2017, there was a balance of $2,370,000 and $19,967,000, respectively, in these collection and payment accounts.

To fund the Company's acquisition of life insurance policies, we are required to maintain escrow accounts. Distributions from these accounts are made according to life insurance policy purchase contracts. At September 30, 2018 and December 31, 2017, there was a balance of $700,000 and $8,383,000, respectively, in the Company's escrow accounts.

(3) Investment in Life Insurance Policies

Our investments in life insurance policies are valued based on unobservable inputs that are significant to their overall fair value. Changes in the fair value of these policies, net of premiums paid, are recorded in gain on life insurance policies, net in our condensed consolidated statements of operations. Fair value is determined on a discounted cash flow basis that incorporates life expectancy assumptions generally derived from reports obtained from widely accepted life expectancy providers (other than insured lives covered under small face amount policies – those with $1 million in face value benefits or less), assumptions relating to cost-of-insurance (premium) rates and other assumptions. The discount rate we apply incorporates current information about discount rates applied by other public reporting companies owning portfolios of life insurance policies, the discount rates observed in the life insurance secondary market, market interest rates, the estimated credit exposure to the insurance companies that issued the life insurance policies and management's estimate of the operational risk premium a purchaser would require to receive the future cash flows derived from our portfolio as a whole. Management has discretion regarding the combination of these and other factors when determining the discount rate. As a result of management's analysis, a discount rate of 10.45% was applied to our portfolio as of both September 30, 2018 and December 31, 2017.

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Portfolio Information

Our portfolio of life insurance policies, owned by our subsidiaries as of September 30, 2018, is summarized below:

Life Insurance Portfolio Summary

Total portfolio face value of policy benefits	$1,961,598,000	
Average face value per policy	$1,805,000	
Average face value per insured life	$2,018,000	
Average age of insured (years)*	82.1	
Average life expectancy estimate (years)*	6.7	
Total number of policies	1,087	
Number of unique lives	972	
Demographics	76% Males; 24% Females	
Number of smokers	43	
Largest policy as % of total portfolio face value	0.68	%
Average policy as % of total portfolio	0.09	%
Average annual premium as % of face value	2.90	%