

TELIASONERA AB
Form 6-K
November 30, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

**Pursuant to Rule 13a-16 or 15d-16 of
The Securities Exchange Act of 1934**

November 30, 2006

TeliaSonera
(Exact name of registrant as specified in its charter)

Sturegatan 1 S-106 63 Stockholm, Sweden
(Address of principal executive offices)

0-30340
(Commission File Number)

Indicate by check mark whether the registrant files or will file
annual reports under cover of Form 20-F or Form 40-F:

Form 20-F / x / Form 40-F / /

Indicate by check mark whether the registrant by furnishing the
information contained in this form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes / / No / x /

On November 30, 2006 the Registrant issued a press release, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference

(c) Exhibit 99.1. Press release dated November 30, 2006

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TeliaSonera
(Registrant)

November 30, 2006
(Date)

/s/ JAN HENRIK AHRNELL
Jan Henrik Ahrnell
Vice President and General Counsel

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\$
806,000

\$
452,000

Series A Preferred Stock:

Conversion to common stock

\$
116,000

\$
4,957,000

Reclassification to permanent equity due to initial public offering

\$

—

\$

20,327,000

Issuance of preferred stock in lieu of cash dividends

\$

683,000

\$

774,000

Accretion of preferred stock to redemption value

\$

—

\$

453,000

Investment in life settlements included in accounts payable

\$

1,079,000

\$

50,000

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reclassification

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Restrictions on cash

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

(3) Investment in life insurance policies

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

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

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

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

Reconciliation of gain on life settlements:

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

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

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

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

Years Ending December 31,	Premiums	Servicing	Premiums and Servicing Fees
2016	\$ 32,227,000	\$ 475,000	\$ 32,702,000
2017	35,181,000	475,000	35,656,000
2018	38,204,000	475,000	38,679,000
2019	42,817,000	475,000	43,292,000
2020	47,637,000	475,000	48,112,000
	\$ 196,066,000	\$ 2,375,000	\$ 198,441,000

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

(4) Fair value definition and hierarchy

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

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

- Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 — Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary by types of assets and liabilities and is affected by a wide variety of factors, including, for example, whether an instrument is established in the marketplace, the liquidity of markets and

other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for assets and liabilities categorized in Level 3.

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Level 3 Valuation Process

The estimated fair value of the Company's portfolio of life settlements is determined on a quarterly basis by the Company's portfolio management committee, taking into consideration changes in discount rate assumptions, estimated premium payments and life expectancy estimate assumptions, as well as any changes in economic and other relevant conditions. These inputs are then used to estimate the discounted cash flows using the Model Actuarial Pricing System (MAPS), probabilistic portfolio price model, which estimates the cash flows using various probabilities and scenarios. The valuation process includes a review by senior management as of each valuation date. Management has also engaged a third-party expert to independently test the accuracy of the valuations using the inputs provided by management on a quarterly basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Fair Value Considerations

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

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

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

As of December 31, 2015:

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

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

(5) Credit facilities

Revolving senior credit facility — Autobahn Funding Company LLC

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

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

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

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

(5) Credit facilities (cont.)

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

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

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

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

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

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

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Series I Secured Notes payable

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

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

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

(7) L Bonds

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

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

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

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

(7) L Bonds (cont.)

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

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

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

(8) Convertible preferred stock

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

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

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

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Convertible preferred stock (cont.)

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

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

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

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

(9) Redeemable Preferred Stock

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

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

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

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

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

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

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

(9) Redeemable Preferred Stock (cont.)

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

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

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

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

(10) Income taxes

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

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

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

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

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Income taxes (cont.)

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

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

At December 31, 2015 and 2014, the Company had federal net operating loss (NOL) carryforwards of \$17,451,000 and \$11,163,000, respectively, and aggregate state NOL carryforwards of approximately \$17,423,000 and \$7,334,000, respectively. The NOL carryforwards will begin to expire in 2031. Future utilization of NOL carryforwards is subject to limitations under Section 382 of the Internal Revenue Code. This section generally relates to a more than 50 percent change in ownership over a three-year period. We currently do not believe that any issuance of common stock has resulted in an ownership change under Section 382.

The Company provides for a valuation allowance when it is not considered more likely than not that our deferred tax assets will be realized. At both December 31, 2015 and 2014 based upon all available evidence, the Company has provided a valuation allowance of \$2,164,000, against deferred tax assets related to the likelihood of recovering the tax benefit of a capital loss on a note receivable from a related entity and other capital losses. Management believes all other deferred tax assets are recoverable.

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

Under the Company’s accounting policies, interest and penalties on unrecognized tax benefits, as well as interest received from favorable tax settlements are recognized as components of income tax expense. At December 31, 2015 and 2014, the Company has recorded no accrued interest or penalties related to uncertain tax positions.

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

(11) Common Stock

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

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

(11) Common Stock (cont.)

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

(12) Stock Incentive Plan

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

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

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

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Stock Incentive Plan (cont.)

Outstanding stock options:

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

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

(13) Net loss per common share

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

(14) Commitments

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

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

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

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

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

(15) Contingencies

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

(16) Guarantees of L Bonds

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

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

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

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Guarantees of L Bonds (cont.)

Consolidating Balance Sheets

December 31, 2015	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<u>ASSETS</u>					
Cash and cash equivalents	\$ 32,292,162	\$ 1,982,722	\$ 150,221	\$ —	\$ 34,425,105
Restricted cash	—	2,102,257	239,643	—	2,341,900
Investment in life settlements, at fair value	—	—	356,649,715	—	356,649,715
Deferred financing costs, net	799,029	1,000,000	731,452	—	2,530,481
Other assets	1,499,575	688,071	30,900	—	2,218,546
Investment in subsidiaries	269,886,254	291,295,951	—	(561,182,205)	—
TOTAL ASSETS	\$ 304,477,020	\$ 297,069,001	\$ 357,801,931	\$ (561,182,205)	\$ 398,165,747
<u>LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)</u>					
LIABILITIES					
Revolving senior credit facility	\$ —	\$ —	\$ 65,011,048	\$ —	\$ 65,011,048
Series I Secured Notes payable	—	23,287,704	—	—	23,287,704
L Bonds	277,024,326	—	—	—	277,024,326
Accounts payable	280,988	157,217	1,079,235	—	1,517,440
Interest payable	8,529,959	3,544,626	265,476	—	12,340,061
Other accrued expenses	717,365	343,421	—	—	1,060,786
Deferred taxes	1,763,968	—	—	—	1,763,968
TOTAL LIABILITIES	288,316,606	27,332,968	66,355,759	—	382,005,333
STOCKHOLDERS' EQUITY (DEFICIT)					
Member capital	—	269,736,033	291,446,172	(561,182,205)	—
Convertible preferred stock	20,799,841	—	—	—	20,799,841
Common stock	5,942	—	—	—	5,942
Additional paid-in capital	17,149,391	—	—	—	17,149,391

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

(16) Guarantees of L Bonds (cont.)

Consolidating Balance Sheets (continued)

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

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Guarantees of L Bonds (cont.)

Consolidated Statements of Operations

For the year ended December 31, 2015	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Contract servicing fees	\$ —	\$ 2,217,471	\$ —	\$ (2,217,471)	\$ —
Gain on life settlements, net	—	—	39,381,003	—	39,381,003
Interest and other income	45,613	62,125	143,511	—	251,249
TOTAL REVENUE	45,613	2,279,596	39,524,514	(2,217,471)	39,632,252
EXPENSES					
Origination and servicing fees	—	—	2,217,471	(2,217,471)	—
Interest expense	24,486,093	2,703,124	4,398,743	—	31,587,960
Employee compensation and benefits	6,007,347	2,002,673	—	—	8,010,020
Legal and professional fees	2,115,580	1,037,203	—	—	3,152,783
Other expenses	4,295,085	3,347,294	141,971	—	7,784,350
TOTAL EXPENSES	36,904,105	9,090,294	6,758,185	(2,217,471)	50,535,113
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES					
	(36,858,492)	(6,810,698)	32,766,329	—	(10,902,861)
EQUITY IN INCOME OF SUBSIDIARIES					
	25,955,631	32,766,108	—	(58,721,739)	—
NET INCOME BEFORE INCOME TAXES					
	(10,902,861)	25,955,410	32,766,329	(58,721,739)	(10,902,861)
INCOME TAX BENEFIT					
	(3,509,587)	—	—	—	(3,509,587)
NET INCOME (LOSS)					
	(7,393,274)	25,955,410	32,766,329	(58,721,739)	(7,393,274)
(Income) attributable to preferred shareholders					
	(1,386,110)	—	—	—	(1,386,110)

LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS F-26	\$ (6,007,164)	\$ —	\$ —	\$ —	\$ (6,007,164)
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GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Guarantees of L Bonds (cont.)

Consolidated Statements of Operations (continued)

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Guarantees of L Bonds (cont.)

Consolidated Statements of Cash Flows

For the year ended December 31, 2015	Parent	Guarantor Sub	Non-Guarantor Sub	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	\$ (7,393,274)	\$ 25,955,410	\$ 32,766,329	\$ (58,721,739)	\$ (7,393,274)
Adjustments to reconcile net income to net cash flows from operating activities:					
(Equity) of subsidiaries	(25,955,632)	(32,766,107)	—	58,721,739	—
Gain on life settlements, gross	—	—	(39,371,059)	—	(39,371,059)
Amortization of deferred financing and issuance costs	4,081,051	362,457	(731,452)	—	3,712,056
Deferred income taxes	(3,509,587)	—	—	—	(3,509,587)
Preferred stock issued in lieu of cash dividends	683,133	—	—	—	683,133
Preferred stock dividends payable	6,800	—	—	—	6,800
(Increase) decrease in operating assets:					
Due from related parties	—	(1,256)	—	—	(1,256)
Policy benefits receivable	—	—	1,750,000	—	1,750,000
Other assets	(58,689,451)	(43,314,345)	—	101,699,270	(304,526)
Increase (decrease) in operating liabilities:					
Accounts payable	(129,909)	(85,463)	529,236	—	313,864
Interest payable	2,730,921	233,786	(751,178)	—	2,213,529
Other accrued expenses	2,059,136	149,242	(24,985)	—	2,183,393
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(86,116,812)	(49,466,276)	(5,833,109)	101,699,270	(39,716,927)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in life settlements	—	—	(38,906,934)	—	(38,906,934)
Proceeds from settlement of life settlements	—	—	4,511,289	—	4,511,289
	—	—	(34,395,645)	—	(34,395,645)

NET CASH FLOWS
USED IN INVESTING
ACTIVITIES

**CASH FLOWS FROM
FINANCING
ACTIVITIES**

Net repayment of revolving senior credit facility	—	—	(7,150,000)	—	(7,150,000)
Payments for redemption of Series I Secured Notes	—	(4,891,681)	—	—	(4,891,681)
Proceeds from issuance of L Bonds	131,159,348	—	—	—	131,159,348
Payment of deferred issuance costs for L Bonds	(7,499,601)	—	—	—	(7,499,601)
Payments for redemption of L Bonds	(35,984,061)	—	—	—	(35,984,061)
Issuance of common stock	582,000	—	—	—	582,000
Proceeds (payments) from restricted cash	—	(2,019,757)	3,973,910	—	1,954,153
Payments for redemption of preferred stock	(295,185)	—	—	—	(295,185)
Issuance of member capital	—	58,144,205	43,555,065	(101,699,270)	—
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	87,962,501	51,232,767	40,378,975	(101,699,270)	77,874,973
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,845,689	1,766,491	150,221	—	3,762,401
CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD	30,446,473	216,231	—	—	30,662,704
END OF THE PERIOD	\$ 32,292,162	\$ 1,982,722	\$ 150,221	\$ —	\$ 34,425,105

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

(16) Guarantees of L Bonds (cont.)

Consolidated Statements of Cash Flows (continued)

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

ACTIVITIES

**CASH FLOWS FROM
FINANCING
ACTIVITIES**

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

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GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) Concentration

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

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

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

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

(18) Subsequent events

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

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

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

On January 13, 2016, GWG MCA, LLC was converted to a corporation and became GWG MCA Capital, Inc. GWG MCA Capital, Inc. was formed to engage in the merchant cash advance business. Effective February 4, 2016, GWG MCA Capital began to offer for sale up to of 2,000,000 shares of Redeemable Preferred Stock at an offering price of \$10 per share in a private placement. Subsequent to December 31, 2015, the Company hasn't issued any Redeemable Preferred Stock related to this offering. On February 15, 2016, GWG MCA Capital purchased revolving credit arrangements from Walker Preston Capital Holdings, LLC for the amount of \$4,354,000. For this purchase, GWG MCA Capital obtained a \$2,700,000 loan from GWG Holdings evidenced by a promissory note maturing December 31, 2016, and a \$1,760,000 loan from Insurance Strategies Fund, a related party, evidenced by a promissory note maturing December 31, 2016. Both promissory notes accrue interest at a rate of 9% per annum.

\$100,000,000 of Redeemable Preferred Stock

Maximum of 100,000 Shares of Redeemable Preferred Stock

GWG HOLDINGS, INC.

PROSPECTUS

April 12, 2016