GWG Holdings, Inc.
Form 10-Q
November 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
or

o 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 (State or other jurisdiction of incorporation or organization)	26-2222607 (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. T Yes £ No

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

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

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

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

As of November 14, 2012, GWG Holdings, Inc. had 9,989,000 shares of common stock outstanding.

GWG HOLDINGS, INC.

Index to Form 10-Q
for the Quarter Ended September 30, 2012

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (unaudited)	December 31, 2011
A S S E T S		
Cash and cash equivalents	$18,264,139	$1,878,349
Restricted cash	1,424,466	4,794,302
Investment in life settlements, at fair value	147,828,800	122,168,524
Other assets	884,631	548,100
TOTAL ASSETS	$168,402,036	$129,389,275
L I A B I L I T I E S & E Q U I T Y (DEFICIT)		
LIABILITIES		
Revolving credit facility	$66,000,000	$60,000,000
Series I Secured notes payable	39,221,704	48,179,271
Renewable secured debentures	32,112,270	-
Interest payable	2,870,900	1,887,835
Accounts payable and accrued expenses	2,243,000	1,404,107
Deferred taxes, net	4,411,929	4,308,217
TOTAL LIABILITIES	146,859,803	115,779,430
CONVERTIBLE, REDEEMABLE PREFERRED STOCK		
(par value $0.001; shares authorized 40,000,000; shares issued and outstanding 3,339,484 and 1,881,329; liquidation preference of $25,046,000 (unaudited) and $14,110,000, respectively)	23,391,533	12,661,276
EQUITY (DEFICIT)		
Common stock (par value $0.001: shares authorized 210,000,000; shares issued and outstanding is 9,989,000 on both September 30, 2012 (unaudited) and December 31, 2011)	9,989	9,989
Additional paid-in capital	7,335,887	8,169,303
Accumulated deficit	(9,195,176)	(7,230,723)
TOTAL EQUITY (DEFICIT)	(1,849,300)	948,569
TOTAL LIABILITIES & EQUITY (DEFICIT)	$168,402,036	$129,389,275

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
REVENUE				
Gain on life settlements, net	$4,788,291	$3,857,131	$10,257,537	$14,151,240
Interest and other income	5,681	9,280	54,576	41,250
TOTAL REVENUE	4,793,972	3,866,411	10,312,113	14,192,490
EXPENSES				
Employee compensation and benefits	745,386	461,824	1,862,469	1,403,844
Legal and professional fees	250,648	286,681	952,051	597,230
Interest expense	2,803,185	2,830,689	7,621,177	6,141,901
Investment banking services	-	3,595,027	-	3,595,027
Other expenses	474,504	375,892	1,737,157	944,409
TOTAL EXPENSES	4,273,723	7,550,113	12,172,854	12,682,411
INCOME (LOSS) BEFORE INCOME TAXES	520,249	(3,683,702)	(1,860,741)	1,510,079
INCOME TAX EXPENSE (BENEFIT)	633,572	(1,417,649)	103,712	2,363,851
NET (LOSS)	$(113,323)	$(2,266,053)	$(1,964,453)	$(853,772)
(LOSS) PER SHARE				
Basic	$(0.01)	$(0.23)	$(0.20)	$(0.09)
Diluted	$(0.01)	$(0.23)	$(0.20)	$(0.09)
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	9,989,000	9,870,750	9,989,000	9,293,440
Diluted	9,989,000	9,870,750	9,989,000	9,293,440

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

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

PROFORMA INFORMATION AS IF THE COMPANY HAD BEEN A CORPORATION DURING THE:	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
INCOME BEFORE INCOME TAXES	$ (3,683,702)	$ 1,510,079
INCOME TAX EXPENSE (BENEFIT)	(1,447,695)	595,273
NET INCOME (LOSS)	$ (2,236,007)	$ 914,806
PROFORMA EARNINGS PER SHARE ATTRIBUTABLE TO CONTROLLING INTERESTS		
BASIC	$ (0.23)	$ 0.10
FULLY DILUTED	$ (0.23)	$ 0.10
PROFORMA WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC	9,870,750	9,293,440
FULLY DILUTED	9,870,750	9,293,440

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

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net (loss)	$(113,323)	$(2,266,053)	$(1,964,453)	$(853,772)
Adjustments to reconcile net (loss) to net cash flows from operating activities:				
Gain on life settlements	(8,881,542)	(7,236,462)	(19,871,791)	(23,875,055)
Amortization of deferred financing and issuance costs	394,438	1,432,625	1,303,895	1,549,073
Investment banking services	-	3,595,027	-	3,595,027
Deferred income taxes	633,572	(1,415,149)	103,712	2,363,851
Convertible, redeemable preferred stock dividends payable	215,059	44,669	636,069	44,669
(Increase) decrease in operating assets:				
Other assets	(115,761)	(434,341)	941,525	(986,346)
Increase (decrease) in operating liabilities:				
Accounts payable and accrued expenses	791,825	(436,987)	1,450,958	(631,830)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(7,075,732)	(6,716,671)	(17,400,085)	(18,794,383)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in life settlements	(5,361,540)	(1,377,026)	(7,983,570)	(10,500,756)
Proceeds from settlement of life settlements	-	-	416,665	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(5,361,540)	(1,377,026)	(7,566,905)	(10,500,756)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from revolving credit facility	-	7,510,001	6,000,000	18,599,549
Proceeds from issuance of Series I Secured notes payable	-	(3,216,821)	50,000	8,126,034
Payments for redemption of Series I Secured notes payable	(1,843,032)	3,280,899	(5,311,989)	(1,006,680)
Proceeds from issuance of renewable secured debentures	17,878,571	-	33,635,657	-
Payments for redemption and issuance of renewable secured debentures	(914,880)	-	(1,627,467)	-
Proceeds from restricted cash	3,427,198	774,560	3,369,837	2,422,118
Issuance of common stock	-	4,973	-	4,973
Issuance of convertible, redeemable preferred stock	500,000	1,670,010	6,287,375	1,670,010
Payments of issuance cost for convertible, redeemable preferred stock	558,729	(956,851)	(1,050,633)	(956,851)
Proceeds from notes receivable from related parties	-	2,306,068	-	2,306,068
Common stock dividends	-	(2,306,068)	-	(2,306,068)

NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	19,606,586	9,066,771	41,352,780	28,859,153
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,169,314	973,074	16,385,790	(435,986)
CASH AND CASH EQUIVALENTS				
BEGINNING OF PERIOD	11,094,825	349,170	1,878,349	1,758,230
END OF PERIOD	$18,264,139	$1,322,244	$18,264,139	$1,322,244

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

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Interest paid	$1,839,000	$1,090,000	$4,958,000	$3,505,000
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Convertible, redeemable preferred stock:				
Non-cash conversion of Series I secured notes	$-	$7,189,000	$4,220,000	$7,189,000
Non-cash conversion of accrued interest payable on Series I secured notes	$-	$202,000	$8,000	$202,000
Non-cash conversion of dividends payable	$160,000	$-	$408,000	$-
Warrants issued to purchase common stock	$2,000	$-	$41,000	$-
Non-cash conversion of accrued interest payable on Series I secured notes to principal	$43,000	$106,000	$80,000	$106,000
Conversion from LLC to corporation	$-	$-	$-	$6,871,000
Investment in life settlements included in accounts payable	$340,000	$701,000	$501,000	$701,000

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

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

(1) Nature of business and summary of significant accounting policies

Nature of business - GWG Holdings, Inc. (Holdings) (previously GWG Holdings, LLC) and Subsidiaries, located in Minneapolis, Minnesota, facilitates the purchase of life insurance policies for its own investment portfolio through its wholly owned subsidiary, GWG Life Settlements, LLC (GWG Life), and its subsidiaries, GWG Trust (Trust), GWG DLP Funding II, LLC (DLP II) and its wholly owned subsidiary, GWG DLP Master Trust II (the Trust II). Holdings converted from a limited liability company into a corporation effective June 10, 2011 and as a result of this change all member units were converted into common stock. Holdings and its subsidiaries finance the acquisition of life insurance policies and pay policy premiums through funds available on its line of credit and proceeds from other debt and equity securities as well as from revenues from maturities of life insurance policies. GWG Broker Services, LLC (Broker Services) a wholly owned subsidiary was formed to earn fees for brokering policy transactions between market participants. GWG Member, LLC a wholly owned subsidiary formed November 2010 to facilitate the acquisition of policies, has not commenced operations as of September 30, 2012. The entities were legally organized in Delaware and are collectively referred herein to as GWG, or the Company.

Basis of presentation - The condensed consolidated balance sheet as of September 30, 2012, the condensed consolidated statements of operations for the three months and nine months ended September 30, 2012 and 2011, and the condensed consolidated statements of cash flows for the three months and nine months ended September 30, 2012 and 2011, and the related information presented in these notes, have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, without audit. To the extent that information and notes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements are contained in or are consistent with the consolidated audited financial statements presented in the Company’s Form 10-K for the year ended December 31, 2011, such information and notes have not been duplicated herein. In the opinion of management, all adjustments considered necessary for a fair presentation of results have been included. The condensed consolidated balance sheet at December 31, 2011 was derived from the audited consolidated financial statements as of that date. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Special Financial Report on Form 10-K for the year ended December 31, 2011.

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 relate to (1) the determination of the assumptions used in estimating the fair value of the investment in life insurance policies, and (2) the valuation of deferred tax assets.

Operating agreement – Effective June 10, 2011, the Company filed a certificate of conversion from a limited liability company into a corporation, registered in the state of Delaware. With this conversion, the Company is authorized to issue 210,000,000 shares of common stock, par value $.001, and 40,000,000 shares of preferred stock, par value $.001. In connection with the conversion, the outstanding member units were converted to 4,500,000 shares of common stock (prior to giving effect to the August 9, 2011 two-for-one forward stock split discussed below). Common stock dividends distributed subsequent to the conversion will be recorded as a reduction of paid in capital until the Company reflects accumulated positive earnings.

On July 31, 2011, the Company began a private placement offering for the sale of up to 3,333,333 shares of Series A 10% convertible, redeemable preferred stock at an offering price of $7.50 per share. The offering of Series A concluded on September 2, 2012, and resulted in the sale of 3,279,000 shares of Series A and issuance of an additional 60,000 shares as dividends in-kind to shareholders (see note 10). The Company provided for an overallotment of 666,667 shares, allowing for total offering of 4,000,000 shares. As of September 30, 2012 we have issued 3,339,000 shares.

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

On August 9, 2011 the Company filed an amendment to its certificate of incorporation to effect a two-for-one forward stock split of its common stock. Unless otherwise noted, all share amounts contained in these consolidated financial statements are post-split share amounts determined after giving effect to the forward stock split.

Life settlements - ASC 325-30, Investments in Insurance Contracts, allows an investor 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 investments in life settlements.

The Company recognizes the difference between the policy benefits received and carrying values of the respective life insurance policy when an insured event has occurred and the Company determines that settlement and ultimate collection of the policy benefits is realizable and reasonably assured. Revenue from a transaction must meet both criteria in order to be recognized. The Company recognizes these realized gains (revenue) from life settlement contracts upon one of the two following events:

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

Deposits and initial direct costs advanced on policies to be purchased, but not yet settled, are recorded as other assets until policy ownership has been transferred to the Company.

Deferred financing and issuance costs – Financing costs incurred to obtain financing under the revolving credit facility have been capitalized and are amortized using the straight-line method over the term of the revolving credit facility. Amortization of deferred financing costs related to the revolving credit facility was $58,000 for the three months ended September 30, 2012 and 2011. Amortization of deferred financing costs related to the revolving credit facility was $175,000 for each of the nine months ended September 30, 2012 and 2011 and is included in interest expense in the statement of operations. The expected amortization expense is $58,000 and $97,000 for the three months ending December 31, 2012 and the year ending December 31, 2013, respectively.

The Series I Secured note obligations, 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 the borrowings. The renewable secured debentures, as described in note 8, are reported net of issuance costs, sales commissions, and other direct expenses, which are amortized using the interest method over the term of the borrowings.

The Series A convertible, redeemable preferred stock, as described in note 10, is reported net of issuance costs, sales commissions, and other direct expenses. The discount is amortized directly to equity using the interest method over the three year redemption period to the redemption amount.

Earnings (loss) per share – The Company converted from a limited liability company into a corporation effective June 10, 2011, and as a result of this change all member units were converted into common stock. The earnings (loss) per share has been restated to reflect the equivalent common stock per share amounts as of the earliest period reported. Basic per share earnings (loss) is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated based on the potential dilutive impact, if any, of the Company's preferred stock and outstanding warrants. The Company has 831,909 warrants and 5,009,225 shares of Convertible Redeemable Preferred Stock (equivalent common shares if Convertible Redeemable Preferred Stock were converted into common stock) outstanding as of September 30, 2012. The Convertible Redeemable Preferred Stock and warrants are anti-dilutive for the three and nine months ended September 30, 2012 and 2011.

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

Recently adopted pronouncements – In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS," which amends disclosure requirements related to categorization within the fair value hierarchy. This update results in common principles and requirements for measuring fair value and disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards. The guidance became effective January 1, 2012. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Other pronouncements issued by the FASB with future effective dates are either not applicable or are not expected to be significant to the Company.

(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 its revolving credit facility, and collect policy benefits. DZ Bank AG, as agent for Autobahn Funding Company, LLC, the lender for the revolving credit facility as described in note 6, authorizes the disbursements from these accounts. At September 30, 2012 and December 31, 2011 there was a balance of $1,424,000, and $4,794,000, respectively, maintained in these restricted cash accounts.

(3) Investment in life insurance policies

The life insurance policies (Level 3 financial instruments) 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 13.29% and 13.41% were applied to the portfolio as of September 30, 2012 and December 31, 2011, 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 September 30, 2012			As of December 31, 2011		
Years Ending December 31,	Number of Contracts	Estimated Fair Value	Face Value	Number of Contracts	Estimated Fair Value	Face Value
2012	-	$-	$-	-	$-	$-
2013	-	-	-	-	-	-
2014	-	-	-	1	535,000	1,000,000
2015	5	2,868,000	5,329,000	5	4,636,000	9,329,000
2016	11	12,936,000	28,885,000	10	12,930,000	34,835,000
2017	28	26,627,000	67,748,000	29	24,144,000	71,998,000

2018	33	24,361,000	73,008,000	34	23,500,000	81,858,000
Thereafter	119	81,037,000	340,692,000	96	56,424,000	277,385,000
Totals	196	$147,829,000	$515,662,000	175	$122,169,000	$476,405,000

The Company recognized $494,000 of policy benefit income during the nine months period ended September 30, 2011. The Company received cash from policy benefits of $4,500,000 in April 2012, resulting in a gain of $4,083,000.

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

Reconciliation of gain on life settlements:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Change in fair value	$8,881,000	$7,526,000	$18,249,000	$23,736,000
Premiums and other annual fees	(4,093,000)	(4,163,000)	(12,074,000)	(10,079,000)
Policy maturities	-	494,000	4,083,000	494,000
Gain on life settlements, net	$4,788,000	$3,857,000	$10,258,000	$14,151,000

The estimated expected premium payments to maintain the above life insurance policies in force for the next five years, assuming no mortalities, are as follows:

Years Ending December 31,	
Three months ending December 31, 2012	$ 4,190,000
2013	16,831,000
2014	18,050,000
2015	19,438,000
2016	21,051,000
	$ 79,560,000

Management anticipates funding the estimated premium payments as noted above with proceeds from the DZ Bank revolving 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 hierarchal 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 on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

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

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 the investment 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.

Life insurance policies 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 life insurance policies for the following periods:

	Three month ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Beginning balance	$133,848,000	$108,480,000	$122,169,000	$82,718,000
Purchases	5,100,000	5,594,000	7,827,000	10,844,000
Maturities (cost basis)	-	(344,000)	(416,000)	(344,000)
Net change in fair value	8,881,000	3,363,000	18,249,000	23,875,000
Ending balance (September 30)	$147,829,000	$117,093,000	$147,829,000	$117,093,000

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 assumptions. Life expectancy reports are obtained from independent, third-party widely accepted life expectancy providers at policy acquisition. The life expectancy values of each policy holder, 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. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy and management's estimate of the risk premium an investor in the portfolio of life insurance policies would require.

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

	As of September 30, 2012	As of December 31, 2011
Weighted average age of insured	81.2	80.9
Weighted average life expectancy, months*	88.1	93.6
Average face amount per policy	$ 2,630,927	$ 2,722,315
Discount rate	13.29%	13.41%

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* Standard life expectancy as adjusted for insured's specific circumstances.

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

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 reasonable 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 expectancies were increased or decreased by 4 months on each outstanding policy and the discount factors were increased or decreased by 1% 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	
	plus 4 months	minus 4 months
Investment in life policies		
September 30, 2012	$(10,936,000)	$11,241,000
December 31, 2011	$(9,660,000)	$9,951,000

	Change in discount rate	
	plus 1%	minus 1%
Investment in life policies		
September 30, 2012	$(7,367,000)	$7,992,000
December 31, 2011	$(6,665,000)	$7,254,000

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 is approximately $40,492,000 based on a weighted average market interest rate of 7.3%. The Company began issuing Renewable Secured Debentures in the first quarter of 2012. The current interest rates on the Renewable Secured Debentures approximate market rates. The carrying value of the revolving 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. Management believes this margin has not changed over time. The overall rate reflects market, and the carrying value of the revolver approximates fair value.

The Company has issued warrants to purchase common stock in connection with the issuance of its preferred stock. The fair value measurements associated with the warrants, measured at issuance represent level 3 instrument.

Month issued	Warrants issued	Fair value per share	Risk free rate	Volatility
12/31/11	137,874	$0.11	0.42 %	25.25 %
03/31/12	76,260	$0.26	0.38 %	36.20 %
06/30/12	323,681	$0.58	0.41 %	47.36 %
07/31/12	289,093	$0.58	0.41 %	47.36 %
09/30/12	5,000	$0.36	0.31 %	40.49 %
	831,908			

The Company has not changed its methodology in estimating fair value from prior periods.

(5) Notes receivable from related parties

Notes receivable from related parties consisted of various unsecured notes receivable. These notes were due from shareholders of the Company, with interest rates ranging from 4.2% to 5%, payable annually and were paid in full July 27, 2011. Interest income from related parties totaled $24,000 during the nine months ended September 30, 2011. As a part of the Company's compensation plan effective January 1, 2011, interest income earned on these notes were treated as guaranteed payments to the members and are included in employee compensation and benefits in the statement of operations for the nine months ended September 30, 2011. On July 27, 2011, the Company paid dividends to the shareholders in the amount of their respective note receivable balances. They immediately repaid their balance due on each note and the related accrued interest in full.

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

As of September 30, 2012, and December 31, 2011, the Company had receivables totaling $5,000,000 due from an affiliate, Opportunity Finance, LLC, that were fully reserved. Opportunity Finance ceased operations in 2008.

(6) Credit facilities

Revolving credit facility – Autobahn Funding Company LLC

On July 15, 2008, DLP II and United Lending entered into a revolving 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 and United Lending. DZ Bank AG acts as the agent for Autobahn. The Agreement expires on July 15, 2013. The amount outstanding under this facility as of September 30, 2012 and December 31, 2011, was $66,000,000 and $60,000,000, respectively.

The Agreement requires DLP II or United Lending 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 2.13% and 2.25% at September 30, 2012 and December 31, 2011, respectively. The weighted average effective interest rate (excluding the unused line fee) was 2.17% and 2.15% for the nine months ended September 30, 2012 and 2011, respectively, and 2.15% and 2.17% for the three months ended September 30, 2012 and 2011, respectively. The Agreement also requires payment of an unused line fee on the unfunded amount under the revolving credit facility. The note is secured by substantially all of DLP II and United Lending assets which consist primarily of life settlement policies.

The Agreement has certain financial and nonfinancial covenants. The Company is in compliance with these covenants at September 30, 2012. 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 subsidiary secured notes or debentures, or amending any agreements respecting such notes or debentures, 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 (as defined and calculated under the Agreement) for each complete fiscal year and (ii) a tangible net worth (again, as defined and calculated under the Agreement) of not less than $5 million. Consolidated net income and tangible net worth for nine months ended September 30, 2012, as calculated under the agreement, was $2,078,000 and $48,014,000 respectively.

Advances under the Agreement are subject to a borrowing base formula, which limits the availability of advances on the borrowing base calculation based on attributes of policies pledged to the facility. Over-concentration of policies by insurance carrier, and over-concentration of policies by insurance carriers with ratings below a AA- rating are the two primary factors with the potential of limiting availability of funds on the facility. Total funds available for additional borrowings under the borrowing base formula criteria at September 30, 2012 and December 31, 2011, were $12,276,000 and $7,691,000 respectively.

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

Holdings is not obligated under this credit facility to guarantee loan or interest payments to Autobahn: however, Holdings is obligated under a performance guaranty to provide servicing for policies held by DLP II.

Lending agreement with affiliate

The Company entered into an Investment Agreement with an affiliate Insurance Strategies Fund, LLC (ISF) on September 3, 2009. Under the terms of this agreement, ISF will provide working capital loans to the Company for general working capital needs and expenses. The Company does not expect to take working capital loans under this agreement during the foreseeable future.

(7) 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). 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 7.0% 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 September 30, 2012 and December 31, 2011 the weighted average interest rates of Series I Secured notes were 8.20%, and 8.04% respectively. The notes are secured by assets of GWG Life. The principal amount outstanding under these Series I Secured notes was $40,025,000 and $49,332,000 at September 30, 2012, and December 31, 2011, 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 $947,000 and $1,374,000 for the nine months ended September 30, 2012 and 2011, respectively, and $200,000 and $594,000 for the three months ended September 30, 2012 and 2011, respectively. Future expected amortization of deferred financing costs is $803,000.

On November 15, 2010, the owners pledged their ownership interests in the Company to the Series I Trust as security for advances under the Series I Trust arrangement.

The use of proceeds from the issuances of Series I Secured notes was limited to the following: (1) payment of commissions of Series I Secured note sales, (2) purchase life insurance policies, (3) pay premiums of life insurance policies, (4) pay principal and interest to Senior Liquidity Provider (DZ Bank), (5) pay portfolio or note operating fees or costs, (6) pay trustee (Wells Fargo Bank, N.A.), (7) pay servicer and collateral fees, (8) pay principal and interest on Series I Secured notes, (9) make distributions to equity holders for tax liability related to portfolio, (10) purchase interest rate caps, swaps, or hedging instruments, (11) pay GWG Series I Trustee fees, and (12) Pay offering expenses.

On November 1, 2011, GWG entered into a Third Amended and Restated Note Issuance and Security Agreement with Lord Securities Corporation after receiving majority approval from the holders of Series I Secured Notes. Among other things, the amended and restated agreement modified the use of proceeds and certain provisions relating to the distribution of collections and subordination of cash flow. Under the amended and restated agreement, GWG is no longer restricted as to its use of proceeds or subject to restrictions on certain distributions of collections and subordination of cash flows.

- 14 -

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

Future maturities of Series I Secured notes payable at September 30, 2012 are as follows:

Years Ending December 31,	
2012	$ 6,112,000
2013	15,380,000
2014	8,437,000
2015	4,102,000
2016	1,155,000
Thereafter	4,839,000
	$ 40,025,000

(8) Renewable secured debentures

The Company has registered with the Securities and Exchange Commission, effective January 2012, the offer and sale of $250,000,000 of secured debentures. Renewable Secured Debentures have maturity dates ranging from six months to seven years with fixed interest rates varying from 4.75% 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. At September 30, 2012, the weighted average interest rate of Renewable Secured Debentures was 7.58%. The debentures are secured by assets of GWG Life and GWG Holdings. The amount outstanding under these Renewable Secured Debentures was $32,685,000 at September 30, 2012. The difference between the amount outstanding on the Renewable Secured Debentures and the carrying amount on the consolidated balance sheet is due to netting of unamortized deferred issuance costs and cash receipts for new issuances in process at September 30, 2012. Amortization of deferred issuance costs was $135,000 and $182,000 for the three and nine months ended September 30, 2012, respectively. Future expected amortization of deferred financing costs is $1,580,000. Subsequent to September 30, 2012, the Company has issued approximately an additional $9,348,000 in principal amount of these secured debentures.

The use of proceeds from the issuances of Renewable Secured Debentures is limited to the following: (1) payment of commissions on sales of Renewable Secured Debentures, (2) payment of offering expenses, (3) purchase of life insurance policies, (4) Payment of premiums on life insurance policies, (5) payment of principal and interest on Renewable Secured Debentures, (6) payment of portfolio operations expenses, and (7) for general working capital.

Future maturities of Renewable Secured Debentures at September 30, 2012 are as follows:

Years Ending December 31,	
2012	$ 1,208,000
2013	5,931,000
2014	6,009,000
2015	9,510,000
2016	917,000
Thereafter	9,110,000
	$ 32,685,000

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 debenture holders. The Indenture has certain financial and nonfinancial covenants. The Company is in compliance with these covenants at September 30, 2012.

(9) Income taxes

The Company was a pass through entity for federal income tax purposes through June 10, 2011. No income tax provision has been included through that date in these consolidated financial statements as income or loss of the Company was required to be reported by the respective members on their income tax returns. Subsequent to the Company's conversion to a corporation from a limited liability company, the Company will file and pay taxes based upon its reported income. In 2012 there is a significant permanent difference between income before income taxes and taxable income. This permanent difference results from the inclusion of convertible redeemable preferred stock as an interest expense, however such dividends are not deductable for income tax reporting purposes. The dividends charged to interest expense were $675,000 and $1,654,000 for the three and nine months ended September 30, 2012, respectively.

The most significant temporary differences between GAAP net income and tax net income are the treatment of interest costs and revenue recognition on the portfolio of life insurance policies.

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

(10) Convertible, redeemable preferred stock

The Company began offering 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 3,279,000 shares being sold for gross consideration of $24,591,000. As of September 30, 2012, 60,000 shares were issued as a result of conversion of dividends into shares of Series A preferred stock for gross consideration of $425,000. 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 1.5 shares of the Company's common stock. The Company may elect to automatically convert the Series A preferred stock to common stock as described below. Series A preferred shareholders received three-year warrants to purchase, at an exercise price per share of $6.25, one share of common stock for every 20 shares of Series A preferred stock purchased. The warrants are exercisable immediately. In the Certificate of Designations for the Series A preferred stock dated July 31, 2011, the Company has 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 Series A preferred shares will terminate upon the Company completing a registration of its common stock with the SEC. The Company may redeem the Series A preferred shares at a price equal to 110% of their liquidation preference ($7.50 per share) at any time after December 15, 2012.

At the election of the Company, the Series A preferred shares may be automatically converted into the common stock of the Company in the event of either (1) a registered offering of the Company's common stock with the SEC aggregating gross proceeds of at least $5.0 million at a price equal to or greater than $5.50 per share of common stock, or (2) the consent of shareholders holding at least a majority of the then-outstanding shares of Series A preferred stock. As of September 30, 2012, the Company had issued 3,339,000 preferred shares resulting in gross consideration of $25,016,000 (including cash proceeds, conversion of Series I Secured notes and accrued interest on Series I notes, and preferred dividends). The Company incurred Series A preferred stock issuance costs of $2,838,000, of which $440,000 and $1,214,000 was amortized to additional paid in capital during the three and nine months ended September 30, 2012, respectively, resulting in a net preferred stock capital balance of $23,392,000.

The Company determined that the grant date fair value of the outstanding warrants attached to the Series A preferred stock was $170,000 and $377,000 for warrants issued through the three and nine month periods ending September 30, 2012 and $22,000 for warrants issued through December 31, 2011. 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 $7.00 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 September 30, 2012, were 831,909 with a weighted average remaining life of 2.59 years. Total warrants outstanding at December 31, 2011, were 139,417 with a weighted average remaining life of 2.76 years.

Dividends on the preferred stock may be paid in either cash or additional shares of 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.

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

The Company declared and accrued dividends of $675,000 and $1,654,000 for the three and nine months ended September 30, 2012, respectively. Cash dividends of $906,000 were paid on or before October 13, 2012. 58,296 shares of Series A preferred stock were issued in lieu of cash dividends, pursuant to a board resolution declaring the dividend. The shares issued in lieu of cash dividends were issued at $7.00 per share.

(11) 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 8,881 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. Minimum lease payments under the lease are as follows:

2012 (remaining)	$ 18,318
2013	$ 74,752
2014	$ 78,452
2015	$ 53,288
Total	$ 224,810

(12) 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.

Contingency matter – Opportunity Finance, LLC, owned by Jon Sabes and Steven Sabes, is subject to litigation clawback claims by the bankruptcy trustee for third-party matters for payments that may have been deemed preference payments. In addition, Jon Sabes and Steven Sabes are subject to litigation clawback claims by the bankruptcy trustee for third-party matters for payments received from Opportunity Finance that may have been deemed preference payments. If the parties are unsuccessful in defending against these claims, their equity ownership in the Company may be sold or transferred to other parties to satisfy such claims. In addition, the Company loaned $1,000,000 to Opportunity Finance, LLC, and was repaid in full plus interest of $177,000. This investment amount may also be subject to clawback claims by the bankruptcy court. These matters may also distract management and reduce the time and attention that they are able to devote to the Company's operations.

(13) Guarantees of secured debentures

Holdings has registered with the Securities and Exchange Commission the offer and sale $250,000,000 of secured debentures as described in note 8. The secured debentures are secured by the assets of Holdings as described in note 8 and a pledge of all the common stock by the largest shareholders. Obligations under the debentures are guaranteed by Holding's subsidiary GWG Life. This guarantee involves the grant of a security interest in all the assets of GWG Life. GWG Life is a wholly owned subsidiary of Holdings and the payment of principal and interest on the secured debentures is fully and unconditionally guaranteed by GWG Life. The majority of the Company's life insurance policies are held by DLP II, a wholly owned subsidiary of GWG Life, however, the policies held by DLP II are not collateral for the debenture obligations as such policies are collateral for the credit facility.

The condensed 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 Holdings or GWG Life , the guarantor subsidiary, to obtain funds from its subsidiaries by dividend or loan, except as follows. DLP II is a borrower under a credit agreement with Autobahn, with DZ Bank AG as agent, as described in note 3. The significant majority of insurance policies owned by the Company are subject to a collateral arrangement with DZ Bank AG described in notes 3 and 6. Under this arrangement, collection and escrow accounts are used to fund purchases and premiums of the insurance policies and to pay interest and other charges under its revolving 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 (GWG DLP Funding II, LLC, GWG Life Settlements, LLC, and GWG Holdings, Inc) 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.

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

The following represents condensed consolidating financial information as of September 30, 2012 and December 31, 2011, with respect to the financial position, and for the three and nine months ended September 30, 2012 and 2011 with respect to results of operations and cash flows of Holdings and its subsidiaries. The parent column presents the financial information of Holdings, the primary obligor of the secured debentures. The guarantor subsidiary column presents the financial information of GWG Life, the guarantor subsidiary of the secured debentures, presenting its investment in DLP II and Trust under the equity method. The non-guarantor subsidiaries column presents the financial information of all non-guarantor subsidiaries including DLP II and Trust.

Condensed Consolidating Balance Sheets

September 30, 2012	Parent	Guarantor Sub	Non-Guarantor Sub	Eliminations	Consolidated
A S S E T S					
Cash and cash equivalents	$ 16,325,020	$ 1,939,119	$ -	$ -	$ 18,264,139
Restricted cash	-	26,000	1,398,466	-	1,424,466
Investment in life settlements, at fair value	-	-	147,828,800	-	147,828,800
Other assets	52,982	175,340	656,309	-	884,631
Investment in subsidiaries	43,175,407	83,480,002	-	(126,655,409)	-
TOTAL ASSETS	$ 59,553,409	$ 85,620,461	$ 149,883,575	$ (126,655,409)	$ 168,402,036
L I A B I L I T I E S & O W N E R S' E Q U I T Y (D E F I C I T)					
LIABILITIES					
Revolving credit facility	$ -	$ -	$ 66,000,000	$ -	$ 66,000,000
Series I Secured notes payable	-	39,221,704	-	-	39,221,704
Secured renewable debentures	32,112,270	-	-	-	32,112,270
Interest	443,120	2,296,506	131,274	-	2,870,900
Accounts payable and accrued expenses	1,043,857	1,004,476	194,667	-	2,243,000
Deferred taxes	4,411,929	-	-	-	4,411,929
TOTAL LIABILITIES	38,011,176	42,522,686	66,325,941	-	146,859,803
CONVERTIBLE, REDEEMABLE PREFERRED STOCK	23,391,533	-	-	-	23,391,533

EQUITY (DEFICIT)					
Member capital	-	43,097,775	83,557,634	(126,655,409)	-
Common stock	9,989	-	-	-	9.989
Additional paid-in capital	7,335,887	-	-	-	7,335,887
Accumulated deficit	(9,195,176)	-	-	-	(9,195,176)
TOTAL EQUITY (DEFICIT)	(1,849,300)	43,097,775	83,557,634	(126,655,409)	(1,849,300)
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 59,553,409	$ 85,620,461	$ 149,883,575	$ (126,655,409)	$ 168,402,036

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

Condensed Consolidating Balance Sheets (continued)

December 31, 2011	Parent	Guarantor Sub	Non-Guarantor Sub	Eliminations	Consolidated
A S S E T S					
Cash and cash equivalents	$ 1,746,456	$ 131,893	$ -	$ -	$ 1,878,349
Restricted cash	-	822,227	3,972,075	-	4,794,302
Investment in life settlements, at fair value	-	4,876,389	117,292,135	-	122,168,524
Other assets	34,817	170,346	342,937	-	548,100
Investment in subsidiaries	17,026,465	61,326,724	-	(78,353,189)	-
TOTAL ASSETS	$ 18,807,738	$ 67,327,579	$ 121,607,147	$ (78,353,189)	$ 129,389,275
L I A B I L I T I E S & O W N E R S' E Q U I T Y (D E F I C I T)					
LIABILITIES					
Revolving credit facility	$ -	$ -	$ 60,000,000	$ -	$ 60,000,000
Series I Secured notes payable	-	48,179,271	-	-	48,179,271
Interest	-	1,779,796	108,039	-	1,887,835
Accounts payable and accrued expenses	889,676	507,015	7,416	-	1,404,107
Deferred taxes	4,308,217	-	-	-	4,308,217
TOTAL LIABILITIES	5,197,893	50,466,082	60,115,455	-	115,779,430
CONVERTIBLE, REDEEMABLE PREFERRED STOCK	12,661,276	-	-	-	12,661,276
EQUITY (DEFICIT)					
Member capital	-	16,861,497	61,491,692	(78,353,189)	-
Common stock	9,989	-	-	-	9,989
Additional paid-in capital	8,169,303	-	-	-	8,169,303
Accumulated deficit	(7,230,723)	-	-	-	(7,230,723)
TOTAL EQUITY (DEFICIT)	948,569	16,861,497	61,491,692	(78,353,189)	948,569
TOTAL LIABILITIES AND EQUITY	$ 18,807,738	$ 67,327,579	$ 121,607,147	$ (78,353,189)	$ 129,389,275

(DEFICIT)

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

Condensed Consolidating Statements of Operations

For the nine months ended September 30, 2012	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Contract servicing fees	$ -	$ 1,184,627	$ -	$ (1,184,627)	$ -
Gain on life settlements, net	-	-	10,257,537	-	10,257,537
Interest and other income	8,650	222,863	42,734	(219,671)	54,576
TOTAL REVENUE	8,650	1,407,490	10,300,271	(1,404,298)	10,312,113
EXPENSES					
Origination and servicing fees	-	-	1,184,627	(1,184,627)	-
Employee compensation and benefits	-	1,862,469	-	-	1,862,469
Legal and professional fees	851,954	86,927	13,170	-	952,051
Interest expense	2,555,271	3,770,808	1,295,098	-	7,621,177
Other expenses	703,373	996,284	257,171	(219,671)	1,737,157
TOTAL EXPENSES	4,110,598	6,716,488	2,750,066	(1,404,298)	12,172,854
INCOME (LOSS) BEFORE EQUITY IN LOSS OF SUBSIDIARIES	(4,101,948)	(5,308,998)	7,550,205	-	(1,860,741)
EQUITY IN LOSS OF SUBSIDIARY	2,241,207	7,637,541	-	(9,878,748)	-
NET INCOME (LOSS) BEFORE INCOME TAXES	(1,860,741)	2,328,543	7,550,205	(9,878,748)	(1,860,741)
INCOME TAX EXPENSE	103,712	-	-	-	103,712
NET INCOME (LOSS)	$ (1,964,453)	$ 2,328,543	$ 7,550,205	$ (9,878,748)	$ (1,964,453)

For the nine months ended September 30, 2011	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Contract servicing fees	$ -	$ 2,409,825	$ -	$ (2,409,825)	$ -
Gain on life settlements, net	-	7,240	14,144,000	-	14,151,240
Interest and other income	3,488	34,171	3,591	-	41,250
TOTAL REVENUE	3,488	2,451,236	14,147,591	(2,409,825)	14,192,490
EXPENSES					